

Shetland Islands Council

Statement of Accounts 2010/11



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Introduction

Welcome to the Council's accounts for the year 2010/11. These look very different from those that you will be used to seeing in the past. In particular, this year we have been required to adopt a new approach to the presentation of the Accounts.

This is intended to make the information presented more relevant and to give you a better understanding of the most significant financial matters that have affected the Council and the wider group of organisations covered by the Accounts.

Nonetheless the accounts remain, as they must, a rather technical document but I hope that the Explanatory Foreword will help you better understand the financial affairs of the Council. The Explanatory Foreword below does not comment on policies but concentrates on trying to explain the financial facts in respect of 2010/11.

Explanatory Foreword

The purpose of the foreword is to explain the most significant aspects of the authority's financial performance, year-end financial position and cash flows in a concise and understandable manner; for ease of understanding and in the interest of conciseness the foreword is structured under broad headings below.

The Regulatory Framework

First of all it is helpful to understand the regulatory framework within which the authority works. In Scotland the local authority accounting framework is enacted as follows:

- section 96 of the Local Government (Scotland) Act 1973 requires Scottish authorities to keep accounts;
- section 12 of the Local Government in Scotland Act 2003 places a duty of Best Value on the authority and also a duty to observe proper accounting practices; the Code of Practice on Local Authority Accounting in the United Kingdom (the Code), supported by International Financial Reporting Standards (IFRS), the Best Value Accounting Code of Practice, the Prudential Framework and other statutory guidance issued under section 12 of the 2003 Act, defines proper accounting practices for local authorities in the UK;
- the Local Authority Accounts (Scotland) Amendment Regulations 2011 (SSI No.2011/64) amended the Local Authority Accounts (Scotland) Regulations 1985 (SI No.1985/267) to require local authorities in Scotland to prepare a Remuneration Report as part of the annual statutory accounts;
- under paragraph 3 of the Local Authority Accounts (Scotland) Regulations 1985 (s1 1985/267, Finance circular 5/1985) the "proper officer" is formally responsible for the form of accounts; the Code requires this officer to sign, date and submit the un-audited statement of accounts to the authority and the Controller of Audit by 30 June.

The Code was developed by the CIPFA/LASAAC Code Board under the oversight of the Financial Reporting Advisory Board and has effect for financial years commencing on or after 1 April 2010. The overriding requirement of the Code is that the Statement of Accounts provides a true and fair view of the financial position and the financial transactions of the authority. The Code reiterates the primacy of legislative requirements whereby the overriding principle of local authority accounts is that, where an accounting treatment is prescribed by law, the legal requirement must be applied even where this contradicts accounting standards.

The primary financial statements and notes to the accounts, including the accounting policies, form the relevant Statement of Accounts for the purpose of the auditor's certificate and opinion.

Primary Financial Statements

The Statement of Accounts summarises the authority's transactions for the year, its year-end position at 31 March 2011 and its cash flows. All monetary amounts shown in the statements are rounded to the nearest one thousand pounds for the purposes of presentation. The Statement of Accounts is prepared in accordance with the International Accounting Standards Board (IASB) Framework for the Preparation and Presentation of Financial Statements (the IASB Framework) as interpreted by the Code.

The four primary statements and their relationships are explained in more detail below:

- **Movement in Reserves Statement** – this shows the movement in the year on the different reserves held by the authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and those that the authority is not able to use to provide services but must set aside under statute and accounting regulations.

The (Surplus) or Deficit on the Provision of Services line shows the true economic cost of providing the authority's services which is different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for setting Council Tax and dwelling rents.

The Net Increase/Decrease before Transfers to Reserves line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from reserves are undertaken by the Council.

- **Comprehensive Income and Expenditure Statement** – this shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices (GAAP), rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement, as explained above, and the adjustments made between the accounting basis and the funding basis to reflect the amount available to the authority to meet future capital and revenue expenditure is disclosed at note 7.

- Balance Sheet** – this shows the value as at the Balance Sheet date of the assets and liabilities recognised by the authority. The net assets of the authority (assets less liabilities) are matched by the reserves held by the authority. Reserves are reported in two categories. The first category of reserves are usable reserves, ie those reserves that the authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves are those that the authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line ‘Adjustments between accounting basis and funding basis under regulations’.
- Cash Flow Statement** – this shows the changes in cash and cash equivalents of the authority during the reporting period. The statement shows how the authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the authority are funded by way of taxation and grant income or from the recipients of services provided by the authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the authority’s future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (ie borrowing) to the authority.

Financial Performance – Budget Out-turn

Council services are paid for from national taxation by way of a grant from the Government, non-domestic rates; local taxation by way of the council tax and more generally from fees and charges. The Council is also able to draw on income which it generates from reserves to pay for services and projects.

The Council’s financial performance is presented in the four primary statements. The out-turn position for each of the budgeted funds, excluding accounting practice adjustments, as compared to the budget set is summarised below.

Further details were presented in a report to the Executive Committee of the Council on 4 July 2011, which is available on the Council’s website.

2010/11 Budget v Expenditure	Original Budgeted Draw on Reserves £m	Revised Budgeted Draw on Reserves £m	Actual Draw on Reserves (after capital trfs) £m	Revised Budget v Actual Variance Fav/(Adv) £m
General Fund Revenue	2.000	15.070	14.740	0.330
Reserve Fund Revenue	11.366	11.366	11.050	0.316
Harbour Account	(3.898)	(3.898)	(2.357)	(1.541)
Housing Revenue Account	(0.398)	(0.398)	0.489	(0.887)
Capital	31.300	31.300	7.350	23.950
Total	40.370	53.440	31.272	22.168

The main variances against revised budget arose in the following areas:

- a net underspend of £0.330m on the General Fund;
- a net underspend of £0.316m on the Reserve Fund, mainly to do with the scheduling of grant aid expenditure;
- a net reduction in the contribution to the Reserve Fund, from surpluses on the Harbour Account of £1.541m, mainly due to reduced income streams;
- a net overspend of £0.887m on the Housing Revenue Account from meeting new build capital spend from revenue;
- a net underspend of £23.950m on capital, of which £4.060m was transferred to revenue, with the remainder being slippage or revisions to the programme, i.e. projects not commencing as originally anticipated in 2010/11.

In 2010/11, the Council continued to face significant financial pressures. Potential future pressures relate to the general economic climate such as:

- the potentially lower level of returns on funds invested in equities;
- the reduction in direct government support through the revenue support and capital grants;
- reduction in household income and the ability to pay for goods and services and Council Tax.

From a service perspective there is a growing need for community care and services for people with learning disabilities, increases in fuel costs impacting on the transport network and the severe weather resulting in increases to the winter maintenance service.

The Council was successful in securing a new income stream from the gas processing plant, based at Sullom Voe, which was a very welcome increase in industry at a time of more general economic recession.

During the year, the Council undertook some significant service redesign projects, with a view to achieving significant savings in areas where efficiencies could be implemented. The projects were called "Ports for the Future" and the "Education Blueprint" and both projects have made significant contributions to delivering ongoing revenue savings. A different model of providing community care was developed, through an extra care housing scheme, which is a more cost effective model than permanent care places. That work is continuing into 2011/12, alongside a new drive for efficiencies and some focused best value reviews around community care and infrastructure services.

The Chief Executive introduced a Vacancy Management Panel, to critically review the Council's approach to recruitment to vacant posts. This system, alongside general budget pressures, has created a slow down and stabilisation of overall staffing numbers, so helping to manage staffing costs. Reducing the Council's overall staffing costs by a significant amount will be a key part of the 2011/12 savings process.

The start of the process of management reform saw the amalgamation of some posts, following the early retiral of some senior managers. That work continues into 2011/12 with the formal approval of a management review, which has a target saving of fifteen senior management posts and £1 million per annum.

Another key area of cost is property costs. The Council had developed a specific project to look for savings and efficiencies in the way in which it uses property. There will be a drive to find uses for, or dispose of, vacant properties and a concentrated effort to support dispersed working and shared services across all areas of Shetland.

The Council's financial policy framework since 2005 has been made up of several elements:

- General Fund reserves (mainly the Reserve Fund, Capital Fund and Repairs and Renewals Fund) should be maintained at no less than £250 million (the Reserves Floor Policy).
- Use of reserves to support General Fund revenue spending to be reduced by a minimum of £1 million per year (with a target level of £1 million in 2011/12 and £0 thereafter).
- Use of reserves to support the General Fund Capital Programme should be constrained to levels consistent with the Reserves Floor Policy. Initially the target was £20 million per year, subsequently modified to a Programme of no more than £100 million over five years.

In 2010/11 the Council budgeted to draw £40.370m from reserves, in order to balance the accounts. However, the actual draw on reserves in 2010/11 is £31.272m. The overall impact of the projects and services provided during 2010/11, and funded from reserves, is that the Council has ended the year with a balance on reserves of £268.899m. This is a reduction in reserves from the previous year of £4.856m. This is less than the estimated draw on reserves as there were exceptionally high gains on the sale of investments, interest and dividends due to very good market conditions.

The Council holds the following balances in reserves:

Reserves	Opening Balance 1 April 2010 £m	Closing Balance 31 March 2011 £m
Capital Fund	(117.625)	(108.404)
Capital Efficiency/Spend to Save Reserve	0.000	(5.000)
Reserve Fund	(66.752)	(61.621)
Repairs & Renewals Fund	(74.318)	(62.900)
General Fund Balance	0	(3.000)
Revenue Efficiency/Spend to Save Reserve	0	(0.500)
Potential Contingent Liabilities	0	(11.400)
Discretionary Reserves	(258.695)	(252.825)
Marine Superannuation Fund	(2.974)	(2.582)
Pilot Boat Renewal Fund	(0.944)	(0.942)
Housing Repairs & Renewals Fund	(10.577)	(12.035)
Quarry Repairs & Renewals Fund	(0.150)	(0.150)
Insurance Fund	(0.254)	(0.222)
Hansel Funds	(0.083)	(0.090)
Central Energy Efficiency Fund	(0.077)	(0.052)
Ring Fenced Reserves	(15.059)	(16.073)
TOTAL	(273.754)	(268.898)

The overall level of reserves of £268.898m is in accordance with the long-term strategy for maintaining the financial policies of the Council. However, when the funds to be used for specific purposes are deducted, the level of reserves held for general use falls to £252.825m, just above the financial policy floor of £250 million set by the Council.

The reserves held are more than adequate to manage risks and unplanned expenditure in the short term. However, there is a significant risk that the Council's reserves will be fully used in a short period of time if expenditure levels are not brought into line with the level of income able to be generated.

The Council is taking immediate steps to address this financial risk by bringing forward the financial planning process for 2012/13 and started that process in July 2011. It has recognised the need to pro-actively manage the exercise as a significant change management project, involving all staff and the local community.

A risk has been identified that not all of the General Fund reserves are held in a way that can be quickly converted to cash. There is no short-term risk associated with how the money is held but over time, if the Council has a need to make a significant and unplanned draw on reserves, it may need to borrow to secure the cash required. This issue will be addressed in detail in the financial planning process.

The Council has no external debt at 31 March 2011.

The Council agreed, in November 2010, a Corporate Improvement Action Plan, to address concerns raised by the Accounts Commission. The detail of that process is set out in the Governance Statement. The concern surrounded the Council's capacity to deliver the overall financial strategy with specific recommendations for improvement as follows:

- The Council should establish rigorous processes to ensure that it can put its use of resources on a footing that is consistent with implementing and sustaining its financial strategy, and demonstrate that it can deliver services in a way which achieves Best Value.
- The Council should address the weaknesses in its finance function to ensure that it complies with good practice and relevant objective standards, and provides appropriate information to allow councillors to exercise robust strategic budget management.
- The Council should ensure that the qualification of its accounts in relation to the accounting treatment of the Shetland Charitable Trust is resolved in time for the audit of the financial statements for 2010/11.

The Council is making progress in addressing these high-risk issues. The Council agreed to support the work of all the actions in the Corporate Improvement Action Plan through an investment in a £1 million improvement budget.

The Council continues to work closely with Shetland Charitable Trust to resolve the qualification on the accounts. The planned actions should resolve this issue for the 2012/13 accounts.

The emerging picture for next few years' financial predictions is that the gap between income and expenditure on the revenue account will be about £25 million, off-set by any ongoing savings achieved in the current year. The extent of the savings required is such that the Council has put in place early arrangements to tackle the budget deficit. This work will include a process of staff and community engagement, to help councillors to make choices over the services provided, the level of service provided and the quality of service provided to this community. Alongside this work, the Council is updating its corporate priorities, through a process called "scenario planning" to take a long term view of how the Council can contribute to Shetland remaining a vibrant, safe and healthy place to live and work.

Accounting Ratios

CIPFA Scotland Directors of Finance Section, working with Audit Scotland, are developing a suite of accounting ratios for incorporation into the financial statements.

The planned indicators are intended to represent a Council's sustainability and the affordability of its financial plans. They will also aid the Council to demonstrate the effectiveness of its financial management.

Unfortunately, the planned suite of ratios has not been finalised by CIPFA in time for inclusion within the 2010/11 financial statements but this Council is committed to including them from 2011/12 onwards.

Material Items of Income and Expenditure

Pension

The Council is still the administering authority for the Local Government Pension Scheme and more details of what this means are included in Note 33 to the accounts. However, it is worth noting that the Pension Fund accounts are no longer included within the Shetland Islands Council's financial statements. This is because there is now a statutory requirement for the publication of a separate Pension Fund annual report. Any person interested in obtaining a copy of the Shetland Pension Fund financial statements can do so by going to the following web link:

http://www.shetland.gov.uk/council/documents/Shetland_Islands_Council_Pension_Fund_Account_2010-11.pdf

It is worth mentioning that as at 31 March 2011, the Council's Pension Fund had a net pension liability of £91.113m, a significant reduction from the previous year's figure of £147.169m. This arose mainly, but not wholly, from upward movements in fund assets and changes in the way in which inflation is applied to future pension increases (i.e. future pension increases will be linked to CPI rather than RPI), as introduced by the Chancellor of the Exchequer in his statement on 22 June 2010.

We continue to monitor and measure this pension liability and make changes to cash contributions as required as part of the regular assessment made by an independent actuary.

It should be noted that the 10/11 net pension liability (source: Hymans Robertson LLP "IAS19 as at 31 March 2011 – Results Schedule") at time of writing is an unaudited amount.

Changes in Accounting Policies

A move to an IFRS based code of practice from a UK GAAP based SORP has resulted in a number of significant changes to accounting practice. The date of transition to the Code was 1 April 2009. The IFRS 1 - First Time Adoption of International Financial Reporting Standards requires retrospective application of accounting policy changes although in limited circumstances it permits exceptions to this requirement.

The Code clearly specifies which exemptions from retrospective application are available to local authorities. Shetland Islands Council has applied the following exemptions in accordance with the Code:

- **Depreciated Historical Cost** - the Code states that the depreciated historical cost of an asset at 1 April 2009 (the transition date) is its depreciated historical cost at 31 March 2009 under the SORP. With the exception of assets where the carrying amount is restated due to other accounting policy changes (for example, leased assets and non-current assets held for sale), the authority is required to carry forward depreciated historical cost figures without any restatement.
- **IFRIC 4** - Shetland Islands Council reviewed its contracts and other arrangements existing at 1 April 2009 under IFRIC 4 to determine whether any contained (the substance of) a lease whereby the authority would be required to account for those

leases retrospectively from the date of commencement of the lease but none were found to contain the substance of a lease.

Details of Shetland Islands Council first time adoption can be found on page 39.

Annual Governance Statement

Scope of Responsibility

Shetland Islands Council is responsible for administering and safeguarding public money received from national and local sources, on behalf of the community. The Council is also responsible for ensuring that its business is conducted in accordance with legislation and proper standards and that public money is used properly, safeguarded and accounted for appropriately. Further, the Council has a duty to secure “value for money”, sometimes referred to as economy, efficiency and effectiveness, and “best value” in all its spending decisions. We, as Chief Executive (Alistair Buchan) and Head of Finance (Hazel Sutherland), acknowledge our responsibility for ensuring that an effective system of overall governance and internal financial control is maintained and applied.

In general terms, the Council Members, led by the Leader, are responsible for setting the strategic direction for the Council and deciding on key policy objectives, of both a financial and service nature. The Council staff, led by the Chief Executive as Head of Paid Service, is responsible for putting in place the appropriate systems to make sure that the policy decisions taken by Council Members are implemented. How this process works, the decision-making and implementation, is referred to as the governance arrangements of the Council.

The Governance Framework

The governance framework covers some key elements and processes, as set out below:

- The legal powers, duties and functions of the Council and roles and responsibilities of the people who take decisions on behalf of the community.
- The levels at which decisions can be made, referred to as the Scheme of Delegation.
- The Administrative Regulations and the rules around how committees are run and decisions are made.
- The Financial Regulations and rules about contracting with other parties.
- How the Council performs in delivering services and securing value for money.
- The process of internal control and checking that the Council’s policies and procedures are being followed, through the work of the Internal Audit staff and others.

There are also a number of key documents which combine to create the governance arrangements, as follows:

- In response to the funding which the Council receives from the Scottish Government through national taxation, the Council has committed, through **the Single Outcome Agreement**, to achieving certain targets and improvements across services which are deemed to be a priority at national and local level. Often, this work is done in partnership with other public, voluntary or private sector organisations.

- The key objectives which this Council has signed up to deliver, drawn from the Single Outcome Agreement and local members' commitment to their constituents, are drawn together into the **Corporate Plan**.
- Shetland Islands Council administers a number of funds held on behalf of the community and a key strand of the governance arrangements relates to how that money is invested, what level of reserves to hold for future generations and formal approval of the spending plans each year. Looking after the Council's finances covers six key strands:
 - Medium and Long Term Financial Planning;
 - Fund and Investment Management;
 - Budget Strategy;
 - Budget Approval and Management;
 - Accountability and the Final Accounts;
 - Risk Management and Insurance.

A key element of making sure that everything works is to have good connections between all the different elements of governance and have good relationships between Council Members and staff, through a shared culture, shared objectives, shared values and shared behaviours. This is set out in Codes of Conduct for Council Members and staff. Where concerns around the conduct of Council Members are felt to have taken place, referrals can be made to the Standards Commission for Scotland. A range of human resources policies are in place to support concerns and complaints raised against staff.

The Council is planning to formally approve a Code of Governance, based on best practice guidance.

The Governance Framework

The overall objective of the Council, through the Single Outcome Agreement and the Corporate Plan, approved in June 2010, is to secure the long-term economic health of the community by ensuring that we maintain our economically active population.

Flowing from that overall objective are a range of strategic and service specific targets, such as:

- ensuring the economy is healthy and diverse by growing the private sector;
- meeting Shetland's skills and learning needs to support the growing economy;
- intervening early to minimise or eliminate poverty and deprivation and promote healthy lifestyles;
- establishing patterns of early intervention to help young people, adults and families to live safely and independently and fulfil their full potential;
- providing affordable housing; and
- making sure we organise and carry out all business properly.

The Council is not able on its own to solve all the social, economic and environmental issues facing the community. The Council therefore works with other partners to provide services which are joined up around the needs of individuals, families, organisations and communities. This work is often formalised through partnership agreements, which have been established to tackle specific issues, such as: the Community Health and Care Partnership; the Community Safety Partnership; the Skills and Learning Partnership and the Carbon Group.

Priority areas that the Council, with its partners, set out to achieve progress on throughout the year were:

Priority Area	Progress Assessment	Progress Commentary
Fast and reliable broadband throughout Shetland	GREEN / AMBER	Good progress being made on provision of resilient broadband to Lerwick, but challenges remain in being able to roll this out to other areas.
Development of renewables	GREEN / AMBER	Progress continues to be made, but continues to be restricted by decisions made outwith Shetland on the interconnector. First phase of the Smart Grid project is on schedule for implementation later this year.
Decide on and implement the Blueprint for Education	GREEN	The Blueprint process is still on target to meet the statutory consultation and reporting milestones.
Decide on Shetland's long-term transport infrastructure	GREEN	Currently on target to present a proposed programme over a period of 20 years to Council in 2011.
Get more affordable Housing	GREEN	A number of projects are being developed by the Housing Service to provide different options for people to access affordable housing, such as agreement to progress sales of houses and building plots as a pilot and agreement to progress a shared ownership model for low cost home ownership.
Intervene early to tackle any poverty	AMBER	Multi-agency work continues, in particular through Getting it Right for Every Child and With You For You, and improvements can still be made. However, the risk in this area is the impact on those on low income and benefits with the potential for a reduction in services and changes to the national benefit system.
Make sure we organise and carry out all our business properly	AMBER	Progress being made on development and approval of Corporate Improvement Action Plan and achieving long-term financial policy objectives. However, due to the current financial context, risks remain in meeting targets.

The Council's decision-making structure was based around three main committees, each reporting to the full Council, namely: Infrastructure, Development and Services Committees. These Committees, led by a Chair and Vice Chair, held the responsibility for developing strategies and policies across the range of local government services, alongside the resources and money required to deliver those services.

In May 2011 the Council renewed the governance arrangements. The Council has introduced a committee structure around four strategic groupings: Environment and Transport; Economic Development; Social Services; and Education and Families. A refreshed policy and performance framework underpins the new governance arrangements, including a focus on service prioritisation, resource allocation, performance management and securing efficiencies.

The overall strategic direction, in terms of setting corporate priorities and allocating resources, rests with a new Executive Committee. The Executive Committee also has responsibility for overall financial planning arrangements, the reserves policies, budget setting and monitoring. The decision-making process is appropriately supported and challenged through the Audit and Standards Committee, with a remit to oversee standards within the Council.

The Committees ensure that their decisions are implemented by: drawing up action plans and receiving progress reports; setting and monitoring performance targets; and receiving budget monitoring reports on revenue and capital spend. From time to time, committees receive reports on performance from external scrutiny bodies, such as: the External Auditors; the Housing Regulator; the Social Work Inspectorate; and Her Majesty's Inspector of Education.

At the beginning of the financial year 2010/11, there were complaints against four councillors outstanding. The complaints against all four were investigated and in relation to two were not upheld, but in the case of the other two a report was submitted by the Chief Investigating Officer to the Standards Commission. Following a hearing where the breach was admitted under mitigation, the Commission handed down a sanction of "censure" against the two councillors: the circumstances were reported to a meeting of Shetland Islands Council on 27 October 2010.

During 2010/11, three further Standards Commission complaints against five councillors were lodged but all of those were dismissed, there being no discernible breach warranting further formal investigation.

The financial strategy of the Council is to maintain reserves levels at £250 million. The underpinning philosophy to this policy is to maintain the capital sums for future generations to enjoy. Shetland, given its remote location, has seen many periods of economic downturn in its history. In times of relative stability and economic health the Council considers it appropriate to set aside funding for future use, should difficult economic times occur again. The Council agrees each year, as part of the budget setting process, how much money will be drawn from reserves to pay for services and specific projects.

A detailed analysis on the finance policy and reserves' levels is included at page 8.

The Audit and Standards Committee's remit ensures that the work of the Council, from both a control and performance perspective, is checked and scrutinised. As well as an annual plan, the Committee can call for one-off reviews to investigate a particular issue. The Council's Service Manager Internal Audit reports directly to the Audit and Standards Committee.

The Internal Audit Service reports directly to the Council's Section 95 Officer, the Head of Finance, and has direct access to the Chief Executive, if required. Working to an annual audit plan, their work is endorsed to ISO 9001:2008 quality standard for systems based audit work.

The Audit and Standards Committee also holds responsibility for the Council's Risk Management arrangements. The Council employs a dedicated Safety and Risk Manager to ensure that the Council's arrangements for strategic and operational risks are robust and embedded in day-to-day work practices. A risk management board supports this work, with representatives from each service department. The Council has secured external assistance to develop a comprehensive set of Business Continuity Plans across all service areas. These plans set out what actions the Council will take to maintain service delivery in the event of a major incident or emergency.

