

Minute

Monitoring and Audit Committee

Thursday, 11 November 2021, 14:00.

Microsoft Teams.



Present

Councillors John T Richards, David Dawson, Andrew Drever, Stephen G Clackson, John A R Scott and Heather N Woodbridge.

Also Present

Councillor James W Stockan (for Items 1 to 3).

Clerk

- Sandra Craigie, Committees Officer.

In Attendance

- John W Mundell, Interim Chief Executive (for Items 1 to 3).
- Gareth Waterson, Interim Executive Director of Finance, Regulatory, Marine and Transportation Services.
- Hayley Green, Interim Executive Director of Environmental, Property and IT Services.
- Gavin Mitchell, Head of Legal Services.
- Colin Kemp, Interim Head of Finance.
- Karen Greaves, Head of Executive Support.
- Andrew Groundwater, Head of HR and Performance.
- Shonagh Merriman, Interim Corporate Finance Senior Manager (for Items 1 to 3).
- Andrew Paterson, Chief Internal Auditor.

Audit Scotland:

- Gillian Woolman, Audit Director.
- Claire Gardiner, Senior Audit Manager.
- Alison Turner, Audit Manager.

Observing

- Joanne Wallace, Acting Principal, Orkney College.
- Paul Kemp, Strategic Finance Manager.
- Rebecca McAuliffe, Press Officer.

Apology

- Councillor Steven B Heddle.

Declarations of Interest

- Councillor Stephen G Clackson – Item 3.
- Councillor Andrew Drever – Item 3.
- Councillor David Dawson – Item 3.

Chair

- Councillor John T Richards.

1. Form of Voting

The Committee resolved that, should a vote be required in respect of the matters to be considered at this meeting, notwithstanding Standing Order 21.4, the form of voting should be by calling the roll (recorded vote).

2. Audit Report to those charged with Governance

After consideration of a report by the Interim Executive Director of Finance, Regulatory, Marine and Transportation Services, copies of which had been circulated, and after hearing a report from the Audit Director, Audit Scotland, the Committee:

Noted:

2.1. That Audit Scotland, as the Council's external auditor, had concluded its audit of Orkney Islands Council's Financial Statements for the year ended 31 March 2021.

2.2. That Audit Scotland had provided an unmodified audit certificate on the Council's Financial Statements for the year ended 31 March 2021.

2.3. That the draft audit certificate stated that the financial statements had been properly prepared in accordance with applicable law, accounting standards and other reporting requirements.

2.4. That, during the course of the audit, a number of presentational and monetary adjustments within the financial statements were identified, which had been adjusted in the final accounts.

2.5. That no material weaknesses in the accounting and internal control systems were identified during the audit.

2.6. Audit Scotland's covering letter in respect of the Orkney Islands Council Annual Audit Report, attached as Appendix 1 to the report by the Interim Executive Director of Finance, Regulatory, Marine and Transportation Services, in accordance with the International Standard on Auditing 260.

2.7. Orkney Island's Council's Letter of Representation to Audit Scotland in connection with its audit of the financial statements of Orkney Islands Council for the year ended 31 March 2021, attached as Appendix 2 to the report by the Interim Executive Director of Finance, Regulatory, Marine and Transportation Services.

2.8. The Annual Audit Report to Members and the Controller of Audit in respect of the Orkney Islands Council Annual Accounts, attached as Appendix 3 to the report by the Interim Executive Director of Finance, Regulatory, Marine and Transportation Services.

Due to internet connectivity issues, Councillor Andrew Drever was not present during all of the discussion relating to this item.

3. Annual Accounts

Councillors Stephen G Clackson, David Dawson and Andrew Drever declared non-financial interests in this item, being Council-appointed directors on the Board of Orkney Ferries Limited, but concluded that their interests did not preclude their involvement in the discussion.

After consideration of a report by the Interim Executive Director of Finance, Regulatory, Marine and Transportation Services, copies of which had been circulated, and after hearing a report from the Interim Head of Finance, the Committee:

Noted:

3.1. The requirement, in terms of the Local Authority Accounts (Scotland) Regulations 2014, for a local authority, or a committee of the authority, whose remit included audit or governance functions:

- To consider and approve the audited Annual Accounts for signature no later than 30 September immediately following the financial year to which the accounts related.
- To publish the accounts on a website by 31 October.

3.2. That, in terms of the Coronavirus (Scotland) Act 2020, the deadline for publication of final accounts could be extended by two months, if required, from 31 October 2021 to 31 December 2021.

3.3. That, in order to enable Audit Scotland to manage competing priorities, a revised timetable had been agreed and the signed Annual Accounts, together with an appropriate audit certificate, would be published by 30 November 2021.

3.4. The management commentary, comprising pages 1 to 16 of the Annual Accounts, attached as Appendix 1 to the report by the Interim Executive Director of Finance, Regulatory, Marine and Transportation Services, which provided an overview of the most significant matters reported in the Annual Accounts for financial year ended 31 March 2021, with the key facts and figures summarised at section 4.3 of the report.

The Committee resolved, in terms of delegated powers:

3.5. That the Annual Accounts for financial year 2020/21, attached as Appendix 1 to this Minute, be approved.

4. Internal Audit Plan – Progress Update

After consideration of a report by the Chief Internal Auditor, copies of which had been circulated, the Committee:

Scrutinised progress made to date in completing the Internal Audit Plan for 2021/22, as detailed in Appendix 1 to report by the Chief Internal Auditor, and obtained assurance with regard to delivery of the Plan.

5. Internal Audit Report: Orkney College – Credits

After consideration of a report by the Chief Internal Auditor, copies of which had been circulated, the Committee:

Noted:

5.1. That Internal Audit had undertaken a review of the further education statistical return and supporting systems, known as Credits, at Orkney College in relation to academic year 2020/21.

5.2. That an audit certificate and an audit report were provided to the Scottish Funding Council to report the findings of the review.

5.3. The findings contained in the internal audit report, attached as Appendix 1 to the report by the Chief Internal Auditor, relating to the above review.

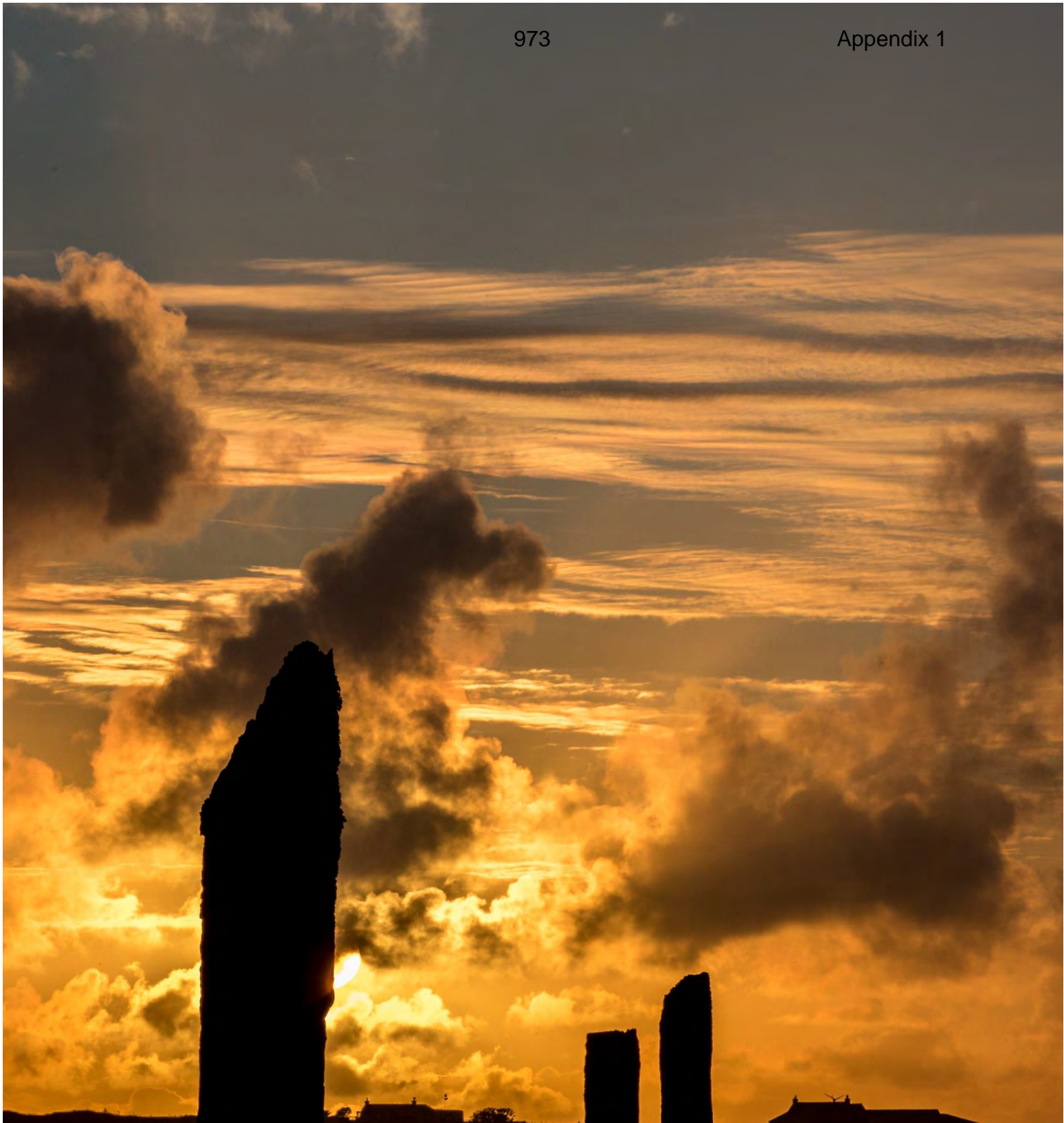
The Committee resolved to **recommend to the Council:**

5.4. That, having reviewed the audit findings referred to at paragraph 5.3 above, assurance was obtained that action had been taken or agreed where necessary.

6. Conclusion of Meeting

At 15:02 the Chair declared the meeting concluded.

Signed: John T Richards.



Annual Accounts

2020-21

Ray Groundwater ©



ORKNEY
ISLANDS COUNCIL

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Management Commentary

The Management Commentary is intended to assist users in understanding the objectives and strategy of Orkney Islands Council, whilst demonstrating the stewardship of the public funds that support its mission and strategic priorities. It also provides a review of its business and financial performance throughout the year, summarising the position of the Council at the end of March 2021. It outlines the principal risks and uncertainties facing the Council and assesses the potential impact of those risks on future developments and performance. The financial position of the wider Council group is also presented, with the format and content of the Accounts prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom.

Orkney Islands Council

Orkney Islands Council is the smallest local authority in Scotland. Established in 1975, the Council was one of the 3 original all-purpose island local authorities in Scotland. Around half of the population live in the main towns of Kirkwall and Stromness, with the remainder in largely rural settlements, giving rise to further cost implications associated with the provision of public services.



Who do we provide our services to?



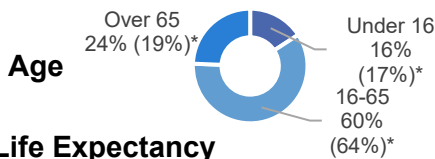
Population 22,190

Male 49.5%

Female 50.5%

90.4% of the working age population are in **employment (80%*)**

And who operate **1,565 businesses**



Life Expectancy

Female 82.2 years (81.1 years)*

Male 79.0 years (77.1 years)*

*(Scottish Average, NRS)

What do we provide? ...1,641 employees (FTE) who...

Look after up to **104 people** in **4 Residential Care homes**



Operate and maintain **29 harbours and piers, 7 airfields, 2 Travel Centres** and **10 bus routes** across Orkney

Teach and Support **3,147 pupils** in **22 Schools**

Work in Integrated Health and Social care **supporting children, families, and adults** by partnering with **NHS Orkney**.



Collect waste from **13,688 properties**, maintain **986Km** of Roads and Infrastructure with **244 Council vehicles**.



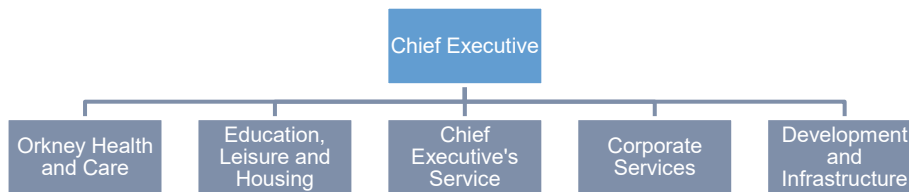
Provide **945 Council Houses**

Distribute start-up and support grants to **local businesses and much more...**



Council Structure

The Council is structured into 5 main Directorates and is led by Interim Chief Executive, John W Mundell who is responsible for ensuring the Council delivers its services efficiently and effectively to the residents of Orkney.



A temporary restructure during the year led to the Director of Corporate Services being appointed as the Interim Chief Officer of Orkney Health and Care (OHAC), with services under the Corporate Services directorate being line managed by other members of the senior management team.

In order to improve the delivery of services and to address several pressure points, the respective management teams are being reviewed to ensure this is the best fit for the delivery of the Council's priorities and ambitions going forward.

Council Mission and Strategic Priorities

What are we aiming to achieve for Orkney?

The Orkney Partnership

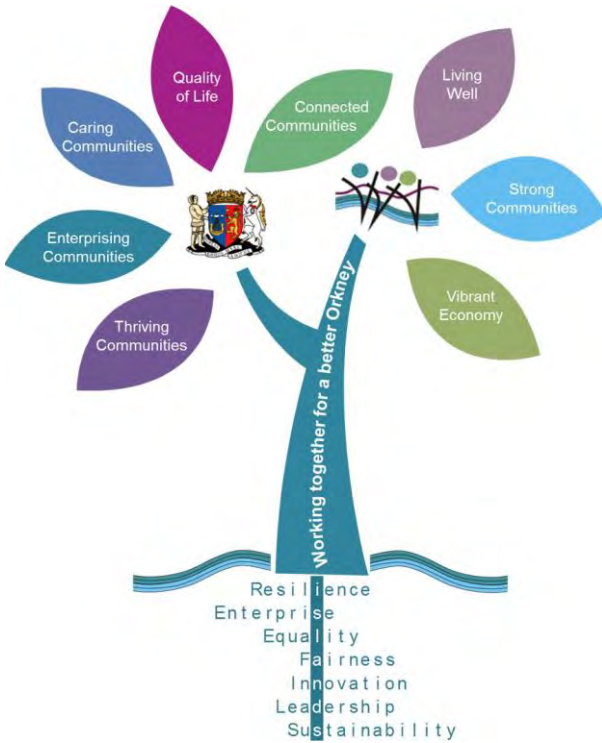
The Council works alongside four other lead agencies in Orkney to maintain and deliver Orkney's Community Plan. The Council, NHS Orkney, Highlands and Islands Enterprise (HIE), Police Scotland and Scottish Fire and Rescue Service all



have a statutory duty to facilitate community planning. This group works in partnership with a network of other public, private and third sector agencies across Orkney with the shared mission of "Working together for a better Orkney".

The aim of Community Planning is to achieve better outcomes than would otherwise be achieved if they each worked separately. The Council supports the long-term ambitions of the Partnership by sharing both its mission and values, and by aligning the Council's five priorities in the Council Plan with those of the Partnership's three priorities.

The Community Plan can be found at the following link: [Orkney Community Plan 2019-2022 incorporating the LOIP \(orkneycommunities.co.uk\)](https://orkneycommunities.co.uk/Orkney-Community-Plan-2019-2022-incorporating-the-LOIP)



The Council Plan

The Strategic Priorities at the core of the Council Plan have been influenced through the information gathered by Elected Members' public consultations during the most

recent local government elections. The Council Plan also incorporates the priorities of both the Scottish and UK Governments as well as the core services which the Council provides on a day-to-day basis. The Plan, which runs from 2018-2023, must also take account of new duties arising from changes to legislation and recommendations by audit and inspection teams.

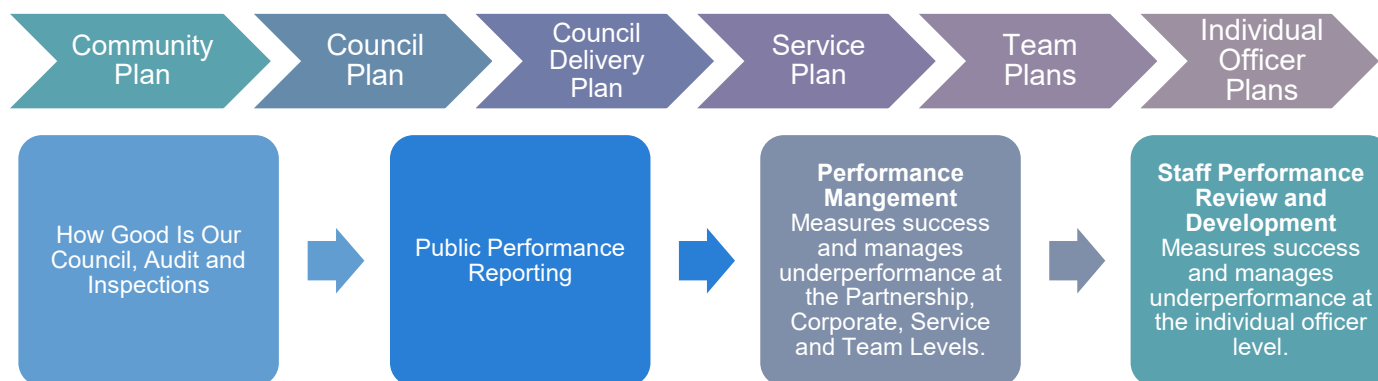
Thriving Communities	<ul style="list-style-type: none"> • The Orkney Community is able to access work, learning and leisure through a modern, robust infrastructure which supports all our communities and meets the requirements of 21st-century life.
Enterprising Communities	<ul style="list-style-type: none"> • A vibrant carbon neutral economy which supports local businesses and stimulates investment in all our communities.
Caring Communities	<ul style="list-style-type: none"> • People in Orkney enjoy long, healthy and independent lives, with care and support available to those who need it.
Quality of Life	<ul style="list-style-type: none"> • Orkney has a flourishing population, with people of all ages choosing to stay, return or relocate here for a better quality of life.
Connected Communities	<ul style="list-style-type: none"> • Orkney's communities enjoy modern and well-integrated transport services and the best national standards of digital connectivity, accessible and affordable to all.

The full Council Plan which details the Council's top priorities and projects to achieve them can be found at the following link: [Council Plan 2018 - 2023 \(orkney.gov.uk\)](https://orkney.gov.uk/Council-Plan-2018-2023).

How do we achieve the objectives?

The Council has an integrated Strategic Planning and Performance Framework which specifies the roles, responsibilities, systems and processes that enable the Council to meet its strategic priorities as described above. The Framework helps to ensure that the planned outcomes in the Council Plan are directly aligned to the performance measures that monitor its progress.

The following diagram illustrates how the Council's objectives are met, in respect of both the Community and Council Plan, through integrating plans, strategies and performance measures down to individual officer level.



The Council Delivery Plan is the mechanism which acts to guide the work of services responsible for the delivery of the Council's priorities over the remaining years of the Council Plan. The Delivery Plan includes a total of 81 key actions and projects supporting the 29 priorities under the Council's 5 Strategic Priority Themes.

The Council is currently making improvements to the way it monitors performance to help ensure that it is aware of how well it is doing and where it must improve the quality of service, customer experiences and Best Value in line with Good Practice. The Performance section of this Commentary reports on the Council's performance in terms of delivery of these priorities and ambitions.

Looking back over 2020-21

COVID-19

Throughout 2020-21, the focus has shifted away from progression of the Council Plan towards the delivery of essential Council services, due to the impact of COVID-19. At the beginning of the financial year, the government had only recently introduced social distancing and travel restriction measures, and there was still much uncertainty as to both the impact, and the duration of COVID-19. The Council has operated under special governance measures for most of the financial year, having to adapt its processes and reconfigure services to best meet the needs of the community. The Council closed all offices to the public, the workforce was enabled to work from home where possible and schools and other facilities were closed for much of the year. The focus of this response was to work with our partners to mitigate the potential impact of COVID-19 and help protect vulnerable people in the community.

Thankfully the Orkney Islands have been relatively isolated from the impact of COVID-19 in terms of the numbers in the community. As at 31 March 2021 the Orkney Islands had 71 cases registered to the Islands.

Brexit

There remains much uncertainty as to the impact of Brexit as much of the detail is yet to be finalised. It is expected that Brexit will have more influence in the coming financial year and the Council's plan to mitigate these risks to the services and the local community is expanded in the section on Looking Ahead.

Highlights

Despite the challenging year for the Council and Community alike, progress was still made towards some of the Council's key priorities.

COVID-19 Response

All Council keyworkers worked conscientiously throughout the year to ensure continued delivery of essential services. In particular, gratitude is owed to the frontline workers who showed courage and determination in their willingness to work and meet the challenges during this sustained and ongoing period of disruption, helping to protect and look after the most vulnerable in the Community. Further provisions that were put in place also included the reorganisation of schools into Hubs for keyworker and vulnerable children; administration and distribution of Business Grants and Self-Isolation Support Grants, as well as additional business support from the Council's Strategic Reserve Fund and the distribution of additional IT equipment to facilitate working from home.

As lockdown measures began to relax, during the year the Council refocused efforts on resuming the provision of services that had been halted or reduced, such as the waste collection centres and construction sites that had been closed, as well as normal provision of school services in line with government guidance. Services also worked hard to amend established procedures from paper-based to paperless, further supporting the continuation of working from home and reducing the need for direct contact.

Islands Deal

The Islands Deal is a joint initiative between the three island Councils (Orkney, Shetland and the Western Isles) supported by the Scottish and UK Governments, which is modelled on the lines of a City or Regional Deal but with elements unique to the islands. Consisting of 18 projects, clustered across three interconnecting themes: Leading the way to a low carbon future; World Class visitor destinations; Supporting growth and future industries and Thriving sustainable communities, the Deal will capitalise on our islands' unique assets and opportunities to place us at the forefront of the transition to net zero, strengthen key existing industry sectors and develop new industries for the future..



The projects within the Deal will:

- Demonstrate how to achieve the Government net zero carbon targets and the first parts of the country to do this.
- Create internationally significant new port infrastructure that will play an important role in supporting Scotland and the UK to achieve net zero targets.
- Strengthen the islands' outstanding natural environment, heritage, culture and creativity to the work.
- Create over 1,300 sustainable jobs across the three island groups.
- Create the foundation for an innovation-focused recovery from the COVID-19 pandemic and support inclusive growth across all the island communities.

The Heads of Terms for the Islands Growth Deal was signed on 17 March 2021, securing a £100M investment from the Scottish and UK Governments, with an expected £235M of additional partner funding being contributed from private, public and academic sectors. The Islands Deal is one of many strands of activity in helping achieve our strategic priorities of an Enterprising Community and Connected Community..

Finance and Performance

Financial information is a key part of the Council's Strategic Planning and Performance Framework with Council Services' financial performance regularly reported to members and their respective Committees. In reviewing the financial performance of the Council, the trading activities including the Housing Revenue Account, Harbour Authority including Strategic Reserve Fund, and Orkney College all need to be recognised in addition to that of General Fund Services.

The Strategic Reserve Fund, held as part of the Harbour Authority Account, has been applied to supplement the General Fund services as part of an agreed medium-term financial strategy. For the financial year 2020-21 it was agreed that £6.317M from the Strategic Reserve Fund be used as a funding source to supplement the General Fund Services revenue budget. The purpose and strategy of the Strategic Reserve Fund is detailed under the Harbour Authority Account section.

Revenue Expenditure

General Fund

Most day-to-day income and expenditure on service provision is accounted for in the Comprehensive Income and Expenditure Statement (CIES) which includes all activities associated with the General Fund Services, the Housing Revenue Account and Harbour Authority.

The revenue outturn position will be reported to the Policy & Resources Committee on 21 September 2021.

The following table shows the linkage between the budget figures reported to committee and the figures in the Annual Accounts.

Note 7 provides a reconciliation of the £2.004M of accounting adjustments that are made to the net expenditure chargeable to the Fund Balances to arrive at the amounts in the CIES.

	General Fund Outturn					Annual Accounts	
	Approved Budget (1)	Budget movements throughout the financial year (2)	Revised Budget (3)	Actual Net Expenditure (4)	Variance (5)	Accounting Adjustments (6)	Net Expenditure per the Annual Accounts (7)
2020-2021	£000	£000	£000	£000	£000	£000	£000
Education	33,828	1,803	35,631	35,161	(470)	3,875	39,036
Cultural and Recreation	4,221	783	5,004	4,901	(103)	1,390	6,291
Community Social Services	20,343	109	20,452	20,452	0	2,949	23,401
Roads and Transportation	10,579	735	11,314	10,930	(384)	3,399	14,329
Environmental Services	3,521	188	3,709	3,932	223	690	4,622
Other Services	13,973	12,426	26,399	27,077	678	(13,560)	13,517
Housing Revenue Account	0	(126)	(126)	(126)	0	(3,506)	(3,632)
Harbour Authority	(2,643)	1,796	(847)	1,054	1,901	(631)	423
Non Distributed Cost	0	0	0	0	0	46	46
Net Cost of Service	83,822	17,714	101,536	103,381	1,845	(5,348)	98,033
Other Income and Expenditure	(87,580)	(25,881)	(113,461)	(154,401)	(40,940)	7,352	(147,049)
Deficit/(Surplus) For Year	(3,758)	(8,167)	(11,925)	(51,020)	(39,095)	2,004	(49,016)

Explanations of major spend and variances throughout the year

Education – Reduced expenditure on staff costs due to vacancies not being filled and less costs incurred for supply and itinerant teachers due to COVID-19.

Roads and Transport – Non-essential roads works were put on hold during 2020-21 as well as no planned events being held during 2020-21 such as fairs, galas, and parades due to COVID-19 measures, resulting in a reduction in expenditure. However, the cost of COVID-19 measures incurred elsewhere within the Development and Infrastructure Service required some additional use of roads revenue resources.

Environmental Services – Additional costs for collection and disposal of refuse due to COVID-19 measures.

Other Services – The variance is due to accelerated debt repayment with the actual principal repayment of loan debt more than what was budgeted.

Harbour Authority – The reduced income in harbour dues and pilotage in 2020-21 was a result of no cruise liner income due to COVID-19, and reduced harbour dues from ferry traffic and passenger and freight movements.

Other Income and Expenditure – This includes the Council's Principle sources of finance and investment activities. The large variance in 2020/21 can be attributed to investment gains on the Strategic Reserve Fund.

Principal sources of finance



Savings

As government funding continues to reduce in real terms, the Council recognises the financial challenges that come with the ongoing reduction in resources. The graph below shows the level of savings that Orkney Islands Council has delivered over the last five years and also the contributions taken from the Strategic Reserve Fund over the same period. It is projected in the Council’s 10 year Long Term Financial Plan that the Council will face a best case scenario cumulative funding gap of £23.6M over this period, with a worst case scenario of £145.6M, with the most likely scenario at £65.7M. This includes a planning assumption that the financial contributions from the Strategic Reserve Fund will be maintained over this period. The ongoing budget reductions highlight that the current approach of only using financial contributions from the Strategic Reserve Fund to supplement the General Fund is unsustainable in the long-term. This is compounded further by the unknown rate and level of the recovery from COVID-19 over the medium and long-term. The Council has developed a Medium-Term Resource Strategy and Long-Term Financial Plan which aims to ensure the sustainability, feasibility and practicalities of the Council’s spending plans and investment over the longer term.



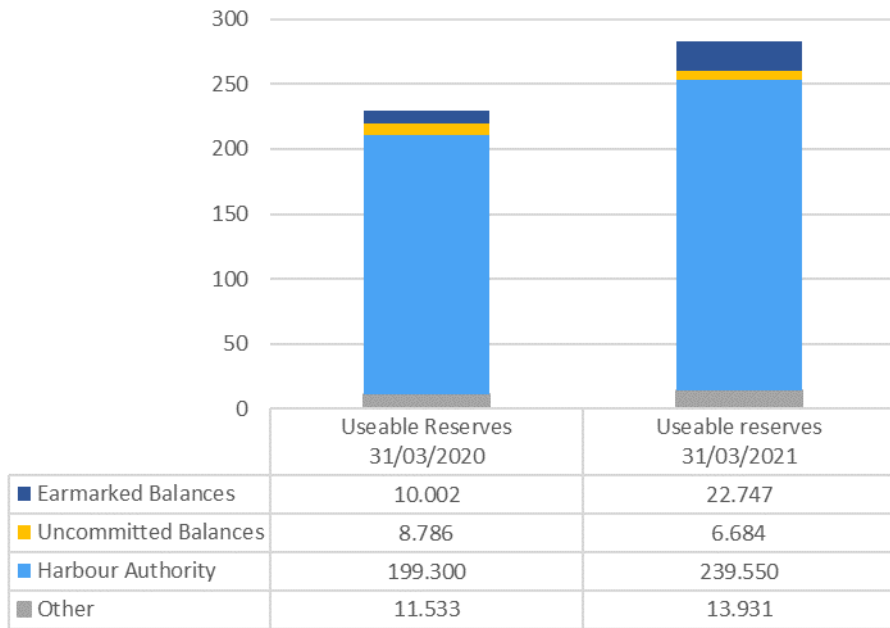
Reserves

The Council’s Reserves are an important factor in the Council’s ability to deliver effective services, they support financial stability and provide flexibility to deliver change and transformation. Within the Council’s useable reserves, there are both uncommitted and earmarked reserves, with uncommitted reserves held to ensure the Council can manage any unexpected financial demands without disrupting delivery of Council services. The existing policy is to make a substantial financial contribution from the Strategic Reserve Fund each year to maintain the level of Council services currently provided within the county, while keeping the Council Tax on or below the national average for all Scottish local authorities.

The Movement in Reserves statement shows an overall net increase of £53.291M in usable reserves. After taking into account funds earmarked for specific projects and purposes, a balance of £6.684M remains available for General Fund purposes, equivalent to 12.9% of budgeted expenditure. The increased level of unearmarked reserves in the current financial year reflects the degree of risk and uncertainty the Council faces as it continues to support the provision of essential services and plans for the recovery from COVID-19. The Council received an additional £12.973M in funding from the Scottish Government to mitigate the impact of COVID-19 costs, of which £10.353M has been set aside in the earmarked reserves.

Full details of the Council's Movement in Reserves are shown in Note 22 Reserves.

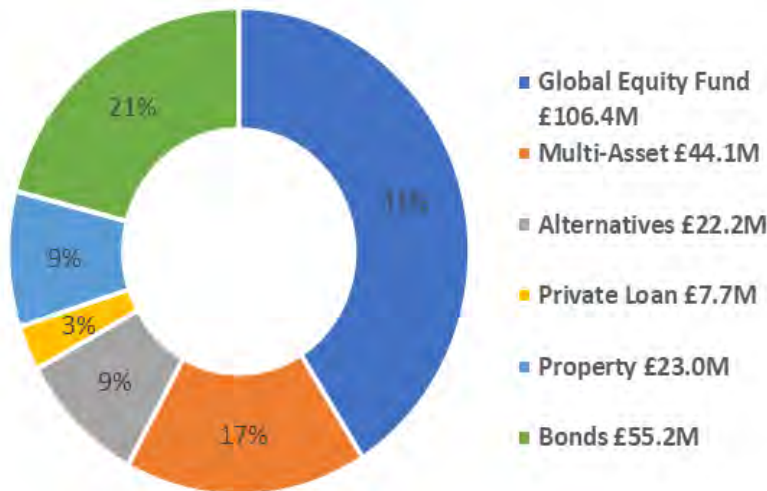
The graph below summarises the Movements on the Reserves for 2020-21:



Harbour Authority Account

The Harbour Authority Account is made up of 3 separate ring-fenced operations under Miscellaneous Pier and Harbours, Scapa Flow Oil Port and the Strategic Reserve Fund. Overall, the Harbour Authority generated a loss of £0.426M from income on its harbour activities due to COVID-19. Investment activities through the Strategic Reserve Fund generated a gain of £48.306M for the year and after netting off grants and other investment expenditure the overall gain on the Harbour Authority Account was £40.250M.

Investment activities include externally managed fund investments plus a range of local investments in the form of property, direct investment and loans to businesses. Financial assets include the following investments, held as part of the Strategic Reserve Fund on the Harbour Authority Account:

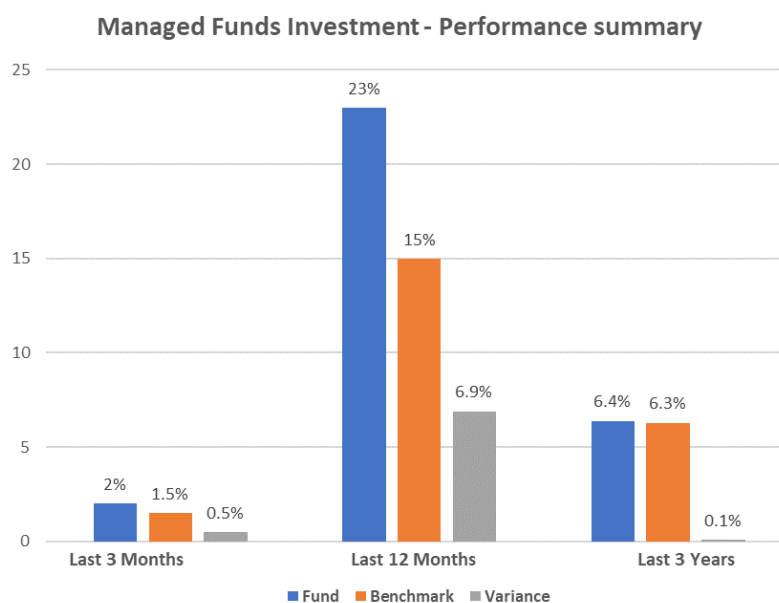


Investments managed by external fund managers and Private Companies, Fishing Quota, and Other Investments managed internally are collectively referred to as managed fund investments.

The Council aims to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of this Council is low in order to give priority to security of its investments. This is in keeping with the nature of the Council's Strategic Reserve Fund, which is to provide for the benefit of Orkney and its inhabitants, whilst having regard to the Fund's long-term commitments in terms of the decline and decommissioning of the Flotta Oil Terminal in the future.

The prime objective for the managed fund investments is to maintain or increase their value in real terms over time, after allowing for disbursements or spending commitments on the Strategic Reserve Fund. To achieve this external fund managers are incentivised to outperform the benchmarks for their respective mandates in order to meet the targets set by the Council.

The performance of the Strategic Reserve Fund externally managed fund investments is measured against a range of indices reflecting the weighting or concentration of individual asset classes within the approved investment strategy with a target to outperform the aggregate benchmark over a rolling 3-year period. The following table indicates how managed fund investments have collectively performed relative to benchmark as at 31 March 2021:



The Strategic Reserve Fund managed fund investments increased to a total of £258.530M, representing a gain of 23% on the year, with further analysis provided at Note 15.

After allowing for amounts required by statute and non-statutory proper accounting practice, including the use of reserves during the year, which included net contributions of £6.317M to support General Fund services, the net effect has been an increase of £40.250M on the Harbour Authority Account Reserves for the year.

Housing Revenue Account (HRA)

The HRA returned a surplus on its operations of £3.632M which can be attributed to revaluation gains on property (deficit £0.057M for 2019-20). After allowing for accounting for fixed assets and employee pension benefits, accelerated debt repayment and transfers to/from Reserves, the HRA achieved a surplus position of £0.127M for the year resulting in a balance of £0.650M as at 31 March 2021 (£0.523M as at 31 March 2020).

Orkney College

The range of higher and further educational activities provided by the College returned a deficit of £0.511M for the year (deficit of £0.641M for 2019-20). A large proportion of this accounting deficit can be attributed directly to the requirement to account for fixed assets and employee pension benefits. On a funding basis, the net effect of the Orkney College activities resulted in a surplus of £0.043M for the year resulting in a balance of £0.106M as at 31 March 2021 (£0.063M as at 31 March 2020).

Orkney Integration Joint Board

The Orkney Integration Joint Board was established as a body corporate by order of Scottish Ministers with effect from 6 February 2016. The main purpose of the OIJB is to plan, resource and oversee the delivery of high-quality health and social care services for and with the people of Orkney. The Council and the NHS are jointly accountable for the delivery of services by the OIJB, and it has been included as a joint venture within the Group Accounts on the basis that the parties have joint equal rights to the net assets.

Capital Expenditure

Capital expenditure represents money spent by the Council for buying, upgrading or improving assets such as buildings and roads. The difference between capital and revenue expenditure is that as the Council receives the benefit from capital expenditure over a period exceeding one year, and the expenditure is financed and accounted for over the useful life of the assets. Further details, including the comparative figures are provided in Note 28.

£16.093M	Actual capital expenditure incurred in 2020/21
£10.966M	Underspend due to expenditure not meeting the profile assumed in the capital programme

Projects with the largest capital spend in 2020/21:



Investing in Education £1.333M



Investing in Roads, Transport and Infrastructure £9.023M



Investing in Housing £2.360M



Investing in Social Care £0.350M



Investing in Plant and Vehicles £0.886M



Investing in IT £0.488M



Investing in Museums £1.002M



Other £0.651M

Funding of the Capital Programme:

£5.513M General Capital Grant

£7.613M Borrowing

£1.191M Specific Grants

£0.793M Funded from Revenue Contributions

£0.182M Other Capital Grants

£0.801M Capital Receipts

It is recognised that in setting an ambitious capital programme, it was not deliverable due to weaknesses in the forward planning process and this has resulted in a significant amount of capital programme slippage in previous years. Slippage is defined as capital projects which have not progressed in accordance with provisions made within the capital programme – this has been further compounded during this financial year by the reduced construction activity as a result of COVID-19. Although there can be positive consequences of slippage this is recognised as a weakness on the basis that these delays are likely to result in higher costs for the council to deliver the approved capital programme.

Performance against Prudential Framework Indicators

The Prudential Code for Capital Finance in Local Authorities allows greater local flexibility for investment decisions that are informed and supported by a suite of performance indicators. The indicators for 2020-21 were approved by Council on 18 February 2020. The Council's overall performance against these indicators

provides a firm basis for the monitoring and control of capital investment and borrowing and for determining that it is prudent, affordable, and financially sustainable.

The key performance indicators are:

Prudential Indicator	Original Limit	Actuals	Commentary
Approved limit for capital expenditure	£27.234M	£16.093M	The maximum that the Council may spend on capital investment during the year.
Capital financing requirement	£9.247M	£7.613M	The Council's aggregate capital expenditure that is yet to be financed.
Aggregate external debt as at 31 March 2021		£35.114M	
Operational boundry	£65.000M		The upper limit for the aggregate external borrowing need.
Authorised limit	£75.000M		The upper limit of aggregate external borrowing that is affordable and prudent.

Treasury Management

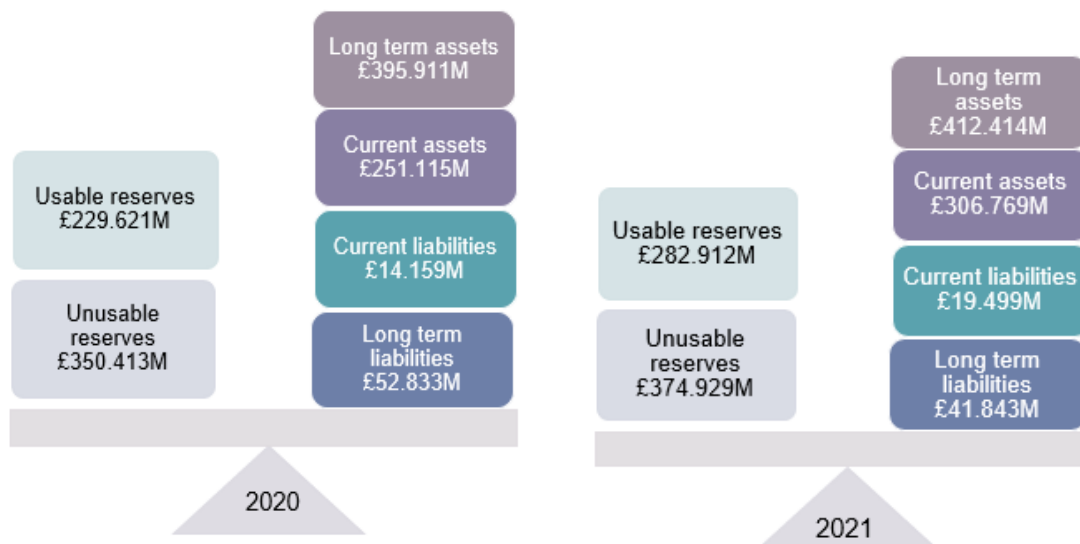
The borrowing strategy is prepared in accordance with the Code of Practice on Treasury Management in Local Authorities and with the Council utilising a borrowing facility from the Public Works Loan Board (PWLB).

Following on from the PWLB Consultation in July 2020, HM Treasury has published revised lending terms which restricts the use of PWLB funds, by disallowing councils use of the funds as a means to purchase investment assets primarily for yield. These new restrictions also extend further to ensure that no lending to councils will be approved if there is the intent to buy assets for yield in the capital plans.. As a result of these changes to lending terms, the Council may face additional challenges in securing borrowing for future capital projects.