The Chief Executive chairs the Central Safety Committee, with representatives from service departments and unions. Clear lines of communication and reporting are established between departmental health and safety forums through to this strategic forum, to ensure that all risks associated with health and safety matters are acknowledged, resourced and addressed.

The formal approval of the Budget each year gives staff the authority to spend money and raise charges for services delivered to the community. The Financial Regulations explain the rules under which decisions and choices on how to spend money can be made, with a focus on value for money. The highest proportion of Council expenditure is on staff and assets.

The Council has a range of policies and procedures relating to staff. The Performance Review Policy seeks to ensure that there is a good connection between the strategic direction of the Council, the priorities of each service area and the work of all staff, including front line staff. The Council has an approved Code of Conduct and a Policy on Reporting Concerns at Work is in place. A system of formally responding to complaints exists, with a referral and review process through to senior managers.

A formal investment appraisal system has been established for capital expenditure decisions, known as the Gateway Process. This aims to ensure that options have been fully explored before decisions to incur capital expenditure are made, in order that value for money can be demonstrated. All capital spending proposals are drawn together into one overall capital plan. The process involves a formal project management approach, with clear stages and roles and responsibilities.

A project management approach, using PRINCE methodology, also underpins all the investment decisions for ICT systems and product development.

As part of the Final Accounts work, potential and actual contingent liabilities are identified and actions agreed to mitigate the risk of cost or loss to the Council. A review of financial performance is also carried out so that cost pressures and financial risks can be identified and managed.

The Corporate Management Team receives regular progress and performance reports on all aspects of the work of the Council, to identify problems or issues which need to be resourced or alternative solutions found in order that the Council may deliver on its stated objectives.

Review of Effectiveness

The Council has a responsibility for ensuring the continuing effectiveness of its governance framework and systems of internal control. The review of effectiveness is informed by:

- direct feedback from members of the public through a variety of mechanisms including the local media and formal consultation exercises;
- progress towards key strategic and service objectives, as demonstrated through reporting on targets and performance;
- financial and budget monitoring, including comparisons on cost and quality through benchmarking exercises;

- Internal Audit reviews on specific services and on activities which occur across the Council;
- the work of managers within the Council, which will include self evaluation against key performance standards such as the Best Value 2 Framework, How Good is Our School, Balanced Score Card, and ISO:9001;
- the Annual Report and Accounts;
- external inspections and quality assurance reports and recommendations for improvement; and
- External Audit and the Accounts Commission observations, comments and recommendations for improvement following Best Value and/or Financial Accounting audit work, including the Assurance and Improvement Plan.

The Council's external auditor, Audit Scotland, reports to the Accounts Commission through the Controller of Audit. The Accounts Commission's role is to help ensure that public money is spent properly, efficiently and effectively. It is responsible for the audit of all local authorities, police and fire and rescue joint boards and other similar public bodies. The Commission operates independently of local authorities and of the Scottish Government, and it reports in public. Where the Accounts Commission has concerns about the operation of a public body, it can call for further reports to investigate the issues in more detail.

In 2009/10, for the fourth consecutive year, Audit Scotland gave a qualified opinion on the financial statements of Shetland Islands Council, with respect to an issue over the grouping of accounts with Shetland Charitable Trust.

The 2009/10 audit work also identified a significant number of late adjustments to the financial statements and areas of non-compliance with accounting requirements, to the extent that Audit Scotland expressed concerns over financial stewardship. Concerns were also expressed over the Council's ability to achieve savings that would enable it to live within the financial policy framework set.

In December 2009 the Commission expressed serious concerns about Shetland Islands Council. The Controller of Audit therefore called for a report under Section 102(1) of the Local Government (Scotland) Act 1973. At the time, the Chair of the Accounts Commission stated that, "the qualifications may be symptoms of deeper problems at the Council. Bearing in mind the Council's duties to deliver best value to local people we have decided to seek further evidence from Audit Scotland on how the Council is being run".

This led to the Accounts Commission holding a public hearing on 28 and 29 June 2010, where a wide range of areas for improvement were discussed in respect of the Council's governance arrangements. The Hearing provided an opportunity for the Commission to hear at first hand from the Council on how it was addressing the concerns raised by Audit Scotland.

The recommendations from the Public Hearing, as set out in a Report by the Controller of Audit, are set out below in full.

Recommendations

The Commission makes the following recommendations to Shetland Islands Council:

The Council must put in place a comprehensive programme of improvements as a matter of urgency to address the issues we have identified. The programme should set clear objectives, milestones and timescales for delivery.

This programme of improvements should ensure that:

- the Council can develop the leadership, governance and strategic direction it requires;
- there is the basis for effective working relationships among councillors and between councillors and officers;
- all procedures for decision-making are robust and transparent, and can command public confidence;
- the Council has the capacity to deliver its financial strategy.

In particular, the programme of improvements should address the following specific recommendations:

- a) The Council should establish a comprehensive programme of training and development to be undertaken by all councillors and senior officers to enable them to understand how to perform effectively in their roles and how to demonstrate the value of good governance through their conduct. This programme should ensure that:
 - councillors, in particular those holding positions with additional responsibilities, are able to develop clear and authoritative strategic leadership;
 - councillors are able to distinguish appropriately the requirements of their separate duties as local representatives and corporate leaders;
 - mutual trust and respect is established among and between councillors and officers for their respective roles;
 - senior officers establish a strong and effective commitment to meet their strategic corporate responsibilities.
- b) The Council should review its approach to governance and ensure that rigorous systems are in place to support clear and transparent decision-making, such as formal recording of meetings and routine systems for the dissemination of decisions and information to staff and the public.
- c) The Council should agree effective procedures for engaging with the local community and understanding its needs and expectations, and put these procedures on a systematic basis.

- d) The Council should improve the way it develops clear, coherent messages to communicate with the local community, and take steps to improve the way it conducts its relationship with the media and recognises the media's legitimate interest in Council matters.
- e) The Council should develop a systematic approach to engaging with the wider local government community, ensuring regular attendance at meetings of professional and representative bodies and learning from good practice.
- f) Councillors and senior officers should work together to improve the management information available to councillors, to enhance the capacity and commitment to deliver robust appraisal of policy choices, and thereby help to ensure that councillors are supported to develop the skills to discharge their scrutiny role rigorously.
- g) Councillors should work together to ensure that they have a shared understanding of the requirements of the Code of Conduct and other relevant guidance for the way they approach the Council's business.
- h) The Council should review the way in which it advises councillors on the issue of their interests, and ensure that it is able to explain coherently and publicly the way in which councillors are expected to approach recurring issues such as the role of councillors as trustees of Shetland Charitable Trust.
- i) The Council should ensure that senior officers, particularly the relevant statutory officers, are able fully to advise councillors on their obligations.
- j) The Council should establish rigorous processes to ensure that it can put its use of resources on a footing that is consistent with implementing and sustaining its financial strategy, and demonstrate that it can deliver services in a way which achieves Best Value.
- k) The Council should address the weaknesses in its finance function to ensure that it complies with good practice and relevant objective standards, and provides appropriate information to allow councillors to exercise robust strategic budget management.
- l) The Council should ensure that the qualification of its accounts in relation to the accounting treatment of the Shetland Charitable Trust is resolved in time for the audit of the financial statements for 2010/11.
- m) The Council should ensure that robust and transparent procedures are established and followed for the creation and filling of all posts, and the performance management and appraisal of all staff.

A full copy of the Findings and Recommendations can be accessed on the following web link.

http://www.audit-scotland.gov.uk/docs/local/2010/ac_100816_shetland_findings.pdf

The Council was required to put in place an Improvement Plan to establish a comprehensive programme of improved governance to address all the concerns raised. The Chief Executive, appointed in July 2010, put together the Corporate Improvement Action Plan and this was approved by the Council in November 2010.

The Council acknowledges the weaknesses which were identified in the Council's governance arrangements and welcomes the clarity from the external scrutiny of what is required to change to ensure that the Council works towards best practice. Considerable work has been done in 2010/11 to address this and significant progress has been made.

As at June 2011, a significant number of items in the Corporate Improvement Action Plan have been fully implemented and the Council continues to make good progress in other areas. Audit Scotland, on behalf of the Accounts Commission, continue a watching brief on progress and will formally undertake a review of progress culminating in a report at the end of 2011. Both the Single Outcome Agreement and the Corporate Plan have been refreshed and updated. Work has been done to ensure that there is consistency of message with regard to the strategic direction, influencing services on the ground and for all staff throughout the organisation. More focused performance measures and targets have been set, moving away from measuring how we do things to challenging the difference which the service or activity actually makes to people's lives.

In February 2011 the Council identified significant savings, in the order of £9 million, to achieve a balanced revenue budget and set the Council Tax within the financial policy framework. To date, £5.100m of ongoing revenue savings have been secured. Similarly, significant adjustments to the Capital Programme were agreed to reduce the total spend by £5 million in 2011/12 in line with a more affordable draw on reserves. This work was done through a Member/Officer Working Group, focused on financial resources and led by the Leader and Chief Executive. The process demonstrated the Council's ability to work together to reach strategic solutions to some long standing matters.

Internal and external data indicates that the Council provides high quality services to the community. There remain concerns for some service areas, about the cost of providing those services and a real focus has begun on identifying ways of making savings, ideally from doing our work more efficiently and comparing what we do with other areas.

Significant challenges have been addressed in balancing the services which local communities would like to see with an affordable and efficient level of service, such as with the debates on the school estate and transport links.

The arrangements in place for the management of the Council's investments, through unitised products and cash investments are robust and risk-based. The portfolio is split by category of investment and by value of investment, to ensure that the risks are spread across funds, investment type and fund managers. The arrangements are subject to an external quality assurance and scrutiny check through Hymans Robertson.

During the 10/11 financial year Audit Scotland, the Council's External Auditors, have raised specific concerns by letter on the following items:

- the Council's state of readiness with regard to adopting the International Financial Reporting Standard (IFRS); and
- potential internal control weaknesses with regard to contracts and procurement.

The Council has commissioned external assistance to ensure that the Council addresses all aspects of the IFRS and the Final Accounts to 31 March 2011 are prepared in accordance with this guidance.

The Head of Capital Programme Service has drawn up an action plan to address the concerns raised by Audit Scotland. In addition, detailed analysis has been done on expenditure incurred during 2010/11 to confirm that no legislative or policy breaches have occurred. The raised awareness of legal and policy requirements relating to procurement, which also came about from Internal Audit work, and the improved systems and procedures which are now being developed and implemented, will go some way towards ensuring that any risk of internal control weaknesses are minimised, or avoided in the future. This is an area of work that the Council will continue to work hard at to make sure that all the relevant legislation, regulations and policies are followed, through an updated strategy, improved guidance and training.

The Internal Audit work programme has been completed, with some minor carry forward of work into the 2011/12 financial year. A programme of cross-Council corporate audits has been particularly effective in identifying and addressing areas of high strategic risk, such as procurement and contracts. This is an increasingly effective tool in ensuring effective governance and strong internal controls. As a result of their work, improved practices have been addressed by the Corporate Management Team with regard to the application of the Council's Standing Orders for Tenders and Contracts; the Relocation Policy and absence management.

Specifically, with regard to the adequacy and effectiveness of the internal financial control arrangements, the Council's Service Manager Internal Audit states in his annual report for 2010/11 that managers had generally undertaken to rectify issues through agreed action plans to a satisfactory degree.

However, in relation to the key issues identified in the original review of Remote Working, progress had not been in accordance with original timescales. In addition, the follow up audit of Economic Development identified that some key issues had not been fully resolved in relation to whitefish quotas, VAT and other tax matters. With effect from 2010/11 Internal Audit introduced Corporate Reviews covering specific topics across the Council. The contracts review identified a number of issues of concern and these have been taken forward and were subject to a recent report to Council. Absence Management was a further area where compliance with policy was poor. Communication has been issued in relation to this.

Risk registers throughout the Council are still not fully completed although progress has been made in the last year. Completion of these is important to fully assess risks faced by the Council.

Internal Audit concluded that the Council's system of internal control was generally adequate and effective to provide reasonable assurance that the assets were safeguarded, waste or inefficiency was avoided, reliable financial information was produced, and that value for money was continuously sought. This assumed that issues identified and agreed are or have been addressed.

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. The Council also identified the Shetland Development Trust as an entity to be included in its Group Accounts as a “subsidiary”, as its trustee is the Council. The activities of the Trust are now effectively run through the Council via its Development Committee and Economic Development Unit. However, the Trust is still currently accounted for as a separate entity using systems outside the scope of the Council’s internal audit process.

Significant Governance Issues

The system of governance can provide only reasonable (and not absolute) assurance that assets are safeguarded, the transactions are authorised and properly recorded, that material errors or irregularities are either prevented or would be detected within a timely period, and that all the significant risks impacting on the achievement of our objectives have been mitigated.

Work continues apace to address the key improvements required to develop and implement more effective governance arrangements for Shetland Islands Council. Some key strategic actions are highlighted below.

- **Audit Qualification and Non-Compliance Issues.** Additional resources have been brought in to address the specific concerns on the application of accounting regulations. Shetland Islands Council recognises the need to resolve the issue of grouping of accounts with the Shetland Charitable Trust. However, it has not been possible to prepare the 2010/11 Accounts as a group and the Council regrets that the qualification will continue into a fifth year. The Council is, however, working to resolve the situation. The Shetland Charitable Trust is in a process of renewing the composition of the Trust and when that work is complete it will be possible to reassess the relationship between the Council and the Trust, for accounting purposes. It is envisaged that this work will be completed in time for the preparation of the 2012/13 Final Accounts.
- **Clear Common Purpose.** A process of “scenario planning” what Shetland might look like in 20 years is being developed with a wide range of local people. From this, the Council will develop a “clear, common purpose” around which future plans will be built.
- **Decision Making Processes.** A new committee structure has been implemented with the core documents to support that work approved in May 2011. With a more transparent decision making process in place, it is hoped that the number of referrals to the Standards Commission will decrease, as the community builds confidence in Council decisions.
- **Financial Sustainability.** Work continues to put a focus on managing the cost of services downwards, seeking more efficient ways of delivering services, linked with a review of the policy on reserves.
- **Communications and Community Engagement.** A clear, consistent and common approach to communicating within the Council and with the local community, and seeking their views as to how we do our work, is being developed.
- **Financial Monitoring.** Forward focused and analytical budgetary reports to Corporate Management Team and Council Members will be developed from July 2011.

- **Asset Strategy.** A comprehensive asset strategy, to make more efficient use of public sector buildings across partner agencies and promote dispersed ways of working, will be in place by December 2011.
- **Workforce.** The Council's workforce strategy is being developed, alongside key policy updates including: recruitment; competency; and the code of conduct.
- **Management Review.** The Council has approved a new management structure to support the Chief Executive in managing services on behalf of the Council. The structure is based on five strategic director positions for: children; community care; development; infrastructure; and corporate services. The process of recruitment will take place in the summer of 2011 and, from a financial perspective, has an objective to save £1 million per annum by reducing the overall number of management posts across the Council by fifteen.

Conclusion

The difficulties surrounding the governance arrangements, risks and internal controls in Shetland Islands Council have been well documented over the past year. Activity over the last six months has demonstrated the Council's capacity to work together to address the weaknesses and put in place modern, appropriate and robust structures, systems and procedures to make Shetland Islands Council "fit for purpose" in delivering all that is expected of modern local government. It is a challenge and will continue to be so for the next eighteen months as the new ways of working bed in. While the corporate improvements are made, we are reassured that the level of service at the front line continues to be delivered to the local community.

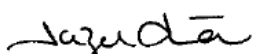
Significant corporate risks have been identified, but plans are in place to mitigate those risks and implement improvements to how the Council operates at all levels. Regular progress reports are presented to Council Members on the Corporate Improvement Action Plan. For core services and systems, robust arrangements are in place and are operating as planned; exceptions and non-performance are highlighted for action.

We propose over the coming year to continue to take steps to address all the improvement actions identified; we are confident that Shetland Islands Council has turned the corner in its approach and attitude to ensuring effective governance arrangements are in place. We look forward to the Accounts Commission follow up later in 2011, to help us assess our progress.

There is a common saying that an organisation is only as good as the staff who work there. Shetland Islands Council is no different in that respect and we pay them thanks for their hard work, dedication and commitment to the public services they provide to this community. More specifically, we thank the staff who have worked hard to prepare and present this set of Accounts.

Overall, we consider the governance and internal control environment provides reasonable and objective assurance that any significant risks impacting on the achievement of our principal objectives will be identified and actions taken to avoid or mitigate their impact.

Hazel Sutherland CPFA



Head of Finance

Alistair Buchan



Chief Executive

Remuneration Report

Introduction

The Remuneration Report is set out in accordance with the Local Government Accounts (Scotland) Regulations 1985 (as amended by the Local Authority (Scotland) Amendment Regulations 2011 (SSI No. 2011/64)). These Regulations require various disclosures on the remuneration and pension benefits of senior councillors and employees.

All information disclosed in the tables in this Remuneration Report was audited by Audit Scotland. The other sections of the Remuneration Report were reviewed by Audit Scotland to ensure that they are consistent with the financial statements.

From 2011/12 the Code of Practice on Local Authority Accounting in the UK (the Code) will require the disclosure of exit packages. This disclosure has been included in the Remuneration Report for 2010/11.

Remuneration arrangements of Senior Councillors

The remuneration of councillors is regulated by the Local Governance (Scotland) Act 2004 (Remuneration) Regulations 2007 (SSI No. 2007/183). The Regulations provide for the grading of councillors for the purposes of remuneration arrangements, as either the Convener of the Council, senior councillors or councillors. A senior councillor is a councillor who holds a significant position of responsibility in the Council's political management structure, usually referred to as the chair or vice-chair of a committee, sub-committee or board.

When determining the level of remuneration for councillors the Scottish Ministers consider the recommendations of the Scottish Local Authority Remuneration Committee (SLARC). SLARC is an advisory Non-Departmental Public Body set up in 2005 to advise Scottish Ministers on the remuneration, allowances and expenses incurred by local authority councillors.

The salary that is to be paid to the Convener of the Council is set out in the amended Regulations SSI 2008/415 which came into effect on 10 February 2009. For 2010/11 the salary for the Convener of Shetland Islands Council was £27,057.96. It was confirmed that Shetland Islands Council could apply the remuneration payable for a Civic Head to the position of Vice-Convener. For 2010/11 the salary for the Vice-Convener was £20,293.92

The Regulations also set out the remuneration that may be paid to senior councillors and the total number of senior councillors the Council may have. The maximum yearly amount that may be paid to a senior councillor is 75 per cent of the total yearly amount payable to the Leader of the Council. The total yearly amount payable by the Council for remuneration of all of its senior councillors shall not exceed £164,376. The Council is able to exercise local flexibility in the determination of the precise number of senior councillors and their salary within these maximum limits.

The nine senior councillor positions are:

- Chair of Services Committee
- Chair of Infrastructure Committee
- Chair of Audit and Scrutiny Committee
- Chair of Development

- Chair of the following sub-committees or boards:
 - Shetland College/Train Shetland
 - Inter Island Ferries
 - Harbour
 - Planning; and
 - Licensing.

As the Vice-Convener is also the Chair of Development only one additional remuneration (that which would have been payable to a Civic Head) was paid in respect of these two positions in 2010/11. Similarly, the Chair of Planning is also the Vice-Convener of the Orkney and Shetland Valuation Joint Board so again only one responsibility allowance was paid in 2010/11 in respect of the latter position, and that additional remuneration was paid by the Board.

In 2010/11, excluding the Convener and the Vice-Convener, Shetland Islands Council therefore had eight senior councillors and the additional remuneration paid to these councillors totalled £144,958.

The Regulations also permit the Council to pay contributions or other payments as required to the Local Government Pension Scheme in respect of those councillors who elect to become councillor members of the Local Government Pension Scheme.

The original policy, following the regulations, which encompasses the salaries of all elected members including the Convener, Vice-Convener and senior councillors was agreed at a meeting of the full Council on 8 February 2007, in a Report entitled Review of Committee and Decision Making Structures, and is available at the web address below.

<http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=5835>

The scheme was updated on 7 March 2011 to reflect amendments to the Committee Structure, including the positions which attract special responsibility allowances.

<http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=11923>

Remuneration of Conveners and Vice-Conveners for Joint Boards

In addition to the senior councillors of the Council the Regulations also set out the remuneration payable to councillors with the responsibility of a Convener or a Vice-Convener of a Joint Board such as the Orkney and Shetland Valuation Joint Board. The Regulations require the remuneration to be paid by the Council of which the Convener or Vice-Convener (as the case may be) is a member. The Council is also required to pay any pension contributions arising from the Convener or Vice-Convener being a member of the Local Government Pension Scheme.

The Vice-Convener of the Orkney and Shetland Valuation Joint Board is also a senior councillor of Shetland Islands Council.

The Council is reimbursed by the Orkney and Shetland Valuation Joint Board for the additional remuneration paid to the councillor from being the Vice-Convener of the Joint Board.

Remuneration of Senior Employees

Remuneration is the term used to describe the total payments made to staff and will include salary payments and allowances such as distant islands allowance and statutory duty allowances.

The salary of senior employees is set by reference to national arrangements. The Scottish Joint Negotiating Committee (SJNC) for Local Authority Services sets the salaries for the Chief Executives of Scottish Local Authorities. On 24 June 2010 the full Council approved payment in excess of the rate set by the SNJC due to the need to appoint an interim Chief Executive. Remuneration for interim appointments are unavoidably higher than standard rates. Circular CO/144 sets the amount of salaries for the Chief Executives of Scottish local authorities for the period 2008 to 2011. The salaries of the Executive Directors and Heads of Service are based on a fixed percentage of the Chief Executive's salary for Shetland Islands Council, as detailed in circular CO/144, in three bandings. Executive Directors receive 93% (maximum point of 6 point salary range) of the amount of the Chief Executive's salary. Heads of Service fall into two bandings, to reflect their level of responsibility, at 75% (maximum point of 10 point salary range) and 65% (maximum point of 8 point salary range) of the Chief Executive's salary. These arrangements were agreed through approval of report "SIC Staff Organisational Change Proposals" at a meeting of the full Council on 17 May 2000 and updated through the Organisational Update and Change Report at a meeting of the full Council on 13 April 2006. Four Heads of Service holding the named statutory posts also receive an annual allowance to reflect their specific duties, ranging from £5,000 - £8,000 per annum. This was agreed through approval of report "Head of Services Salaries" at a meeting of the full Council on 18 February 2009.

The senior employees of the Council are those who form the Council's Corporate Management Team, those who report directly to the chief executive and those who hold certain statutory positions, namely:

- Chief Executive
- Executive Director, Education and Social Care
- Executive Director, Infrastructure
- Assistant Chief Executive
- Head of Service Finance, being the Chief Financial Officer
- Head of Service Legal, being the Chief Legal Officer
- Head of Service Schools, being the Chief Educational Officer
- Service Manager Social Work, being the Chief Social Work Officer
- Head of Service, Economic Development
- Head of Service, Capital Programmes

Other benefits received by senior employees are an essential car user allowance and some have the provision of a mobile phone/blackberry. These benefits are currently being reviewed.

General Disclosure by pay band (paragraph 4 of the Schedule)

The Regulations require the Remuneration Report to provide information on the number of persons whose remuneration was £50,000 or more. This information is to be disclosed in bands of £5,000.