The Council's Treasury Management Strategy is approved by the Policy and Resources Committee, and ensures that decisions are scrutinised sufficiently to mitigate potential risk. This can be found at the following link: [Treasury Management Strategy](#)

Balance Sheet

The Balance Sheet represents a snapshot of Orkney Islands Council's overall financial position as at 31 March 2021. It brings together the year-end balances of all the Council's accounts and presents money owed to and by the Council, assets owned and the reserves at the level of Reserves Council's disposal.



In financial terms, the Council remains in good health, with its net worth increasing from £580.034M to £657.841M for the financial year to 31 March 2021, being an increase of £77.807M or 13.41%.

Explanation of the main changes to the Council's Balance Sheet

Long term assets – The increase is mainly due to the rolling programme of revaluations, with Council dwellings and Investment properties revalued during this financial year.

Current assets – The increase is mainly due to the unrealised gain on the externally managed investments of the Strategic Reserve Fund, as well as an increase in cash balances at the balance sheet date.

Long term liabilities – The reduction is mainly due to the decrease in pension liability as a result of changes in actuarial assumptions.

Details of Assets and Liabilities

Assets: £719.183M



Council Dwellings
£64.743M



Vehicles, Plant and Equipment
£24.373M



Infrastructure
£82.778M



Land and Buildings
£192.234M



Cash and Cash Equivalent
£35.051M



Investment Property
£19.800M



Other Assets
£41.674M



Short-Term Investments
£258.530M

Liabilities: £61.342M



Borrowing £35.492M



Short Term Creditors
£19.092M



Provisions £31.004M



Net Pension Fund Liability/(Asset)
(£24.246M)

Key Financial Ratios

The Chartered Institute of Public Finance and Accountancy (CIPFA) Directors of Finance Section recommends that certain “financial ratios” are included in the Management Commentary to assist the reader to assess the performance of the Council over the financial year and the affordability of its ongoing commitments. The following table provides details of those indicators with an explanation of each, grouped into CIPFA categories for the various areas of financial activity.

Financial Indicator	2019-20	2020-21	Commentary
Reserves			
Uncommitted General Fund reserve as a proportion of Annual Budgeted Net Expenditure	9.6%	12.9%	This reflects the level of funding available to manage financial risk/unplanned expenditure and is considered sufficient.
Increase/(Decrease) in the Uncommitted General Fund Balance.	£3.999M	(£2.100M)	Reflects the extent to which the Council is using its Uncommitted General Fund Reserve.
Council Tax			
In-year Collection Rate	97.7%	96.3%	Reflects the Council's effectiveness in collection of Council Tax debt and financial management. Due to Covid-19, debt recovery was suspended for the majority of financial year 2020-21 which has resulted in a reduction in this years collection.
Ratio of Council Tax Income to Overall Level of Funding	10.8%	12.0%	Reflects the Council's capacity to vary expenditure by raising Council Tax income, a principal source of finance within the Local Authority control.
Financial Management			
Actual Outturn Compared to Budgeted Expenditure	94.9%	100%	How closely expenditure compares to the budget is a reflection of the effectiveness of financial management. The indicator is based on the format of budget monitoring as reported throughout the year.
Actual Contribution to/(from) Unallocated General Fund Balance compared to Budget	4.7%	(2.4%)	
Debt/Long-term Borrowing			
Ratio of Financing Costs to Net Revenue Stream			These two ratios indicate the scale of financing costs compared with the level of funding available to the Council.
General Fund	0.4%	0.4%	
HRA	14.0%	12.0%	

Group Accounts

In accordance with the Code of Practice on Local Authority Accounting in the United Kingdom the Council has prepared Group Accounts to reflect its interests in subsidiaries, associates and joint ventures. The Council has identified 3 “subsidiary” companies where the Council has a “controlling interest”, as follows: Orkney Towage Company Limited, Orkney Ferries Limited and the Pickaquoy Centre Trust.

The Council has also included the results of Hammars Hill Energy Limited as an “associate”, as the Council holds 28% of voting rights which is considered a “significant influence”.

The Orkney Integration Joint Board and the Orkney Research and Innovation Campus are included as “joint ventures”. The effect of recognising the Council’s interests in subsidiaries and associates on a group basis is a decrease in net worth of £3.129M to £654.712M.

Council Plan Targets, Outcomes and Planned Actions

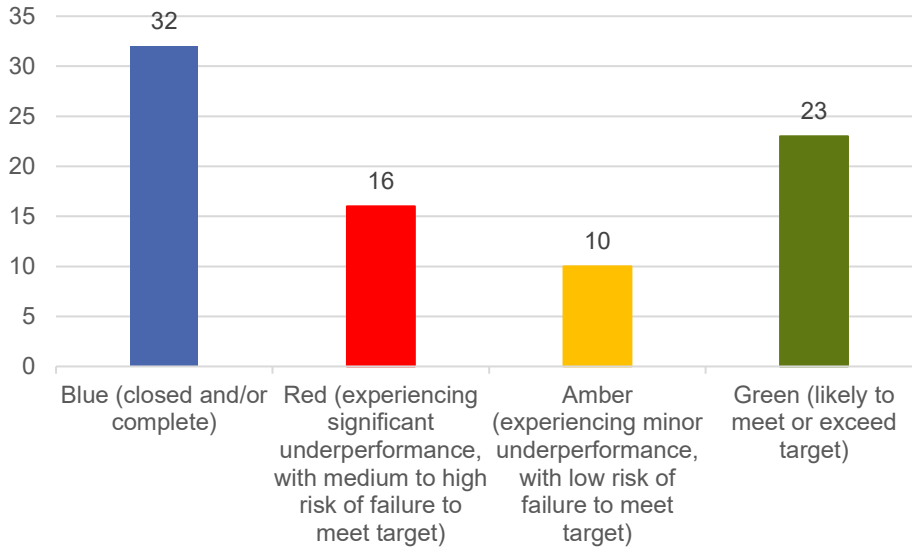
The table below summarises some of the 81 action points contained within the Council’s Delivery Plan that have been progressed during this financial year. The first section shows the action points that are likely to meet or exceed their target or have been progressed to completion, followed by a section on some of those that are experiencing underperformance or are at risk of not meeting their target. The planned actions to

mitigate this risk are also included. Whilst the focus this year has been to continue essential services, planned action in the coming financial year will shift back to progressing actions that will seek to deliver the desired outcomes for the Community.

Actions progressed during the year	
Community Learning Programme (Thriving Communities)	
Community Learning and Development delivered a selection of Community Learning Classes through online, face to face and blended learning approaches and provided a variety of Family Learning opportunities.	
Low Carbon Energy Systems Innovation Hub (Enterprising Communities)	
A wide range of project activity is underway including Islands Deal, development of the Orkney Research and Innovation Campus (ORIC), ongoing dialogue with universities, continued progress of hydrogen projects, including international networking and engagement. The Islands Deal includes provision for an extension to ORIC and an Islands Centre for Net Zero proposal.	
Mental Wellbeing of Our Children and Young People (Caring Communities)	
Child and Adolescent Mental Health Service (CAMHS) staffing is now at full complement and the Action for Children Co-ordinator is also now in post. Recent examples of engagement are the inclusion of young people in the Alcohol and Drugs Partnership strategy consultation and the arrangements for a CAMHS worker to attend the Youth Forum.	
Public Safety and Staff Wellbeing (Quality of Life)	
Continuous improvement in all measures associated with public safety and staff wellbeing across Council assets and services. This includes delivery of a proactive Health and Safety Policy and plan.	
Orkney Electric Vehicle Energy Strategy (Connected Communities)	
Electric Vehicle infrastructure is currently progressing with funded support from the Scottish Government and the Low Carbon Travel and Transport Challenge Fund.	
Actions experiencing underperformance	Planned Action 2021/22 onwards
Policy and Provision for School Staffing, Curriculum and Financial Management (Thriving Communities)	
To review the above policy and provision of our schools to ensure resources are most effectively targeted at 'raising the bar and closing the gap' in order to achieve sustainability of learning on offer across our communities.	Work to establish a revised primary and secondary staffing policy will begin in 2021. A revised school funding policy in line with refreshed national guidance began in November 2020. A self-evaluation process and establishment of a revised Education Service Plan began in April 2021. This plan focuses on Education Policy and Guidance refresh to support schools.
Strategic Investment (Enterprising Communities)	
Strategic investment in projects to generate income and/or deliver significant community benefits resulting in sustainable energy generation, use and export and thereby income for recirculation within Orkney.	The projects have experienced some delay due to COVID-19. Planning applications have now been submitted.
New Build Residential Care Home – Kirkwall (Caring Communities)	
A new build residential care home for older people in Kirkwall.	A report was submitted to the Policy and Resources Committee in February 2021 to amend the Capital Project Appraisal in light of current costs and was approved, with the tendering process now underway. A revised operational date is now set for early 2024.

Campsites (Quality of Life)	
To consider the redevelopment of the Point of Ness Campsite and develop the Birsay Campsite facilities as part of the Council's priority to provide opportunities to make Orkney an attractive location.	The intended outcome is to increase the capacity of the site and improve visitor experience. The Council was successful in being awarded £260K from VisitScotland towards the development of the Point of Ness Campsite. The Policy and Resources Committee also approved funding from the Crown Estate Fund towards the project. A Capital Project Appraisal was presented to the Policy and Resources Committee in June, with work planned to start on site at the end of the tourist season.

Progress on the 81 Council Plan actions can be summarised below:



Local and National Statutory Performance Indicators 2019-20

The Council is an active participant in the Local Government Benchmarking Framework (LGBF) despite being identified as a significant outlier, along with our counterparts in the other island authorities, in a number of indicators including cost per pupil; self-directed support; residential care and democratic core costs.

The Council has mapped the LGBF indicators against the OIC target outcomes and priorities in the Council Plan. The most recent LGBF performance data is for the year ending 31 March 2020 as the councils do not receive this information until the following year.

The most recent LGBF data for the Council is available at the following link: [Local Government Benchmarking Framework](#)

Looking ahead

Factors affecting future development and plans

At the forefront of factors affecting the future developments and plans of the Council is the continuing uncertainty surrounding the full impact of COVID-19. The areas of the local economy which have been less affected include the large farming sector, while the building, manufacturing, and servicing sectors who occupy the majority of the Council's industrial units have seen their business activities disrupted for part of the year but have been in receipt of government support including the furlough scheme. By contrast, other sectors such as fishing, tourism and retail have undoubtedly been impacted both by longer close down restriction and the changes in consumer demand, such that the speed and extent of recovery is still unknown.

In addition to factors that relate to COVID-19, other external pressures the Council faces include the difficulties arising from an ageing population resulting in increased demand on services, and the challenges for some in accessing essential services in our remote and rural communities. These pressures are met alongside increasingly stringent financial circumstances facing the Council as a result of real term cuts in core Government grant allocations and heightened regulatory requirements.

Brexit presents both threats and opportunities. Some of the powers to be repatriated to the UK involve matters of crucial importance to Orkney, like agriculture and fisheries. The Council is campaigning for decision-making to be devolved to the level of government closest to the communities concerned, which in some cases might be local councils. There may also be scope to access new funding streams and the Council will work closely with the Scottish and UK Government in their development of new schemes, in order to maximise opportunities which might benefit Orkney.

Internal factors having the most significant influence include the ongoing workforce planning challenges surrounding recruitment and retention of employees, to ensure there are adequate resources of skilled staff to meet the demands of services. The Corporate Workforce Plan for 2019-2022, approved in April 2019, is a mechanism designed to meet these challenges.

The Council also recognises that the low unemployment and crime rates combined with excellent health care and education are factors which will attract people to live and stay in Orkney.

Principal risks and uncertainties facing the Council

The oversight of risk and financial monitoring is the responsibility of the Chief Executive, the Executive Directors and the Heads of Service, as Chief Officers. The Council has a risk management policy and strategy, which is reviewed biennially, and is designed to support the identification, evaluation and mitigation of risks which may impact on the Council's ability to meet its objectives. The Corporate Risk Register is reviewed and updated every six months, following evaluation by the Senior Management Team of the principal risks facing the Council and consideration of the means by which those risks can be controlled. It is also reported to Council every year and can be found at the following link: [Corporate Risk Register](#)

The following risks have been identified as the most significant and uncertain to the Council:

Council services – inability to maintain services and meet changing demands

This is due to many combined factors including reduced funding, increased cost of essential service delivery as a result of COVID-19, reduced income streams which previously seemed secure and a lack of capacity in both Council staffing to deliver the capital programme as well as a lack of capacity in the local contracting market to carry out the projects. The mitigating actions for this risk include ownership of the Budget Setting Process by the Senior Management Team with openness and transparency around the identification of potential areas for re-provisioning of services; an agreed programme of budget savings and efficiencies; curtailment of the Council's capital expenditure with the loan charges budget reprioritised to support revenue expenditure and improved project planning with much longer lead in times; and an acknowledgement of reality with the focus on continuation of the delivery of minimum Statutory Provision versus Statutory with Discretion, Non-Statutory but Essential or Discretionary Expenditure whilst having regard to the Council Priorities.

Failure to secure agreement with Scottish Government on appropriate funding arrangements to deliver the Scottish Ferries Plan in relation to ferry and terminal replacement for Orkney

The Ferry and Terminal replacement programme is currently unfunded with ageing infrastructure. The risk is that the Ferries reach the end of service life with no solution in place, and with annual revenue costs that are unaffordable. This is likely to result in a reduction in lifeline provisions for the community that will fall below the Scottish Ferries Plan standards. The mitigating actions for this risk include:

- ongoing dialogue with the Scottish Government emphasising the difficulties of a small authority providing the range of public services within reduced budgets across a wide and diverse geographical area;
- continuing to seek additional specific funding sources to protect lifeline services in Orkney and its outlying communities to ensure they are not significantly disaffected.

Workforce planning – lack of skills, experience and capacity

There is a risk that the Council has an insufficient workforce, which makes it difficult to deliver essential services and realise its priorities resulting in council staff being overstretched, demoralised and officers being unable to discharge their statutory functions adequately. The mitigating actions for this risk include:

- development of service workforce plans;
 - a more proactive approach to recruitment;
- continued use and development of remote and flexible working to encourage retention of key staff and inclusion of staff in the re-design of operations. .

Conclusion

Overall, the Management Commentary reflects well on both the efforts and professionalism of officers and on the Council's financial management, scrutiny and monitoring procedures.

We would wish to take this opportunity to acknowledge the team effort required to produce the accounts and to record our thanks to both the Chief Executive's Service and colleagues in other services for their continued hard work and support. Further information on the Annual Accounts or on the Council's general finances can be obtained at the Council Offices, School Place, Kirkwall, Orkney, KW15 1NY; or by telephone on 01856 873535.

Councillor James Stockan
Leader
11 November 2021

John W Mundell, OBE
Interim Chief Executive
11 November 2021

Gareth Waterson, BAcc., CA
Section 95 Officer
11 November 2021

Statement of Responsibilities for the Annual Accounts

The Authority's Responsibilities

The authority is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that the proper officer of the authority has responsibility for the administration of those affairs (section 95 of the Local Government (Scotland) Act 1973). In this authority, that officer is the Head of Finance.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Ensure the Annual Accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014) and the Local Authority (Capital Finance and Accounting) (Scotland) (Coronavirus) Amendment Regulations 2021, and so far as is compatible with that legislation, in accordance with proper accounting practices (section 12 of the Local Government in Scotland Act 2003).
- Approve the Annual Accounts for signature.

I can confirm that these annual accounts were approved for signature by the Monitoring and Audit Committee at its meeting on 11 November 2021.

Signed on behalf of Orkney Islands Council.

Councillor James Stockan

Leader

11 November 2021

The Head of Finance's Responsibilities

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

In preparing the Annual 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 legislation
- Complied with the local authority Accounting Code (in so far as it is compatible with legislation).

The Head of Finance has also:

- Kept adequate accounting records which were up to date
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the financial statements give a true and fair view of the financial position of the local authority and its group at the reporting date and the transactions of the local authority and its group for the year ended 31 March 2021.

Gareth Waterson, BAcc., CA

Section 95 Officer

11 November 2021

Independent auditor's report to the members of Orkney Islands Council and the Accounts Commission

Reporting on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the annual accounts of Orkney Islands Council and its group for the year ended 31 March 2021 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the group and council only Movement in Reserves Statements, Comprehensive Income and Expenditure Statements, Balance Sheets, Cash Flow Statements, the council-only Housing Revenue Account, the Council Tax Income Account, the Non-Domestic Rates Account, the Harbour Authority Account, the Orkney College Account and notes to the financial statements including a summary of significant accounting policies and notes to the financial statements, including a summary of significant accounting policies. 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 2020/21 (the 2020/21 Code).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2020/21 Code of the state of affairs of the council and its group as at 31 March 2021 and of the income and expenditure of the council and its group for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2020/21 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I was appointed under arrangements approved by the Accounts Commission on 10th April 2017. The period of total uninterrupted appointment is 5 years. I am independent of the council and its group in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the council. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern basis of accounting

I have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from when the financial statements are authorised for issue.

Risks of material misstatement

I report in a separate Annual Audit Report, available from the [Audit Scotland website](#), the most significant assessed risks of material misstatement that I identified and my judgements thereon.

Responsibilities of the Interim Executive Director of Finance, Regulatory, Marine and Transport Services and Monitoring and Audit Committee for the financial statements

As explained more fully in the Statement of Responsibilities, the Interim Executive Director of Finance, Regulatory, Marine and Transport Services is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Interim Executive Director of Finance, Regularity, Marine and Transport Services determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Interim Executive Director of Finance, Regularity, Marine and Transport Services is responsible for assessing the council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

The Monitoring and Audit Committee is responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. I design procedures in line with my responsibilities outlined above to detect material misstatements in respect of irregularities, including fraud. Procedures include:

- obtaining an understanding of the applicable legal and regulatory framework and how the council is complying with that framework;
- identifying which laws and regulations are significant in the context of the council;
- assessing the susceptibility of the financial statements to material misstatement, including how fraud might occur; and
- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

The extent to which my procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the council's controls, and the nature, timing and extent of the audit procedures performed.

Irregularities that result from fraud are inherently more difficult to detect than irregularities that result from error as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Reporting on other requirements

Opinion prescribed by the Accounts Commission on the audited part of the Remuneration Report

I have audited the part of the Remuneration Report described as audited. In my opinion, the audited part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

Statutory other information

The Interim Executive Director of Finance, Regularity, Marine and Transport Services is responsible for the statutory other information in the annual accounts. The statutory other information comprises the Management Commentary, Annual Governance Statement, Statement of Responsibilities and the unaudited part of the Remuneration Report.

My responsibility is to read all the statutory other information and, in doing so, consider whether the statutory other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this statutory other information, I am required to report that fact. I have nothing to report in this regard.

My opinion on the financial statements does not cover the statutory other information and I do not express any form of assurance conclusion thereon except on the Management Commentary and Annual Governance Statement to the extent explicitly stated in the following opinions prescribed by the Accounts Commission.

Opinions prescribed by the Accounts Commission on Management Commentary and Annual Governance Statement

In my opinion, based on the work undertaken in the course of the audit:

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003; and
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

Matters on which I am required to report by exception

I am required by the Accounts Commission to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the audited part of the Remuneration Report are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- there has been a failure to achieve a prescribed financial objective.

I have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

In addition to my responsibilities for the annual accounts, my conclusions on the wider scope responsibilities specified in the Code of Audit Practice, including those in respect of the Best Value, are set out in my Annual Audit Report.

Use of my report

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 120 of the Code of Audit Practice, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Gillian Woolman MA FCA CPFA

Audit Scotland
4th Floor
102 West Port
Edinburgh
EH3 9DN

11 November 2021

Annual Governance Statement

Scope of Responsibility

Orkney Islands Council is responsible for ensuring that its business is conducted in accordance with the law and appropriate standards, and that public money is safeguarded, properly accounted for, and used ethically, economically, efficiently and effectively. We have a statutory duty to make arrangements to secure Best Value under the Local Government in Scotland Act 2003.

In discharging these responsibilities, the Council is committed to ensuring effective arrangements for the governance of the Council's affairs and the stewardship of the resources at its disposal, including arrangements for the management of risk.

The Council's corporate governance is underpinned by the CIPFA/Solace Framework 'Delivering Good Governance in Local Government'. A revised edition of the Framework was published in early 2016 and the Local Code of Corporate Governance was updated to reflect the 2016 edition of the Framework. The Council adopted the revised Local Code of Corporate Governance in June 2017.

In addition, the Council is responsible for confirming effective corporate governance arrangements exist within the group entities over which it has control.

However, it should be noted that a sound system of corporate governance and internal control provides only reasonable, but not absolute, assurance that the Council will not be hindered in achieving its objectives or in the orderly and legitimate conduct of its business by circumstances which may reasonably be foreseen. A system of corporate governance and internal control cannot provide protection with certainty against an organisation failing to meet its objectives or material errors, losses, fraud, or breaches of laws or regulations.

Purpose of the Governance Framework

The governance framework comprises the systems and processes, and culture and values by which the authority is directed and controlled. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services and the achievement of key outcomes.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. The system of internal control is based on an ongoing process designed to identify and

prioritise the risks to the achievement of the Council's objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them effectively.