Remuneration Bands	Number of Employees	
	2010/11	2009/10
£50,000 - £54,999	41	58
£55,000 - £59,999	29	35
£60,000 - £64,999	17	12
£65,000 - £69,999	14	15
£70,000 - £74,999	15	11
£75,000 - £79,999	5	1
£80,000 - £84,999	2	1
£85,000 - £89,999	0	0
£90,000 - £94,999	3	0
£95,000 - £99,999	0	0
£100,000 - £104,999	2	0
£105,000 - £109,999	0	0
£110,000 - £114,999	0	0
£115,000 - £119,999	0	0
£120,000 - £124,999	0	0
£125,000 - £129,999	0	0
£130,000 - £134,999	2	0
£135,000 - £139,999	0	0
£140,000 - £144,999	1	0
Total	131	133

The table above includes staff that terminated employment during 2010/11. Many of the staff who left received remuneration packages that included compensation for loss of office, and because of this payment a number of staff's remuneration has increased in the 2010/11 year only.

Summary of Remuneration paid to Councillors

The Council paid the following salaries, allowances and expenses to all councillors (including the senior councillors).

	2010/11 £000	2009/10 £000
Salaries	357	357
Allowances	33	34
Expenses	95	93
TOTAL	485	484

The annual return of councillors' salaries and expenses for 2010/11 is available for any member of the public to view at Finance Services, Montfield during normal working hours.

Disclosure of Remuneration for Senior Councillors

Councillor Name	Designation	2010-11				2009-10	Notes
		Salary, Fees and Allowances	Taxable Expenses (a)	Benefits other than Cash	Total Remuneration 2010-11	Total Remuneration 2009-10	
		£	£	£	£	£	
Mr A Cluness	Convener	27,057.96	0.00		27,057.96	27,328.42	
Mr J Simpson (b)	Vice Convener & Chairperson of Development Committee	20,293.92	154.50		20,448.42	20,748.68	
Mrs F Grains	Chairperson - Audit & Scrutiny Committee	17,755.92	117.69		17,873.61	18,088.58	
Mr L Angus	Chairperson - Services Committee (Part 2010/11)	19,456.06	81.65		19,537.71	20,521.90	Chair of Services to 03/02/2011
Mrs E Fullerton	Chairperson - Services Committee (Part 2010/11)	16,682.34	311.86		16,994.20	16,866.18	Chair of Services from 17/02/2011
Mr R Henderson	Chairperson - Inter Island Ferries Board	17,755.92	117.84		17,873.76	18,098.66	
Mrs I Hawkins	Chairperson - Infrastructure Committee (Part 2009/10)	20,040.00	0.00		20,040.00	19,714.44	Chair of Infrastructure from 17/09/2009
Mr A Wishart	Chairperson - Infrastructure Committee (Part 2009/10)	16,233.96	0.00		16,233.96	18,259.47	Chair of Infrastructure to 16/09/2009
Mr A Cooper	Chairperson - Harbour Board	17,755.92	106.42		17,862.34	18,219.19	
Mr F Robertson (c)	Chairperson - Planning Board & Vice Convener of O & S VJB	19,278.96	470.23		19,749.19	19,777.78	
Mr C Cmith	Chairperson - Licencing Sub-Committee	17,755.92	0.00		17,755.92	17,979.86	
Mr A Hughson	Chairperson - Shetland College/Train Shetland Mgmt	17,755.92	0.00		17,755.92	17,987.74	

- Notes:
- a) Taxable Expenses – Telephone Line Rental/Broadband
 - b) Mr J Simpson only receives one senior councillor payment even though he holds two positions.
 - c) Mr F Robertson only receives one senior councillor payment even though he holds two positions. The position of Vice-Convener of the Orkney and Shetland Valuation Joint Board attracts a payment of £3,405 per annum, which is included in the salary figure detailed above but is reimbursed to the Council by the Board.

Remuneration of Senior Employees of the Council

Name of Senior Official	Designation	2010/11					2009/10	Notes
		Salary, Fees and Allowances	Taxable Expenses (a)	Compensation for Loss of Employment (e)	Benefits other than in Cash	Total Remuneration 2010/11	Total Remuneration 2009/10	
		£	£	£	£	£	£	
M Goodlad	Chief Executive					0.00	16,662.03	Terminated Employment 31/05/2009
	Chief Executive - Full Yr Remn 09/10 £98,887.50					0.00		
D Clark	Chief Executive					0.00	73,476.79	Employed 1/06/2009 to 24/02/2010
	Chief Executive - Full Yr Remn 09/10 £98,887.50					0.00		
A Buchan (b)	Chief Executive from 5/07/2010	118,278.88			18,821.97	137,100.85		Commenced with SIC 05/07/2010
	Chief Executive - Full Yr Remn 10/11 £141,803					0.00		
H Sutherland (c)	Executive Director: Education & Social Care	93,526.36	822.00			94,348.36	77,922.00	Acting Chief Executive 09/9/09 to 18/10/09 & 25/01/10 to 08/8/10
G Greenhill	Executive Director: Infrastructure	77,268.00	1,011.40			78,279.40	74,568.64	
W Shannon	Assistant Chief Executive	66,948.00	822.00			67,770.00	66,192.00	
G Johnston	Head of Service: Finance	73,713.44	822.00	27,075.42		101,610.86	71,316.96	Efficiency Retirement 31/03/2011
J Riise (d)	Head of Service: Legal and Administration	72,201.12	822.00			73,023.12	73,121.95	
H Budge	Head of Service: Schools	72,201.12	822.00			73,023.12	71,316.96	
R M Sinclair	Head of Service: Capital Programme	55,000.88	822.00			55,822.88	43,964.88	
J R Smith	Head of Service: Organisational Development	65,172.09	822.00			65,994.09	66,745.67	
N Grant	Head of Service: Economic Development	65,253.00	822.00			66,075.00	64,539.00	
M A Williamson	Service Manager: Social Work	56,289.25	991.01			57,280.26	55,330.73	

Notes

(a) Taxable Expenses - Essential Car User Allowance & Telephone Line Rental/Broadband

(b) A Buchan - Salary, Fees and Allowances, includes SIC Secondment Allowance. Benefits other than in cash include provided accommodation, car and return family trips

(c) H Sutherland remuneration in 2010/11 includes payment of £12,803.91 in respect of Acting Chief Executive in 2009/10 & 2010/11. The remuneration for H Sutherland's substantive post equated to £80,722.45 in 2010/11.

(d) Jan Riise carries out both Returning Officer & Deputy Returning Officer Duties. Deputy Returning Officer Duties were carried out in 2009/10 and the associated fee in this regard is included in the 2009/10 figure disclosed above.

(e) Compensation for loss of Employment - The figures detailed in this column are the Compensatory Added Years (CAYs) Lump Sum Payment paid on termination of employment.

(f) Data has not been disclosed in respect of confidentiality agreements where such agreements were agreed prior to 7 February 2011 (the date the amendment Regulations were laid before the Scottish Parliament).

Pension Benefits – Senior Councillors

The pension entitlements for senior councillors for the year to 31 March 2011 are shown in the table below, together with the contribution made by the Council to each senior councillor during the year.

Name of Councillor	Designation	In-Year Employer Pension Contributions			Accrued Pension Benefits			Notes
		Year ending 31 March 2011	Year ending 31 March 2010		As at 31 March 2011	As at 31 March 2010	Increase / (Decrease)	
		£	£		£	£	£	
Mr A Cluness	Convener	8,608.90	8,388.00	Pension	2,076.86	1,311.31	765.55	
				Lump Sum	2,079.02	1,941.86	137.16	
Mr J Simpson	Vice-Convener & Chairperson - Development Committee	6,456.79	6,291.12	Pension	1,636.72	986.21	650.51	
				Lump Sum	1,152.07	1,096.57	55.50	
Mrs F Grains	Chairperson - Audit & Scrutiny Committee	0.00	0.00	Pension	0.00	0.00	0.00	Pension Scheme's age limit exceeded
				Lump Sum	0.00	0.00	0.00	
Mr L Angus	Chairperson - Services Committee (Part 2010/11)	6,182.00	6,212.40	Pension	1,317.97	776.87	541.10	Chair of Services to 03/02/2011
				Lump Sum	927.16	878.73	48.43	
Mrs E Fullerton	Chairperson - Services Committee (Part 2010/11)	5,313.97	5,032.56	Pension	937.90	491.19	446.71	Chair of Services from 17/02/2011
				Lump Sum	1,146.15	968.82	177.33	
Mr R Henderson	Chairperson - Inter Island Ferries Board	5,649.26	5,504.40	Pension	1,167.92	736.00	431.92	
				Lump Sum	1,337.53	1,235.92	101.61	
Mrs I Hawkins	Chairperson - Infrastructure Committee	6,376.06	6,041.86	Pension	1,037.50	616.75	420.75	Chair of Infrastructure from 17/09/2009
				Lump Sum	1,267.87	1,121.04	146.83	
Mr A Wishart	Chairperson - Infrastructure Committee	5,165.11	5,578.84	Pension	1,135.03	743.92	391.11	Chair of Infrastructure to 16/09/2009
				Lump Sum	1,311.91	1,276.69	35.22	
Mr A Cooper	Chairperson - Harbour Board	5,649.26	5,504.40	Pension	1,098.94	758.38	340.56	
				Lump Sum	1,371.09	1,336.51	34.58	
Mr F Robertson	Chairperson - Planning Board & Vice-Convener of O & S VJB	6,133.87	5,976.48	Pension	1,732.47	1,102.74	629.73	
				Lump Sum	1,626.71	1,523.45	103.26	
Mr C Cmith	Chairperson - Licencing Sub-Committee	5,649.26	5,504.40	Pension	1,055.39	658.72	396.67	
				Lump Sum	1,316.75	1,223.66	93.09	
Mr A Hughson	Chairperson - Shetland College/Train Shetland Mgmt	5,649.26	5,504.40	Pension	1,021.09	687.34	333.75	
				Lump Sum	1,247.81	1,193.66	54.15	

Note Para 61 of Guidance confirms "The Pension disclosure for Joint Boards for a convener or vice-convener is limited to the contribution the Board has been asked to make to that person's pension by the Council of which the convener or vice-convener is a member. the amount of In Year Employer Pension Contributions included in the above figures for Frank Robertson the vice-chair of the Orkney & Shetland VJB amount to £505.47 in 2010/11 and £471.98 in 2009/10.

Pension Benefits - Senior Employees

Name of Senior Official	Designation		In-Year Employer Pension Contributions			Accrued Pension Benefits			Notes
			Year ending 31 March 2011	Year ending 31 March 2010		As at 31 March 2011	As at 31 March 2010	Increase (Decrease)	
			£	£		£	£	£	
M Goodlad	Chief Executive	ER Strain		2,564.81	Pension Lump Sum		11,571.20 33,904.00	(11,571.20) (33,904.00)	Terminated employment 31/05/2009, pension benefits preserved
David Clark	Chief Executive	ER Strain		11,294.99	Pension Lump Sum				Scheme membership less than 2 years - no pension benefits due.
A Buchan	Chief Executive	ER Strain	14,066.63		Pension Lump Sum				Accrued Pension Benefits held with OIC
H Sutherland	Executive Director: Education & Social Care	ER Strain	29,960.93	23,901.04	Pension Lump Sum	26,373.73 70,405.91	23,851.31 67,383.22	2,522.42 3,022.69	Acting Chief Executive from 09/09/09 to 18/10/09 and 25/01/10 to 08/08/10
G Greenhill	Executive Director: Infrastructure	ER Strain	24,609.51	22,772.56	Pension Lump Sum	2,658.30 246.16	1,307.10 234.82	1,351.20 11.34	
W Shannon	Assistant Chief Executive	ER Strain	21,322.54	20,264.76	Pension Lump Sum	17,086.64 44,563.17	15,584.20 43,485.16	1,502.44 1,078.01	
G Johnston	Head of Service: Finance	ER Strain	22,995.71 155,711.86	21,853.36	Pension Lump Sum	27,182.57 74,327.60	25,357.24 72,547.99	1,825.33 1,779.61	Efficiency Retirement 31/03/2011
J Riise	Head of Service: Legal and Administration	ER Strain	22,995.71	21,853.36	Pension Lump Sum	23,436.23 62,632.58	21,649.85 61,143.11	1,786.38 1,489.47	Includes Returning Officer Pension Benefits
H Budge	Head of Service: Schools	ER Strain	20,640.82	21,007.46	Pension Lump Sum	16,759.13 50,277.40	15,472.57 46,417.71	1,286.56 3,859.69	
N R J Grant	Head of Service: Economic Development	ER Strain	20,782.81	19,752.36	Pension Lump Sum	7,341.67 15,497.74	6,102.64 15,123.07	1,239.03 374.67	
R M Sinclair	Head of Service: Capital Programme	ER Strain	17,527.95	13,374.32	Pension Lump Sum	14,300.26 37,398.75	10,286.21 28,744.24	4,014.05 8,654.51	
A Williamson	Chief Social Work Officer	ER Strain	17,881.86	16,859.42	Pension Lump Sum	21,107.49 57,726.70	19,627.71 56,161.04	1,479.78 1,565.66	
Total			368,496.33	195,498.44		569,322.03	575,954.39	(6,632.36)	

Notes a)

The "strain" costs detailed are the cost to the Pension Fund (which requires to be met upfront by the General Fund) for allowing staff to retire early with an unreduced LGPS pension & lump sum.

b)

Head of Legal & Administration has pension benefits arising from his Returning Officer duties in respect of Local Government and Scottish Parliamentary Elections. A single disclosure of the pension benefits is detailed above and detailed below is the pension benefits associated with Returning Officer duties.

Returning Officer	Accrued Pension Benefits		
	As at 31 March 2011	As at 31 March 2010	Increase (Decrease)
	£	£	£
Pension	680.98	624.08	56.90
Lump Sum	1,588.88	1,588.88	0.00

Pension Benefits

Pension benefits for councillors and local government employees are provided through the Local Government Pension Scheme (LGPS). The pension scheme is a funded pension scheme consisting of payment from members of the scheme as well as the employer.

Councillors' pension benefits are based on career average pay. Councillors pay for each year or part year ending 31 March (other than the pay in the final year commencing 1 April) is increased by the increase in the cost of living, as measured by the appropriate index (or indices) between the end of that year and the last day of the month in which their membership of the scheme ends. The total of the revalued pay is then divided by the period of membership to calculate the career average pay. This is the value used to calculate the pension benefits.

For local government employees this is a final salary pension scheme. This means that pension benefits are based on the final year's pay and the number of years that the person has been a member of the scheme.

The scheme's normal retirement age for both councillors and employees is 65.

From 1 April 2009 a five-tier contribution system was introduced with contributions from scheme members being based on how much pay falls into each tier. This is designed to give more equality between the cost and benefits of scheme membership. Prior to 2009 contributions rates were set at 6% for all non-manual employees.

The tiers and members contribution rates for 2010/11 remain at the 2009/10 rates, (due to negative increases in the costs of living index for 2010/11) and are as follows:	Contribution Rate 2010/11 %	Contribution Rate 2009/10 %
Whole time pay: On earnings up to and including £18,000 On earnings above £18,000 and up to £22,000 On earnings above £22,000 and up to £30,000 On earnings above £30,000 and up to £40,000 On earnings above £40,000	5.50 7.25 8.50 9.50 12.00	5.50 7.25 8.50 9.50 12.00

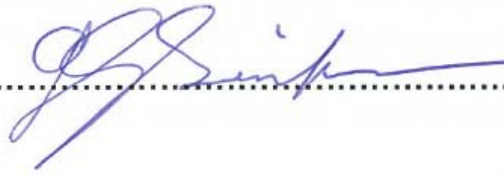
If a person works part-time their contribution rate is worked out on the whole-time pay rate for the job, with actual contributions paid on actual pay earned.

There is no automatic entitlement to a lump sum. Members may opt to give up (commute) pension for lump sum up to the limit set by the Finance Act 2004. The accrual rate guarantees a pension based on 1/60th of final pensionable salary and years of pensionable service. (Prior to 2009 the accrual rate guaranteed a pension based on 1/80th and a lump sum based on 3/80th of final pensionable salary and years of pensionable service).

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

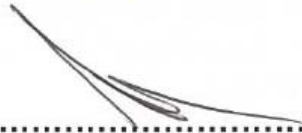
The pension figures shown relate to the benefits that the person has accrued as a consequence of their total Local Government service, and not just their current appointment. The figures will also reflect any transfer of pension benefits from another pension fund or scheme.

Joseph G Simpson
Leader



30 September 2011

Alistair Buchan
Chief Executive



30 September 2011

Statement of Responsibilities for the Statement of Accounts

The Council's Responsibility

The Council is required to:

- make arrangements for the proper administration of its financial affairs and to secure that the proper officer has the responsibility for the administration of those affairs; in this Council the proper officer is the Head of Finance;
- manage its affairs to secure economic, efficient and effective use of resources and to safeguard its assets;
- acknowledge the audited accounts must be laid before a meeting of the authority (i.e. the Council under SIC/Scheme of Administration and Delegations par. 2.1.3 sub par. 1 (G)) within two months of receipt of the audit certificate.

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 Code).

It is the responsibility of the Head of Finance to sign, date and submit the un-audited statement of accounts to the authority and Controller of Audit by 30 June.


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 Code.

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 a true and fair view of the financial position of the authority at the reporting date and its income and expenditure for the year ended 31 March 2011.



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Hazel Sutherland CPFA.
Head of Finance

Movement in Reserves Statement

	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve / Capital Funds £000	Capital Grants Unapplied £000	Other Revenue Statutory Funds £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance as at 31 March 2009	(70)	0	(114,308)	0	(180,329)	(294,707)	(222,090)	(516,797)
Movement in reserves during 2009/10:								
(Surplus) or deficit on the provision of services	34,949	(458)				34,491		34,491
Other Comprehensive Income and Expenditure						0	21,637	21,637
Total Comprehensive Income and Expenditure	34,949	(458)	0	0	0	34,491	21,637	56,128
Adjustments between accounting basis & funding basis under regulations (Note 7)	(14,662)	755	0	0	0	(13,907)	13,907	0
Net (Increase)/Decrease before Transfers to Statutory Reserves	20,287	297	0	0	0	20,584	35,544	56,128
Net Transfers to/(from) Other Statutory Reserves	(20,378)	(297)	(4,273)		25,304	356	(356)	0
(Increase)/Decrease in 2009/10	(91)	0	(4,273)	0	25,304	20,940	35,188	56,128

Balance as at 31 March 2010	(161)	0	(118,581)	0	(155,025)	(273,767)	(186,902)	(460,669)
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	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve / Capital Funds £000	Capital Grants Unapplied £000	Other Revenue Statutory Funds £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance as at 31 March 2010	(161)	0	(118,581)	0	(155,025)	(273,767)	(186,902)	(460,669)
Movement in reserves during 2010/11:								
(Surplus) or deficit on the provision of services	(19,728)	9,943	0	0	0	(9,785)	0	(9,785)
Other Comprehensive Income and Expenditure							(43,277)	(43,277)
Total Comprehensive Income and expenditure	(19,728)	9,943	0	0	0	(9,785)	(43,277)	(53,062)
Adjustments between accounting basis & funding basis under regulations (Note 7)	16,745	(9,454)	0	(171)	0	7,120	(7,120)	0
Net (Increase)/Decrease before Transfers to Statutory Reserves	(2,983)	489	0	(171)	0	(2,665)	(50,397)	(53,062)
Net Transfers to/(from) Other Statutory Reserves	0	(489)	4,224	0	3,615	7,350	(7,350)	0
(Increase)/Decrease in 2010/11	(2,983)	0	4,224	(171)	3,615	4,685	(57,747)	(53,062)

Balance as at 31 March 2011	(3,144)	0	(114,357)	(171)	(151,410)	(269,082)	(244,649)	(513,731)
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Total usable and unusable reserves are shown within disclosure notes 21 and 22 respectively.

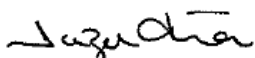
Comprehensive Income and Expenditure Statement for year ended 31 March 2011

2009/10 Net Expenditure £000	Notes	2010/11 Gross Expenditure £000	2010/11 Gross Income £000	2010/11 Net Expenditure £000
50,933	Education Services	56,104	(8,304)	47,800
1,523	Housing Services	8,779	(5,677)	3,102
(2,059)	Housing Revenue Account	15,578	(6,758)	8,820
6,915	Cultural and Related Services	7,706	(877)	6,829
8,551	Environmental Services	9,094	(2,681)	6,413
2,196	Fire Services	2,197	0	2,197
13,321	Roads and Transport Services	21,394	(9,847)	11,547
11,847	Trading Services	28,272	(17,341)	10,931
1,972	Police Services	1,461	0	1,461
10,471	Planning and Development Services	14,765	(4,796)	9,969
26,744	Social Work	40,887	(8,384)	32,503
2,370	Central Services to the Public	2,436	(310)	2,126
6,649	Corporate and Democratic Core	7,572	0	7,572
2,268	Non Distributed Costs	(28,826)	0	(28,826)
143,701	Cost of Services	187,419	(64,975)	122,444
(44)	Other operating income			(327)
(2,784)	Financing and Investment income and expenditure			(23,050)
(106,382)	Taxation and non-specific grant income			(108,852)
34,491	(Surplus) or Deficit on Provision of Services			(9,785)
(20,308)	(Surplus) on revaluation of Property, Plant and Equipment assets			(15,540)
(43,410)	(Surplus) on revaluation of Available-for-Sale financial assets			(19,382)
0	Amounts recycled from the Available-for-Sale Financial Instrument Reserve upon derecognition			23,156
85,355	Actuarial (gains)/losses on pension assets/liabilities			(31,511)
21,637	Other Comprehensive Income and Expenditure			(43,277)
56,128	Total Comprehensive Income and Expenditure			(53,062)

Balance Sheet as at 31 March 2011

1 April 2009 £000	31 March 2010 £000		Notes	31 March 2011 £000
350,488	367,468	Property, Plant & Equipment	12	374,529
1,016	689	Intangible Assets	13	436
199,744	218,959	Long term Investments	14	222,739
18	13	Long Term Debtors	14	1,066
551,266	587,129	Long Term Assets		598,770
3,465	3,609	Inventories	15	4,023
11,803	10,349	Short Term Debtors	16	8,516
26,459	20,906	Cash and Cash equivalents	17	7,376
654	1,245	Assets held for Sale	18	206
42,381	36,109	Current Assets		20,121
(17,818)	(15,396)	Short Term Creditors	19	(14,037)
(17,818)	(15,396)	Current Liabilities		(14,037)
(53)	(4)	Provisions	20	(10)
(58,979)	(147,169)	Other Long Term Liabilities	33	(91,113)
(59,032)	(147,173)	Long Term Liabilities		(91,123)
516,797	460,669	Net Assets		513,731
(294,707)	(273,767)	Usable Reserves	21	(269,082)
(222,090)	(186,902)	Unusable Reserves	22	(244,649)
(516,797)	(460,669)	Total Reserves		(513,731)

The unaudited accounts were issued on 26 July 2011 and the audited accounts were authorised for issue on 30 September 2011.