The Governance Framework

The key elements of the Council's governance arrangements are described in terms of the seven principles of good governance defined in the Framework, summarised as follows:

Governance Principle A - Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

The foundation of the Council's integrity is its culture. The Council's culture is demonstrated through the leadership, behaviour, openness and mutual respect of its Elected Members and Chief Officers. It is evidenced by its adoption of a range of robust structures, systems and procedures including:-

- [OIC Standing Orders, Scheme of Delegation & Scheme of Administration](#)
- Equality impact assessments
- A Corporate [Anti-fraud Policy](#)
- Codes of conduct for Councillors and Senior officers
- Elected Members preparation for regular meetings; active participation in decision making; registering and declaring their interests.

Governance Principle B - Ensuring openness and comprehensive stakeholder engagement

The Council is committed to openness and transparency, with the following strategies and policies in place to support this:

- Open Community consultation provides service users with the opportunities to give their views about their needs and the needs of their communities.
- A Community Consultation and Engagement Policy was approved by the Council in 2019, which serves to complement the Consultation and Engagement Guide already adopted by the Council.
- An Annual Performance report, its Annual Accounts and, on behalf of The Orkney Partnership, an annual report on the Local Outcomes Improvement Plan to communicate the Council's activities, achievements, financial position and performance.
- Council committee and sub-committee meetings are held in public and only where there is a legal requirement to do so will a particular agenda item be considered in private.
- Audio casting of meetings has been implemented to improve access to the Council decision making process.
- [Council Committees, Agendas, Minutes and Reports](#) available on the Council website.
- Staff surveys, recent improvements from the surveys included increasing availability of learning and development opportunities and increased opportunities to contribute to future team plans.
- A Communications Strategy in place which provides an overall strategic direction for managing the Council's communications activities with a member/officer consultative working group that continues to assist with reviewing the Strategy.
- Protocols are in place to meet requests made under the Freedom of Information Act, and to publicise the nature of those requests.

Governance Principle C - Defining outcomes in terms of sustainable economic, social, and environmental benefits

Orkney Islands Council shares its missions and values with The Orkney Partnership, which maintains the [Orkney Community Plan](#), as detailed in the Management Commentary.

- The Strategic Priorities have been carefully considered in relation to their intended outcomes and impact on the community and provide the basis for the [The Council Plan 2018-2023](#).
- The [Council Delivery Plan](#) contains actions arising from the Council's response to the recommendations of the Accounts Commission contained in the Best Value Assurance Report published in December 2017.
- The Islands (Scotland) Act 2018 (the Act) introduced a statutory requirement for Island Communities Impact Assessments (ICIA) under Section 8 of the Act. A relevant authority must prepare an island communities impact assessment in relation to a policy, strategy or service which, in the authority's opinion, is likely to have an effect on an island community which is significantly different from its effect on other communities (including other island communities) in the area in which the authority exercises its functions.
- [Performance Monitoring Reports](#), with progress on the actions contained within the Delivery Plan, are reported to the Council every six months, in accordance with the Council's performance management framework.

- In February 2018, the Policy and Resources Committee recommended that a revised [Sustainable Procurement Policy](#) be approved. The Council's Sustainable Procurement policy is detailed in the Procurement Strategy and Council's Contract Standing Orders. Before undertaking a Tendering exercise, the Relevant Council Officer is required to take into account the social, economic and environmental impacts of the proposed Contract and whether the Contract will contribute to the achievement of sustainable development in accordance with the Sustainable Procurement Duty. An update to the Sustainable Procurement policy was recommended for approval by the Policy and Resources Committee in June 2021.

Governance Principle D - Determining the interventions necessary to optimise the achievement of the intended outcomes

The Council recognises the financial challenges it faces and ensures that all officers and Elected Members are fully aware of the on-going issues that remain as government funding continues to reduce in real terms. The following governance arrangements are in place to optimise the achievement of the outcomes in the Council Plan.

- The budget setting process continues to play a pivotal role in supporting progress towards the key outcomes.
- A medium-term resource strategy has been developed to establish the framework for budget setting over the period 2017-2022 with the general recognition that further spending reductions need to be considered in a strategic manner over the medium-to-long term, given the requirement for continued and significant budget reductions and that use of reserves to balance the budget can only be a short-term solution.
- A Long-Term Financial Plan for the years 2018-2019 to 2029-2030 was approved by the Council in February 2019 and addresses the financial sustainability of the Council in the longer term in light of the difficult financial climate and continuing economic uncertainty.
- A review of the Change Programme and Change Team was completed during 2019-20. The purpose of the review was to re-consider the strategic direction for the programme and team in supporting the delivery of savings and efficiencies across the Council. The revised priorities and programme of work was approved by Council in February 2020 along with the revised restructure of the Change Team, which is now called the Improvement Support team. A bi-annual report will be produced for the Senior Management Team and scrutinised by the Policy and Resources Committee.
- The Improvement Service has produced a special benchmarking report for Orkney with key comparative performance information which is used in the planning process for delivery of Council services.
- Established committee structures, Members Seminars and briefings from CMT furnish Elected Members with an extensive volume of information on both the availability of resources and options for future service delivery, enabling informed decisions to be made.
- Operational Service plans which detail the projects and activities through which the Council Plan key strategic priorities are to be actioned.
- A sustainable procurement policy which demonstrates social value and makes reference to modern slavery.

All of these plans are kept on the Council's new online performance management system, Pentana Risk, with progress [Monitoring Reports](#) reported twice a year to Elected Members.

Governance Principle E - Developing the Council's capacity, including the capability of its leadership and the individuals within it

This element of governance is designed to ensure that both Elected Members and officers have the knowledge, skills and capacity to enable them to fulfil their respective roles effectively.

- Elected Members and senior officers are provided with a range of support services to ensure that they have the necessary knowledge and skills to be fully effective.
- Access to complementary support services provided by the Improvement Service, the Scottish Government and other agencies.
- Improvement Service notebooks given to Elected Members to guide them on the support available and how to navigate the Improvement Service website.

- A range of seminars and training events are organised on an on-going basis for Elected Members to attend.
- Briefing notes are routinely prepared and distributed to provide the Members with up-to-date information on key strategic and operational issues.
- Induction Programme and information relating to empowering communities for Elected Members.
- The expansion of the audio casting of meetings.
- A [Communication Strategy](#) is in place which provides an overall strategic direction for managing the Council's communications activities
- A Continuous Professional Development Framework for Elected Members is administered by the Improvement Service however, participation is voluntary.
- The use of an Employee Review and Development Framework to ensure performance of staff in a consistent way across all Services, building a culture where everyone should know what is expected of them and are aware of the competencies and the behaviours required.
- Staff Personal Development Plans are included as part of the Employee Review and Development Scheme, with the aim to get the best from the Council's staff and help them achieve their full potential by identifying training needs and addressing ways of meeting them.
- The Chief Executive has a robust 360-degree annual appraisal and review process which is facilitated by SOLACE.
- Access to training for employees through professional bodies to which employees belong and through external training opportunities.
- The development and implementation of an online modular training facility called iLearn, which staff can access both at work and home.
- The Corporate [Workforce Plan](#) 2019-2022 was approved in April 2019, and places greater emphasis on workforce planning, including succession planning.
- The Best Value Assurance Report recognised the stable, effective leadership strongly focussed on doing what is right for Orkney's communities.
- A Political Engagement Strategy is in place with the purpose of enhancing and integrating the Council's political engagement in respect of its key strategic priorities.

Governance Principle F - Managing risks and performance through robust internal control and strong public financial management

Through its Scheme of Administration and Scheme of Delegation to Officers the Council has the following arrangements in place covering risk, performance management, internal control and financial management.

- The system of internal control is based on financial regulations, regular management information, administrative procedures, management supervision and a scheme of delegation and accountability.
- A Corporate Risk Register which is reviewed and updated every six months, following evaluation by the Senior Management Team. It is also reported to the Council every year.
- A risk management policy and strategy, which is reviewed biennially, and is designed to support the identification, evaluation and mitigation of risks which may impact on its ability to meet its objectives.
- A policy to combat fraud, theft, bribery and corruption as an integral part of protecting public finances.
- Participation in the National Fraud Initiative, a data matching programme involving other public bodies, to provide assurances on the robustness of information held by the Council as well as highlighting data anomalies that require to be addressed.
- Corporate Services Information Governance Officer guiding and monitoring best practice in the security of personal data.
- The oversight of risk and financial monitoring is delegated as the responsibility of the Chief Executive, the Executive Directors and the Heads of Service, as chief officers.
- The Council has appointed officers to the statutory roles of Chief Finance Officer, Monitoring Officer, Chief Social Work Officer, Chief Education Officer and Data Protection Officer.

The Chief Finance Officer role, appointed in terms of section 95 of the Local Government (Scotland) Act 1973, is held by the Head of Finance, reporting directly to the Chief Executive. Strong financial management procedures are secured through the work of the Chief Finance Officer who:

- Provides advice to the Council on all financial matters and the effective system of internal financial control under the terms of the Financial Regulations
- Ensures the timely production and reporting of budget estimates, budget monitoring and annual accounts.

The Monitoring and Audit Committee provide:

- Independent assurance on the adequacy of the Council's Corporate Governance, performance, risk management and internal control frameworks.
- Further independent assurance of this Committee is achieved by restricting membership - those ineligible for membership are the Convener, Council Leader, Depute Leader, and Chairs of Service committees.
- An Internal Audit Annual Strategy prepared by the Chief Internal Auditor which takes account of considerations including the [Council Risk Register](#).

Governance Principle G - Implementing good practices in transparency, reporting, and audit to deliver effective accountability

Information is disseminated in many forms targeted at different audiences for different purposes to deliver effective accountability:

- Council business is conducted through an established cycle of committee meetings held in public, unless exempt under statutory provision,
- Principle committee meetings are audio-cast live, with recordings available thereafter for download from the Council's public website.
- Agenda and associated reports are issued to the relevant Elected Members and chief officers, and to the public via the Council's website.
- Committee reports follow consistency with a corporate style including the purpose of the report, information relevant to the matter under consideration, a conclusion and recommendations proposed.
- Minutes of meeting are prepared, and once approved are also publicised on the Council website.
- Statutory returns that follow prescribed layouts.
- Newsletters which target specific groups.
- Consultation documents which contain basic information designed to prompt initial interest in particular services and projects.
- The adoption of the Scottish Public Services Ombudsman - Model Complaints Handling Procedure, with [Council Compliments and Complaints](#) reported to the Senior Management Team on a quarterly basis, Service Committees on a 6-monthly basis and an annual report submitted to Monitoring and Audit Committee.
- Adoption of the Consultation and Engagement Guidelines issued by the Orkney Partnership, which includes recommendations on feedback in accordance with national guidelines.

Review of Effectiveness of Governance Arrangements

In line with best practice the Council is responsible for conducting, at least annually, a review of the effectiveness of its governance framework, including the system of internal financial control. This annual review is supported by a process of self-assessment against the Local Code of Corporate Governance, and is informed by various means:

- The Council and its committees - monitor governance arrangements throughout the year.
- The Senior Management Team - overall responsibility for the development and maintenance of the governance environment.
- The Corporate Management Team – assist the Senior Management Team in keeping the governance under review whilst acting with the wider objectives of the Council in mind to ensure resources are effectively deployed to achieve local and national outcomes.
- The Head of Finance – the Council's most senior adviser on all financial matters.
- The Chief Social Worker – required to, in the discharge of the Council's statutory social work duties, produce an annual report on all statutory, governance and leadership functions of the role.
- Internal Audit – a professional and objective internal audit service in accordance with the Local Authority Accounts (Scotland) Regulations 2014. The service conforms to the standards and practices set out in the Public Sector Internal Audit Standards.
- External Auditors, review bodies, agencies and inspectorates – who come together as a Local Area Network to determine any scrutiny activity required which feeds into the National Scrutiny Plan.

- During financial year 2020-21 the Council operated on-line meetings as a response to the COVID-19 pandemic and the requirement to have social distancing in place.
- The Council also changed its governance arrangements to allow meetings to be held at short notice as part of its response to the COVID-19 crisis.

The 2020-21 self-assessment of the Council's Local Code of Corporate Governance was reviewed by the Senior Management Team on 20 May 2021 and the Council's degree of compliance with each principle in the Local Code was graded in accordance with the CIPFA Framework as "3 – fully compliant with the requirement". The 2020-21 self-assessment did not generate any scores of 1 or 2. However, in the course of the exercise, service management team identified a number of updates and improvements which could be made to existing corporate governance arrangements. All of these actions were incorporated into the Local Code of Corporate Governance Improvement Action Plan for 2021-22 which was submitted to, and approved by, the Monitoring and Audit Committee on 10 June 2021 and subsequently included in the Council's Pentana performance management system.

Internal Audit and Monitoring and Audit Committee

The work of managers within the Council, of internal audit as described above and by the external auditors in their annual audit letter and in other reports, informs the effectiveness of the financial control environment as an element of the Council's governance arrangements.

The internal audit plan for financial year 2020-2021 included core financial systems testing, other systems operating within services, annual audits, corporate reviews, computer audit and follow up on a quarterly basis of all recommended improvement actions.

The Chief Internal Auditor provides an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control. It is the opinion of the Chief Internal Auditor that there were adequate controls operating in respect of the areas which were subject to review in 2020-21 subject to exclusions, which were identified as high priority improvement actions. These actions were specific to Services' procedures and practices and do not impact on the overall governance arrangements of the Council, high priority actions were identified in the following reviews:

- Cursiter Quarry Procurement Process
- Fraud Investigation Report

The Chief Internal Auditor confirmed that there were fraud issues reported to the Council's external auditors in relation to one fraud that was investigated during the financial year.

The Monitoring and Audit Committee provides independent assurance on the adequacy of the Council's corporate governance, performance, risk management and internal control frameworks. They also oversee financial reporting, the annual governance processes, and the Council's internal and external audit arrangements.

Integration Joint Board

The Chief Internal Auditor for Orkney Islands Council (OIC) has been appointed as the Chief Internal Auditor for the Orkney Integration Joint Board (IJB) for a period of five years starting from April 2021. It has been agreed that Azets, as the internal auditor of NHS Orkney (NHSO), will provide support to the IJB Chief Internal Auditor to deliver the Orkney IJB internal audit plan.

Significant Governance Issues

Securing good governance has been and remains of prime importance to Elected Members and senior officers of the Council; a considerable task at a time when budgets are reducing, services are being redesigned, and a range of national and local priorities require to be addressed.

Each Head of Service has reviewed the arrangements in their Service area and certified their effectiveness by providing individual Certificates of Assurance to their Executive Director. The Executive Directors have reviewed these submissions, considered the overall arrangements across their Directorate, reflected on their effectiveness or otherwise, before submitting their own Certificates of Assurance to the Head of Finance. These Certificates of Assurance provide the basis for the Annual Governance Statement which was circulated for final endorsement by the Senior Management Team before being authorised by the Council Leader, the Chief Executive and the Head of Finance.

These reviews have identified the governance matters and concerns where actions will be taken forward to progress improvement.

Significant Governance Issue	Potential Impact	Mitigating actions currently in place	Proposed Action
Resource Pressures			
Resulting from response to COVID-19. There has been increased costs and also a reduction in income.	There is the potential risk that the Council will be unable to meet the service demand, or achieve its target outcomes, and that this could continue to impact future revenue budgets.	The Council has received additional funding from the Scottish Government as a support measure. Elected Members have been kept informed throughout the year on the additional pressures facing the Council. Continued budget monitoring reports and control measures still in place.	Continued focus on recovery from COVID-19.
Workforce Capacity			
Executive directors have highlighted concerns about the difficulty in recruiting for certain posts. The ability of the Council to deliver services and meet performance targets is dependent on having sufficient resources.	There is a risk that the Council is unable to deliver its services effectively and efficiently, whilst also increasing pressure on current staff resources. This has been further compounded during COVID-19 with the Council facing additional difficulty in filling vacant posts.	Workforce planning, and succession planning continues to be a priority for the Council. The Council has a Corporate Workforce Plan in place for 2019-2022.	The Interim Chief Executive will carry out a review of the Council's Senior Management structure with a view to securing a corporate structure that has the capacity and skills to deliver the Council's priorities.
Quarry Procurement			
In 2020, a consignment of stone was purchased to support the continuation of supply at Cursiter Quarry. Procurement Policy and Financial Regulations were not adhered to.	Impact on public confidence in the authority and the risk that other control measures and processes in place would also not be adhered to.	Procurement Plans, using a corporate template, are being completed for all contracts over the value of £10,000 with increased scrutiny and sign-off at Executive Director level.	The actions recommended in the Internal Audit Report presented to the Monitoring and Audit Committee on 11 March 2021 will be implemented.

Significant Governance Issue	Potential Impact	Mitigating actions currently in place	Proposed Action
Cyber Fraud			
Increased susceptibility to cyber fraud as a result of COVID-19 and remote working implementation.	The Council becomes a target of fraud with a direct loss of money, or access to IT infrastructure leading to service interruption.	All standard controls are in place, with electronic procedures replacing the previous paper-based system. All staff trained on how to detect a potential fraud.	Continued training of staff members on cyber fraud and awareness training.
Educational Need			
The level of reported unmet educational need implies a resource greater than the allocated budget to achieve statutory compliance. There may be the need to redirect resources away from other areas to meet this need.	Reduction in provision of other services as a result of redirecting resources to meet minimum statutory requirements.	Work to review and update practice is ongoing. This is linked to the improvement agenda within children's services and the more specific review of the resource school model.	Review of Services and report with key recommendations to Education, Leisure and Housing Committee.

Update on significant governance issues previously reported

In the prior year, the governance statement identified challenges around the delivery of strategic plans, including:

Prior Year Significant Governance Issue	Action Taken	Further Action Required
COVID-19		
Executive Directors raised significant concerns around the impact of COVID-19, however as the lockdown only started on 24 March 2020, there was only minimal impact from COVID-19 on the 2019-20 financial statements. There was a huge impact on the delivery of services throughout 2020-21 with the Council working on an emergency footing for the majority of the year.	Contingency and emergency plans were put in place, remote working where possible, with essential services only provided. As restrictions eased, the Council was able to restart some services following guidance.	Ownership of the Budget Setting Process by the Senior Management Team with openness and transparency around the identification of potential areas for re-provisioning of services.

Prior Year Significant Governance Issue	Action Taken	Further Action Required
Budget Pressure		
Executive Directors highlighted many areas where service delivery is under considerable budgetary pressure. There are not any specific governance issues around these concerns, it is simply that demand is in excess of the available budget.	An agreed programme of budget savings and efficiencies.	There must be an acknowledgement of reality with the focus on continuation of the delivery of minimum Statutory Provision versus Statutory with Discretion, Non-Statutory but Essential or Discretionary Expenditure whilst having regard to the Council Priorities.
OHAC		
The Joint Inspection of Children's and Young People's Services was published in February 2020 which identified a number of significant improvement actions across Orkney Health and Care and Education, Leisure and Housing Services. This has been compounded by staffing challenges and posts have been filled on an interim basis.	A comprehensive improvement plan has been developed which is being addressed as an absolute priority across the services.	There are a number of completed actions in the improvement plan with others in the process of being completed and closed out. There is regular reporting of progress on the action plan to the Council's Policy and Resources Committee to ensure that all elected Members are sighted on progress and have the opportunity to scrutinise the progress being made.
Recruitment		
Executive Directors have highlighted concerns about difficulty in recruiting for certain posts.	Service workforce plans in place (2019). Service workforce planning actions included in Service Plans and monitored more regularly. Recruitment exercises have been re-run and for some posts interim appointments have been through staffing agencies.	Further review and refine Workforce planning approach to ensure best practice planned for post COVID-19 recovery. More proactive approach to recruitment, succession planning and attraction of people to live and work in Orkney. Continued use and development of remote and flexible working will encourage improved working methods and retention of key staff.
Cultural Services		
Agreed savings through plans to restructure the Museum Service have not been delivered; the budget was reduced on the assumption that this saving would be made, which placed an additional burden on other service areas.	Options for restructuring the Museum Service were considered at a meeting of the Education, Leisure and Housing Committee on 11 September 2019 where it was recommended that the options to make the budget savings be deferred to a special meeting of the committee to be held in January 2020.	The special meeting of the committee to consider the savings option never occurred. The savings options therefore require to be further developed and reported to the Education, Leisure and Housing Committee.

Prior Year Significant Governance Issue	Action Taken	Further Action Required
Passenger Ferry		
<p>The Council has undertaken the procurement of a small second-hand passenger ferry for the Papa Westray route. The Scottish Government provided £750,000 towards the project on the basis of a 50% subsidy. The funds were lodged with the Council in advance of a formal application and signed agreement for these funds, a position that has subsequently been normalised.</p>	<p>The vessel has been purchased and delivered to Orkney from Norway.</p> <p>After some COVID delays the refit has been complete and the vessel is now certified to enter service.</p>	<p>Recruitment of crew is underway and following familiarisation training the vessel will enter service on the Westray to Papa-Westray route.</p>
Refit		
<p>The Orkney Ferries and Towage repairs and maintenance and refit budget have been significantly overspent for 2019-20. The causes have been unanticipated repairs/resetting to the clutch system on all tugs with associated charter costs for tug cover and a refit which was more extensive than budgeted. The need for this refit was assessed given the fact that new tugs were on order but as the vessels were still in service, may still be required for a period after the arrival of the new tugs.</p>	<p>Two new tugs were delivered to Orkney from Turkey in September 2020 and will replace two of the three older tugs.</p>	<p>A further new tug will be required to bring the fleet up to date and replace the third older tug. Disposal of the surplus older assets.</p>

Concluding Remarks

In our respective roles as Leader of the Council and Chief Executive, we are committed to good governance and recognise the contribution it makes to securing delivery of service outcomes in an effective manner. We have been advised on the results of the annual review of the Local Code of Corporate Governance and that the Council's arrangements continue to be regarded as fit for purpose in accordance with the CIPFA governance framework. It is our opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the systems of governance operated by the Council. This annual governance statement summarises the Council's current governance arrangements and affirms our commitment to ensuring they are regularly reviewed and remain fit for purpose.

While pressure on financial settlements is likely to continue during the coming period, we will continue to engage with our partners and the wider community to agree plans and outcome targets that are both sustainable and achievable. Good governance will remain essential in delivering services in a way that both meets the needs of communities and discharges statutory best value responsibilities.

Councillor James Stockan
Leader
11 November 2021

John W Mundell, OBE
Interim Chief Executive
11 November 2021

Remuneration Report

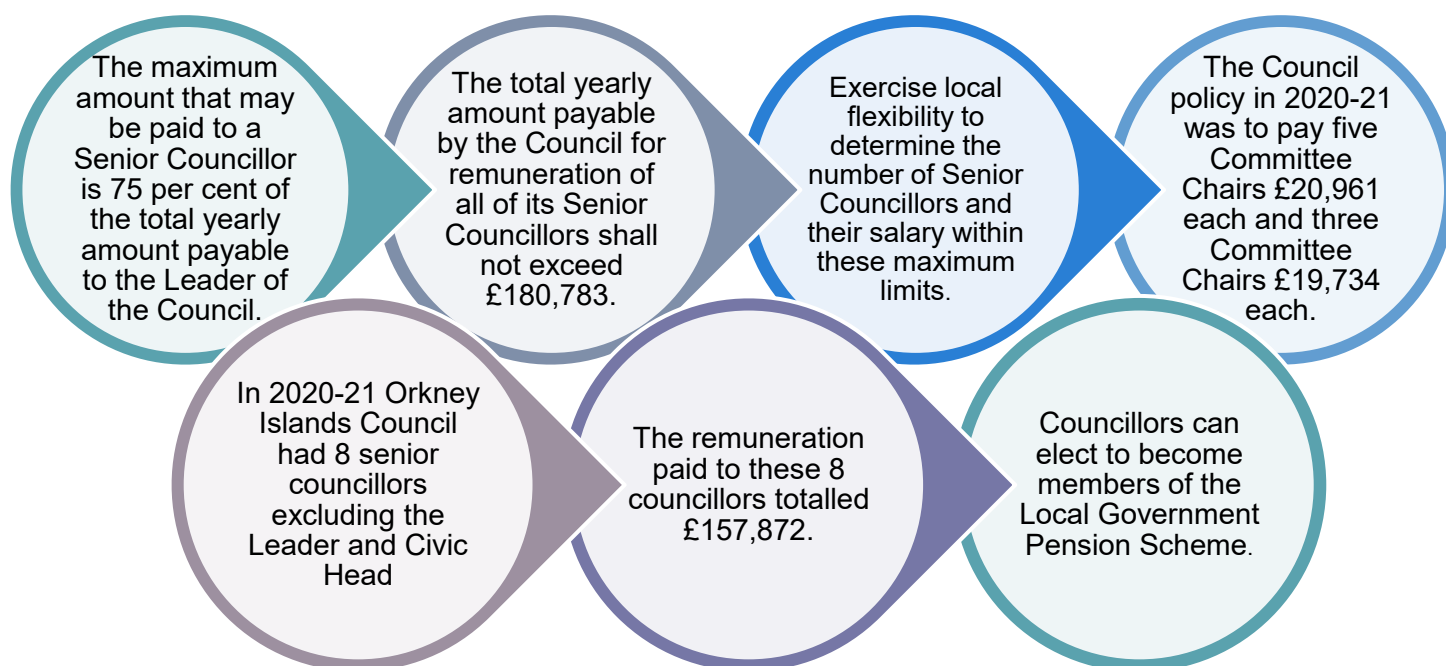
The Local Authority Accounts (Scotland) Regulations 2014 require local authorities in Scotland to prepare a Remuneration Report as part of the annual statutory accounts.

All information disclosed in sections three to eight in this Remuneration Report will be audited by the Council's appointed auditor, Audit Scotland. The other sections of the Remuneration Report will be reviewed by the appointed auditor to ensure that they are consistent with the financial statements.

1. Remuneration policy for the Leader of the Council, the Civic Head and 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 Leader of the Council, the Civic Head, Senior Councillors or Councillors. The salary that is to be paid to the Leader of the Council is set out in the Regulations. For 2020-21 the salary for the Leader of Orkney Islands Council is £28,531 which is £1,229 less than the maximum. This was agreed to enable the Depute Leader to be paid the same as a Committee Chair. The Regulations permit the Council to remunerate one Civic Head. The Regulations set out the maximum salary that may be paid to that Civic Head. Council policy is to pay at the national maximum.

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 Members' Remuneration Package which encompasses the salaries of all Elected Members including the Leader, Civic Head and Senior Councillors took effect from 3 May 2007. The policy for setting the detail of the remuneration package to Councillors is delegated to the Chief Executive.

In addition to the Senior Councillors of the Council the Regulations also set out the remuneration payable to councillors with the responsibility of a Leader or a Civic Head of a Joint Board such as a Valuation Joint Board. The Regulations require the remuneration to be paid by the Council of which the Leader or Civic Head (as the case may be) is a member. The Council is also required to pay any pension contributions arising from the Leader or Civic Head being a member of the Local Government Pension Scheme.

The Council is reimbursed by the Joint Board for any additional remuneration paid to the member on account of their being a Convener or Vice Convener.

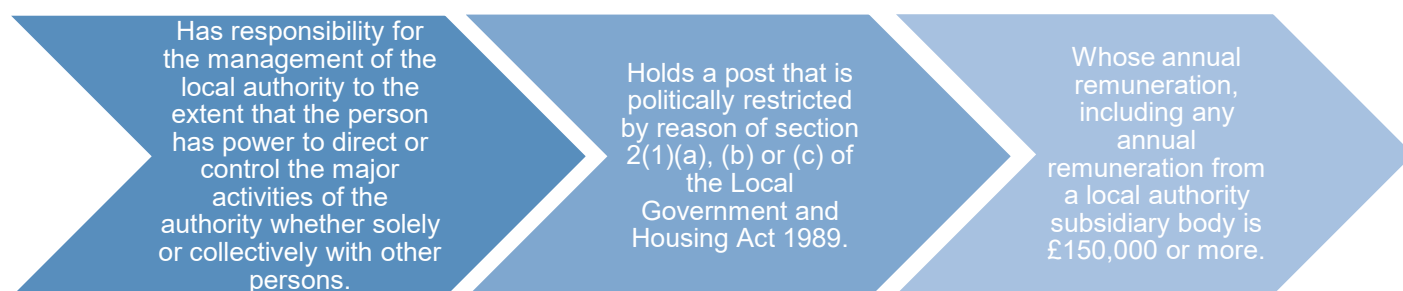
2. Remuneration Policy for Senior Employees

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. Circular CO/150 sets the amount of salary for the Chief Executive of Orkney Islands Council for the period 2018-2021. Salaries of the Corporate Directors and Heads of Service are also based on Circular CO/150.

Other benefits received by senior employees include car mileage allowance.

3. Remuneration of Senior Employees

The regulations define a senior employee as any employee who meets one or more of the following criteria:



The Council has interpreted the above criteria as including the Chief Executive, Directors and any senior person reporting directly to the Chief Executive.

The term “remuneration” means gross salary, fees and bonuses, allowances and expenses and compensation for loss of employment. The table below outlines the remuneration details for senior employees, including prior year figures. The table shows the relevant amounts, before tax and other deductions, due to, or receivable by, each of the persons named for the year to 31 March 2021, whether those amounts were actually paid to, or received by, those persons within that period.

2019-2020	Senior Employees			2020-2021
Total	Name	Post held	Salary, Fees and Allowances	Total
£			£	£
116,720	John Mundell	Chief Executive	165,300	165,300
47,085	James Wylie	Executive Director of Education, Leisure & Housing Services	96,063	96,063
94,672	Gavin Barr	Executive Director Development & Infrastructure	96,063	96,063
94,672	Gillian Morrison	Executive Director of Corporate Services*	43,830	43,830
88,521	Gareth Waterson	Head of Finance/Section 95 Officer	83,687	83,687
75,098	Gavin Mitchell	Head of Legal Services	74,122	74,122
77,050	Karen Greaves	Head of Executive Support	72,494	72,494
593,818	Total		631,559	631,559

Note 1 * up until 30 August 2020

4. Remuneration of Senior Councillors

Under the regulations, remuneration disclosures are to be made for the Leader, the Civic Head and any councillor designated a Senior Councillor by the Council.

The table below shows the relevant amounts, before tax and other deductions, due to, or receivable by, each of the persons named for the year to 31 March 2021, whether or not those amounts were actually paid to, or received by, those persons within that period.

2019-2020	Leader, Civic Head and Senior Councillors			2020-2021
Total £	Name	Position held	Salary, Fees and Allowances £	Total £
20,505	Rob Crichton	Chair (Planning) Chair (Education, Leisure & Housing)	20,961	20,961
0	David Dawson	Chair (Orkney Ferries)**	11,754	11,754
21,814	Harvey Johnston	Civic Head	22,299	22,299
20,505	Rachael King	Chair (Orkney Health & Care)	20,961	20,961
20,505	Leslie Manson	Depute Leader of the Council	20,961	20,961
19,303	John Richards	Chair (Monitoring & Audit)	19,734	19,734
17,124	Gwenda Shearer	Chair (Education, Leisure & Housing)	20,961	20,961
20,505	Graham Sinclair	Chair (Development & Infrastructure)	20,961	20,961
27,883	James Stockan	Leader of the Council	28,505	28,505
3,380	Owen Tierney	Chair (Planning)	0	0
19,303	Duncan Tullock	Chair (Licensing)	19,734	19,734
19,303	Kevin Woodbridge	Chair (Orkney Ferries)*	1,845	1,845
210,130	Total		208,676	208,676

Note 1 * up until 19 April 2020

Note 2 ** with effect from 02 July 2020

5. Pension Entitlement

Pension benefits for both councillors and local government employees are provided through the Local Government Pension Scheme.

The Local Government Pension Scheme is a defined benefit pension scheme with pension benefits being based on Career Average Revalued Earnings (CARE). Members pensions accrue at a rate of 1/49th of the amount of pensionable pay received in a scheme year for those members contributing to the main section of the scheme or half of this rate for any period a member has elected to contribute to the 50/50 section of the scheme. The amount of pension accrued during the scheme year is then added to the member's pension account and is revalued at the end of each scheme year by reference to the Consumer Price Index.

The scheme's normal pension age for both councillors and employees is State Pension Age. If the State Pension Age changes in the future, then this change will also apply to a member's normal pension age in the Local Government Pension Scheme.

There is no automatic entitlement to a lump sum however members may opt to convert pension into lump sum subject to limits set by the Finance Act 2004.

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.

The pension figures shown relate to the benefits that the person has accrued as a consequence of their total local government service, together with any transfer from other pension schemes and not just their current appointment.

The pension entitlements for Senior Employees and Senior Councillors for the year to 31 March 2021 are shown in the following table, together with the contribution made by the Council to each individual's pension during the year.

Senior Employees							
Pension contributions made by Orkney Islands Council during 2019-2020 £	Name	Post held	Accrued pension benefits as at 31 March 2021		Change in accrued pension benefits since 31 March 2020		Pension contributions made by Orkney Islands Council during 2020-2021 £
			Pension £	Lump Sum £	Pension £	Lump Sum £	
0	John Mundell	Chief Executive	0	0	0	0	0
8,287	James Wylie	Executive Director of Education, Leisure & Housing Services	3,383	0	1,984	0	16,331
16,662	Gavin Barr	Executive Director Development & Infrastructure	24,950	11,077	2,508	321	16,331
16,662	Gillian Morrison	Executive Director of Corporate Services *	50,044	89,558	2,201	2,598	7,451
14,701	Gareth Waterson	Head of Finance/Section 95 Officer **	39,681	54,350	2,405	270	14,227
13,075	Gavin Mitchell	Head of Legal Services	8,017	0	1,621	0	12,601
12,734	Karen Greaves	Head of Executive Support	28,271	36,898	2,167	1,069	12,324
82,121	Total		154,346	191,883	12,886	4,258	79,265

Note 1 * up to 31 August 2020 and includes transfer in of pension benefits from other pension funds or schemes

Note 2 ** includes transfers in of pension benefits from other pension funds or schemes

Convener, Civic Head and Senior Councillors							
Pension contributions made by Orkney Islands Council during 2019-2020 £	Name	Post held	Accrued pension benefits as at 31 March 2021		Change in accrued pension benefits since 31 March 2020		Pension contributions made by Orkney Islands Council during 2020-2021 £
			Pension £	Lump Sum £	Pension £	Lump Sum £	
3,609	Rob Crichton	Chair (Planning) Chair (Education, Leisure & Housing)	5,359	1,344	482	9	3,563
0	David Dawson	Chair (Orkney Ferries)**	1,435	0	1,435	0	3,260
3,839	Harvey Johnston	Civic Head	4,634	0	807	0	3,791
3,609	Rachael A King	Chair (Orkney Health and Care)***	6,427	0	427	0	3,563
3,609	Leslie Manson	Depute Leader of the Council	2,857	0	616	0	3,563
3,397	John Richards	Chair (Monitoring and Audit)	3,683	0	618	0	3,355
3,523	Gwenda Shearer	Chair (Education, Leisure & Housing)	3,241	0	484	0	3,563
3,609	Graham Sinclair	Chair (Development and Infrastructure)	5,063	1,482	510	23	3,563
4,907	James Stockan	Leader of the Council***	29,243	70,588	1,032	1,039	4,846
3,157	Owen Tierney	Chair (Planning)	0	0	0	0	0
3,397	Duncan Tullock	Chair (Licensing)***	5,120	0	403	0	3,355
3,397	Kevin Woodbridge	Chair (Orkney Ferries)*	1,679	0	207	0	314
40,053	Total		68,741	73,414	7,021	1,071	36,736

Note 1* up until 19 April 2020

Note 2** with effect from 02 July 2020

Note 3*** includes transfers in of pension benefits from other pension funds or schemes

All senior employees and councillors shown in the tables above are members or can become members of the Local Government Pension Scheme (LGPS).

In accordance with guidance provided by the Scottish Government, the above figures reflect any transfer of pension benefits from another pension fund or scheme to their current employment and pension scheme. Para 5 of the schedule requires the remuneration report to include certain remuneration information of local authority subsidiary bodies. No remuneration is paid directly by these companies to the manager, or Elected Members.

6. Councillors' remuneration

The Council paid the following amounts to its Elected Members (Councillors) during the year:

	2019-2020 £000	2020-2021 £000
Salaries	406	407
Mileage	17	2
Conferences and Courses	0	0
Travel Costs	37	1
Subsistence	7	0
Other Allowances and Expenses	6	4
Reimbursed Costs	(16)	(5)
Total	457	409

The annual return of Councillors' salaries and expenses for 2020-2021 is available for any member of the public to view at all Council libraries and public offices during normal working hours and is also available on the Council's website at www.orkney.gov.uk. Please follow the links on the Council's website as follows:

[Councillors Record of Claims](#)

7. Remuneration of Employees

The following table gives a statement of the number of employees whose remuneration, excluding pension contributions, was in excess of £50,000 during 2020-2021, in bands of £5,000. This information includes those senior employees who are subject to the fuller disclosure requirements in the tables above.

Remuneration band	2019-2020 Number of employees	2020-2021 Number of employees
£165,000 to £169,999	0	1
£160,000 to £164,999	0	0
£155,000 to £159,999	0	0
£150,000 to £154,999	0	0
£145,000 to £149,999	0	0
£140,000 to £144,999	0	0
£135,000 to £139,999	0	0
£130,000 to £134,999	0	0
£125,000 to £129,999	0	0
£120,000 to £124,999	0	0
£115,000 to £119,999	0	0
£110,000 to £114,999	2	1
£105,000 to £109,999	1	1
£100,000 to £104,999	1	2
£95,000 to £99,999	2	5
£90,000 to £94,999	3	0
£85,000 to £89,999	1	0
£80,000 to £84,999	3	2
£75,000 to £79,999	2	2
£70,000 to £74,999	7	8
£65,000 to £69,999	9	13
£60,000 to £64,999	16	14
£55,000 to £59,999	14	14
£50,000 to £54,999	47	56
	108	119

8. Exit Packages

The regulations require the Remuneration Report to provide information on the number of exit packages awarded, in bandings of £20,000 up to £100,000 and thereafter in bandings of £50,000, along with the total cost of the exit packages within each band. The regulations also require disclosure of the number of compulsory redundancies and other agreed departures

Exit Package Cost Band	Number of Compulsory Redundancies		Number of Other Departures Agreed		Total Number of Exit Packages by Cost Band		Total Cost of Exit Packages in each Band	
	2019-2020	2020-2021	2019-2020	2020-2021	2019-2020	2020-2021	2019-2020	2020-2021
							£000	£000
£0 - £19,999	2	1	1	0	3	1	14	5
£20,000 - £39,999	0	0	0	0	0	0	0	0
£40,000 - £59,999	0	0	0	2	0	2	0	92
£60,000 - £79,999	0	0	1	0	1	0	64	0
£80,000 - £99,999	0	0	0	0	0	0	0	0
£100,000 - £149,999	0	0	0	1	0	1	0	130
£150,000 - £199,999	0	0	0	0	0	0	0	0
£200,000 - £299,999	0	0	0	0	0	0	0	0
Total	2	1	2	3	4	4	78	227

9. Trade Union (Facility Time Publication Requirements) Regulations 2017

The Council is required to report from 1 April 2017 a range of information on facility time made available to its employees who are trade union representatives.

For the reporting year 2020-2021, the equivalent of 0.8 FTE (across 22 individuals) of paid facility time was made available, with an associated cost of £0.047M. This sum equates to 0.06% of the Council's overall staff costs.

Of the total time made available, 22 individuals spent between 1 – 50% of their time during the year on trade union-related activities.