..... Date: 30 September 2011

Hazel Sutherland CPFA
Head of Finance

Cash Flow Statement for year ended 31 March 2011

2009/10 £000	2010/11 £000	2010/11 £000
OPERATING ACTIVITIES		
Cash Outflows		
(99,109) Cash paid to and on behalf of employees	(102,976)	
(75,754) Other operating cash payments	(88,270)	
(4,168) Precepts paid	(3,407)	
<u>(179,031)</u>		(194,653)
Cash Inflows		
3,706 Housing Rents	2,711	
0 Trading	551	
84,694 RSG	86,894	
676 DWP Grants	769	
30,243 Sales of goods and services	39,561	
10,256 Other operating cash receipts	3,575	
13,679 Other Government Grant	12,220	
7,857 Council Tax income	8,647	
9,189 NDR Income	8,672	
<u>160,300</u>		163,600
Movement of working capital		
(145) (Increase)/Decrease in Stock	(414)	
1,454 (Increase)/Decrease in Debtors	1,833	
(2,422) Increase/(Decrease) in Creditors	(1,359)	
<u>(1,113)</u>		60
<u>(19,844)</u>		<u>(30,993)</u>
INVESTING ACTIVITIES		
Cash Outflows		
(24,578) Purchase of Fixed Assets	(18,048)	
(170,448) Purchase of Long Term Investments	(238,884)	
(195,438) Purchase of Short Term Investments	(107,700)	
<u>(390,464)</u>		(364,632)
Cash Inflows		
932 Sale of Fixed Assets	1,572	
194,793 Sale of Long Term Investments	253,383	
199,434 Sale of Short term investments	119,300	
4,371 Capital Grant receipts	4,657	
5,225 Interest Received & Dividends	3,183	
<u>404,755</u>		382,095
<u>14,291</u>		<u>17,463</u>
FINANCING ACTIVITIES		
0 Cash Outflows	0	
0 Cash Inflows	0	
<u>0</u>		<u>0</u>
(5,553) NET INCREASE/(DECREASE) IN CASH		(13,530)
<u>26,459</u> Cash and Cash Equivalents at 1 April		<u>20,906</u>
(5,553) Net movement of Cash and Cash Equivalents during the year		(13,530)
<u>20,906</u> Cash & Cash Equivalents at 31 March		<u>7,376</u>

Refer to note 17 for an analysis of the components of cash and cash equivalents.

Accounting adjustments made to prior year comparatives to comply with International Financial Reporting Standards

These financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11. The Code requires that for the first time, Local Authority accounts in 2010/11 should be prepared in accordance with International Financial Reporting Standards (except in instances where the Code allows departures), and the comparative figures for the 2008/09 and 2009/10 Balance Sheets as well as the 2009/10 Comprehensive Income and Expenditure Statement should be restated from UK Generally Accepted Accounting Principles (UK GAAP) where required. The reconciliation to IFRS from the previous UK GAAP accounts is summarised in the tables below.

Restatement of Shetland Islands Council's 2008/09 UK GAAP Balance Sheet on an IFRS basis

	2008/09 UK GAAP Balance Sheet £000	Adjustment 1 - IAS 20 £000	Adjustment 2 - IAS 40 £000	Adjustment 3 - IFRS 5 £000	Adjustment 4 - IAS 19 £000	Adjustment 5 - IAS 7 £000	IFRS based Balance Sheet 1 April 2009 £000
Non-Current Assets:							
PPE - Council Dwellings	59,931			(654)			59,277
PPE - Other Land & Buildings	104,233		4,328				108,561
Investment Properties	4,328		(4,328)				0
Current Assets:							
Assets Held for Sale	0			654			654
Short-Term Investments	16,506					(16,506)	0
Cash & Bank / Cash & Cash Equivalents	9,953					16,506	26,459
Current Liabilities:							
Short-Term Creditors	(16,478)				(1,340)		(17,818)
Long-Term Liabilities:							
Government Grants Deferred	(12,533)	12,533					0
Reserves:							
Capital Adjustment Account	(258,075)	(12,533)					(270,608)
Accumulating Compensated Absences Adjustment Account	0				1,340		1,340

Adjustment 1 – IAS 20 Accounting for Government Grants and disclosure of Government assistance – Under IFRS accounting, Shetland Islands Council is required to recognise all grant income in its entirety at the point at which it is received. Therefore all deferred government grants have been written out of the liabilities in the balance sheet, recognised through the Income and Expenditure account and subsequently transferred from the General Fund to the Capital Adjustment Account.

Adjustment 2 – IAS 40 Investment property – Under the strict criteria of IAS 40, Shetland Islands Council had £4.328m of property which had to be re-categorised out of investment property because it did not meet the IFRS requirements to be classified as such. Instead, it has been determined that under IFRS these assets better meet the criteria of Other Land and Buildings and have therefore been transferred into that category.

Adjustment 3 – IFRS 5 Assets Held for Sale – Shetland Islands Council had a number of council houses that were in the process of being sold to tenants at 31 March 2009. As such, these are required to be separately disclosed under IFRS 5 under a category named *Assets Held for Sale*. This adjustment is to transfer those council houses from non-current assets to assets held for sale under current assets.

Adjustment 4 – IAS 19 Employee Benefits – Under this IFRS accounting standard, Councils are required to recognise a liability for all holiday pay and other entitlements that employees had accrued at the financial year-end. This liability reflects the difference between the holiday entitlement earned at 31 March and the actual amount of holidays taken. At Shetland Islands Council, the excess of holiday entitlement earned over the holidays actually taken by 31 March, as well as TOIL and flexi-time balances due back to employees, has resulted in a liability of £1.340m. The Scottish Government has introduced Statutory Mitigation for this additional cost so that its negative impact can be removed from the General Fund and transferred to a new Accumulating Compensated Absences Adjustment Account. This has been reflected in the adjustment above.

Adjustment 5 – IAS 7 Cash Flow Statement – Under IFRS accounting, Shetland Islands Council must show cash and cash equivalents as a single balance on the face of the Balance Sheet. Cash and cash equivalents include the bank balances, petty cash, overdrafts (if they are integral to the cash management of the organisation) and investments due to mature within 3 months of the balance sheet date. Therefore an adjustment was made to consolidate the short-term investments balance with the bank balance as all the short-term investments would be available to Shetland Islands Council in cash within 3 months of 31 March 2009.

Reconciliation of Shetland Islands Council's 1 April 2009 IFRS Balance Sheet to the 2009/10 IFRS Balance Sheet

	1 April 2009 IFRS Balance Sheet £000	UK GAAP In-year Balance Sheet Movements £000	Adjustment 1 - IAS 20 £000	Adjustment 2 IAS 40 £000	Adjustment 3 IFRS 5 £000	Adjustment 4 IAS 19 £000	Adjustment 5 - IAS 7 £000	IFRS based Balance Sheet 31 March 2010 £000
Non-Current Assets:								
PPE - Council Dwellings	59,277	1,204			(256)			60,225
PPE - Other Land & Buildings	108,561	13,329		175				122,065
PPE - Vehicles, Furniture & Plant	37,418	(1,185)			(268)			35,965
Assets Under Construction	23,323	(418)			(67)			22,838
Investment Properties	0	175		(175)				0
Current Assets:								
Assets Held for Sale	654	0			591			1,245
Short-Term Investments	0	(3,022)					3,022	0
Cash & Bank / Cash & Cash Equivalents	26,459	(2,531)					(3,022)	20,906
Current Liabilities:								
Short-Term Creditors	(17,818)	2,446				(25)		(15,397)
Long-Term Liabilities:								
Government Grants Deferred	0	(3,218)	3,218					0
Reserves:								
Capital Adjustment Account	(270,608)	15,043	(3,218)					(258,783)
Accumulating Compensated Absences Adjustment Account	1,340	0				25		1,365

Adjustment 1 – IAS 20 Accounting for Government Grants and disclosure of Government assistance – Under IFRS accounting, Shetland Islands Council is required to recognise all grant income in its entirety at the point at which it is received. Therefore all deferred government grants received in 2009/10 have been written out of the liabilities in the balance sheet, recognised through the Income and Expenditure account and subsequently transferred from the General Fund to the Capital Adjustment Account.

Adjustment 2 – IAS 40 Investment property – During 2009/10, Shetland Islands Council recognised an increase in its investment property balance. However, under IFRS, no properties meet the criteria as being investment properties and therefore this balance has been transferred to Other Land and Buildings.

Adjustment 3 – IFRS 5 Assets Held for Sale – Shetland Islands Council had a number of council houses that were in the process of being sold to tenants at 31 March 2010 (£0.915m). As such, these are required to be separately disclosed under IFRS 5 in a category named *Assets Held for Sale*. This adjustment is to transfer those council houses from non-current assets to assets held for sale under current assets. In addition, the houses held for sale in the 1 April 2009 balance sheet were subsequently sold (£0.654m) and therefore written out of this balance. Therefore the net movement for 2009/10 was £0.261m. In addition, a number of Vehicles, Furniture and Plant (£0.268m) and Assets Held for Sale (£0.067m) were re-categorised as being held for sale.

Adjustment 4 – IAS 19 Employee Benefits – Under this IFRS accounting standard, Councils are required to recognise a liability for all holiday pay entitlement that employees had accrued at the financial year-end. This liability reflects the difference between the holiday entitlement earned at 31 March and the actual amount of holidays taken. At Shetland Islands Council, the excess of holiday entitlement earned over the holidays actually taken by 31 March has resulted in a liability of £1.365m. The Scottish Government has introduced Statutory Mitigation for this additional cost so that its negative impact can be removed from the General Fund and transferred to a new Accumulating Compensated Absences Adjustment Account. At 31 March 2010, the holiday pay accrual was re-calculated and was found to have increased by £0.025m. As a result this adjustment is to reflect the increase in the accrual, and a debit to the Accumulating Compensated Absences Adjustment Account to reflect the increase.

Adjustment 5 – IAS 7 Cash Flow Statement – Under IFRS accounting, Shetland Islands Council must show cash and cash equivalents as a single balance on the face of the Balance Sheet. Cash and cash equivalents include the bank balances, petty cash, overdrafts (if they are integral to the cash management of the organisation) and investments due to mature within 3 months of the balance sheet date. At 31 March 2009 the entire balance of short term investments were considered to be cash equivalents, and the same assessment was made at 31 March 2010. Under UK GAAP the short-term investment balance reduced by £3.022m during 2009/10, however under IFRS this reduction was against the cash and cash equivalent balance, and therefore this adjustment has been made to reflect that.

Reconciliation of Shetland Islands Council's 2009/10 SORP based Income and Expenditure Account to an IFRS based Comprehensive Income and Expenditure Statement

	£000	£000
(Surplus) or Deficit on Provision of Services for year ended 31 March 2010 (SORP)		37,685
IAS 20 Adjustment - Accounting for Government Grants and disclosure of Government assistance - Recognition of all the income received in capital grants during 2009/10 (£4.371m) offset by the reversal of the government grant amortisation credited to service expenditure as applied under the SORP (£1.153m).	(3,218)	
IAS 19 Adjustment – Employee Benefits – The holiday pay accrual was re-calculated at the 2009/10 year-end and this resulted in a net reduction of £0.015m on the liability. This adjustment is to reflect the movement on the accrual during the year and has resulted in a credit to the Income and Expenditure account.	25	
TOTAL VALUE OF CODE (IFRS) ADJUSTMENTS		(3,193)
(Surplus) or Deficit on Provision of Services for year ended 31 March 2010 (Code basis)		34,492



Notes to the Financial Statements

1. Accounting Policies

1.1 General Principles

The Code specifies the applicable accounting policies for:

- selecting measurement bases for recognising assets, liabilities, gains and losses in the statement of accounts;
- making changes to reserves;
- the minimum disclosure requirements.

A valid estimation technique can be used to derive the monetary amount (i.e. the one that best reflects the economic reality of a transaction or event) to be recognised in the financial statements in such circumstances when the basis of measurement for the monetary amount cannot be applied with certainty (and the range of options is considered to be material).

1.2 Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Changes in accounting policies are made only when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the authority's financial position or financial performance.

Changes in accounting estimates are accounted for prospectively i.e. in the current and future years affected by the change, and do not give rise to a prior period adjustment.

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

1.3 Accounting Conventions and Concepts

The accounting convention adopted in the Statement of Accounts is historical cost modified by the revaluation of certain categories of non-current assets and financial instruments.

The concept of the authority as a going concern is based on the premise that its functions and services will continue in existence for the foreseeable future.

The concept of materiality derives from the premise that financial statements need not be precisely accurate to represent a true and fair view. It is a matter of professional judgement as to whether users of the accounts could come to different conclusions about the authority's standards of stewardship or make different economic decisions as a result of deviations from the provisions set out in the Code.

The accounting policies, which have a significant effect on the amounts recognised in the financial statements of Shetland Islands Council, are summarised below.

a) Accruals of Income and Expenditure

(1) Recognition of Income and Expenditure in the Comprehensive Income and Expenditure Statement

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the authority.
- Revenue from the provision of services is recognised when the authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the authority.
- Supplies are recorded as expenditure when they are consumed but where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

(2) Recognition of Debtors and Creditors on the Balance Sheet

Where revenue and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

b) Cash and Cash Equivalents

In the Cash Flow Statement cash (represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours) and cash equivalents (investments that mature in no more than three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value) are shown net of bank overdrafts that are repayable on demand.

c) Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- amortisation of intangible non-current assets attributable to the service.

The authority is not required to raise Council Tax to fund depreciation, amortisation, revaluation or impairment losses but is required to make an annual contribution from revenue equal to loans fund principal charges (Scotland). The General Fund is balanced by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

d) Contingent Assets

Where an event has taken place that gives the authority a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority, a contingent asset is disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential but not recognised in the Balance Sheet.

e) Contingent Liabilities

Contingent liabilities are disclosed in note 34 to the accounts but not recognised in the Balance Sheet, in such circumstances where:

- an event has taken place that gives the authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority;
- a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

f) Employee Benefits

(1) Accumulated Absences

The Accumulated Absences account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

(2) Benefits Payable During Employment

Short-term employee benefits (i.e. those due to be settled within 12 months of the year-end) such as wages, salaries, paid annual leave, paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees are recognised as an expense for services in the year in which employees render service to the authority.

An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit.

The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

(3) Termination Benefits

Termination benefits are amounts payable as a result of a decision by the authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy. These costs are charged on an accruals basis to the relevant service line in the Comprehensive Income and Expenditure Statement when the authority is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

(4) Post Employment Benefits

Employees of the authority are members of two separate pension schemes:

- The Teachers' Pension Scheme, administered by the Scottish Government;
- The Local Government Pension Scheme, administered by Shetland Islands Council.

Both schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees work for the authority. The arrangements for the teachers' scheme however mean that liabilities for these benefits cannot ordinarily be identified specifically to the authority. The scheme is therefore accounted for as if it were a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Education Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year.

(5) The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of Shetland Islands Council's pension fund attributable to the authority are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, projections of earnings for current employees.
- Liabilities are discounted to their value at current prices using a discount rate of 5.5% which is equivalent to the gross redemption yield on the iBoxx Sterling Corporate AA bonds over 15 years index at the valuation date but with the removal of recently re-rated bonds from the index.
- The pension fund assets attributable to the authority are included in the Balance Sheet at their fair value:
 - quoted securities – current bid price;
 - unquoted securities – professional estimate;
 - unlisted securities – current bid price;
- The change in the net pensions liability is analysed into seven components:
 - **current service cost** – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked;
 - **past service cost** – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;
 - **interest cost** – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;

- **expected return on assets** – the annual investment return on the fund assets attributable to the authority, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- **gains or losses on settlements and curtailments** – the result of actions to relieve the authority of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;
- **actuarial gains and losses** – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve. Actuarial gains and losses are shown within Other Comprehensive Income and Expenditure within the Comprehensive Income and Expenditure Statement;
- **contributions paid to the pension fund** – cash paid as employer’s contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards in the Movement in Reserves Statement.

This treatment requires appropriations to and from the Pension Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits earned by employees.

(6) Discretionary Benefits

The authority also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

g) Events After the Balance Sheet Date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue.

Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period whereby the Statement of Accounts is adjusted to reflect such events;
- those that are indicative of conditions that arose after the reporting period whereby the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

h) Exceptional Items and Prior Period Adjustments

Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Prior period adjustments that arise as a result of a change in accounting policies or to correct a material error are applied retrospectively by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

i) Financial Instruments

Financial Assets

Financial assets are classified into two types:

- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market;
- Available-for-Sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

(1) Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For this authority it means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

On an annual basis loans and receivables are assessed for impairment. Events that provide objective evidence of impairment include significant financial difficulties of the counterparty or a breach of contract. Impairment losses and gains or losses on derecognition are taken to the Surplus or Deficit on the provision of services.

(2) Available-for-Sale Assets

Available-for-Sale assets are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument which initially is measured and carried at fair value.

Available-for-Sale financial assets are shown in the Balance Sheet at fair value which is based on the unit price provided by the Council's external fund providers. The fund providers use the following principles when determining the unit price:

- Instruments with quoted market prices – the market price;
- Investments with no quoted market prices – probable realisation value based on recent market transactions, reference to transactions that are substantially the same and discounted cash flows.

Changes in fair value are balanced by an entry in the Available-for-Sale Financial Instrument Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets.

Upon derecognition, any balance on the Available-for-Sale Financial Instruments Reserve in relation to the assets sold are recycled through the Surplus or Deficit on the Provision of Services. To ensure there is no mismatch between Other Comprehensive Income and Expenditure and the Movement in Reserves Statement, recycled amounts are also deducted as an additional item from the Other Comprehensive Income and Expenditure to avoid overstating gains for the year.

Where assets are identified as impaired because there is a significant or prolonged decline in the fair value below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

There were gains on revaluation of £19.382m as at 31 March 2011 (2010: £43.410 m) and therefore no impairment has been identified and the Council did not carry out an impairment review.

j) Foreign Currency Translation

Where the authority has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year-end, they are reconverted at the spot exchange rate at 31 March 2011. Resulting gains or losses are recognised in the Financing and

Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

k) Government Grants and Contributions

Government grants, third party contributions and donations are recognised as due to the authority and hence credited to the Comprehensive Income and Expenditure Statement when there is reasonable assurance that the authority will comply with any conditions attached to payment of the grants.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

l) Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the authority as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the authority.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the authority will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset.

Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase. Research expenditure cannot be capitalised nor expenditure on the development of websites if the website is solely or primarily intended to promote or advertise the authority's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the authority can be determined by reference to an active market. In practice, no intangible asset held by the authority meets this criterion and they are therefore held at cost less accumulated amortisation. The depreciable amount of an intangible asset is amortised over its useful life on a straight-line basis to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. The useful life and amortisation rate used in the calculation of amortisation is 1 – 8 years.

An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and the Capital Receipts Reserve.

m) Inventories and Long Term Contracts

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the weighted average costing formula, except for fuel which is calculated on a First in First Out (FIFO) basis.

Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

n) Landfill Allowances Schemes

Landfill allowances, whether allocated by DEFRA or purchased from another Waste Disposal Authority (WDA), are recognised as current assets and are initially measured at fair value. The scheme has been placed under review in Scotland since 2008/09 as a result of the absence of an active market for the allowance and hence assets and liabilities are measured at nil in 2010/11. Due to the inactive market, penalties have been suspended but not cancelled. As the authority has not exceeded its allowance (regulation 19 of the landfill allowance scheme) there is no potential contingent liability.

o) Leases

Operating Leases

(1) The Authority as Lessee

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

(2) The Authority as Lessor

Where the authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is

credited to the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

Finance Leases

The Council recognises a finance lease when the risks and rewards of the asset substantially lie with the Authority. The accounting treatment of finance leases is to recognise the asset on the Council's Balance Sheet as well as a liability to represent future principal repayments. A depreciation charge is recognised in the Comprehensive Income and Expenditure Statement as well as an interest charge.

None of the authority's existing leases meet the definition of a finance lease.

p) Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Best Value Accounting Code of Practice 2010/11 (BVACOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the authority's status as a multifunctional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in BVACOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement.

q) Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

(1) Recognition

Expenditure on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

(2) Measurement

Assets are initially measured at cost, comprising:

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

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

- infrastructure - held at Depreciated Historical Cost (DHC);
- community assets and assets under construction are held at Historical Cost.
- dwellings – fair value, determined using the basis of Existing Use Value for Social Housing (EUV-SH);
- all other assets – fair value, determined as the amount that would be paid for the asset in its Existing Use Value (EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, Depreciated Replacement Cost (DRC) is used as an estimate of fair value.

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

Assets included in the Balance Sheet at fair value are revalued every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains.

Where decreases in value are identified, they are accounted for as follows:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains);
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

(3) Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for as follows:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains);
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement;
- where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

(4) Depreciation

Depreciation is provided for all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

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

- | | |
|---------------------------------------------|---------------|
| • Council Dwellings: | 30 - 50 years |
| • Other Land and Buildings: | 7 - 120 years |
| • Vehicles, Plant, Furniture and Equipment: | 1 - 50 years |
| • Infrastructure: | 5 - 60 years |

The straight-line method referred to above has been used, until an asset is either revalued or there are additions to the asset, at which point depreciation is then calculated over the remaining outstanding life.

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

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

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

(5) Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is

reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

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

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

Amounts received for a disposal are categorised as capital receipts. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against Council Tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

r) Provisions

Provisions are made where an event has taken place that gives the authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the authority becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic

benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the authority settles the obligation.

The authority has entered into a low minimal risk financial guarantee for £1.831m, which is classified as a contingent liability and hence not recognised within the financial statements. This risk was quantified when determining the level of the General Fund Balance.

s) Reserves

Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against Council Tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the authority – these reserves are explained in the relevant policies.

t) Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the authority has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of Council Tax.

u) Value Added Tax

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

2. Accounting Standards Issued, not Adopted

As a consequence of FRS 30 relating to heritage assets the Code has introduced a change in accounting policy to be adopted for 2011/12 and onwards. FRS 30 requires heritage assets to be measured at valuation and disclosed as a separate classification on the face of the Balance Sheet. Depreciation is not required on heritage assets, which have indefinite lives but their carrying amount should be reviewed where there is

evidence of impairment. Heritage assets that are used by the authority for other activities or to provide other services are operational assets and should be accounted for as Property, Plant and Equipment.

The Code states that valuations of heritage assets may be made by any method that is appropriate and relevant but where it is not practicable to obtain a fair value, such assets should be measured at historical cost (Audit Scotland technical bulletin published 23/03/11, local authority chapter). The Code gives authorities the discretion to elect to treat community assets in the same way as heritage assets should it believe that valuation is a better measurement of their economic benefits and service potential, however, this authority does not intend to take up this option in the near future.

The treatment of heritage assets represents a change in accounting policy which would require retrospective application for 2011/12. The authority currently classifies two heritage museum buildings, the Croft House Museum and Bod of Gremista, as operational buildings under Property, Plant and Equipment; these buildings will be reclassified in 2011/12. The museums were revalued in 2010/11 and their total carrying amount in the Balance Sheet is £1.451m. Due to the recent revaluation it is estimated that this change in accounting policy will have no significant impact on the 2011/12 financial statements.

3. Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in Note 1, the authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- a) There is a high degree of uncertainty about future levels of funding for local government in general. This Council, like others, continues to face significant financial pressures related to the general economic climate and faces specific demographic pressures related to its unique geographical location. Despite the recession, the Council was successful in securing a new income stream from the new gas processing plant, based at Sullom Voe.
- b) For resource planning and allocation purposes the Council has had to make critical judgments about (a) the growing need for community care and services for people with learning disabilities, (b) the impact on the transport system from increases in fuel costs, (c) the risk of severe weather resulting in increases to the winter maintenance service and (d) meeting the challenges of implementing the “Blueprint for Education” and “Ports for the Future”.
- c) Had current levels of spend been continued into next year the authority would have been facing a budget gap of around £25 million; however, early arrangements have been put in place to tackle this potential budget deficit. It is envisaged that a process of staff and community engagement, working alongside a “scenario planning” initiative, will help councillors make difficult choices regarding the services to be provided over the medium to longer term time-frame; however, there is insufficient evidence at this time to indicate that the assets of the authority might be impaired as a result of a need to close facilities and reduce levels of service provision.

- d) One area where a long-standing issue remains unresolved is the relationship between the Council and the Shetland Charitable Trust. The Council continues to work closely with the Trust to resolve any issues whereby the Council could be deemed to have the ability to control the Trust even though it does not exert actual control. It is anticipated that the qualification issue will not be resolved before the 2012/13 accounts.

4. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the authority about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors; however, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. The items in the authority's Balance Sheet at 31 March 2011 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

a) Property, Plant and Equipment

The Council's policy states that for componentisation to occur, an individual component of an asset must exceed 25% of the overall cost of the asset and have a different useful life. The policy states that all assets with a Net Book Value in excess of £1 million which were acquired, re-valued or enhanced during the year were to be reviewed.

Of the nine assets identified for review, three were found to have the same useful life as their individual components and the remaining six were found not to contain any individual components in excess of 25% of the value of the asset. A test of these remaining assets was carried out to ascertain the level of componentisation had the policy required a value in excess of 20%, 15% and 10%. The result of this testing was that four assets would have been identified at 20% and an additional asset would have been identified at 10%.

The net effect of a change in policy to 10% would be to increase the depreciation charge by 0.66% and decrease the total Net Book Value of assets by 0.57%, which would not be considered material for the accounts.

b) Provisions

The authority reviewed its "Equal Pay" provision based on the number of claims settled to date. One claim remained outstanding at the end of 2009/10 and one was received during 2010/11. The Council does not envisage any further claims arising as a result of precedents being set by other authorities at some time in the future. The authority believes that the two remaining cases will be resolved during 2011/12 and has increased its provision to £10,000 based on an average settlement rate of £5,000 per case.

c) Pensions Liability

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are

projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the authority with expert advice about the assumptions to be applied. The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of £32.823m however the assumptions interact in complex ways. During 2010/11, the authority's actuaries advised that the net pensions liability had decreased by £56.056m largely as a result of estimated future payments being linked to CPI rather than RPI.

d) Arrears

At 31 March 2011, the authority had a balance on sundry debtors of £2.410m within short term debtors for Other Entities and Individuals. A review of significant balances suggested that an impairment of doubtful debts of 8% (£201,000) is appropriate in the current economic climate.

Council Tax collection does not impose a significant impairment risk as historically only 0.38% of charges levied is ever written off. It is estimated that no more than £30,000 will eventually be written off from Council Tax charges of £7.878m levied during 2010/11.

e) Reserves

A sensitivity analysis of the Council's General Fund usable reserves demonstrates that £3 million is sufficient to mitigate unanticipated expenditure or reduced income in the current financial climate. An estimated contingent liability of £11.4m has been recorded for a number of outstanding legal cases and a guarantee to Viking Energy.

5. Material Items of Income

The Council received £1.572m in capital receipts during 2010/11. This was comprised of 50 social housing dwellings for £0.810m in total and a vessel for £0.762m.

6. Events after the Balance Sheet Date

The Statement of Accounts was authorised for issue by the Head of Finance on 26 July 2011. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2011, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

7. Adjustments between Accounting Basis and Funding Basis under Regulations

This note details the adjustments that are made to the total Comprehensive Income and Expenditure Statement recognised by the authority in the year, in accordance with proper accounting practice, to the resources that are specified by statutory provisions as being available to the authority to meet future capital and revenue expenditure.

2010/11	Usable Reserves				Movement Unusable Reserves £000
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Capital Grants Unapplied	
	£000	£000	£000	£000	
Adjustments primarily involving the Capital Adjustment Account:					
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:					
Charges for depreciation and impairment of non-current assets	(11,598)	(1,532)	0	0	13,130
Revaluation losses on Property Plant and Equipment	(1,933)	(10,986)	0	0	12,919
Amortisation of intangible assets	(525)	0	0	0	525
Capital grants and contributions applied	4,486	0	0	0	(4,486)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income & Expenditure Statement	(335)	(909)	0	0	1,244
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:					
Statutory provision for the financing of capital investment	635	1,969	0	0	(2,604)
Capital expenditure charged against the General Fund and HRA balances	618	1,195	0	0	(1,813)
Adjustments primarily involving the Capital Grants Unapplied Account:					
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	171	0	0	(171)	0
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	0	0	0
Adjustments primarily involving the Capital Receipts Reserve:					
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	764	808	(1,572)	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	1,572	0	(1,572)
Adjustments primarily involving the Pensions Reserve:					
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	13,961	0	0	0	(13,961)
Employer's pensions contributions and direct payments to pensioners payable in the year	10,583	1	0	0	(10,584)
Adjustment primarily involving the Accumulated Absences Account:					
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(82)	0	0	0	82
Total Adjustments	16,745	(9,454)	0	(171)	(7,120)

2009/10 Comparative Figures	Usable Reserves				Movement Unusable Reserves £000
	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	
Adjustments primarily involving the Capital Adjustment Account:					
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:					
Charges for depreciation and impairment of non-current assets	(12,099)	(1,693)	0	0	13,792
Revaluation losses on Property Plant and Equipment	(4,620)	0	0	0	4,620
Amortisation of intangible assets	(489)	0	0	0	489
Capital grants and contributions applied	4,371	0	0	0	(4,371)
Revenue expenditure funded from capital under statute	(567)	0	0	0	567
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(902)	0	0	0	902
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:					
Statutory provision for the financing of capital investment	120	1,947	0	0	(2,067)
Capital expenditure charged against the General Fund and HRA balances	1,445	494	0	0	(1,939)
Adjustments primarily involving the Capital Grants Unapplied Account:					
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	0	0	0	0	0
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	0	0	0
Adjustments primarily involving the Capital Receipts' Reserve:					
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	926	20	(946)	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	946	0	(946)
Adjustments primarily involving the Pensions Reserve:					
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(12,211)	(124)	0	0	12,335
Employer's pensions contributions and direct payments to pensioners payable in the year	9,389	111	0	0	(9,500)
Adjustment primarily involving the Accumulated Absences Account:					
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(25)	0	0	0	25
Total Adjustments	(14,662)	755	0	0	13,907

8. Transfers to/(from) other Statutory Reserves

This note sets out the amounts transferred to and from General Fund and HRA balances and other statutory reserves to provide financing for current and future expenditure plans.

	Transfers out	Transfers in	Net transfers to/(from) other statutory funds	Transfers out	Transfers in	Net transfers to/(from) other statutory funds
	2009/10	2009/10	31 Mar 2010	2010/11	2010/11	31 Mar 2011
	£000	£000	£000	£000	£000	£000
General Fund:						
General Fund	6,782	(27,070)	(20,288)	26,408	(26,426)	(18)
Hansel	0	(83)	(83)	0	(7)	(7)
Central Efficiency	0	(7)	(7)	25	0	25
Total	6,782	(27,160)	(20,378)	26,433	(26,433)	0
Capital:						
Capital Fund	1,351	(5,600)	(4,249)	12,351	(3,129)	9,222
Capital Efficiency/Spend to Save Reserve	0	0	0	0	(5,000)	(5,000)
Pilot Boat Renewal Fund	0	(24)	(24)	14	(12)	2
Usable Capital Receipts	0	0	0	1,572	(1,572)	0
Elimination of inter Capital Fund transfers	0	0	0	(6,587)	6,587	0
Total	1,351	(5,624)	(4,273)	7,350	(3,126)	4,224
Other Revenue Statutory Funds:						
Revenue Efficiency/Spend to Save Reserve	0	0	0	0	(500)	(500)
Marine Fund	85	(32)	53	621	(229)	392
Reserve Fund	18,808	(1,196)	17,612	27,529	(22,398)	5,131
Repairs & Renewals Fund	9,688	(2,049)	7,639	25,046	(13,628)	11,418
Quarry Repairs & Renewals Fund	0	0	0	0	0	0
Housing Repairs & Renewals Account	308	(273)	35	489	(1,947)	(1,458)
Insurance Fund	0	(35)	(35)	66	(34)	32
Potential Contingent Liabilities	0	0	0	0	(11,400)	(11,400)
Elimination of inter Revenue Fund transfers	0	0	0	(26,829)	26,829	0
Total	28,889	(3,585)	25,304	26,922	(23,307)	3,615
Balance at 31 March	37,022	(36,369)	653	60,705	(52,866)	7,839
Capital Grants Unapplied	0	0	0	0	0	0
Usable Capital Receipts	0	(297)	(297)	0	(489)	(489)
Total Usable Reserves	37,022	(36,666)	356	60,705	(53,355)	7,350

a) Reserves Held for Revenue Purposes

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

The Revenue Efficiency/Spend to Save Reserve is an earmarked general fund reserve established at the end of 2010/11. This fund was established to facilitate the costs associated with implementing future revenue savings plans.

The Marine Fund was established by contributions from the Harbour Account for the purpose of covering the unfunded element of pensions of Harbour staff. It made a contribution of £0.621m to the Harbour Account 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 that is solely in the interest of the County and its inhabitants.

The Repairs and Renewals Fund was established under the provisions of the Local Government (Scotland) Act 1975 for the purpose of defraying expenditure in repairing, maintaining, replacing and renewing any buildings, works, plant, equipment or articles belonging to the Council.

The Quarry Repairs and Renewals Fund was established under the provisions of the Local Government (Scotland) Act, 1975 to fund environmental works at Council quarries.

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

The Potential Contingent Liabilities Fund is an earmarked general fund reserve established at the end of 2010/11. The purpose of this fund is to set aside monies to meet the financial obligations that may arise if known contingent liabilities crystallise.

The Hansel Fund and the Central Efficiency Fund are earmarked general fund reserves that were established several years ago. The Central Efficiency Fund has been set up to fund the reduction in energy consumption and carbon emissions. The Hansel Funds are held for the benefit of residents in care establishments.

It is Council policy to balance the Housing Revenue Account to zero by transfers to or from the Housing Repairs and Renewals Fund.

b) Reserves Held for Capital Purposes

The Capital Fund was established under the Local Government (Scotland) Act 1975. This fund may be used to defray certain items of capital expenditure and for the repayment of the principal of loans.

The Capital Efficiency/Spend to Save Reserve was established during 2010/11. It is a specific capital fund set aside for the purpose of financing energy related projects with a view to reducing energy costs to the General Fund.

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.

The Usable Capital Receipts Reserve and the Capital Grants Unapplied Account are also used for capital purposes. An analysis of the movement within these accounts is shown within disclosure note 21.

9. Other Operating Income

Gains and Losses on the disposal of non current assets.

31 March 2010 £000		31 March 2011 £000
0	Levies	0
(44)	Gains/losses on the disposal of non-current assets	(327)
(44)	Total	(327)

10. Financing and Investment Income and Expenditure

31 March 2010 £000		31 March 2011 £000
5,059	Pensions interest cost and expected return on pensions assets	3,383
(5,225)	Interest receivable and similar income	(2,291)
(2,618)	Other investment income	(986)
0	Realised gains in relation to Available for Sale assets	(23,156)
(2,784)	Total	(23,050)

11. Taxation and Non-Specific Grant Income

31 March 2010 £000		31 March 2011 £000
(8,497)	Council tax income	(8,629)
(9,189)	Non domestic rates	(8,672)
(84,325)	Non ring fenced government grants	(86,894)
(4,371)	Capital grants and contributions	(4,657)
(106,382)	Total	(108,852)

12. Property, Plant and Equipment

Movement in 2010/11	Council Dwellings	Other Land & Buildings	Vehicles, Furniture, Plant & Equipment	Infra-structure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment
	£000	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation								
At 1 April 2010	62,082	131,144	49,876	145,837	6,533	251	22,838	418,561
- additions	1,839	716	2,750	1,213	1	2	11,486	18,007
- donations	0	0	0	0	0	0	0	0
revaluation increases/(decreases) recognised in the Revaluation Reserve	8,626	3,701	(119)	0	973	0	352	13,533
revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(11,713)	(3)	(29)	0	0	0	(1,313)	(13,058)
derecognition – disposals	0	0	0	0	0	0	0	0
derecognition – other	0	0	0	0	0	0	0	0
assets reclassified (to)/ from Held for Sale	(212)	0	0	0	0	0	0	(212)
other movements in cost or valuation	(34)	8,783	1,428	146	0	442	(11,003)	(238)
At 31 March 2011	60,588	144,341	53,906	147,196	7,507	695	22,360	436,593
Accumulated Depreciation and Impairment								
at 1 April 2010	(1,857)	(9,080)	(13,911)	(26,223)	(9)	(13)	0	(51,093)
depreciation charge	(1,579)	(3,979)	(4,169)	(3,341)	0	(62)	0	(13,130)
depreciation written out to the Revaluation Reserve	1,726	126	155	0	0	0	0	2,007
depreciation written out to the Surplus/Deficit on the Provision of Services	139	0	0	0	0	0	0	139
impairment losses/ (reversals) recognised in the Revaluation Reserve	0	0	0	0	0	0	0	0
impairment losses/ (reversals) recognised in the Surplus/Deficit on the Provision of Services	0	0	0	0	0	0	0	0
derecognition – disposals	0	0	0	0	0	0	0	0
derecognition – other	0	0	0	0	0	0	0	0
assets reclassified (to)/ from Held for Sale	6	0	0	0	0	0	0	6
other movements in depreciation and impairment	(6)	70	1	0	0	(58)	0	7
At 31 March 2011	(1,571)	(12,863)	(17,924)	(29,564)	(9)	(133)	0	(62,064)
Net Book Value								
at 31 March 2011	59,017	131,478	35,982	117,632	7,498	562	22,360	374,529
at 31 March 2010	60,225	122,064	35,965	119,614	6,524	238	22,838	367,468

Comparator Movement in 2009/10	Council Dwellings	Other Land & Buildings	Vehicles, Furniture, Plant & Equipment	Infra-structure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment
	£000	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation								
At 1 April 2009	60,599	121,625	48,684	138,331	5,893	250	23,323	398,705
- additions	1,674	299	2,711	3,073	42	0	17,116	24,915
- donations	0	0	0	0	0	0	0	0
revaluation increases/(decreases) recognised in the Revaluation Reserve	(291)	5,644	(54)	0	0	0	226	5,525
revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	0	0	0	0	0	0	0	0
derecognition – disposals	(24)	(120)	(801)	(8)	0	0	(7,762)	(8,715)
derecognition – other	0	0	0	0	0	0	0	0
assets reclassified (to)/ from Held for Sale	(915)	0	(722)	0	0	0	(67)	(1,704)
other movements in cost or valuation	1,039	3,775	58	4,441	598		(9,998)	(87)
At 31 March 2010	62,082	131,223	49,876	145,837	6,533	250	22,838	418,639
Accumulated Depreciation and Impairment								
at 1 April 2009	(1,322)	(13,064)	(11,266)	(22,548)	(8)	(9)	0	(48,217)
depreciation charge	(757)	(5,446)	(3,908)	(3,676)	(1)	(4)	0	(13,792)
depreciation written out to the Revaluation Reserve	0	0	0	0	0	0	0	0
depreciation written out to the Surplus/Deficit on the Provision of Services	217	9,342	49	0	0	0	0	9,608
impairment losses/(reversals) recognised in the Revaluation Reserve	0	0	0	0	0	0	0	0
impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	0	0	0	0	0	0	0	0
derecognition – disposals	0	10	760	1	0	0	0	771
derecognition – other	0	0	0	0	0	0	0	0
Eliminated on reclassification to Asset Held for Sale	5	0	454	0	0	0	0	459
other movements in depreciation and impairment at 31 March 2010	0	0	0	0	0	0	0	0
at 31 March 2010	(1,857)	(9,158)	(13,911)	(26,223)	(9)	(13)	0	(51,171)
Net Book Value								
at 31 March 2010	60,225	122,065	35,965	119,614	6,524	237	22,838	367,468
at 31 March 2009	59,277	108,561	37,418	115,783	5,885	241	23,323	350,488

a) Capital Commitments

At 31 March 2011, the authority had entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2011/12 and future years, budgeted to cost £14.531m. Similar commitments at 31 March 2010 were £11.814m. The major commitments are:

- Scalloway dredging £2.873m
- Walls piers £2.751m
- Fetlar breakwater £2.246m
- Sellaness tugs £1.214m
- Fibre optic cable £1.029m

b) Revaluations

The authority carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. All valuations were carried out internally. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations of vehicles, plant, furniture and equipment are based on current prices where there is an active second-hand market or latest list prices adjusted for the condition of the asset. The significant assumptions applied in estimating the fair values are:

- the properties are all freehold;
- that no high alumina cement, concrete or calcium chloride addition or other potentially deleterious material was used in the construction of the properties and that none has been subsequently incorporated;
- that the properties are not subject to any unusual or especially onerous restrictions, encumbrances, or outgoings and that good title can be shown;
- that the properties and their values are unaffected by any matters which would be revealed by a local search or inspection of any register and the use and occupation are both lawful;
- that the inspection of those parts which have not been inspected would not cause the valuation to be altered;
- that the land and properties are not contaminated;
- that no statutory or other grants are available to carry out any improvements or repairs;
- that there are no outstanding Statutory Notices affecting any of the properties.

c) The total revalued amount analysed across each of the preceding financial years - rolling programme:

This statement shows the annual asset valuations within the rolling programme. The valuations for operational and non-operational assets are carried out by Alan Rolfe (MRICS) of the Asset and Properties Unit. Valuations are carried out as at 1 April of the respective year.

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

	Council Dwellings £000	Other Land & Buildings £000	Vehicles, Plant & Equipment £000	Non-operational Assets £000	Total all Assets £000
2010/2011	59,842	8,183	330	10,434	78,789
2009/2010	8,562	72,391	0	1,578	82,531
2008/2009	532	17,605	0	77	18,214
2007/2008	60,321	8,448	0	1,380	70,149
2006/2007	40,783	25,114	0	775	66,672

13. Intangible Assets

The authority accounts for its software as intangible assets to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets represent purchased licenses. All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the authority.

a) Useful lives assigned to the major software suites used by the authority are:

Years	Assets
3 years	Webroster
5 years	Financial Management Systems
5 years	Asset Management System
5 years	Payroll/HR/Pension Systems
5 years	COINS
5 years	Orchard Management System
5 years	SWIFT System
5 years	Libraries Systems
5 years	Planning Systems
5 years	Tranman
5 years	GIS Innogistic System
5 years	Intuit System
5 years	Symantec
5 years	Web Filtering Systems
5 years	Microsoft Licenses
5 years	Corporate Back Up Systems
5 years	Benefits Legislation Software
5 years	Risk Assessment Software
7 years	Housing Online Repairs System
10 years	None

b) The movement on Intangible Asset balances during the year is as follows:

31 March 2010 £000		31 March 2011 £000
	Balance at start of year:	
1,924	Gross carrying amounts	2,086
(908)	Accumulated amortisation	(1,397)
1,016	Net carrying amount at start of year	689
	Additions:	
0	Internal development	0
74	Purchases	41
0	Acquired through business combinations	0
0	Assets reclassified as held for sale	0
0	Other disposals	0
0	Revaluations increases or decreases	0
0	Impairment losses recognised or reversed directly in the Revaluation Reserve	0
0	Impairment losses recognised in the Surplus/Deficit on the Provision of Services	0
0	Reversals of past impairment losses written back to the Surplus/Deficit on the Provision of Services	0
(489)	Amortisation for the period	(525)
88	Other changes	231
689	Net carrying amount at end of year	436

There are no items of capitalised software that are individually material to the financial statements.

c) Intangible asset commitments

At 31 March 2011 the Council had only one commitment with regard to intangible assets. This was in relation to software for the Planning Department with a commitment totalling £0.078m.

14. Financial Instruments

a) Categories of Financial Instruments

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

Long-Term		Current			Long-Term		Current	
31 March 2009 £000	31 March 2010 £000	31 March 2009 £000	31 March 2010 £000		31 March 2011 £000	31 March 2011 £000		
				Financial Assets:				
				Investments:				
0	0	0	0	Loans and receivables	0	0		
199,744	218,959	0	0	Available for sale financial assets	222,739	0		
199,744	218,959	0	0	Total Investments	222,739	0		
				Debtors:				
3	2	0	0	Loans and receivables	1,051	271		
15	11	0	0	Financial assets carried at contract amounts	15	1		
0	0	0	0	Accrued Interest Debtor	0	0		
18	13	0	0	Total Debtors	1,066	272		
				Financial Liabilities:				
				Other Long-Term Liabilities:				
0	0	0	0	PFI and finance lease liabilities	0	0		
0	0	0	0	Total Other Long-Term Liabilities	0	0		
				Creditors:				
0	0	0	0	Accrued Interest liability	0	(119)		
0	0	0	0	Total Creditors	0	(119)		

b) Income, Expense, Gains and Losses

Financial Assets: Loans and Receivables	Financial Assets: Available for Sale	Total	Financial Assets: Loans and Receivables	Financial Assets: Available for Sale	Total		Financial Assets: Loans and Receivables	Financial Assets: Available for Sale	Total
31 March 2009 £000			31 March 2010 £000				31 March 2011 £000		
0	24	24	0	11	11	Interest expense	0	25	25
0	0	0	0	0	0	Losses on de-recognition	0	0	0
0	0	0	0	0	0	Reduction in fair value	0	0	0
0	0	0	0	0	0	Impairment Losses	516	0	516
0	635	635	0	723	723	Fee expenses	0	957	957
0	659	659	0	734	734	Total expense in (Surplus)/Deficit on the Provision of Services	516	982	1,498
0	(7,454)	(7,454)	(27)	(5,206)	(5,233)	Interest income	(54)	(4,259)	(4,313)
0	0	0	0	0	0	Interest income accrued on impaired financial assets	0	0	0
0	0	0	0	0	0	Increases in fair value	0	0	0
0	0	0	0	0	0	Gains on de-recognition	0	(23,156)	(23,156)
0	0	0	0	0	0	Fee income	0	0	0
0	(7,454)	(7,454)	(27)	(5,206)	(5,233)	Total income in (Surplus)/Deficit on the Provision of Services	(54)	(27,415)	(27,469)
0	0	0	0	(43,410)	(43,410)	Gains on revaluation	0	(19,382)	(19,382)
0	29,970	29,970	0	0	0	Losses on revaluation	0	0	0
0	29,970	29,970	0	(43,410)	(43,410)	(Surplus)/Deficit arising on revaluation of financial assets in other CI&E	0	(19,382)	(19,382)
0	23,175	23,175	(27)	(47,882)	(47,909)	Net Gain/(Loss) for the Year	462	(45,815)	(45,353)

c) Fair Values of Assets and Liabilities

Financial liabilities and assets represented by loans, receivables and long-term debtors and creditors are carried in the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- no early repayment or impairment is recognised;
- where an instrument will mature in next 12 months, carrying amount is assumed to approximate to fair value;
- the fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair value of the assets is lower than the carrying amount because the authority's portfolio of investments includes a number of fixed rate loans where the interest rate receivable is lower than the rates available for similar loans at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31 March 2011) attributable to the commitment to receive interest below current market rates.

31 March 2010			31 March 2011	
Carrying Amount £000	Fair Value £000		Carrying Amount £000	Fair Value £000
1301	1301	Loans and Receivables	1322	1322
20	20	Long-Term Debtors (mortgages)	16	16

Available-for-Sale assets and assets and liabilities at fair value through profit or loss are carried in the Balance Sheet at their fair value. These fair values are based on public price quotations where there is an active market for the instrument.

15. Inventories

	Ports & Harbours		Trading Operations		Infrastructure		Total	
	2010/11	2009/10	2010/11	2009/10	2010/11	2009/10	2010/11	2009/10
	£000	£000	£000	£000	£000	£000	£000	£000
Balance outstanding at start of year	2,383	2,110	752	909	474	447	3,609	3,466
Purchases	960	883	1,752	1,100	1,419	1,107	4,131	3,090
Recognised as an expense in the year	(626)	(609)	(1,736)	(1,253)	(1,342)	(1,077)	(3,704)	(2,939)
Written off Balances	0	0	(13)	(4)	0	(4)	(13)	(8)
Reversals of write offs in previous years	0	0	0	0	0	0	0	0
Balance outstanding at year end	2,717	2,384	755	752	551	473	4,023	3,609

Inventories include consumable stores, maintenance materials, building services (work-in-progress, property acquired or constructed for sale).