Councillor James Stockan
Leader
11 November 2021

John W Mundell, OBE
Interim Chief Executive
11 November 2021

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Council, analysed into usable reserves (those reserves that can be applied to fund expenditure or to reduce local taxation) and unusable reserves. The surplus or deficit on the provision of services line shows the true economic cost of providing the Council's services, more details of which are shown in the comprehensive income and expenditure statement. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for Council Tax-setting and dwellings rent-setting purposes. The net increase or (decrease) before transfers to other statutory reserves line shows the statutory General Fund Balance and the Housing Revenue Account Balance before any discretionary transfers to or from the other statutory reserves of the Council. Additional information to support these movements can be found in Note 21 to these accounts:

	General Fund Balance	HRA Balance	Harbour Reserves	Capital Fund	Capital Receipts Reserve	Capital Grants Unapplied	Renewals and Repairs Fund	Total Usable Reserves	Total Unusable Reserves	Total Reserves of the Authority
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance as at 1 April 2019	(13,175)	(523)	(217,972)	(508)	(2,535)	(20)	(9,231)	(243,964)	(328,981)	(572,945)
Movement in reserves during the year										
(Surplus) or deficit on the provision of services	99,174	57	(1,999)	0	0	0	0	97,232	0	97,232
Other Comprehensive Income and Expenditure	(88,111)	(1,024)	16,881	0	0	0	0	(72,254)	(32,067)	(104,321)
Total Comprehensive Income and Expenditure	11,063	(967)	14,882	0	0	0	0	24,978	(32,067)	(7,089)
Adjustments between accounting basis & funding basis under regulations (Note 8)	(9,126)	1,209	(2,206)	0	(512)	0	0	(10,635)	10,635	0
Net (Increase)/Decrease before Transfers to Earmarked Reserves Statutory and Other Reserves	1,937	242	12,676	0	(512)	0	0	14,343	(21,432)	(7,089)
Transfers (to) or from earmarked reserves Statutory and Other Reserves	(7,550)	(242)	5,996	0	0	0	1,796	0	0	0
(Increase)/Decrease in Year	(5,613)	0	18,672	0	(512)	0	1,796	14,343	(21,432)	(7,089)
Balance as at 31 March 2020	(18,788)	(523)	(199,300)	(508)	(3,047)	(20)	(7,435)	(229,621)	(350,413)	(580,034)
Movement in reserves during the year										
(Surplus) or deficit on provision of services	101,242	(3,632)	423	0	0	0	0	98,033	0	98,033
Other Comprehensive Income and Expenditure	(98,850)	(477)	(47,722)	0	0	0	0	(147,049)	(28,791)	(175,840)
Total Comprehensive Income and Expenditure	2,392	(4,109)	(47,299)	0	0	0	0	(49,016)	(28,791)	(77,807)
Adjustments between accounting basis & funding basis under regulations (Note 8)	(6,838)	4,575	(2,540)	0	528	0	0	(4,275)	4,275	0
Net (Increase)/Decrease before Transfers to Earmarked Reserves Statutory and Other Reserves	(4,446)	466	(49,839)	0	528	0	0	(53,291)	(24,516)	(77,807)
Transfers (to) or from earmarked reserves Statutory and Other Reserves	(6,197)	(593)	9,589	0	0	0	(2,799)	0	0	0
(Increase)/Decrease in Year	(10,643)	(127)	(40,250)	0	528	0	(2,799)	(53,291)	(24,516)	(77,807)
Balance as at 31 March 2021	(29,431)	(650)	(239,550)	(508)	(2,519)	(20)	(10,234)	(282,912)	(374,929)	(657,841)

Comprehensive Income and Expenditure Statement

This statement shows the accounting cost of providing services and managing the Council during the year. It includes, on an accruals basis, all of the Council's day-to-day expenses and related income. It also includes transactions measuring the value of non-current assets actually consumed during the year and the real projected value of retirement benefits earned by employees during the year. The statement shows the accounting cost in accordance with generally accepted accounting practices, rather than the cost according to the statutory regulations that specify the net expenditure that councils need to take into account when setting the annual Council Tax charge. The required adjustments between accounting basis and funding basis under regulations are shown in the movement in reserves statement.

	Notes	2019-2020			2020-2021		
		£000	£000	£000	£000	£000	£000
		Expenditure	Income	Net	Expenditure	Income	Net
Cultural and Recreation		6,950	(1,038)	5,912	6,839	(547)	6,292
Education		40,517	(2,608)	37,909	42,148	(3,112)	39,036
Roads and Transportation		19,730	(5,739)	13,991	19,892	(5,563)	14,329
Housing Revenue Account		3,918	(3,862)	56	134	(3,766)	(3,632)
Harbour Authority		13,746	(15,745)	(1,999)	14,090	(13,667)	423
Housing Services		6,648	(5,097)	1,551	5,834	(4,435)	1,399
Social Care		51,144	(27,251)	23,893	52,757	(29,356)	23,401
Planning and Development		5,413	(2,445)	2,968	5,023	(2,355)	2,668
Environmental Services		6,061	(1,169)	4,892	5,654	(1,032)	4,622
Other Services		11,391	(3,340)	8,051	12,970	(3,521)	9,449
Non Distributed Costs		8	0	8	46	0	46
(Surplus)/Deficit on Continuing Operations		165,526	(68,294)	97,232	165,387	(67,354)	98,033
Other Operating Expenditure	10			(11)			175
Financing and Investment Income and Expenditure	11			18,334			(47,018)
Taxation and Non-Specific Grant Income: Other	12			(90,577)			(100,206)
(Surplus)/Deficit on Provision of Services				24,978			(49,016)
Surplus on revaluation of non current assets	13			995			(10,397)
(Surplus)/Deficit on revaluation of financial assets at fair value through Other Comprehensive Income and Expenditure	22			(412)			(45)
Remeasurement of the net Pension Fund Liability/(Assets)	33			(32,650)			(18,349)
Other Comprehensive Income and Expenditure				(32,067)			(28,791)
Total Comprehensive Income and Expenditure (Surplus)/Deficit				(7,089)			(77,807)

Balance Sheet as at 31 March 2021

The balance sheet shows the value as at 31 March 2021 of the assets and liabilities recognised by the Council. The net assets of the Council are matched by the reserves held by the Council. Reserves are reported in two categories. The first category comprises usable reserves, which are those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve, which may only be used to fund capital expenditure or to repay debt). The second category of reserves comprises those that the Council is not able to use to provide services. This category includes reserves that hold unrealised gains and losses in the value of assets (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 as 'adjustments between accounting basis and funding basis under regulations' in the movement in reserves statement.

	Note	31 March 2020	31 March 2021
		£000	£000
Property, Plant & Equipment	13	365,619	380,156
Heritage Assets		912	912
Investment Property	14	19,725	19,800
Intangible Assets		72	230
Long Term Investments	15	7,218	8,736
Long Term Debtors	15	2,365	2,580
Long Term Assets		395,911	412,414
Short Term Investments	15	210,639	258,530
Inventories	16	1,317	1,751
Short Term Debtors	17	8,458	10,385
Cash and Cash Equivalents	18	29,644	35,051
Assets held for sale	19	1,057	741
Current Assets		251,115	306,458
Short Term Borrowing	15	406	407
Short Term Creditors	20	13,753	18,781
Current Liabilities		14,159	19,188
Provisions	21	30,590	31,004
Long Term Borrowing	15	35,115	35,085
Other Long Term Liabilities	22	(12,872)	(24,246)
Long Term Liabilities		52,833	41,843
Net Assets		580,034	657,841
Usable reserves	22	229,621	282,912
Unusable Reserves	22	350,413	374,929
Total Reserves		580,034	657,841

The unaudited accounts were issued on 29 June 2021.

The audited accounts were authorised for issue on 11 November 2021.

Gareth Waterson, BAcc., CA

Section 95 Officer

11 November 2021

Cash Flow Statement

This statement shows the changes in cash and cash equivalents of the Council during the year. It shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources that are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (that is, borrowing) to the Council.

	2019-2020	2020-2021
	£000	£000
Net surplus or (deficit) on the provision of services	(24,978)	49,016
Adjustment to surplus or deficit on the provision of services for noncash movements	23,701	(31,054)
Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	1,119	1,108
Net Cash flows from Operating activities	(158)	19,070
Net Cash flows from Investing Activities	(8,225)	(11,575)
Net Cash flows from Financing Activities	3,818	(2,088)
Net increase or decrease in cash and cash equivalents	(4,565)	5,407
Cash and cash equivalents at the beginning of the reporting period	34,209	29,644
Cash and cash equivalents at the end of the reporting period	29,644	35,051

Cash Flow Statement: Operating activities

	2019-2020	2020-2021
	£000	£000
Adjustment to surplus or deficit on the provision of services for noncash movements		
Depreciation and Impairment losses	13,876	13,430
Revaluation Gains	409	(1,937)
Amortisation (included with depreciation above)	48	24
(Increase)/Decrease in Stock	(18)	(434)
(Increase)/Decrease in Debtors	(448)	(2,907)
Increase/(Decrease) in Creditors	(2,575)	3,794
Movements in the Pension Reserve not relating to actuarial changes	10,287	6,975
Carrying amount of non-current assets sold	634	689
Investment Income not involving movement of cash	15,383	(49,101)
Contributions to Other Reserves/Provisions	(14,018)	(1,416)
Movement in value of investment properties-included above in impairment & downward revaluations (& non-sale de-recognitions)	123	(171)
	23,701	(31,054)
Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities		
Purchase of short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)	6,598	275,206
Proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)	(5,479)	(274,098)
	1,119	1,108

Cash Flow Statement: Investment Activities:

	2019-2020	2020-2021
	£000	£000
Purchase of PP&E, investment property and intangible assets	19,445	16,408
Purchase of Short Term Investments (not considered to be cash equivalents)	(4,518)	357
Purchase of Long Term Investments	4,490	4,180
Other Payments for Investing Activities	581	1,051
Proceeds from the sale of PP&E, investment property and intangible assets	(645)	(514)
Proceeds from Long Term Investments	(450)	(4,100)
Capital Grants and Contributions Received	(10,987)	(6,223)
Other Receipts from Investing Activities	309	416
Net Cash flows from Investing Activities	8,225	11,575

Cash Flow Statement: Financing Activities:

	2019-2020	2020-2021
	£000	£000
Cash receipts from Short and Long Term Borrowing	(10,000)	0
Other Receipts form Financing Activities	(268)	(165)
Repayment of Short and Long Term borrowing	5,028	29
Other payments for Financing Activities	1,422	2,224
Net Cash flows from Financing Activities	(3,818)	2,088

Notes to the Core Financial Statements

Note 1 Summary of Significant Accounting Policies

The Financial Statements for the year ended 31 March 2021 have been prepared in accordance with proper accounting practice as per section 12 of the Local Government in Scotland Act 2003. Proper accounting practice comprises the Code of Practice on Local Authority Accounting in the United Kingdom (the Accounting Code), supported by International Financial Reporting Standards and recommendations made by the Local Authority (Scotland) Accounts Advisory Committee (LASAAC). The Annual Accounts have been prepared on a “going concern” basis. They are designed to give a true and fair view of the financial performance and position of the Council and comparative figures for the previous financial year are provided. There are no significant departures from these recommendations. The following accounting concepts have been considered in the application of accounting policies:

- **Going concern** - the going concern concept assumes that the Council will continue in existence for the foreseeable future.
- **Relevance** – the information in the financial statements is useful for assessing the Council's stewardship of public funds and for making economic decisions.
- **Materiality** - information is included in the financial statements where the information is of such significance that it could influence the decisions or assessments of users of the information.
- **Understandability** – users of the financial statements are assumed to have a reasonable knowledge of accounting and local government.
- **Accruals basis** - the accruals concept requires the non-cash effects of transactions to be included in the financial statement for the year in which they occur, not in the period in which payment is made or income received.
- **Reliability** – information included in the financial statements faithfully represents the substance of transactions, is free from bias and material error, is complete within the bounds of materiality and cost, and has been prudently prepared.
- **Primacy of legislative requirements** - legislative requirements have priority over accounting principles in the event of conflict between legislation and the Accounting Code.

The accounts have been prepared under the historic cost convention, other than changes resulting from the revaluation of certain categories of non-current assets and financial instruments. The following accounting policies used in the preparation of the statements have been reviewed in line with changes made to the Accounting Code following the introduction of International Financial Reporting Standards.

Best Value Reporting

One of the requirements of the Accounting Code is for Councils to show expenditure and income in the Income and Expenditure Statement in generic service groups. The standard expenditure analysis is designed to make inter-authority comparisons more meaningful. The service groups shown in the Comprehensive Income and Expenditure Statement therefore reflect the standard generic groups and not the management of service delivery and budgetary responsibilities as determined by the Council.

Changes in Accounting Practice and Estimates and Errors and Prior Period Adjustments

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

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

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

Accruals of Expenditure and Income

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

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser, and it is probable that the economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that the economic benefits or service potential associated with the transaction will flow to the Council.
- Supplies are recorded as expenditure when they are consumed. 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 those rendered by the Authority's officers) are recorded as expenditure when the services are received, rather than when payments are made.
- Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument, rather than on the basis of the cash flows fixed or determined by the contract.
- Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where there is evidence that debts are unlikely to be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in 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.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Authority's cash management.

Charges for the Use of Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed 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 fixed assets attributable to the service.

The Authority is not required to raise council tax to cover depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement equal to loans fund principal charges. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by loans fund principal in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Charities

Some of the charities or trust funds controlled by the Council are registered charities. The IFRS-based Code requires that where a trust fund is a registered charity, it should follow the reporting requirements of the Office of the Scottish Charity Regulator and should follow the Charities SORP. The financial statements for the Common Good Funds controlled by the Council have been produced in accordance with the Code of Practice for Local Government Accounting.

Employee Benefits

Benefits payable during employment

Short-term employee benefits (those that fall due wholly within 12 months of the year-end), such as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees, are recognised as an expense in the year in which employees render service to the Authority. An accrual is made against services in the Surplus or Deficit on the Provision of Services for the cost of holiday entitlements and other forms of leave earned by employees but not taken before the year-end and which employees can carry forward into the next financial year. The accrual is made at the remuneration rates applicable in the following financial year. Any accrual made is required under statute to be reversed out of the General Fund Balance by a credit to the Accumulating Compensated Absences Adjustment Account in the Movement in Reserves Statement.

Termination benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy. They are charged on an accruals basis to the Non-Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to either terminating the employment of an officer or making an offer to encourage voluntary redundancy. The Council is only demonstrably committed to a termination when it has a detailed formal plan for the termination and it is without realistic possibility of withdrawal.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and to 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.

Post-employment benefits

The Council participates in two formal pension schemes: The Local Government Pension Scheme which is administered by Orkney Islands Council; and the Scottish Teachers' Superannuation Scheme. Both schemes provide defined benefits to members. However, the liabilities for the teachers' scheme cannot be identified specifically to the Council, therefore the scheme is accounted for as if it were a defined contributions scheme – the Council does not recognise assets or liabilities related to the Teachers' Scheme as the liability for payment of pensions rests ultimately with the Scottish Government.

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

- The liabilities of the Orkney Islands Council 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, and projections of projected earnings for current employees.

- Liabilities are discounted to their value at current prices, using a discount rate of 2.4% based on the indicative rate of return on high quality corporate bonds.

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

The Notes to the Core Financial Statements provide further information.

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 Statements are authorised for issue. There are two types of events:

- Adjusting Event – those that provide evidence of conditions that existed at the end of the reporting period, and the Statements are adjusted to reflect such events
- Non-adjusting events – those that are indicative of conditions that arose after the reporting period, and the Statements are not adjusted. Where a category of events would have a material effect, disclosure is made in the notes of the nature of the event and its estimated financial effect.

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

Financial Instruments

Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics. There are three main classes of financial assets measured at:

- Amortised Cost
- Fair value through profit or loss (FVPL)
- Fair value through other comprehensive income (FVOCI)

The authority's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except those whose contractual payment are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument).

Financial Assets Measured at Amortised Cost

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 then 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 most of the loans that the Authority has made, this 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.

However, the Authority has made a number of loans to business and voluntary organisations at less than market rates (soft loans). When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable

from the business and voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Any gains and losses that arise on the de-recognition of an asset are credited/debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Expected Credit Loss Model

The authority recognises expected credit losses on all of its financial assets held at amortised cost or FVOCI, either on a 12-month or lifetime basis. The authority has adopted the simplified approach for the expected credit loss model which applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the authority.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

The authority has used reasonable and supportable information available to support the measurement of lifetime expected losses on an individual instrument basis. It has therefore assessed losses for the portfolio on a collective basis.

The Authority has grouped the loans into two groups for assessing loss allowances:

- Group 1 – these loans were made to local businesses as part of a Council initiative to provide economic development on the basis that systems were put in place to measure and monitor the risk of default for each of the businesses that was provided with a loan. Loss allowances for these loans can be assessed on an individual basis.
- Group 2 – for the residual group of loans, including self-build housing loans, the Authority relies on past due information and calculates losses based on lifetime credit losses for all loans more than 30 days past due.

Financial Assets Measured at Fair Value through Profit or Loss

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

The fair value measurements of the financial assets are based on the following techniques:

- instruments with quoted market prices – the market price;
- other instruments with fixed and determinable payments – discounted cash flow analysis;

All movements in the fair value are recognised in full through the Income and Expenditure Statement.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

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

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised. For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest) and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain/loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Loans Fund

The Council operates a Loans Fund and all loans raised are paid into the Fund. Advances are made to Services to finance capital expenditure during the year. Repayments to the Loans Fund are calculated using the equal instalment of principal method.

Interest has been calculated and allocated to the Comprehensive Income and Expenditure Statement in accordance with guidance from the Local Authorities Scotland Accounts Advisory Committee (LASAAC). LASAAC are the accounting standard setting body for local authorities in Scotland under the powers of Finance Circular 5/85. Note 2 issued by LASAAC sets out the accounting for financing costs.

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. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Government Grants and other Contributions

Whether paid on account, by instalments or in arrears, government grants and third-party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attaching to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

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/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 Account. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Account are transferred to the Capital Adjustment Account once they have been applied.

Intangible Assets

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

Intangible assets are measured initially at cost. Amounts are not revalued, as the fair value of the assets held by the Council cannot be determined by reference to an active market. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) 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.

Interests in Companies and Other Entities

The Authority has material interests in companies and other entities that have the nature of subsidiaries and associates and require it to prepare group accounts. In the Authority's own single-entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses, or available-for-sale financial assets (i.e. at fair value).

Inventories

Inventories (generally consumable stock) are included in the Balance Sheet at the lower of cost and net realisable value.

Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the 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.

Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property from the lessee to the lessor. All other leases are classified as operating leases. Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification. Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

Operating Leases (Council as lessor)

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).

Operating Leases (Council as lessee)

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in 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.

Overheads and Central Support Costs

The costs of overheads and support services are charged to service segments in accordance with the Council's arrangements for accountability and financial performance. 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, except for:

- Corporate and Democratic Core – costs relating to the Authority's status as a multi-functional, democratic organisation.
- Non-Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on surplus assets in Property, Plant and Equipment.

These two cost categories are accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

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.

Recognition

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

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 cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition will not increase the cash flows of the Council. In the latter case, the cost of the acquisition is the carrying amount of the asset given up by the Council. The valuation of work-in-progress is based on cost plus an appropriate proportion of overheads, together with attributable profits and allowances for foreseeable losses.

Plant, furniture and computer equipment costing less than £10,000 are not treated as fixed assets but are charged to the revenue account. This de-minimus level does not apply where certain categories of these assets are grouped together and form part of the approved capital programme.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and

Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

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

- infrastructure, community assets and assets under construction – depreciated historical cost;
- council dwellings – fair value, determined using the Beacon Principle of valuation which reduces the open market value (OMV) of a property by a percentage factor based on 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 (existing use value – EUV). Operational assets are shown at the lower of net current replacement cost or net realisable value in existing use. Non-operational assets are shown at the lower of net current replacement cost or net realisable value;
- heritage assets – premium market valuation.

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost is used as an estimate of fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Valuations are undertaken by Dennis Stevenson, the Assessor to the Orkney and Shetland Valuation Joint Board, who is MRICS qualified. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains.

Where decreases in value are identified, the revaluation loss is 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 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.

Fair Value Measurement

The authority measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments such as equity shareholdings at fair value at each reporting period. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

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

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.

Disposals

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. Assets that are 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.

Depreciation

Depreciation is provided for on 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), investment properties and assets that are not yet available for use (i.e. assets under construction).

Depreciation is charged in full in the year of acquisition and no charge made in the year of disposal. Depreciation is calculated on the following bases:

- dwellings and other buildings – straight-line allocation over 10 years up to 100 years as estimated by the Council Valuer;
- vehicles, plant and equipment – straight-line allocation over 3 years up to 15 years;
- infrastructure – straight-line allocation over 40 years up to 80 years, with a few exceptions for longer lifespans in respect of stone-built piers.

General Fund services are charged with depreciation where appropriate for the use of assets no matter how they are financed.

Where a 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. Significance is determined by comparing a component's cost against the overall cost of an asset, and a component is deemed significant if its cost is 10% or more of the total asset cost. The de-minimus threshold for componentisation is £0.500M.

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.

Heritage Assets

The Council's Heritage Assets are assets that are held by the Council principally for their contribution to knowledge and/or culture. They are recognised and measured, including treatment of revaluation gains and losses, in accordance with the Council's policies on Property, Plant and Equipment.

There is no depreciation charged on the Heritage Assets because it has been estimated that the assets have a useful life of such length that any depreciation charge on the asset will be negligible and can be ignored on the basis of materiality. The Council considers that the Heritage Assets held by the Council will have indeterminate lives and a high residual value; hence the Council does not consider it appropriate to charge depreciation for the assets. There will therefore be no change to the depreciation charged in the financial statements in relation to the Council's Heritage Assets.

Provisions, Contingent Liabilities & Contingent Assets

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

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

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service. Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

The Council has made provision, based on past experience, for the loss of local taxation income arising from bad and doubtful debts, with all debts over two years old being fully provided for. Provision has also been made for bad and doubtful debts for all other items of income.

Contingent Liabilities

A contingent liability arises 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. Contingent liabilities also arise in circumstances where 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.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Contingent Assets

A contingent asset arises 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.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

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 to score against the Surplus/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. The level of reserves held are subject to an annual review as part of the budget setting process.

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

The two capital reserves arising from the system of capital accounting are the Revaluation Reserve and the Capital Adjustment Account. The former of these represents the store of gains on revaluation of fixed assets not yet realised through sales and the latter relates to amounts set aside from capital resources to meet past expenditure.