16. Short-Term Debtors

31 March 2009 £000	31 March 2010 £000		31 March 2011 £000
2,239	2,179	Central Government Bodies	1,290
215	534	Other Local Authorities	389
824	95	NHS Bodies	67
80	124	Public Corporation and Trading Funds	106
8,445	7,417	Other Entities and Individuals	6,664
11,803	10,349	Total	8,516

a) Movements in Impairment Allowance

The Council has made allowance for the risk of incurring bad debts on its General Fund and Housing Revenue Account. The debtor figures in the Balance Sheet are shown net of this allowance and the movement between years is shown in the table below:

31 March 2010 £000		31 March 2011 £000
(379)	Opening balance-General Fund	(402)
77	Miscellaneous Invoices written off	108
44	Council Tax written off	24
(144)	(Charge)/Credit to General Fund for provision	(143)
(402)		(413)
(138)	Opening balance-Housing Revenue Account	(175)
5	Miscellaneous Invoices written off	2
54	Rents written off	38
(96)	(Charge)/Credit to HRA for provision	(20)
(175)		(155)

17. Cash and Cash Equivalents

The balance of Cash and Cash Equivalents is made up of the following elements:

31 March 2009 £000	31 March 2010 £000		31 March 2011 £000
27	20	Cash held by the Authority	22
9,926	7,402	Bank current accounts	7,251
16,506	13,484	Short-term certificates of deposit	103
26,459	20,906	Total	7,376

18. Assets Held for Sale

31 March 2010 £000		31 March 2011 £000
654	Balance outstanding at start of year	1,245
	Assets newly classified as held for sale:	
1,245	Property, Plant and Equipment	206
0	Intangible Assets	0
	Assets declassified as held for sale:	
0	Property, Plant and Equipment	0
0	Intangible Assets	0
(654)	Assets sold	(1,245)
1,245	Balance outstanding at year-end	206

19. Short-Term Creditors

31 March 2009 £000	31 March 2010 £000		31 March 2011 £000
2,326	2,159	Central Government Bodies	3,252
17	129	Other Local Authorities	277
675	59	NHS Bodies	33
323	334	Public Corporations and Trading Funds	344
14,477	12,715	Bodies External to General Government	10,012
0	0	Financial Instruments Accrued Interest Expense	119
17,818	15,396	Total	14,037

20. Provisions

The council has provided £10,000 for two "Equal Pay" claims that were outstanding at 31 March 2011. Further details of the provision can be found in disclosure note 4.

31 March 2010 £000		31 March 2011 £000
(53)	Balance at 1 April	(4)
0	Additional provisions made	(6)
0	Amounts used	0
49	Unused amounts reversed	0
0	Unwinding of discounting	0
(4)	Balance at 31 March	(10)

21. Usable Reserves

The movements in the authority's usable and unusable reserves are detailed in disclosure note 7.

Reconciliation of Usable Funds to the balance sheet

31 March 2010 £000	Description	31 March 2011 £000
(273,754)	General Fund and Other Funds (See Note 8)	(268,898)
(13)	Usable Capital Receipts Reserve	(13)
0	Capital Grants Unapplied Account	(171)
(273,767)	Total balance of usable reserves at 31 March	(269,082)

Usable Capital Receipts Reserve

The Capital Receipts Reserve was established for the purpose of financing capital expenditure. Returns in the year are credited to the General Fund. The source of funding is capital receipts not applied during the year.

31 March 2010 £000		31 March 2011 £000
(18)	Balance at 1 April	(13)
(941)	Sales income from fixed assets	(1,572)
946	Application	1,572
(13)	Balance at 31 March	(13)

Capital Grants Unapplied Account

Under IFRS, grants and contributions unapplied at the balance sheet date are reviewed to ascertain whether there are any conditions attached to the grant or contribution. Where there is no such condition, the grant or contribution is recognised in the Comprehensive Income and Expenditure Account and transferred to the Capital Grants Unapplied Account, where it will remain until the associated expenditure is incurred. The Capital Grants Unapplied Account reflects the capital resource from grants and contributions that is available to finance expenditure.

31 March 2010 £000		31 March 2011 £000
0	Balance at 1 April	0
0	Capital Grant and Contributions unapplied during the year	(171)
0	Application of grants to capital financing transferred to the capital adjustment account	0
0	Balance at 31 March	(171)

22. Unusable Reserves

Reconciliation of Unusable Funds to the balance sheet

31 March 2010 £000	Description	31 March 2011 £000
(53,504)	Revaluation Reserve	(64,271)
(23,148)	Available-for-Sale Financial Instruments Reserve	(19,376)
(258,783)	Capital Adjustment Account	(253,562)
147,169	Pensions Reserve	91,113
1,365	Accumulated Absences Account	1,447
(186,901)	Total balance of unusable reserves at 31 March	(244,649)

a) Revaluation Reserve

The Revaluation Reserve contains the gains made by the authority arising from increases in the value of its Property, Plant and Equipment (and Intangible Assets). The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost;
- used in the provision of services and the gains are consumed through depreciation;
- disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

31 March 2010 £000		31 March 2011 £000	
(33,946)	Balance at 1 April		(53,504)
(19,914)	Upward revaluation of assets	(29,007)	
198	Downward revaluation of assets and impairment losses not charged to the Surplus or Deficit on the Provision of Services	13,467	
	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services		(15,540)
1,615	Difference between fair value depreciation and historical cost depreciation	1,636	
231	Accumulated gains on assets sold or scrapped	404	
0	Investment asset gains	0	
0	Prior year difference between ledger and asset register	2,733	
(1,688)	Amount written off to the Capital Adjustment Account		4,773
(53,504)	Balance at 31 March		(64,271)

b) Available-for-Sale Financial Instruments Reserve

The Available-for-Sale Financial Instruments Reserve contains the gains made by the authority arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are:

- revalued downwards or impaired and the gains are lost;
- disposed of and the gains are realised.

31 March 2010 £000		31 March 2011 £000	
22,145	Balance at 1 April		(23,148)
(43,786)	Upward revaluation of assets		0
0	Removal of previously unrealised gains in relation to assets sold		23,155
(1,507)	Unrealised revaluation gains to Other Comprehensive Income and Expenditure		(19,383)
(23,148)	Balance at 31 March		(19,376)

c) Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The authority accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the authority makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

31 March 2010 £000		31 March 2011 £000
58,979	Balance at 1 April	147,169
85,355	Actuarial (gains) and losses on pensions assets and liabilities	(31,511)
12,335	Reversal of items relating to retirement benefits debited or credited to the Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(13,961)
(9,500)	Employer's pensions contributions and direct payments to pensioners payable in the year	(10,584)
147,169	Balance at 31 March	91,113

d) Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is:

- debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis) credited with the amounts set aside by the authority as finance for the costs of acquisition, construction and enhancement.

The Account contains:

- accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the authority;
- revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

31 March 2010 £000		31 March 2011	
		£000	£000
(270,608)	Balance at 1 April		(258,782)
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
13,792	Charges for depreciation and impairment of Non-Current assets	13,130	
4,620	Revaluation losses on Property, Plant and Equipment	12,919	
489	Amortisation of Intangible assets	525	
0	Revenue expenditure funded from capital under statute	0	
902	Amounts of Non-Current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	1,244	27,818
0	Adjustment amounts written out of the Revaluation Reserve		(4,773)
0	Net written out amount of the cost of Non-Current assets consumed in the year		0
	Capital financing applied in the year:		
(947)	Use of the Capital Receipts Reserve to finance new capital expenditure		(1,572)
(4,371)	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing		(4,486)
0	Application of grants to capital financing from the Capital Grants Unapplied Account		0
(2,067)	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances		(2,604)
(1,939)	Capital expenditure charged against the General Fund and HRA balances (CFCR)		(1,813)
1,347	Reverse 2009/10 credit from General Fund Appropriation		0
0	Capital Fund Reserve		(7,350)
(258,782)	Balance at 31 March		(253,562)

e) Accumulated Compensated Absences Account

The Accumulated Compensated Absences Account absorbs the differences that would otherwise arise on the General Fund balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March 2011. Statutory arrangements require that the impact on the General Fund balance is neutralised by transfers to or from the Account.

31 March 2010 £000		31 March 2010 £000
1,340	Balance at 1 April	1,365
0	Settlement or cancellation of accrual made at the end of the preceding year	0
25	Amounts accrued at the end of the current year	82
0	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	0
1,365	Balance at 31 March	1,447

23. Segmental Reporting

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Best Value Accounting Code of Practice.

Decisions about resource allocation are taken by the Council on the basis of budget reports analysed across Funds. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- no charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement)
- the cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year
- expenditure on some support services is held centrally.

The authority's principal funds as recorded in the budget reports for the year are as follows:

Income and Expenditure Analysis 2010/11	Support Services £000	Recharged Services £000	General Fund £000	Reserve Fund £000	Housing Revenue Account £000	Harbour Account £000	Total £000
Fees, charges and other service income	648	1,301	18,549	3,249	6,666	15,563	45,976
Total Income	648	1,301	18,549	3,249	6,666	15,563	45,976
Employee expenses	19,710	3,666	66,157	816	3	7,861	98,213
Operating costs	6,287	5,811	28,768	2,129	2,004	4,079	49,078
Transfer Payments	(19)	0	8,694	9,289	14	92	18,070
Financing Costs	0	0	0	0	0	0	0
Support service recharges	0	0	0	0	0	0	0
Total expenditure	25,978	9,477	103,619	12,234	2,021	12,032	165,361
Net expenditure	25,330	8,176	85,070	8,985	(4,645)	(3,531)	119,385

Income and Expenditure Analysis Comparative Figures 2009/10	Support Services £000	Recharged Services £000	General Fund £000	Reserve Fund £000	Housing Revenue Account £000	Harbour Account £000	Total £000
Fees, charges and other service income	981	1,313	20,594	1,816	6,031	15,140	45,875
Total Income	981	1,313	20,594	1,816	6,031	15,140	45,875
Employee expenses	18,589	3,497	61,317	97	(5)	6,446	89,941
Operating costs	6,047	5,234	26,816	2,946	2,120	3,966	47,129
Transfer Payments	(35)	0	8,558	9,070	32	105	17,730
Financing Costs	0	0	0	0	0	0	0
Support service recharges	0	0	0	0	0	0	0
Total expenditure	24,601	8,731	96,691	12,113	2,147	10,517	154,800
Net expenditure	23,620	7,418	76,097	10,297	(3,884)	(4,623)	108,925

31 March 2010 £000	Summary reconciliation between Budget reported and Comprehensive Income and Expenditure Statement	31 March 2011 £000
108,925	Net expenditure in the Income and Expenditure Analysis	119,385
8,669	Net expenditure of services and support services not included in the Analysis and not reported to management for decision making	5,846
26,107	Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the	(2,787)
143,701	Cost of Services in Comprehensive Income and Expenditure Statement	122,444

Detailed reconciliation between budget reports and Comprehensive Income and Expenditure Statement

2010/11	Income and Expenditure Analysis £000	Services and Support Services not in Analysis £000	Amounts not reported to management for decision making £000	Amounts included in I&E but not reported to management for decision making £000	Total £000
Fees, charges & other service income	42,620	2,181	60	14,802	59,663
Interest and investment income	179	(125)	0	0	54
Income from council tax	9	0	0	0	9
Government grants and contributions	3,168	2,081	0	0	5,249
Total Income	45,976	4,137	60	14,802	64,975
Employee expenses	98,213	4,552	0	(18,241)	84,524
Other service expenses	67,148	5,176	5	0	72,329
Depreciation, amortisation and impairment & interest	0	0	0	26,574	26,574
Interest Payments	0	0	0	0	0
Precepts & Levies	0	0	310	3,682	3,992
Gain or Loss on Disposal of Fixed Assets	0	0	0	0	0
Total expenditure	165,361	9,728	315	12,015	187,419
Cost of Services	119,385	5,591	255	(2,787)	122,444

Comparative Figures 2009/10	Income and Expenditure Analysis £000	Services and Support Services not in Analysis £000	Amounts not reported to management for decision making £000	Amounts included in I&E but not reported to management for decision making £000	Total £000
Fees, charges & other service income	39,694	1,297	3	13,605	54,599
Interest and investment income	116	0	0	0	116
Income from council tax	5	0	0	0	5
Government grants and contributions	6,060	2,155	0	(4,371)	3,844
Total Income	45,875	3,452	3	9,234	58,564
Employee expenses	89,941	2,382	0	2,844	95,167
Other service expenses	64,859	9,459	(8)	1,153	75,463
Depreciation, amortisation and impairment & interest	0	0	0	26,901	26,901
Interest Payments	0	0	0	0	0
Precepts & Levies	0	0	291	4,443	4,734
Gain or Loss on Disposal of Fixed Assets	0	0	0	0	0
Total expenditure	154,800	11,841	283	35,341	202,265
Cost of services	108,925	8,389	280	26,107	143,701

24. Statutory Trading Operations (STO)

The authority has established two trading units where the service managers are required to operate in a commercial environment and balance their budgets by generating income from other parts of the authority or other organisations. Details of those units with a turnover of greater than 2.5% of the Council's revenue budget in 2010/11 are as follows:

	2008/09		2009/10		2010/11	
	£000	£000	£000	£000	£000	£000
The authority has deemed its Highways construction and repair undertaking as a trading operation. The trading objective is to break even over a 3 year rolling period.						
Turnover	(6,776)		(6,518)		(7,760)	
Expenditure	6,930		6,188		7,562	
Surplus		154		(330)		(198)
Cumulative surplus - over last three financial years		(129)		(240)		(374)
The authority has deemed its Building Maintenance undertaking concerned with the repair and maintenance of council houses, schools and public buildings as a trading operation. The trading objective is to break even over a 3 year rolling period.						
Turnover	(4,606)		(4,880)		(4,713)	
Expenditure	4,826		4,595		4,588	
Surplus		220		(285)		(125)
Cumulative surplus - over last three financial years		(81)		(148)		(190)
Net (surplus)/deficit on trading operations		374		(615)		(323)

The table above is presented exclusively to show whether each STO met its statutory financial target. The figures for 2008/09 and 2009/10 are based on UK GAAP in line with the legislative requirement for those years. The 2010/11 figures are based on IFRS as specified in the Code of Practice on Local Authority Accounting. For this reason the figures quoted are not regarded as suitable for trend analysis.

Trading operations are incorporated into the Comprehensive Income and Expenditure Statement. Some are an integral part of one of the authority's services to the public (e.g. refuse collection), whilst others are support services to the authority's services to the public (e.g. schools catering). The expenditure of these operations is allocated or recharged to headings in the Net Operating Expenditure of Continuing Operations. The allocation of this expenditure is as follows:

31 March 2010 £000		31 March 2011 £000
(285)	Net Surplus on trading operations	(125)
24	Services to the public included in Expenditure of Continuing Operations	35
(752)	Support services allocated to Expenditure of Continuing Operations	(830)
(1,013)	Net Surplus credited to Costs of Services	(920)

25. Agency Services

The authority is required by legislation to provide a collection service for Scottish Water, involving the collection of around £2.7 million of Scottish Water charges. The legislation stipulates a minimum amount Scottish Water must pay in commission for this service.

31 March 2010 £000		31 March 2011 £000
33	Expenditure incurred in collection service for Scottish Water	33
(61)	Commission payable by Scottish Water	(62)
(28)	Net surplus arising on the agency arrangement	(29)

26. External Audit Costs

The authority has incurred the following costs in respect of external audit services provided by Audit Scotland in accordance with the Code of Audit Practice:

31 March 2010 £000		31 March 2011 £000
263	Fees payable to Audit Scotland with regard to external audit services carried out by the appointed auditor for the year	242
0	Fees payable in respect of other services provided by Audit Scotland during the year (related to IFRS - prior year restatement)	5
263	Total	247

27. Grant Income

The authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2010/11:

31 March 2010 £000		31 March 2011 £000
	Credited to Taxation and Non-Specific Grant Income	
(8,497)	Council tax income	(8,629)
(9,189)	Non-domestic rates	(8,672)
(84,325)	Non ring-fenced government grants	(86,894)
(4,371)	Capital grants and contributions	(4,657)
(106,382)	Total	(108,852)
	Credited to Services	
(1,932)	NHS	(178)
(792)	Council Tax Benefits Subsidy	(788)
(2,708)	Housing Benefit Subsidy	(2,855)
(1,512)	Housing Support Grant	(1,233)
(10)	ERDF & ESF	(42)
(142)	Training Grants	(319)
(713)	Shetland Development Trust	0
(94)	Central - Government Grants	(69)
(266)	Cultural - Government Grants	(206)
1,600	Education - Government Grants	(2,824)
(149)	Environment - Government Grants	(126)
(926)	Housing - Government Grants	0
(780)	Planning & Development - Government Grants	(136)
(261)	Roads & Transport - Government Grants	(477)
(401)	Social Work - Government Grants	(468)
(9,086)	Total	(9,721)

There are a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver if the grant is not fully spent on the specified project.

31 March 2010 £000		31 March 2011 £000
	Capital Grant Receipts in Advance	
0	NHS - Joint Therapy Unit/Eric Gray Resource Centre	89
0	Government Grant - Low Carbon Vehicle Procurement Support Scheme	82
0	Total	171

28. Related Parties

The authority is required to disclose material transactions with related parties, bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the authority.

a) Central Government and Other Public Bodies

Central government has effective control over the general operations of the authority – it is responsible for providing the statutory framework within which the authority operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the authority has with other parties (e.g. Council Tax bills, housing benefits). Details of all grants received from central government and other public bodies can be found in note 27.

b) Members

Members of the Council have direct control over the Council's financial and operating policies. The Council holds a Register of Members' Interests, open to public inspection at the Town Hall during office hours. The Register details the bodies where members are represented or for which they have declared an interest. The Council made payments totalling £7.529m (£7.529m in 2009/10) to these bodies.

c) Officers

All service managers and above were required to disclose any involvement with related parties of the Council.

The manager for sport and leisure is responsible for the grant payable to Shetland Golf Club under a three-year service level agreement and is also a member of the golf club. In order to ensure that no undue influence has occurred with regard to the transaction, the assessment is undertaken by another member of staff and the Executive Director presented the report for consideration by Council Members.

29. Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the authority, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the authority that has yet to be financed.

31 March 2010 £000		31 March 2011 £000
	Capital Investment:	
24,915	Property, Plant and Equipment	18,007
74	Intangible Assets	41
0	Revenue Expenditure Funded from Capital under Statute	0
24,989	Total Capital Investment	18,048
	Sources of Finance:	
947	Capital Receipts	1,572
4,721	Government Grants and Other Contributions	4,486
	Sums set aside from Revenue:	
8,066	Direct Revenue Contributions and Application of Reserves	9,163
11,229	Loans Fund Principal	2,827
24,963	Total Capital Financing	18,048
	Explanation of Movements in Year:	
9,162	Increase in underlying need to borrow	223
9,162	Increase in Capital Financing Requirement	223

30. Operating Leases

a) The Authority as a Lessee

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

31 March 2010 £000		31 March 2011 £000
272	Not later than one year	173
150	Later than one year and not later than five years	638
996	Later than five years	852
1,418	Total	1,663

31 March 2010 £000		31 March 2011 £000
1,418	Minimum lease payments	1,663
0	Contingent rents	0
(289)	Sub-lease payments receivable	(245)
1,129	Total	1,418

The above table shows lease payments for the year.

b) The Authority as a Lessor

The authority leases out property and equipment under operating leases for the following purposes:

- for the provision of community services, such as sports facilities, tourism services and community centres
- for economic development purposes to provide suitable affordable accommodation for local businesses.

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

31 March 2010 £000		31 March 2011 £000
40	Not later than one year	45
42	Later than one year and not later than five years	228
239	Later than five years	58
321	Total	331

No contingent rents were recognised in the period (2009/10: £nil).

During 2010/11 the Council did not have any finance leases (2009/10: £nil).

31. Termination Benefits

The Council terminated 36 employee contracts in 2010/11, incurring liabilities of £1.480m (£0.018m in 2009/10). Of the 36 contracts, 15 formed part of the Blueprint for Education review and 12 were part of the Ports of the Future project.

32. Pension Schemes Accounted for as Defined Contribution Schemes

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by the Scottish Public Pensions Agency (SPPA). The Scheme provides teachers with specified benefits upon their retirement, and the authority contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The Scheme is technically a defined benefit scheme. It is administered separately by the SPPA. The Council is not able to identify its share of the underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme. The reason why sufficient information is not available to determine the Council's share of the scheme is because it has always been accounted for nationally with no detailed records for each local authority member.

In 2010/11, the Council paid £2.618m to the SPPA in respect of teachers' retirement benefits, representing 14.9% of pensionable pay. The figures for 2009/10 were £2.518m and 14.9%. There were no contributions remaining payable at the year-end. The authority is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. In 2010/11 these amounted to £0.740m (£0.720m for 2009/10), representing 4.21% of teachers pensionable pay (4.23% for 2009/10). These costs are accounted for on a defined benefit basis.

33. Defined Benefit Pension Schemes

a) Participation in Pension Schemes

As part of the terms and conditions of employment of its officers, the authority makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the authority has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement. The authority participates in two post-employment schemes:

- The Local Government Pension Scheme, administered locally by Shetland Islands Council is a funded defined benefit final salary scheme, meaning that the authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.
- Arrangements for the award of discretionary post-retirement benefits upon early retirement is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made; however, there are no investment assets built up to meet these pensions liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due.

b) Transactions Relating to Post-employment Benefits

The Council recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions.

The charge required to be made against Council Tax, however, is based on the cash payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund balance via the Movement in Reserves Statement during the year:

	Local Government Pension Scheme	
	31 March 2011 £000	31 March 2010 £000
Comprehensive Income and Expenditure Statement		
Cost of Services:		
Current service cost	11,561	5,554
Past service cost	(30,072)	1,722
Settlements and curtailments	1,167	0
Financing and Investment Income and Expenditure:		
Interest cost	17,900	14,125
Expected return on scheme assets	(14,517)	(9,066)
Total Post-Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	(13,961)	12,335
Other Post-Employment Benefit Charged to the Comprehensive Income and Expenditure Statement		
Actuarial gains and losses	31,511	(85,355)
Total Post-Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	17,550	(73,020)
Movement in Reserves Statement		
Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	(13,961)	12,335
Actual amount charged against the General Fund Balance for pensions in the year:		
Employers' contributions payable to scheme	9,134	8,284
Retirement benefits payable to pensioners	1,450	1,216

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to 31 March 2011 is a loss of £70.720m.

c) Assets and Liabilities in Relation to Post-Employment Benefits

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

	Total Liabilities: Local Government Pension Scheme	
	31 March 2011 £000	31 March 2010 £000
Opening balance at 1 April	342,879	193,332
Current service cost	11,561	5,554
Interest Cost	17,900	14,125
Contributions by scheme participants	3,593	3,447
Actuarial gains and losses	(33,309)	131,475
Benefits paid	(7,721)	(6,776)
Past service costs	(30,072)	1,722
Entity combinations	0	0
Curtailments	1,167	0
Settlements	0	0
Closing balance at 31 March	305,998	342,879

Reconciliation of fair value of the scheme (plan) assets:

	Local Government Pension Scheme	
	31 March 2011 £000	31 March 2010 £000
Opening balance at 1 April	195,710	134,353
Expected rate of return	14,517	9,066
Actuarial gains and losses	(1,798)	46,120
Employer contributions	10,584	9,500
Contributions by scheme participants	3,593	3,447
Benefits paid	(7,721)	(6,776)
Entity combinations	0	0
Settlements	0	0
Closing balance at 31 March	214,885	195,710

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date.

Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual return on scheme assets in the year was £12.756m (2009/10 £55.235m).

d) Scheme History

	2006/07 £000	2007/08 £000	2008/09 £000	2009/10 £000	2010/11 £000
Present value of liabilities:					
Local Government Pension Scheme	223,057	197,917	193,332	342,879	305,998
Discretionary Benefits	0	0	0	0	0
Fair value of assets in the Local Government Pension Scheme	187,924	179,810	134,353	195,710	214,885
Surplus/(Deficit) in the scheme:	(35,133)	(18,107)	(58,979)	(147,169)	(91,113)
Local Government Pension Scheme	(14,449)	1,208	(40,844)	(122,943)	(68,445)
Discretionary Benefits	(20,684)	(19,315)	(18,135)	(24,226)	(22,668)
Total	(35,133)	(18,107)	(58,979)	(147,169)	(91,113)

The liabilities show the underlying commitments that the authority has in the long run to pay post-employment (retirement) benefits. The total liability of £306 million has a substantial impact on the net worth of the authority as recorded in the Balance Sheet, resulting in a negative overall balance of £91 million. However, statutory arrangements for funding the deficit mean that the financial position of the authority remains healthy:

- the deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary
- finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2012 is £10.2 million. Expected contributions for the Discretionary Benefits scheme in the year to 31 March 2012 are £0.5 million.

e) Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Hymans Robertson LLP, an independent firm of actuaries, has assessed both the Local Government Pension Scheme and Discretionary Benefits liabilities. Estimates for the Shetland Island Council's Pension Fund are based on the latest full valuation of the scheme as at 1 April 2011.

The inflation measure for determining the minimum pension increases in 2010/11 is the Consumer Price Index (CPI), compared to the Retail Price Index (RPI) in 2009/10.

In the UK budget statement on 22 June 2010 the Chancellor announced that with effect from 1 April 2011 public service pensions would be up-rated in line with the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI). This has the effect of reducing the authority's liabilities in the Shetland Island Council Pension Fund by £56.056m and has been recognised as a past service gain in accordance with guidance set down in UITF Abstract 48, since the change is considered to be a change in benefit entitlement. There is no impact upon the General Fund or Housing Revenue Account.

The principal assumptions used by the actuary have been:

	Local Government Pension Scheme	
	31 March 2011	31 March 2010
Long-term expected rate of return on assets in the scheme:		
Equity investments	7.5%	7.8%
Bonds	4.9%	5.0%
Other	5.2%	5.4%
Mortality Assumptions:		
Longevity at 65 for current pensioners:		
Men	21.5	21.5
Women	24.9	24.9
Longevity at 65 for future pensioners:		
Men	23.5	23.5
Women	27.0	27.0
Rate of inflation	2.8%	3.8%
Rate of increase in salaries	5.1%	5.3%
Rate of increase in pensions	2.8%	3.8%
Rate for discounting scheme liabilities	5.5%	5.5%
Take-up of option to convert annual pension into retirement lump sum	70%	85%

The Discretionary Benefits arrangement has no assets to cover its liabilities. The Local Government Pension Scheme's assets consist of the following categories, by proportion of the total assets held:

	31 March 2011	31 March 2010
	%	%
Equity investments	80	80
Debt instruments	9	8
Other assets	11	12

f) History of Experience Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2010/11 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2011:

	2006/07	2007/08	2008/09	2009/10	2010/11
	%	%	%	%	%
Differences between the expected and actual return on assets	(0.51)	(15.60)	(47.60)	23.57	(0.84)
Experience gains and losses on liabilities	0.94	0.06	(4.19)	1.85	(0.13)

The actuarial present value of promised retirement benefits calculated similarly to the defined benefit obligation under IAS19, is shown in the table below:

	31 March 2011	31 March 2010
	£000	£000
Present Value of Promised Retirement Benefits	299,000	345,000

34. Contingent Liabilities

At 31 March 2011, the authority had contingent liabilities of £11.4 million.

The Council has provided security cover, in the form of a irrevocable letter of credit for £1.896m, 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. As it is uncertain whether Viking Energy would withdraw from the project and the timing of such an event is unknown the authority has included the security cover as a contingent liability, in line with the Code.

The pension benefits accruing to the staff of Shetland Towage up until 10 February 2006 were transferred to the Shetland Islands Council Pension Fund. The assets of Shetland Towage's Pension Scheme that funded these benefits were also transferred with the Council agreeing to cover any funding shortfall. The amount of any shortfall will depend upon when the Council chooses to fund it but an actuarial valuation as at 31 March 2011 indicated a funding shortfall of £8.091m. The Council will review the position once the outcome of the 2011 triennial valuation is completed in December 2011.

There are a number of other projects, regarding which the Council is currently in legal dispute. These claims are being contested and are at present unresolved and not admitted and therefore the potential financial impact has not been disclosed.

35. Nature and Extent of 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 Investment Strategy Statement.

a) Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the authority's customers. This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet one of the following categories:

- A Bank or Building Society with at least 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; no deposits were placed with any financial institutions during the financial year 2010/11.

The following analysis summarises the authority's potential maximum exposure to credit risk at 31 March 2011, based on experience of default and uncollectability, adjusted to reflect current market conditions: -

	Amount at 31 March 2011	Historical experience of default (expressed as % of A)	Historical experience adjusted for market conditions at 31 March 2011	Estimated maximum exposure to default and uncollectability at 31 March 2011	Estimated maximum exposure at 31 March 2010
	A	B	C	A*C	
	£000	%	%	£000	£000
Deposits with Banks	8,500	0	0	0	0
Customers	102	25	25	26	173

No credit limits were exceeded during the reporting period and the authority does not expect any losses from non-performance by any of its counterparties in relation to deposits and local authorities.

The authority does not generally allow credit for customers, such that £0.447m of the £2 million balance is past its due date for payment. The past due, but not impaired, amount can be analysed by age as follows:

31 March 2010 £000		31 March 2011 £000
69	Less than three months	36
276	Three to six months	143
200	Six months to one year	104
316	More than one year	164
861	Total	447

b) Liquidity Risk

The authority has external investments with fund managers amounting to £223 million at 31 March 2011. The authority has ready access to these funds to ensure that cash is available as needed, so there is no significant risk that it will be unable to meet its commitments under financial instruments. Instead, the risk is that the authority will be bound to sell external investments at a time of unfavourable market conditions.

There are no current external capital borrowings and there is no requirement for external capital borrowings during 2011/12. All creditors are due to be paid in less than one year.

c) Market Risk

(1) Interest rate risk

The authority's investment strategy aims to manage interest rate risk within the Council's investments by having various investment portfolios managed by external fund managers. The investment portfolios are also separated into different asset classes to minimise the overall exposure to interest rate movements. The entire investment portfolio is held in unitised funds. As at 31 March 2011 the composition of these funds has been diversified between the following asset classes:

- UK Equities - 37%
- Overseas Equities - 38%
- UK Government Bonds - 20%
- Other Bonds - 5%

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

The Council at present has no external variable or fixed rate borrowing and is therefore not exposed to increased charges from movements in the interest rate. A risk has been identified that not all of the general fund reserves are held in a way that can be quickly converted to cash. There is no short-term risk associated with how the money is held but, over time, if the Council has a need to make a

significant and unplanned draw on reserves, it may need to borrow to secure the cash required. This issue will be addressed in detail in the financial planning process.

The treasury management team actively assesses interest rate exposure to determine the impact on the authority's financial reserves strategy and hence medium to longer-term financial strategy, which in turn informs the annual budget setting process.

According to this risk assessment, a general shift of +/- 1% in the UK Stock Market, which is the market with the largest investment exposure, would result in a gain or loss in the region of £0.800m for 2011/12.

(2) Price risk

The authority had £223 million of investments as at 31 March 2011 in the form of equity shares and bonds held within unitised products. The authority is consequently exposed to losses arising from movement in the price of the shares and bonds.

The authority's investment strategy reduces its exposure to price movements by diversifying its investment portfolio through the use of external fund managers, asset classes, investment guidelines and benchmarks.

The authority's external investments are all classified as 'available-for-sale' meaning that all movements in price will impact on gains and losses recognised in the Comprehensive Income and Expenditure Statement. A general shift of 5% in the general price of shares (positive or negative) would have resulted in a £8.376m gain or loss being recognised in the Comprehensive Income and Expenditure Statement for 2010/11.

(3) Foreign exchange risk

The authority has £85.930m invested in overseas equities and bonds held within unitised products, 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.

Housing Revenue Account (HRA)

a) Introduction and Statutory Background

The Housing (Scotland) Act 1987 provides the statutory framework for the housing accounts of Scottish local authorities. Part X of the 1987 Act requires a local authority to keep a Housing Revenue Account (HRA) of the income and expenditure for each year in respect of the houses, buildings and land specified in Part I of Schedule 15.

Part X of the 1987 Act and Schedule 15 thereto make significant provisions relevant to the preparation of the financial statements:

- Section 203(1) – housing authorities have a duty to keep a HRA.
- Section 203(5) – the HRA must be kept in accordance with Part II of Schedule 15 regarding debits, credits and supplementary provisions.
- Section 204 – the Scottish Government has the power to limit General Fund contributions to HRA.
- Schedule 15 – Housing authorities have a duty to avoid a deficit in the HRA – if there is a deficit a General Fund contribution must be made equal to the deficit.
- Schedule 15 – the Scottish Government may decide that items of income or expenditure, either generally or of a specific category, shall be included or excluded from the HRA.
- Schedule 15 – with the consent of the Scottish Government, a housing authority may exclude or include any items of income or expenditure in the HRA.
- Schedule 15 – the Scottish Government may direct rectification of the Account if it is of the opinion that items of income or expenditure have not been, or have been improperly, credited or debited in the HRA.

The operation of the HRA in terms of statutory debits and credits is governed by Part II of Schedule 15 of the 1987 Act and will include income, i.e. dwelling rents, services and other charges, Housing Support Grant and expenditure, i.e. repairs, maintenance and management, capital financing costs, bad debts and voids.

Paralleling the treatment for the Council's wider operations, the transactions relating to the HRA have been separated into two statements:

- the HRA Income and Expenditure Statement;
- the Movement on the HRA Statement.

As the Movement on the HRA Statement incorporates the surplus or deficit on the HRA Income and Expenditure Statement, it effectively meets the statutory requirement to include the HRA as a single statement in the Statement of Accounts.

b) The HRA Income and Expenditure Statement

The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with appropriate accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement on the HRA Statement.

Housing Revenue Account Income and Expenditure Statement

2009/10 £000		2010/11 £000	£000
	Expenditure		
2,324	Repairs and maintenance	2,317	
563	Supervision and management	529	
1,679	Depreciation and impairment of non-current assets	12,518	
96	Movement in the allowance for bad debts	20	
136	Other expenditure	194	
4,798	Total expenditure		15,578
	Income		
(5,145)	Dwelling rents	(5,411)	
(195)	Non-Dwelling rents	(116)	
(1,512)	Housing Support Grant	(1,233)	
(5)	Other Income	2	
(6,857)	Total income		(6,758)
	HRA share of other amounts included in the whole authority Net Cost of Services but not allocated for specific services		8,820
(2,059)			
	Net cost of HRA services as included in the Comprehensive Income and Expenditure Statement		
106	HRA services' share of Corporate and Democratic Core		125
(1,953)	Net Cost/(Income) of HRA Services		8,945
	HRA share of operating income and expenditure included in the Comprehensive Income and Expenditure Statement		
(20)	(Gain) or loss on sale of HRA non-current assets		100
1,456	Interest payable and similar charges		901
0	Interest and investment income		(4)
59	Pension interest cost & expected return on pension assets		1
1,495	Net HRA share of operating expenditure		998
(458)	(Surplus) or deficit for the year on HRA services		9,943

c) Movement on the Housing Revenue Account Statement

2009/10 £000		2010/11 £000
0	Balance on the HRA at the end of the previous year	0
(458)	Surplus or (deficit) on the HRA Income and Expenditure Statement	9,943
<u>755</u>	Adjustment between accounting basis and funding basis under statute	<u>(9,454)</u>
297	Net increase or (decrease) before transfers to or from reserves	489
<u>(297)</u>	Net Transfers to or (from) reserves	<u>(489)</u>
<u>0</u>	Increase or (decrease) in year on the HRA	<u>0</u>
<u>0</u>	Balance on the HRA at the end of the current reporting year	<u>0</u>

The adjustments between accounting basis and funding basis under regulations are shown within disclosure note 7 and transfers to or from other Statutory Reserves are shown within disclosure note 8.

d) Notes to the Housing Revenue Account

(1) Number and Types of Dwellings

The following table shows the stock movements by apartment size. In 2010/11 a number of properties were identified as HRA properties that had previously been counted under general housing stock.

31 March 2010 Number	Housing Stock	31 March 2011 Number
88	1 Apartment	95
406	2 Apartment	417
550	3 Apartment	564
696	4 Apartment	678
39	5 Apartment	39
0	6 Apartment	0
2	8 Apartment	2
<u>1,781</u>		<u>1,795</u>

(2) Amount of Rent Arrears

The table below summarises the rent arrears position for the HRA dwellings. The trend shown below is of a decrease in the number of properties in arrears, but the amount of arrears has increased per property.

31 March 2010 £000		31 March 2011 £000
<u>125</u>	Rent Arrears	<u>119</u>
374	Number of properties in arrears (Number)	325
21.0	Properties in arrears as share of total stock (%)	18.1
334	Average amount per property in arrears (£)	366

(3) Provision for Bad Debts

The following table summarises the movements on the bad debt provision during 2010/11:

2009/10 £000		2010/11 £000	2010/11 £000
(138)	Balance as at 1st April		(175)
	Bad rent debt written off		
41	Over £1,000 (Council approved)	27	
13	Under £1,000 (delegated authority)	11	
<u>54</u>			38
5	Miscellaneous bad debt written off		2
<u>(79)</u>			<u>(135)</u>
(96)	Contribution to/(from) Housing Revenue Account		(20)
<u>(175)</u>	Balance as at 31st March		<u>(155)</u>

(4) Void Rents

The following table summarises the income lost due to voids in 2010/11. These amounts are included in the "Other expenditure" line of the Housing Revenue Account Income and Expenditure Statement

2009/10 £000		2010/11 £000
4	Ladies Drive Void Rents and Charges	2
84	General Needs Void Rents and Charges	67
31	Sheltered Housing Void Rents and Charges	36
1	Refurbishment Properties Void Rents and Charges	20
<u>120</u>		<u>125</u>

(5) Depreciation and Impairment of Non-Current Assets

The depreciation and impairment charge to the Housing Revenue Account increased significantly from £1.679m in 2009/10 to £12.518m in 2010/11. The main reason for this increase was a revaluation of council dwellings resulting in a reassessment of the split in the value of the assets between land and buildings. This resulted in an impairment charge of £10.986m on the land and there was a subsequent upward revaluation of buildings totalling £10.351m reflected in the revaluation reserve.

Council Tax Income Account

a) Statutory Background

The Council Tax Income Account (Scotland) shows the gross income raised from council taxes levied and deductions made under statute. The resultant net income is transferred to the Comprehensive Income and Expenditure Account.

Council Tax is payable on any dwelling which is not an exempt dwelling (prescribed by an order made by the Scottish Government). The amount of Council Tax payable depends on the valuation band of the dwelling.

Council Tax Income Account

2009/10 £000		2010/11 £000
<u>(9,729)</u>	Gross Council Tax levied and contributions in lieu	<u>(9,847)</u>
(9,729)		(9,847)
(4)	Council Tax benefits (net of Government grant)	(3)
1,156	Other discounts and reductions	1,162
60	Write-offs of uncollectable debts and allowance for impairment	34
20	Adjustment to previous years' community charge and council tax	25
<u><u>(8,497)</u></u>	Transfer to General Fund	<u><u>(8,629)</u></u>

(1) Council Tax base

Overleaf is the analysis of the Council Tax base used to set the 2010/11 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, although in many cases only for a limited period.

- **Discounts** - Council Tax bills can be reduced by discounts for dwellings with less than two adults. If only one adult lives there the bill may be cut by 25%. If the property is unoccupied and is no-one's sole or main residence the bill may be cut by up to 50%. If the property is a second home or long-term empty the discount will only be 10%. Certain persons will not be counted when establishing the number of residents, these being students, student nurses, apprentices, Youth Training trainees, persons with a severe mental impairment, adults for whom child benefit is still payable, people absent in nursing homes or hospitals, prisoners, care workers, and members of religious communities.
- **Reliefs** - If a house has been structurally altered for a disabled person the Council Tax bill may be set at the next band lower in value than that shown in the Valuation List. A reduction is also available for houses in band A.

COUNCIL TAX VALUATION BANDS 2010/11

	BAND A	BAND A	BAND B	BAND C	BAND D	BAND E	BAND F	BAND G	BAND H	TOTAL
	Subject to Disabled Relief	£0 to £26,999.99	£27,000.00 to £34,999.99	£35,000.00 to £44,999.99	£45,000.00 to £57,999.99	£58,000.00 to £79,999.99	£80,000.00 to £105,999.99	£106,000.00 to £211,999.99	Over £212,000.00	
Council Tax Weighting per Band	5	6	7	8	9	11	13	15	18	
Total Properties per Register (Number)		3,073	1,782	2,587	1,661	1,153	214	51	1	10,522
Gross Tax Base (Properties x Weighting)		18,438	12,474	20,696	14,949	12,683	2,782	765	18	82,805
Adjusted Properties (Band D Equivalents)		2,049	1,386	2,300	1,661	1,409	309	85	2	9,201
Vacant Properties (Number.):										
Mandatory Standard Exemptions Chargeable Dwellings subject to Disabled Reduction (Number)		(176)	(57)	(67)	(47)	(10)	(3)	(2)	(1)	(363)
Dwellings Effectively Subject to Tax by Virtue of:										
Disabled Relief (Number)	12	6	13	11	5	0	1	0	0	48
Class 18 (MoD) Dwellings (Number)	0	0	0	0	0	1	0	0	0	1
Revised Total Properties (Number)	12	2,891	1,732	2,518	1,608	1,139	212	48	0	10,160
Types of Property (Number):										
Single Discount (25%)	4	1,259	715	947	351	170	19	9	0	3,474
Double Discount (50%)	0	290	107	69	34	21	4	0	0	525
No Discount (0%)	8	1,342	910	1,502	1,223	948	189	39	0	6,161
	12	2,891	1,732	2,518	1,608	1,139	212	48	0	10,160
Properties Subject to Council Tax (Number)	11	2,431	1,500	2,247	1,503	1,086	205	46	0	9,029
Net Tax Base (Properties x Weighting)	55	14,586	10,500	17,976	13,527	11,946	2,665	690	0	71,945
Adjusted Properties (Band D Equivalents)	6	1,621	1,167	1,997	1,503	1,327	296	77	0	7,994
COUNCIL TAX 2010/11:										
General Fund Charge										
Tax Yield (£)	7,722	1,706,738	1,228,295	2,102,958	1,582,922	1,397,682	312,185	80,291	0	8,418,793
Charge per Property (£)	702	702	819	936	1,053	1,287	1,521	1,755	2,106	10,881

Non-Domestic Rate Income Account

a) Statutory Background

Occupiers of non-domestic property pay rates based on the valuation of property within the valuation roll for the area. The non-domestic rate poundage is determined by the Scottish Government.

The Non-Domestic Rate Account (Scotland) is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate non-domestic rate account. The statement shows the gross income from the rates and deductions made under statute. The net income is paid to the Scottish Government as a contribution to the national non-domestic rate pool.

Non-Domestic Rate Income Account

2009/10 £000		2010/11 £000
(15,520)	Gross rates levied and contributions in lieu	(17,912)
(15,520)		(17,912)
3,196	Reliefs and other deductions (net)	3,751
11	Payment of interest	0
38	Write-offs of uncollectable debts and allowance for impairment	4
156	Adjustments to previous years' national non-domestic rates	83
<u>(12,119)</u>	Contribution to national non-domestic rates pool	<u>(14,074)</u>

(1) Analysis of Rateable Values

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

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 2010/11 is 40.7p (down from 48.1p) with a large business supplement of 0.7p for all subjects with a rateable value above £29,000. The aim of the reduction in poundage is to offset the increase in rateable values in Scotland due to the 2010 rateable value revaluation.

The Small Business Bonus Scheme was introduced by the Scottish Government from 1 April 2008, replacing the Small Business Rate Relief Scheme and applies to properties with a rateable value of £18,000 or less. Larger businesses will continue to contribute to the cost of the scheme by paying a supplement on the rate poundage for all subjects with a rateable value above £29,000. For 2010/11 this supplement is 0.7p (0.4p in 2009/10) on the rate poundage of all properties with a rateable value above £29,000, therefore the rate is 41.4p in the pound.

Category	Number of Subjects	Rateable Value £000
Commercial	561	6,447
Industrial	487	24,450
Other	857	12,171
TOTAL	1905	43,068

Trust Funds Administered by the Council

The Council administers, as sole trustee, eight 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.

Fund Balance 31 March 2010 £000		Fund Balance 31 March 2010 £000
(16,910)	Shetland Development Trust	(16,855)
(647)	Zetland Educational Trust	(649)
(52)	Gilbertson Trust	(52)
(3)	William Strong Bequest	0
(2)	Samuel Mullay Bequest	(3)
(5)	Other	(5)
(17,619)	Total	(17,564)

The Zetland Educational Trust, with an income of £14,461 and expenditure of £12,464, pays bursaries to university students, aids apprentices and supports educational trips. The Gilbertson Trust, with an income of £941, makes annual payments of £20 to deserving persons, mainly in Lerwick, amounting to £100. 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.

The Office of the Scottish Charity Regulator gave consent for the William Strong Bequest to be wound up; the Trustees donated the closing balance of £3,262 to Crossreach, the social care arm of the Church of Scotland. Confirmation was received on 15 February 2011, from the Office of the Scottish Charity Regulator, that the William Strong Bequest had been removed from the Scottish Charity Register.

Details of the Shetland Development Trust can be found in the notes to the Group Accounts.

Group Accounts

a) Introduction

The Code of Practice on Local Authority Accounting in the United Kingdom 2011 requires the Council to prepare group accounts where the authority has interests in subsidiaries, associates and/or jointly controlled entities, subject to the consideration of materiality.

With regard to the position of Shetland Charitable Trust, Shetland Islands Council recognises the need to resolve the issue of grouping of accounts with Shetland Charitable Trust. However, it has not been possible to include the results of the Shetland Charitable Trust in the 2010/11 Group Accounts and the Council regrets that the qualification is likely to continue into a fifth year.

The Council is, however working to resolve the situation. The Shetland Charitable Trust is in the process of reviewing the composition of the Trust and when that work is complete it will be possible to reassess the relationship between the Council and the Trust for accounting purposes. It is envisaged that this work will be completed in time for the preparation of the 2012/13 Final Accounts.

b) Statement of Group Accounting Policies

The accounting policies of the Group Accounts are the same as those for the Council's single entity accounts. Where component bodies of the group prepare their financial statements on a different basis to that of Shetland Islands Council, appropriate accounting adjustments will be made, where they would have a material impact, to ensure that accounting treatments are in compliance with the Code of Practice on Local Authority Accounting in the United Kingdom 2011.

(1) Group Boundary

Shetland Islands Council considers all entities in which it has an interest for consolidation into the Group Accounts. The following criteria are used for determining whether an entity falls within the Group Accounts and if so, on what grounds:

Materiality

Where the financial impact of omitting an entity from the group accounts would not cause a user of the accounts to form a different view on the accounts, the council has opted not to include these entities within the group boundary. Shetland Islands Council has therefore not included the Trust Funds (detailed in Note 38), with the exception of the Shetland Development Trust on the grounds that they are immaterial in relation to the group accounts.