The Financial Instruments Adjustment Account is a balancing account to allow for differences in statutory requirements and proper accounting practices for lending and borrowing by the Council, i.e. the restatement of “financial instruments” to “fair value”.

The Pension Reserve arises from the IAS19 accounting disclosures for retirement benefits and recognises the Council's share of actuarial gains and losses in the Orkney Islands Council Pension Fund and the change

in the Council's share of the Pension Fund net liability chargeable to the Comprehensive Income and Expenditure Statement.

Revenue Expenditure Funded from Capital under Statute

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

VAT

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.

Note 2 Accounting Standards Issued but not yet adopted

The Code requires the disclosure of information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. The Code required implementation from 1 April 2021, therefore there is no impact on the 2020-21 financial statements. This applies to the adoption of the following new or amended standards within the 2020-2021 Code:

- Definition of a Business: Amendments to IFRS 3 Business Combinations
- Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7
- Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16.

Note 3 Critical Judgements in Applying Accounting Policies

In applying accounting policies, the Council 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:

Public Sector Funding: There is a high degree of uncertainty about future funding levels for local government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.

Asset Valuations: The Council's appointed valuer of property assets carries out regular reviews of the value of assets reported in the Balance Sheet and any significant changes in value are processed as asset revaluations or impairments. These values are based on their professional opinion using available market information at the time of assessment. Although the measures taken to tackle COVID-19 continue to affect economies and real estate markets globally, as at the valuation date property markets are mostly functioning again, with transaction volumes and other evidence at levels where an adequate quantum of market evidence exists upon which to base opinions of value. As such, property valuations are no longer reported as being subject to "material valuation uncertainty". There is no indication that the Council's investment properties have suffered a material valuation uncertainty or impact as a result of the COVID-19 market conditions. While industrial properties were generally affected by the initial 3-month lockdown from late March to June 2020, businesses were then permitted to open in this sector with appropriate restrictions on their activities in place. As a result, rental levels and renewals appear to have been unaffected to any material degree, allowing for normal vacancy rates at any given time. To provide an insight into the market context under which the valuation opinion has been prepared, and in recognition of the potential for market conditions to move rapidly in response to changes in the control or future spread of COVID-19, the valuer does however highlight the importance of the valuation date.

Scottish Government Covid-19 Business Grants: The Council has accounted for the income and expenditure in relation to Scottish Government Covid-19 Business Grants on the basis that it has acted as an Agent on behalf of the Scottish Government.

Note 4 Assumptions made about the Future

The Annual Accounts contain estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet as at 31 March 2021 for which there is significant risks of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Results differ from Assumption
Property, Plant & Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Authority will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for Property, Plant and Equipment would increase by £1.368M for every year that useful lives had to be reduced.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £47.154M. The impact of the change of various assumptions is shown in note 32.
Debt Impairment	At 31 March 2021, the Council had a balance for trade debtors of £10.696M. A review of significant balances suggested that an impairment of doubtful debts of 18.8% (£2.012M) was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient.	If collection rates were to deteriorate, an increase of 10% of the amount of the impairment of doubtful debts would require an additional £1.070M to be set aside as an allowance.
Flotta Oil Terminal Decommissioning	At 31 March 2021, the Council has recognised a contractual commitment in respect of the future decommissioning of the Flotta Oil Terminal as a provision of £31.004M.	The provision is updated annually by RPI for the effects of inflation. A 1.0% increase in inflation in excess of the budgeted assumption would require a further £0.310M to be provided for.
Fair Value Measurement	When the fair value of financial assets and liabilities cannot be measured based on quoted prices in active markets (i.e. Level 1 inputs), their fair value is measured using valuation techniques. Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible judgement is required in establishing fair values. These judgements typically include consideration such as uncertainty and risk. However, changes in the assumptions used could affect the fair value of the council's assets and liabilities.	

Note 5 Material Items of Income and Expenditure

All material items are disclosed on the face of the Comprehensive Income and Expenditure Statement.

Note 6 Events after the Balance Sheet Date

The Head of Finance, being the officer responsible for the Council's financial affairs, signed the Draft Annual Accounts on 29 June 2021. 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 2021, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

Note 7 Expenditure and Funding Analysis

This note provides a reconciliation of the main adjustments to the Net Expenditure to Fund Balances to arrive at the amounts in the Comprehensive Income and Expenditure Statement.

2020-2021	Net Expenditure to Fund Balances £000	Adjustment Between Funding & Accounting Basis £000	Net Expenditure in CIES £000
Education	35,161	3,875	39,036
Cultural and Recreation	4,901	1,390	6,291
Community Social Services	20,452	2,949	23,401
Roads and Transportation	10,930	3,399	14,329
Environmental Services	3,932	690	4,622
Other Services	27,077	(13,560)	13,517
Housing Revenue Account	(126)	(3,506)	(3,632)
Harbour Authority	1,054	(631)	423
Non Distributed Cost	0	46	46
Cost of Service	103,381	(5,348)	98,033
Other Income and Expenditure	(154,401)	7,352	(147,049)
Deficit/(Surplus) For Year	(51,020)	2,004	(49,016)

Expenditure and Income Analysed by Nature

2020-2021	£000
Expenditure	
Employee expenses	54,588
Other service expenses	77,857
Support service recharges	3,540
Depreciation and Revaluation	11,226
Movement in accumulated absenses	131
Movement in pensions reserve	6,950
Transfer from reserves	20,315
Net expenditure not included in analysis	13,548
Income	
Fees, charges and other service income	21,428
Grants and contributions	38,456
Transfer to reserves	23,404
Principal repayment of loan debt	6,041
Capital financed by current revenue	793
Net Cost of Service	98,033
Financing and investment income and expenditure	(47,018)
Taxation and non-specific grant funding: other	(100,206)
Other operating expenditure	175
(Surplus)/Deficit on provision of services	(49,016)

	General Fund	Housing Revenue Account	Harbour Authority	Total
	£000	£000	£000	£000
Balance as at 1 April 2020	(18,788)	(523)	(199,300)	(218,611)
Deficit/(Surplus) For Year	(10,643)	(126)	(40,250)	(51,019)
Balance as at 31 March 2021	(29,431)	(649)	(239,550)	(269,630)

This note provides a reconciliation of the main adjustments to Net Expenditure Chargeable to the General Fund, HRA and Harbour Balances to arrive at the amounts in the Comprehensive Income and Expenditure Statement.

The adjustments between funding and accounting basis totalling £2.004M includes transfers to/(from) the repairs and renewals fund and the Capital Statutory Fund of £2.272M as detailed in Note 9 to the Accounts.

After allowing for the transfer to the repairs and renewals fund, the remaining adjustments between Funding and Accounting Basis relate to the General Fund, Housing Revenue Account and the Harbour Authority and are explained in the Movement in Reserves Statement.

2019-2020	Net Expenditure to Fund Balances £000	Adjustment Between Funding & Accounting Basis £000	Net Expenditure in CIES £000
Education	33,249	4,660	37,909
Cultural and Recreation	4,374	1,538	5,912
Community Social Services	19,940	3,953	23,893
Roads and Transportation	10,461	3,530	13,991
Environmental Services	4,020	872	4,892
Other Services	10,549	2,021	12,570
Housing Revenue Account	0	56	56
Harbour Authority	(1,380)	(619)	(1,999)
Non Distributed Cost	0	8	8
Cost of Service	81,213	16,019	97,232
Other Income and Expenditure	(68,153)	(4,101)	(72,254)
Deficit/(Surplus) For Year	13,060	11,918	24,978

2019-2020	£000
Expenditure	
Employee expenses	51,207
Other service expenses	72,986
Support service recharges	3,365
Depreciation and Revaluation	14,030
Movement in accumulated absences	304
Movement in pensions reserve	9,589
Transfer from reserves	2,841
Net expenditure not included in analysis	10,598
Income	
Fees, charges and other service income	25,022
Grants and contributions	32,741
Transfer to reserves	6,441
Principal repayment of loan debt	2,430
Capital financed by current revenue	1,054
Net Cost of Service	97,232
Financing and investment income and expenditure	18,334
Taxation and non-specific grant funding: other	(90,577)
Other operating expenditure	(11)
(Surplus)/Deficit on provision of services	24,978

	General Fund £000	Housing Revenue Account £000	Harbour Authority £000	Total £000
Balance as at 1 April 2019	(13,175)	(523)	(217,972)	(231,670)
Deficit/(Surplus) For Year	(5,613)	0	18,672	13,059
Balance as at 31 March 2020	(18,788)	(523)	(199,300)	(218,611)

This note provides a reconciliation of the main adjustments to Net Expenditure Chargeable to the General Fund, HRA and Harbour Balances to arrive at the amounts in the Comprehensive Income and Expenditure Statement. The relevant transfer between reserves is explained in the Movement in Reserves Statement.

	Accounting for Capital Note 1 £000	Accounting for Pensions Note 2 £000	Other Adjustments Note 3 £000	Transfer To/From Reserves £000	Total Adjustments £000
2020-2021					
Education	3,427	1,091	126	(769)	3,875
Cultural and Recreation	1,203	234	0	(47)	1,390
Community Social Services	873	2,155	3	(82)	2,949
Roads and Transportation	3,024	460	0	(85)	3,399
Environmental Services	479	230	0	(19)	690
Other Services	(8,976)	1,956	0	(6,540)	(13,560)
Housing Revenue Account	(4,618)	41	0	1,071	(3,506)
Harbour Authority	2,066	574	2	(3,272)	(630)
Non Distributed Cost	0	0	0	46	46
Cost of Service	(2,522)	6,741	131	(9,697)	(5,347)
Other Income and Expenditure	200	234	20	6,897	7,351
Deficit/(Surplus) For Year	(2,322)	6,975	151	(2,800)	2,004

2019-2020	Accounting for Capital Note 1 £000	Accounting for Pensions Note 2 £000	Other Adjustments Note 3 £000	Transfer To/From Reserves £000	Total Adjustments £000
Education	3,364	1,427	299	(430)	4,660
Cultural and Recreation	1,198	339	1	0	1,538
Community Social Services	889	3,061	3	0	3,953
Roads and Transportation	2,872	658	0	0	3,530
Environmental Services	551	321	0	0	872
Other Services	(9,787)	3,227	2	8,579	2,021
Housing Revenue Account	(1,268)	60	0	1,264	56
Harbour Authority	1,311	832	0	(2,762)	(619)
Non Distributed Cost	0	0	0	8	8
Cost of Service	(870)	9,925	305	6,659	16,019
Other Income and Expenditure	380	363	20	(4,864)	(4,101)
Deficit/(Surplus) For Year	(490)	10,288	325	1,795	11,918

Adjustments for Capital Purposes

Note 1. Adjustments for Capital Purposes adds in depreciation and impairment and revaluation gains and losses in the services line, and for:

- Other operating expenditure - adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.
- Financing and investment income and expenditure - the statutory charges for capital financing and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.
- Taxation and non-specific grant income and expenditure - capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year, to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non-Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for conditions which were satisfied in the year.

Net Change for the Pensions Adjustment

Note 2. Net change for the removal of pension contributions and the addition of IAS19 Employee Benefits pension related expenditure and income:

- For services this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.
- For Financing and investment income and expenditure – the net interest on the defined benefit liability is charged to the Comprehensive Income and Expenditure Statement.

Other Differences

Note 3. Other differences between the amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

- For services this represents the removal of the increase or decrease in the employee statutory adjustment account.
- For services this includes reclassification of costs as other income and expenditure.

Note 8 Adjustment between Accounting Basis and Funding Basis

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure:

Usable Reserves

2020-2021	General Fund Balance £000	Housing Revenue Account £000	Harbour Reserves £000	Capital Receipts Reserve £000	Movement in Unusable Reserves £000
Adjustments 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	10,192	2	3,236	0	(13,430)
Amortisation of Intangible Assets	24	0	0	0	(24)
Revaluation losses on Property Plant and Equipment	(23)	(1,914)	0	0	1,937
Movements in the Market Value of Investment Properties	0	0	(171)	0	171
Capital grants and contributions	(6,097)	(751)	(163)	0	7,011
Revenue expenditure funded from capital under statute	0	0	0	0	0
Carrying amount of non current assets sold	533	77	79	0	(689)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:					
Statutory Provision for the Financing of Capital Investment	(3,954)	(1,279)	(808)	0	6,041
Capital expenditure charged against the General Fund and HRA balances	0	(593)	(199)	0	792
Adjustments involving the Capital Receipts Reserve:					
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	0	(1,042)	1,042
Proceeds From Sale of Non Current Assets	(355)	(159)	0	514	0
Adjustments involving the Financial Instruments Adjustment Account:					
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements.	0	0	(10)	0	10
Adjustments involving the Pensions Reserve:					
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 40)	13,218	86	1,194	0	(14,498)
Employer's pensions contributions and direct payments to pensioners payable in the year	(6,860)	(44)	(619)	0	7,523
Adjustment involving the Unequal Pay Back Pay Adjustment Account:					
Amount by which amounts charged for Equal Pay claims to the Comprehensive Income and Expenditure Statement are different from the cost of settlements chargeable in the year in accordance with statutory requirements	0	0	0	0	0
Adjustment involving the Accumulating Compensated Absences Adjustment Account					
Adjustments in relation to Short-term compensated absences	159	0	2	0	(161)
Total Adjustments	6,837	(4,575)	2,541	(528)	(4,275)

Usable Reserves

2019-2020	General Fund Balance £000	Housing Revenue Account £000	Harbour Reserves £000	Capital Receipts Reserve £000	Movement in Unusable Reserves £000
Adjustments 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	9,853	1,647	2,376	0	(13,876)
Amortisation of Intangible Assets	48	0	0	0	(48)
Revaluation losses on Property Plant and Equipment	273	136	0	0	(409)
Movements in the Market Value of Investment Properties	0	0	123	0	(123)
Capital grants and contributions	(9,719)	(1,461)	(223)	0	11,403
Carrying amount of non current assets sold	411	221	2	0	(634)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:					
Statutory Provision for the Financing of Capital Investment	(366)	(1,591)	(473)	0	2,430
Capital expenditure charged against the General Fund and HRA balances	(684)	0	(416)	0	1,100
Adjustments involving the Capital Receipts Reserve:					
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	0	(133)	133
Proceeds From Sale of Non Current Assets	(423)	(222)	0	645	0
Adjustments involving the Financial Instruments Adjustment Account:					
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	0	0	(14)	0	14
Adjustments involving the Pensions Reserve:					
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 40)	16,151	104	1,429	0	(17,684)
Employer's pensions contributions and direct payments to pensioners payable in the year	(6,756)	(43)	(598)	0	7,397
Adjustment involving the Accumulating Compensated Absences Adjustment Account					
Adjustments in relation to Short-term compensated absences	338	0	0	0	(338)
Total Adjustments	9,126	(1,209)	2,206	512	(10,635)

Note 9 Transfer to or from General Fund Earmarked Balances and Other Reserves

This note sets out the amounts set aside from the General Fund Balance in statutory reserves established under Schedule 3 of the Local Government (Scotland) Act 1975 to provide financing for specific areas of expenditure, and the amounts transferred back from these funds to meet General Fund expenditure.

	2019-2020			2020-2021			
	Balance at 31 March 2019 £000	Transfers in 2019-2020 £000	Transfers out 2019-2020 £000	Balance at 31 March 2020 £000	Transfers in 2020-2021 £000	Transfers out 2020-2021 £000	Balance at 31 March 2021 £000
Repairs & Renewals Fund	9,230	953	(2,749)	7,434	3,064	(264)	10,234
Revenue statutory funds	9,230	953	(2,749)	7,434	3,064	(264)	10,234
Capital Fund	508	0	0	508	0	0	508
Capital Receipts Reserve	2,535	512	0	3,047	514	(1,042)	2,519
Capital Grants Unapplied	20	0	0	20	0	0	20
Capital statutory funds	3,063	512	0	3,575	514	(1,042)	3,047
Total	12,293	1,465	(2,749)	11,009	3,578	(1,306)	13,281

A Capital Fund is maintained for the replacement of property, plant and equipment in terms of Schedule 3 of the Local Government (Scotland) Act 1975 and includes unapplied capital receipts and grants. Repairs and Renewals funds are maintained for the purpose of providing for the replacement of plant and vehicles held by the General Fund of Orkney Islands Council. In particular, funds in respect of general repairs and renewals and ferry replacement.

Ring-fenced elements of the General Fund Balance

This note sets out the amounts within the General Fund Balance which the Council has ring-fenced for future expenditure plans.

	2019-2020			2020-2021			
	Balance at 31 March 2019 £000	Transfers in 2019-2020 £000	Transfers out 2019-2020 £000	Balance at 31 March 2020 £000	Transfers in 2020-2021 £000	Transfers out 2020-2021 £000	Balance at 31 March 2021 £000
General Fund:							
Covid Redeterminations Flexibility Fund	0	0	0	0	2,105	0	2,105
Business Support Fund	0	0	0	0	5,000	(2,032)	2,968
Orkney College	5	58	0	63	44	0	107
Training Fund	297	0	(33)	264	0	(33)	231
Innovation Fund	805	179	(213)	771	0	(41)	730
Renewable Energy Fund	2,498	1,900	(484)	3,914	8,248	(1,607)	10,555
Recreation & Cultural Services Project Fund	82	0	(17)	65	0	0	65
Development Grants Fund	2,040	58	(210)	1,888	19	(123)	1,784
Sustainable Communities Fund	15	0	0	15	0	0	15
Capital Project Appraisal Fund	235	158	0	393	200	(43)	550
Outwith Orkney Placements Fund	1,217	0	(488)	729	528	(404)	853
Welfare Fund	4	0	0	4	0	0	4
Local Works & Services Contingency Fund	129	0	(7)	122	0	(7)	115
Crown Estate Fund	0	774	0	774	1,043	(669)	1,148
Workforce Management Fund	1,000	0	0	1,000	517	0	1,517
Office 365/EDRM Fund	61	0	(61)	0	0	0	0
Total General Fund Earmarked Reserves	8,388	3,127	(1,513)	10,002	17,704	(4,959)	22,747

The unallocated balance of £6.684M is approximately 12.9% of the Council's annual running costs.

Note 10 Other Operating Expenditure

	2019-2020 £000	2020-2021 £000
(Gains)/losses on the disposal of non current assets	(11)	175
Total	(11)	175

Note 11 Financing and Investment Income and Expenditure

	2019-2020 £000	2020-2021 £000
Interest payable and similar charges	1,189	1,193
Pensions net interest cost	347	(214)
Interest receivable and similar income	16,901	(47,635)
Income and expenditure in relation to investment properties and changes in their fair value	(732)	(879)
Other investment income	629	517
Total	18,334	(47,018)

Note 12 Taxation and Non-specific Grant Income

The Council credited the following taxation and non-specific grant income to the Comprehensive Income and Expenditure Statement during 2020-21.

	2019-2020 £000	2020-2021 £000
Council Tax Income	9,481	10,026
NDR Redistribution	10,459	7,019
Non-ringfenced government grants	59,234	76,150
Capital Grants	11,403	7,011
Total Taxation and Non-Specific Grant Income	90,577	100,206

The Council credited the following grants to the Comprehensive Income and Expenditure Statement during 2020-21.