Subsidiary

The Code defines a subsidiary as an entity which the authority controls through the power to govern their financial and operating policies so as to obtain benefits

from the entity's activities. Control is usually presumed where an authority owns more than half the voting power of the entity.

The Council has identified two entities which fall under the criteria of subsidiaries:

- Shetland Towage; and
- Shetland Development Trust.

The Shetland Development Trust has been consolidated into the Group Statements as a subsidiary. Shetland Towage has been excluded as it is not currently operational nor does it hold significant assets and is therefore not material.

Associates

The Code defines an associate as an entity for which the authority is an investor that has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the entity. The Council has identified four entities that meet the definition of an associate and, as such, both have been included in the Group Accounts as associates. These are;

- Northern Joint Police Board;
- Highlands and Islands Fire Board;
- Orkney and Shetland Valuation Joint Board; and
- Zetland Transport Partnership.

(2) Method of Consolidation

In accordance with the Code, the subsidiary Shetland Development Trust, has been fully consolidated. The Shetland Development Trust has a financial year-end of 31 March 2011. This means that the financial statements of the subsidiary are consolidated by adding like items of assets, liabilities, reserves, income and expenses together line by line to those of the Council's financial statements. All intra-group balances and transactions are eliminated upon consolidation.

The four associates have been consolidated at their financial year-ends of 31 March 2011 using the equity method, which is in compliance with the Code. This approach involves consolidating the Council's share of the net surplus or deficit for the year, as well as a share of the net assets of the entities. These results are expressed as a separate line within the Group Comprehensive Income and Expenditure Account and Group Balance Sheet. The Council's share of the results is deemed to be equal to the share of the funding that the Council contributed to each entity. In 2010/11 that was as follows –

- Northern Joint Police Board – In 2010/11 the Council contributed 6.15% of the Board's operating costs (6.42% in 2009/10);
- Highlands and Islands Fire Board – In 2010/11 the Council contributed 10.08% of the Board's operating costs (9.36% in 2009/10);
- Orkney and Shetland Valuation Joint Board – The Council contributed 51.7% of the Board's operating costs (51.8% in 2009/10); and

- Zetland Transport Partnership – In 2010/11 the Council contributed 100% of the partnership's operating costs (100% in 2009/10).

With the exception of the Shetland Development Trust, all group entities prepared their financial statements in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2011. The Shetland Development Trust's accounts have been converted to a Code compliant basis where material (except as detailed below).

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, except for investments held by the Shetland Development Trust. These are valued at cost less provision for impairment where evidence exists.

Pensions Accounting

Pension assets and liabilities have been included in the accounts on the basis of IAS 19. The Shetland Development Trust is exempt from IAS 19 and no adjustment has been made in the Trust's accounts for it.

Group Movement in Reserves Statement 2010/11

	General Fund Balance £000	HRA £000	Capital Receipts Reserve / Capital Funds £000	Capital Grants Unapplied £000	Other Revenue Statutory Reserves £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000	Authority's share in Reserves of subsidiaries and associates £000	Total Group Reserves £000
Balance as at 31 March 2010	(161)	0	(118,581)	0	(155,025)	(273,767)	(186,902)	(460,669)	18,335	(442,334)
Movement in Reserves during 2010/11										
(Surplus) or deficit on the provision of services	(19,728)	9,943	0	0	0	(9,785)	0	(9,785)	737	(9,048)
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	(43,277)	(43,277)	(10,990)	(54,267)
Total Comprehensive Income and Expenditure	(19,728)	9,943	0	0	0	(9,785)	(43,277)	(53,062)	(10,253)	(63,315)
Adjustments between accounting basis and funding basis under regulations	16,745	(9,454)	0	(171)	0	7,120	(7,120)	0	0	0
Adjustment for a change in the authority's share of equity in its associates (See Note 10)	0	0	0	0	0	0	0	0	(620)	(620)
Net (Increase)/Decrease before Transfers to Statutory Reserves	(2,983)	489	0	(171)	0	(2,665)	(50,397)	(53,062)	(10,873)	(63,935)
Net Transfers to/(from) Other Statutory Reserves	0	(489)	4,224	0	3,615	7,350	(7,350)	0	0	0
(Increase)/Decrease in 2010/11	(2,983)	0	4,224	(171)	3,615	4,685	(57,747)	(53,062)	(10,873)	(63,935)
Balance as at 31 March 2011	(3,144)	0	(114,357)	(171)	(151,410)	(269,082)	(244,649)	(513,731)	7,462	(506,269)

Group Movement in Reserves Statement 2009/10

	General Fund Balance £000	HRA £000	Capital Receipts Reserve / Capital Funds £000	Capital Grants Unapplied £000	Other Revenue Statutory Reserves £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000	Authority's share in Reserves of subsidiaries and associates £000	Total Group Reserves £000
Balance as at 31 March 2009	(70)	0	(114,308)	0	(180,329)	(294,707)	(222,090)	(516,797)	3,592	(513,205)
Movement in Reserves during 2009/10										
(Surplus) or deficit on the provision of services	34,949	(458)	0	0	0	34,491	0	34,491	2,485	36,976
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	21,637	21,637	12,661	34,298
Total Comprehensive Income and Expenditure	34,949	(458)	0	0	0	34,491	21,637	56,128	15,146	71,274
Adjustments between accounting basis and funding basis under regulations	(14,662)	755	0	0	0	(13,907)	13,907	0	0	0
Adjustment for a change in the authority's share of equity in its associates (See Note 10)	0	0	0	0	0	0	0	0	(403)	(403)
Net (Increase)/Decrease before Transfers to Statutory Reserves	20,287	297	0	0	0	20,584	35,544	56,128	14,743	70,871
Net Transfers to/(from) Other Statutory Reserves	(20,378)	(297)	(4,274)	0	25,304	355	(355)	0	0	0
(Increase)/Decrease in 2009/10	(91)	0	(4,274)	0	25,304	20,939	35,189	56,128	14,743	70,871
Balance at 31 March 2010	(161)	0	(118,582)	0	(155,025)	(273,768)	(186,901)	(460,669)	18,335	(442,334)

Group Comprehensive Income and Expenditure Account for year ended 31 March 2011

2009/10 Net Expenditure £000		2010/11 Gross Expenditure £000	2010/11 Gross Income £000	2010/11 Net Expenditure £000
50,933	Education Services	56,104	(8,304)	47,800
1,523	Housing Services	8,779	(5,677)	3,102
(2,059)	Housing Revenue Account	15,578	(6,758)	8,820
6,915	Cultural and Related Services	7,706	(877)	6,829
8,551	Environmental Services	9,094	(2,681)	6,413
2,196	Fire Services	2,197	0	2,197
13,321	Roads and Transport Services	21,394	(9,847)	11,547
11,847	Trading Services	28,272	(17,341)	10,931
1,972	Police Services	1,461	0	1,461
9,739	Planning and Development Services	14,838	(5,457)	9,381
26,744	Social Work	40,887	(8,384)	32,503
2,370	Central Services to the Public	2,436	(310)	2,126
6,649	Corporate and Democratic Core	7,572	0	7,572
2,268	Non Distributed Costs	(28,826)	0	(28,826)
1,529	Associates and Joint Ventures accounted for on an equity Basis	6,795	(8,121)	(1,326)
144,498	Cost of Services	194,287	(73,757)	120,530
(44)	Other operating income			(327)
(1,489)	Financing and investment income and expenditure			(21,252)
(106,382)	Taxation and non-specific grant income			(108,852)
393	Tax expenses			853
36,976	(Surplus) or deficit on Provision of Services			(9,048)
(20,308)	(Surplus) on revaluation of Property, Plant and Equipment assets			(15,540)
(43,410)	(Surplus) on revaluation of Available-for-Sale financial assets			(19,383)
0	Amounts recycled from the Available-for-Sale Financial Instrument Reserve upon derecognition			23,156
85,355	Actuarial (gains)/losses on pension assets/liabilities			(31,511)
12,661	Share of other comprehensive income and expenditure of Associates and Joint Ventures			(10,989)
34,298	Other Comprehensive Income and Expenditure			(54,267)
71,274	Total Comprehensive Income and Expenditure			(63,315)

Group Balance Sheet as at 31 March 2011

1 April 2009 £000	31 March 2010 £000		Notes	31 March 2011 £000
350,508	367,478	Property, Plant and Equipment		374,529
12,080	10,807	Intangible Assets	4	9,608
200,593	219,498	Long-term Investments	5	223,169
4,047	3,296	Long-term Debtors	5	3,495
567,228	601,079	Long-Term Assets		610,801
3,465	3,609	Inventories		4,023
11,896	10,468	Short-term Debtors	6	9,004
29,075	24,841	Cash and Cash Equivalents	7	10,972
654	1,245	Assets Held for Sale		206
45,090	40,163	Current Assets		24,205
(18,773)	(16,640)	Short-Term Creditors	8	(15,454)
(18,773)	(16,640)	Current Liabilities		(15,454)
(53)	(4)	Provisions		(10)
(58,979)	(147,169)	Other Long-Term Liabilities		(91,113)
(21,308)	(35,095)	Liabilities in Associates/Joint Ventures		(22,160)
(80,340)	(182,268)	Long-Term Liabilities		(113,283)
513,205	442,334	Net Assets		506,269
(294,707)	(273,767)	Usable Reserves		(269,082)
(222,090)	(186,902)	Unusable Reserves		(244,649)
3,592	18,335	Group Reserves		7,462
(513,205)	(442,334)	Total Reserves		(506,269)

Group Cash Flow Statement for the year ended 31 March 2011

2009/10 £000	2010/11 £000	2010/11 £000
OPERATING ACTIVITIES		
Cash Outflows		
(99,109) Cash paid to and on behalf of employees	(102,976)	
(76,347) Other operating cash payments	(88,879)	
(4,168) Precepts paid	(3,407)	
(312) Taxation	(642)	
<u>(179,936)</u>		(195,904)
Cash Inflows		
3,706 Housing Rents	2,711	
0 Trading	551	
84,694 RSG	86,894	
676 DWP Grants	769	
30,286 Sales of goods and services	40,511	
10,256 Other operating cash receipts	3,575	
13,679 Other Government Grant	12,220	
7,857 Council Tax income	8,647	
9,189 NDR Income	8,672	
<u>160,343</u>		164,550
Movement of working capital		
(145) (Increase)/Decrease in Stock	(414)	
1,428 (Increase)/Decrease in Debtors	1,464	
(2,133) Increase/(Decrease) in Creditors	(1,186)	
<u>(850)</u>		(136)
<u>(20,443)</u>		<u>(31,490)</u>
INVESTING ACTIVITIES		
Cash Outflows		
(24,676) Purchase of Fixed Assets	(18,048)	
(171,430) Purchase of Long Term Investments	(238,884)	
(195,438) Purchase of Short Term Investments	(107,900)	
<u>(391,544)</u>		<u>(364,832)</u>
Cash Inflows		
932 Sale of Fixed Assets	1,572	
197,259 Sale of Long Term Investments	253,383	
199,444 Sale of Short term investments	119,300	
4,371 Capital Grant receipts	4,657	
5,747 Interest Received & Dividends	3,541	
<u>407,753</u>		<u>382,453</u>
<u>16,209</u>		<u>17,621</u>
FINANCING ACTIVITIES		
0 Cash Outflows	0	
0 Cash Inflows	0	
<u>0</u>		<u>0</u>
(4,234) NET INCREASE/(DECREASE) IN CASH		(13,869)
<u>29,075</u> Cash and Cash Equivalents at 1 April		<u>24,841</u>
(4,234) Net movement of Cash and Cash Equivalents during the year		(13,869)
<u>24,841</u> Cash & Cash Equivalents at 31 March		<u>10,972</u>

c) Notes to the Group Accounts

(1) Subsidiaries

The Group Accounts include the consolidation of the accounts of Shetland Development Trust (SDT) as a subsidiary of the Council.

(a) Shetland Development Trust (SDT)

The SDT is a public non-charitable trust and duly registered by Deed of Trust on 8 January 1996. The function of SDT is to assist local businesses by providing loan finance or by purchasing equity or leasing assets. The Council exercises 100% of the Trust's voting rights.

(2) Associates

The Group financial statements include the consolidation of the investments in Northern Joint Police Board (NJPB), Highland and Islands Fire Board (HIFB), Zetland Transport Partnership (ZetTrans) and Orkney and Shetland Valuation Joint Board (O&SVJB) as associates.

(a) Northern Joint Police Board (NJPB)

The NJPB was established at local government re-organisation in 1975 and provides policing services to the Highlands and Islands. In 2010/11 the Council contributed 6.15% of NJPB operating costs (6.42% in 2009/10) and its share of the year-end net liability of £17.750m (£28.704m in 2009/10) is included in the group balance sheet.

The table below details Shetland Islands Council's share of NJPB's financial results for the year –

	2010/11 £000	2009/10 £000
Gross Income	(4,757)	(4,573)
Gross Expenditure	3,966	5,855
Net (Surplus)/Deficit	(791)	1,282
Non-Current Assets	2,855	3,017
Current Assets	931	874
Current Liabilities	(443)	(495)
Non-Current Liabilities	(21,093)	(32,100)
Capital and Reserves	17,750	28,704

(b) Highland and Islands Fire Board (HIFB)

The HIFB was established at local government re-organisation in 1975 and provides fire services to Councils in the Highlands and Islands.

In 2010/11 the Council contributed 10.08% of HIFB operating costs (9.36% in 2009/10) and its share of the year-end net liability of £4.146m (£5.862m in 2009/10) is included in the group balance sheet.

The table below details Shetland Islands Council's share of HIFB's financial results for the year –

	2010/11 £000	2009/10 £000
Gross Income	(3,058)	(2,587)
Gross Expenditure	2,639	2,818
Net (Surplus)/Deficit	(419)	231
Non-Current Assets	4,714	4,265
Current Assets	486	382
Current Liabilities	(432)	(329)
Non-Current Liabilities	(8,914)	(10,180)
Capital and Reserves	4,146	5,862

Neither of the associates disclosed a value for contingent liabilities as the financial impact was unknown. The authority therefore cannot disclose its share of these contingent liabilities.

(c) Zetland Transport Partnership (ZetTrans)

ZetTrans was formed in 2006/07 by the Regional Transport Partnerships (Establishment, Constitution and Membership) (Scotland) Order 2005, made under the Transport (Scotland) Act 2005.

The table below details Shetland Islands Council's share of ZetTrans' financial results for the year –

	2010/11 £000	2009/10 £000
Gross Income	(1,708)	(1,579)
Gross Expenditure	1,708	1,579
Net (Surplus)/Deficit	0	0
Non-Current Assets	0	0
Current Assets	1,593	1,511
Current Liabilities	(1,593)	(1,511)
Non-Current Liabilities	0	0
Capital and Reserves	0	0

(d) Orkney and Shetland Valuation Joint Board (O&SVJB)

The O&SVJB provides the valuation service for Orkney and Shetland and is funded by both Councils.

The Council provides six members of the Board out of twelve and contributed 51.7% of the Board's operating costs (51.8% in 2009/10) and its share of the year-end net liability of £0.264m (£0.529m in 2009/10) is included in the group balance sheet.

The table below details Shetland Islands Council's share of O&SVJB's financial results for the year –

	2010/11 £000	2009/10 £000
Gross Income	(307)	(290)
Gross Expenditure	190	306
Net (Surplus)/Deficit	(117)	16
Non-Current Assets	0	0
Current Assets	12	11
Current Liabilities	(18)	(15)
Non-Current Liabilities	(258)	(525)
Capital and Reserves	264	529

Orkney and Shetland Valuation Joint Board have no contingent liabilities or capital commitments for the year ended 31 March 2011 (2010: nil).

(4) Group Intangible Assets

Group 31 March 2010 £000		Group 31 March 2011 £000
Balance at start of year:		
20,483	Gross carrying amounts	20,645
(8,403)	Accumulated amortisation	(9,838)
12,080	Net carrying amount at start of year	10,807
Additions:		
0	Internal development	0
74	Purchases	41
0	Acquired through business combinations	0
0	Assets reclassified as held for sale	0
0	Other disposals	0
0	Revaluations increases or decreases	0
0	Impairment losses recognised or reversed directly in the Revaluation Reserve	0
0	Impairment losses recognised in the Surplus/Deficit on the Provision of Services	0
0	Reversals of past impairment losses written back to the Surplus/Deficit on the Provision of Services	0
(1,435)	Amortisation for the period	(1,471)
88	Other changes	231
10,807	Net carrying amount at end of year	9,608

Included in the group intangible assets is a Fish Quota for £8.817m and a Fishing Boat Licence for £0.355m, both relating to Shetland Development Trust. The costs of these assets are amortised over a period of 20 years, being their estimated useful lives.

(5) Group Financial Assets

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

Group		Group			Group	
Long-Term		Current			Long-Term	Current
31 March 2009 £000	31 March 2010 £000	31 March 2009 £000	31 March 2010 £000		31 March 2011 £000	31 March 2011 £000
				Financial Assets:		
				Investments:		
200,593	219,498	0	0	Available for sale financial assets	223,169	0
200,593	219,498	0	0	Total Investments	223,169	0
				Debtors:		
3	2	0	0	Loans and receivables	1,051	271
4,029	3,283			Loans and receivables - Shetland Development Trust	2,429	
15	11	0	0	Financial assets carried at contract amounts	15	1
4,047	3,296	0	0	Total Debtors	3,495	272
				Financial Liabilities:		
				Creditors:		
0	0	0	0	Accrued Interest Liability	0	(119)
0	0	0	0	Total Creditors	0	(119)

Shetland Development Trust has made provisions for irrecoverable loans and for equity investments where there is a risk of the business failing.

	Equity Investments £000	Loans and Receivables £000
Cost at 31/03/2011	7,681	10,045
<i>Provisions</i>		
At beginning of year	7157	8,923
Provided during year	94	
Released during the year		(1,307)
Total provided at 31/03/2011	7,251	7,616
Value net of provisions	430	2,429

(6) Group Short-Term Debtors

Group	Group		Group
31 March 2009 £000	31 March 2010 £000		31 March 2011 £000
2,239	2,179	Central Government Bodies	1,290
215	534	Other Local Authorities	389
824	95	NHS Bodies	67
80	124	Public Corporation and Trading Funds	106
8,445	7,417	Other Entities and Individuals	6,664
93	119	Trade Debtors of Subsidiaries	488
11,896	10,468	Total	9,004

(7) Group Cash and Cash Equivalents

The balance of Cash and Cash Equivalents is made up of the following elements:

Group 31 March 2009 £000	Group 31 March 2010 £000		Group 31 March 2011 £000
27	20	Cash held by the authority	22
2,616	3,935	Cash held by subsidiaries	3,596
9,926	7,402	Bank current accounts	7,251
16,506	13,484	Short-term certificates of deposit	103
29,075	24,841	Total	10,972

(8) Group Short-Term Creditors

Group 31 March 2009 £000	Group 31 March 2010 £000		Group 31 March 2011 £000
2,482	2,208	Central Government Bodies	3,512
17	129	Other Local Authorities	277
675	59	NHS Bodies	33
1,071	1,313	Public Corporations, Trading Funds and Charities	1,438
14,477	12,715	Bodies External to General Government	10,012
51	216	Accruals and Deferred Income	182
18,773	16,640	Total	15,454

(9) Financial Impact

The inclusion of the five organisations (subsidiary and associates) changes the net worth of the Group from the figure shown in the Council's own Balance Sheet.

The Group net worth at £506.269m is a reduction of £7.462m from the Council's Group's net worth of £513.731m. This as in previous years, reflects the downward impact on net worth from the pension liabilities of the Police and Fire Boards. This was partially offset by the surpluses of the Shetland Development Trust.

(10) Adjustment for a change in the authority's share of equity in its associates

The Group Movement in Reserve Statement contains a credit of £0.620m (£0.403m 2009/10) which reflects the changes in Shetland Islands Council's equity share in its associates. This has largely resulted from Shetland Islands Council's share of equity in Northern Joint Police Board (NJPB) decreasing from 6.42% in 2009/10 to 6.15% in 2010/11.

(11) Remuneration Report

No remuneration report has been compiled for the Group as the Shetland Development Trust does not have any senior employees nor makes payments to senior councillors.

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 2011 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the group and authority-only Movement in Reserves Statements, Comprehensive Income and Expenditure Statements, Balance Sheets, and Cash-Flow Statements, the authority-only Housing Revenue Account Income and Expenditure Statement, the Council Tax Income Account, and the Non-domestic Rate Account, the Trust Funds and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (the 2010/11 Code).

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 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 Responsible Financial Officer and auditor

As explained more fully in the Statement of Responsibilities set out on page 33, the Responsible Financial Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the body's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Responsible Financial Officer; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the Statement of Accounts to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for qualified opinion

The Code 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 accounts are required to give a true and fair view and a full picture of the authority's activity and financial position.

The council's group accounts do not include the transactions of the Shetland Charitable Trust and its subsidiaries. In my opinion, the substance of the council's relationship with the trust gives it the power to control the trust's activities. As a result, the omission of the trust results in a material mis-statement of the group accounts.

Based on prior year financial statements, I estimate that the Shetland Charitable Trust, and its subsidiaries would contribute:

- a deficit position of approximately £5 million to the Group Comprehensive Income and Expenditure Account (resulting from income of £10 million and expenditure of £15 million)

- net assets of approximately £217 million to the Group Balance Sheet (resulting from fixed assets of £30 million, investments of £183 million, net current assets of £7 million and long term liabilities of £3 million.)

Qualified opinion

In my opinion, except for the omission of the results of Shetland Charitable Trust from the group accounts, the financial statements:

- give a true and fair view in accordance with applicable law and the 2010/11 Code of the state of the affairs of the group and of the local government body as at 31 March 2011 and of the income and expenditure of the group and the local government body for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2010/11 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003.

Opinion on other prescribed matters

In my opinion:

- the part of the remuneration report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 1985; and
- the information given in the Explanatory Foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I am required to report by exception

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

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

I have nothing to report in respect of these matters.

Fiona Mitchell-Knight

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

30th September 2011

Glossary of Terms

Much of the terminology used in this report is intended to be self-explanatory, however, the following definitions and interpretations of terms may be helpful:

1. Employee Expenses

This includes salaries, wages, overtime, bonus enhancements (if any), employer's pension and national insurance, travelling and subsistence expenses and other staff allowances.

2. Corporate and Democratic Core

Corporate and Democratic Core costs include the costs of policy-making and all other member based activities together with costs that relate to the general running of the Council. The Best Value Accounting Code of Practice stipulates that such costs are to be excluded from the total cost relating to service activity.

3. Non-Distributed Costs

Non-Distributed Costs represent costs that cannot be allocated to specific services. The Best Value Accounting Code of Practice stipulates that such costs are to be excluded from the total cost relating to service activity.

4. Transfer Payments

Transfer payments are made to agencies where no goods or services are received in return. For example, the cost of providing footwear and clothing grants for school children and students.

5. Precepts and Levies

Requisition payments made to associates and joint ventures.

6. Usable Reserves

Reserves that can be used to fund expenditure or to reduce local taxation.

7. Unusable Reserves

Those reserves kept only to manage the accounting processes for non-current assets, financial instruments and retirement benefits.

8. Capital Expenditure

This is expenditure incurred in creating, acquiring or improving assets. Borrowing, income from the sale of existing assets, revenue funds or external grants and contributions normally finances capital expenditure.

9. Void Rents

This refers to instances whereby the Council has forgone the opportunity to collect rental income on a property as a result of it being unoccupied.