Grant Income 2020-2021	
Credited to Taxation and Non Specific Grant Income:	£000
General Revenue Grant	76,150
Distribution of non-domestic rate pool	7,019
Council Tax	10,026
Capital Grants & contributions	7,011
Total	100,206
Revenue grants credited to Services:	£000
DWP - Housing Benefit Subsidy	3,184
DWP - Additional funding and administration	78
General Capital Grant - disabled adaptations grants	133
HLF - North Isles Landscape partnership	150
Innovate UK - Reflex Project	300
Scottish Government -Early Learning & Childcare	2,033
Scottish Government - HEEPS: ABS 2019/20	366
Scottish Government - HEEPS: ABS 2020/21	157
Scottish Government - Leader programme	589
Scottish Government - Recruitment of Additional Teachers and Support Staff for the Education Recovery Phase	225
Scottish Government -Scottish Attainment Challenge - Pupil Equity Funding	189
Scottish Government -Scottish Crown Estate	1,043
Scottish Government - Other	527
Scottish Government -Covid 19 - Local authority discretionary fund	55
Scottish Government -Section 27 Funding - Criminal Justice	267
Sports Scotland - Active Schools and Community sports hub	155
Transport Scotland - Orkney Islands Internal Ferry Services	5,323
Other	743
Total	15,517

Note 13 Property, Plant and Equipment

Property, Plant & Equipment (PP&E)								
	Council Dwellings £000	Buildings £000	Infra-structure Assets £000	Vehicles, Plant & Equipment £000	Community Assets £000	PP&E Under Construction £000	Surplus Assets £000	Total PP&E £000
Cost or Valuation								
Balance as at 1 April 2020	57,283	209,603	97,172	32,163	5,510	12,440	1,360	415,531
Adjustments between cost/value & depreciation/impairment	1	0	0	0	(1)	0	0	0
Adjusted opening balance	57,284	209,603	97,172	32,163	5,509	12,440	1,360	415,531
Additions (Note 35)	174	1,847	2,022	1,832	97	9,939	0	15,911
Revaluation increases/(decreases) to Revaluation Reserve	10,340	22	35	0	0	0	0	10,397
Revaluation increases/(decreases) to Surplus or Deficit on the Provision of Services	1,821	(36)	(35)	0	0	0	0	1,750
Derecognition - Disposals	(86)	(216)	0	(788)	(16)	0	0	(1,106)
Derecognition - Other	(4,790)	(6)	0	0	0	0	0	(4,796)
Reclassifications & Transfers	0	(225)	240	11,188	0	(11,188)	0	15
Balance as at 31 March 2021	64,743	210,989	99,434	44,395	5,590	11,191	1,360	437,702
Depreciation and Impairment								
Balance as at 1 April 2020	4,950	12,287	13,341	18,425	754	0	155	49,912
Adjustments between cost/value & depreciation/impairment	0	0	0	0	0	0	0	0
Adjusted opening balance	4,950	12,287	13,341	18,425	754	0	155	49,912
Depreciation Charge	0	6,491	3,350	3,540	0	0	49	13,430
Depreciation written out on Revaluation taken to Surplus or Deficit on the Provision of Services	(152)	0	(35)	0	0	0	0	(187)
Derecognition - Disposals	(8)	(17)	0	(788)	0	0	0	(813)
Derecognition - Other	(4,790)	(6)	0	0	0	0	0	(4,796)
Reclassifications & Transfers	0	0	0	(72)	0	72	0	0
Balance as at 31 March 2021	0	18,755	16,656	21,105	754	72	204	57,546
Net Book Value								
Balance as at 31 March 2021	64,743	192,234	82,778	23,290	4,836	11,119	1,156	380,156
Balance as at 31 March 2020	52,333	197,316	83,831	13,738	4,756	12,440	1,205	365,619

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Property, Plant & Equipment (PP&E)								
	Council Dwellings £000	Buildings £000	Infra-structure Assets £000	Vehicles, Plant & Equipment £000	Community Assets £000	PP&E Under Construction £000	Surplus Assets £000	Total PP&E £000
Cost or Valuation								
Balance as at 1 April 2019	57,323	202,129	92,844	29,083	5,037	11,164	1,050	398,630
Adjustments between cost/value & depreciation/impairment	0	0	0	0	1	1	0	2
Adjusted opening balance	57,323	202,129	92,844	29,083	5,038	11,165	1,050	398,632
Additions (Note 35)	263	1,132	2,124	1,885	472	13,507	0	19,383
Revaluation increases/(decreases) to Revaluation Reserve	0	1,003	0	0	0	0	(1,998)	(995)
Revaluation increases/(decreases) to Surplus or Deficit on the Provision of Services	(136)	(64)	0	0	0	0	(391)	(591)
Derecognition - Disposals	(167)	(2)	0	(729)	0	0	0	(898)
Reclassifications & Transfers	0	5,405	2,204	1,924	0	(12,232)	2,699	0
Balance at 31 March 2020	57,283	209,603	97,172	32,163	5,510	12,440	1,360	415,531
Depreciation and Impairment								
Balance as at 1 April 2019	3,309	6,021	10,136	16,615	754	0	103	36,938
Adjustments between cost/value & depreciation/impairment	0	0	0	0	0	0	0	0
Adjusted opening balance	3,309	6,021	10,136	16,615	754	0	103	36,938
Depreciation Charge	1,652	6,428	3,205	2,539	0	0	52	13,876
Depreciation written out on Revaluation taken to Surplus or Deficit on the Provision of Services	0	(2)	0	0	0	0	(160)	(162)
Derecognition - Disposals	(11)	0	0	(729)	0	0	0	(740)
Reclassifications & Transfers	0	(160)	0	0	0	0	160	0
Balance at 31 March 2020	4,950	12,287	13,341	18,425	754	0	155	49,912
Net Book Value								
Balance at 31 March 2020	52,333	197,316	83,831	13,738	4,756	12,440	1,205	365,619
Balance at 31 March 2019	54,014	196,108	82,708	12,468	4,283	11,164	947	361,692

Note 14 Investment Properties

The following items of income and expense have been accounted for in the “financing and investment income and expenditure” line in the Comprehensive Income and Expenditure Statement:

	2019-2020 £000	2020-2021 £000
Rental income from investment property	(1,199)	(1,111)
Direct operating expenses arising from investment property	344	324
Net (Gain)/Loss included in Financing & Investment Income in the CIES	(855)	(787)
Proceeds from sale	0	0
Carrying amount of investment properties sold	0	0
(Surplus)/deficit on sale of Investment Properties:	0	0
Changes in Fair Value of Investment Properties	123	(171)
	(732)	(958)

There are no restrictions on the Council’s ability to realise the value inherent in its investment property or on the Council’s right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property, nor does it have contractual obligations in relation to repairs, maintenance or enhancement. The movement on investment properties during the year is as follows:

	2019-2020 £000	2020-2021 £000
Balance at start of the year	19,803	19,725
Additions:		
- Purchases	45	0
Disposals	0	(79)
Net gains/losses from fair value adjustments	(123)	171
Transfers:		
-to/from Property, Plant and Equipment	0	(15)
Other changes	0	(2)
Balance at end of the year	19,725	19,800

Note 15 Financial Instruments

Categories of financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The term ‘financial instrument’ covers both financial assets and financial liabilities and includes trade payables, borrowings (for example Public Works Loan Board debt and market debt), financial guarantees, bank overdraft, trade receivables, loans receivable, cash deposits with financial institutions (some on a fixed term basis and some which are immediately available) and longer-term investments. The following categories of financial instrument are carried in the Balance Sheet. (Those financial instruments that are classified as cash and cash equivalents are not included in this table – please see Note 18 for details of these.)

	Long-term		Current	
	2019-2020 £000	2020-2021 £000	2019-2020 £000	2020-2021 £000
Investments				
Financial assets at fair value other comprehensive income	6,335	7,887	0	0
Financial assets at fair value through profit and loss	0	0	210,639	258,530
Total investments	6,335	7,887	210,639	258,530
Debtors				
Financial assets carried at amortised cost	2,365	2,580	7,740	8,181
Total Debtors	2,365	2,580	7,740	8,181
Borrowings				
Financial liabilities at amortised cost	35,115	35,085	406	407
Total borrowings	35,115	35,085	406	407
Creditors				
Financial liabilities carried at amortised cost	0	0	13,737	19,065
Total creditors	0	0	13,737	19,065

The Council also holds a long-term investment in the Orkney Research and Innovation Campus. For the year ended 31 March 2021, the gross value of this investment was £3.335M (£3.255M at 31 March 2020) with an impairment loss of £2.485M bringing the net asset value of the investment to £0.850M. The impairment loss is due to the decrease in the value of the property, plant and equipment as a result in the revaluation exercise and relates to the fact the research campus is currently under development.

The Debtors and Creditors figures above do not include Council Tax and Non-Domestic Rates as they are not considered to be Financial Instruments.

Fair value of financial instruments

When financial instruments are initially recognised they are measured at fair value, fair value being the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arms-length transaction. Subsequent to initial recognition, the balance sheet measurement method for a financial instrument depends on its classification, and the fair value will, for some financial instruments, diverge from the balance sheet carrying amount:

- Subsequent to initial recognition, financial assets held principally for strategic purposes and not for trading continue to be carried in the Balance Sheet at Fair Value Other Comprehensive Income.
- Subsequent to initial recognition, loans and receivables and financial liabilities at amortised cost are carried in the Balance Sheet at amortised cost, using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability.
- Financial assets stated at Fair Value through Profit or Loss, are held for trading with any gains or losses recognised through the profit or loss account.

Financial instruments include the following investments held as part of the Strategic Reserve Fund on the Harbour Authority Account:

Investments	Market Value £000	Fair Value %
Managed Funds	258,530	96.73
Private Companies	5,689	2.13
Fishing Quota	3,035	1.14
Other	13	0.00
Total	267,267	100.00

As at the 31 March 2021, as part of the transitioning arrangements to the revised investment strategy, the Fund had contractual commitments to invest up to £2.5M and £34.0M in each of the new mandates to Private Debt and Infrastructure Equity respectively. The drawdowns of these commitments are expected to take place over a period of three years and will be funded from within the Fund's portfolio of investments.

The fair value hierarchy of financial instruments can be summarised as follows:

	Quoted Market Price Level 1 £000	Using Observable Inputs Level 2 £000	With Significant Unobservable Inputs Level 3 £000	Total £000
Values at 31 March 2021				
Financial assets at fair value through profit & loss	106,361	121,440	30,729	258,530
Financial assets at fair value other comprehensive income	0	3,035	4,852	7,887
Loans and receivables at amortised cost	0	2,580	0	2,580
Total Financial Assets	106,361	127,055	35,581	268,997
Financial liabilities at fair value through profit & loss	0	0	0	0
Financial liabilities at amortised cost	0	35,135	0	35,135
Total Financial Liabilities	0	35,135	0	35,135
Total Financial Instruments	106,361	91,920	35,581	233,862
Net Investment Assets (Fair Value)	106,361	91,920	35,581	233,862

Values at 31 March 2020	Quoted Market Price Level 1 £000	Using Observable Inputs Level 2 £000	With Significant Unobservable Inputs Level 3 £000	Total £000
Financial assets at fair value through profit & loss	130,310	54,916	25,413	210,639
Financial assets at fair value other comprehensive income	0	2,769	3,566	6,335
Loans and receivables at amortised cost	0	2,365	0	2,365
Total Financial Assets	130,310	60,050	28,979	219,339
Financial liabilities at fair value through profit & loss	0	0	0	0
Financial liabilities at amortised cost	0	35,521	0	35,521
Total Financial Liabilities	0	35,521	0	35,521
Total Financial Instruments	130,310	24,529	28,979	183,818
Net Investment Assets (Fair Value)	130,310	24,529	28,979	183,818

Loans and receivables include both loans advanced to local developers on commercial terms as well as loans advanced in support of economic development initiatives on interest free terms, otherwise more commonly known as soft loans. Loans to local developers, include a loan to Orkney Islands Property Development Limited of £0.827M, loans to fishing boats and housing loans to individuals where a specific entitlement criteria has been met. The risk of default is considered to be low for these financial instruments on the basis that security has been taken over the underlying assets. As such, the expected credit loss associated with loans to developers on commercial terms is not material and no impairment has been applied.

A portfolio of historic loans issued on interest free or below commercial terms in support of economic development opportunities have been discounted to reflect the effective interest rate. With the interest free loan typically being advanced for 20 years and with repayment only due upon maturity these loans are viewed as moderate risk. As such, an impairment has been applied using the simplified lifetime expected credit loss methodology. The movement on the portfolio of soft loans has been summarised as follows:

	2019-2020 £000	2020-2021 £000
Balances as at 1 April	298	263
Add: Advances in year	0	0
Less: Loans Repaid	(70)	(48)
Less: Loans written off	0	0
Add: Expected credit loss movement	18	16
Add: Fair value movement	17	13
Balance as at 31 March	263	244

Financial liabilities at amortised cost are Public Works Loans Board debt and interest due.

Financial liabilities carried at contract amount are short term creditors (see Note 20).

Items of income, expense, gain and loss relating to financial instruments

The following items of income, expense, gain and loss relating to financial instruments are included within the lines "financing and investment income and expenditure".

	2020-2021					Total £000
	Financial Liabilities Measure at Amortised Costs £000	Financial Assets			At Fair Value through Profit and Loss £000	
		At Amortised cost £000	At Fair Value Other Comprehensive Income £000			
Interest expense (including finance lease interest)	1,107	0	0	0	1,107	
Losses on derecognition	0	0	0	10,013	10,013	
Losses on revaluation	0	0	0	26,718	26,718	
Impairment losses	0	(16)	0	0	(16)	
Fee expense	89	12	0	406	507	
Total expense in (surplus) or deficit on the Provision of Services	1,196	(4)	0	37,137	38,329	
Interest income	(165)	(176)	0	0	(341)	
Interest income accrued on impaired financial assets	0	3	0	0	3	
Gains on revaluation	0	0	0	(4,761)	(4,761)	
Losses on revaluation	0	0	0	0	0	
Dividend Income	0	0	(149)	(2,327)	(2,476)	
Other income	0	(10)	0	(303)	(313)	
Gains on derecognition	0	0	0	(53,886)	(53,886)	
Total income in (Surplus) or Deficit on the Provision of Services	(165)	(183)	(149)	(61,277)	(61,774)	
Gains on revaluation	0	0	(266)	(45)	(311)	
Losses on revaluation	0	0	0	0	0	
(Surplus) or deficit arising on revaluation of available-for-sale financial assets (in other comprehensive income and expenditure)	0	0	(266)	(45)	(311)	
Net (gain)/loss for the year (in the total comprehensive income and expenditure)	1,031	(187)	(415)	(24,185)	(23,756)	

Fair Values of Assets and Liabilities

Financial liabilities, financial assets represented by loans and 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:

- Estimated ranges of interest rates at 31 March 2021 of 1.28% to 4.28% for loans from the PWLB and 5.4% for other loans receivable and payable, based on new lending rates for equivalent loans at that date
- No early repayment or impairment is recognised
- Where an instrument will mature in the 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 values calculated by our treasury advisors are based on a new loan discount rate, as follows:

	2019-2020		2020-2021	
	Carrying amount £000	Fair value £000	Carrying amount £000	Fair value £000
Financial liabilities	35,142	40,199	35,144	43,614
Total	35,142	40,199	35,144	43,614

The fair value of the financial liabilities is higher than the carrying amount because the Authority's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the prevailing rates at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31 March 2021) arising from a commitment to pay interest to lenders above current market rates.

	2019-2020		2020-2021	
	Carrying amount £000	Fair value £000	Carrying amount £000	Fair value £000
Long-term debtors less provision	2,365	2,440	2,580	2,642
Total	2,365	2,440	2,580	2,642

The fair value of assets exceeded the carrying amount because the Authority's portfolio of investments includes a number of fixed rate loans where the interest rate receivable is higher than the prevailing rates at the Balance Sheet date.

The nature and extent of risks arising from Financial Instruments are detailed in Note 34.

Note 16 Inventories

	2019-2020 £000	2020-2021 £000
Stocks and Stores	1,317	1,751
Total	1,317	1,751

Note 17 Short-term Debtors

	2019-2020 £000	2020-2021 £000
NDR & Council Tax	718	2,515
Rents	477	491
Value Added Tax	539	627
Trade Debtors	6,724	6,752
Total	8,458	10,385

Note 18 Cash and Cash Equivalents

The balance of cash and cash equivalents is made up of the following components. With the exception of imprest accounts held at Council establishments, the balances in all of the categories listed below are used together to manage the Council's overall cash balances on a day-to-day basis.

	2019-2020 £000	2020-2021 £000
Cash and Bank balances	19	69
Short Term Investments (considered to be Cash Equivalents)	21,000	23,000
Short Term Deposits (considered to be Cash Equivalents)	8,625	11,982
Total	29,644	35,051

Note 19 Assets Held for Sale

The following table summarises the movement in the fair value of assets held for sale during the year:

	Current	
	2019-2020 £000	2020-2021 £000
Balance outstanding at start of year	1,507	1,057
Assets newly classified as held for sale:	0	0
Transferred from /(to) Non-Current Assets during year	6	1
Revaluation Gains/(losses) taken to Surplus or deficit on the provision of services	20	0
Revaluation gains/(losses) other	0	0
Assets sold cost	(476)	(317)
Balance outstanding at year-end	1,057	741

Note 20 Short-term Creditors

The analysis below details the main short-term creditor balances.

	2019-2020 £000	2020-2021 £000
Council Tax	16	28
HRA	12	4
Accumulated Absences	2,511	2,672
Receipts in Advance	1,435	3,341
Trade Creditors	8,632	10,731
Other	1,147	2,005
Total Short Term Creditors	13,753	18,781

Note 21 Provisions

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

	Balance as at 1 April 2020 Restated £000	Increase in provision during year £000	Utilised during year £000	Unused Amounts Reversed £000	Interest earned £000	Balance as at 31 March 2021 £000
Current Provisions	0	0	0	0	0	0
Long Term Provisions	30,590	414	0	0	0	31,004
	30,590	414	0	0	0	31,004

A provision of £31.004M has been set aside to provide for the future cost that will be incurred by the Council in respect of the decommissioning of the Flotta Oil Terminal.

Note 22 Reserves

Usable reserves

Useable reserves are those reserves the Council is able to apply to fund expenditure or reduce taxation and comprise both capital and revenue reserves. Movements in the useable reserves during the year are outlined in the Movement in Reserves statement.

2019-2020 £000		2020-2021 £000
18,788	General Fund Balance	29,431
523	Housing Revenue Account Balance	650
3,067	Capital Receipts Reserve	2,539
508	Other Statutory Funds	508
199,300	Harbours	239,550
7,435	Repairs and Renewals Fund	10,234
229,621	Total usable reserves	282,912

Unusable Reserves

Unusable reserves are those reserves that the Council is not able to utilise to provide services, and comprise:

- Reserves that hold unrealised gains and losses, in relation to the revaluation of property, plant and equipment where amounts will only become available to provide services (or limit resources in the case of losses) once the gains or losses are realised as the assets are disposed of.
- Adjustment accounts that deal with situations where income and expenditure are recognised according to statutory regulations against the General Fund Balance and the Housing Revenue Account Balance on a different basis from that expected by generally accepted accounting practices. These adjustment accounts will carry either a debit balance (showing that the Council is required by statute to fund its expenditure more slowly than accounting standards would expect) or

a credit balance (where the Council has set resources aside under statute earlier than accounting standards require). The adjustment accounts effectively offset the General Fund Balance and the Housing Revenue Account Balance to give the Council more or less spending power in the short term than proper accounting practices would allow. The adjustment accounts comprise the Capital Adjustment Account, the Financial Instruments Adjustment Account, the Revaluation Reserve, the Pension Reserve, Available for Sale Financial Instruments Reserve and the Employee Statutory Adjustment Account.

Summary of Unusable Reserves

	2019-2020 £000	2020-2021 £000
Capital Adjustment Account	249,014	254,549
Financial Instruments Adjustment Account	(41)	(31)
Revaluation Reserve	87,746	95,459
Pensions Reserve	12,872	24,246
Available for Sale Financial Instruments Reserve	3,333	3,378
Employee Statutory Adjustment Account	(2,511)	(2,672)
Total Unusable Reserves	350,413	374,929

1. Movement in the year: Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its non-current assets. The balance is reduced when assets with accumulated gains are (i) revalued downwards or impaired and the gains are lost, (ii) used in the provision of services and the gains are consumed through depreciation or (iii) disposed of and the gains are realised. The Revaluation Reserve contains only revaluation gains accumulated since 1 April 2007, which was the date that the Revaluation Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

	2019-2020 £000	2020-2021 £000
Balance at 1 April	92,614	87,746
Upward revaluation of assets		10,564
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(546)	0
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	(546)	10,564
Difference between fair value and historical cost depreciation	(3,873)	(2,684)
Revaluation balances on assets scrapped or disposed of	(449)	(167)
Balance at 31 March	87,746	95,459

2. Movement in the year: 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 or regulations. The Capital Adjustment 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). The Capital Adjustment Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

The Capital Adjustment Account contains accumulated gains and losses on investment properties and gains recognised on donated assets that have yet to be consumed by the Council.

The Capital Adjustment Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007. The Revaluation Reserve was created to hold such gains arising from 1 April 2007 onwards.

Note 8 provides details of the source of all the transactions posted to the Capital Adjustment Account, apart from those involving the Revaluation Reserve.

	2019-2020		2020-2021	
	£000	£000	£000	£000
Balance at 1 April		245,165		249,014
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:				
Charges for depreciation and impairment of non-current assets	(13,924)		(13,454)	
Revaluation losses on Property, Plant and Equipment	(409)		1,937	
Revenue expenditure funded from capital under statute	0		0	
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	(634)		(689)	
		(14,967)		(12,206)
Adjusting amounts written out of the Revaluation Reserve		3,873		2,684
Net written out amount of the cost of non-current assets consumed in the year		(11,094)		(9,522)
Capital financing applied in the year:				
Use of the Capital Receipts Reserve to finance new capital expenditure	133		1,042	
Use of the Major Repairs Reserve to finance new capital expenditure	0		0	
Loans Lease principal repayments	2,430		6,041	
Application of grants to capital financing from the Capital Grants Unapplied Account	11,403		7,011	
Capital expenditure charged against the General Fund and HRA balances	1,100		792	
		15,066		14,886
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		(123)		171
Balance at 31 March		249,014		254,549

3. Movement in the year: Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments, and for bearing losses or benefiting from gains in accordance with statutory provisions. The Council uses the Financial Instruments Adjustment Account to manage “soft loans” that were on the Council’s Balance Sheet at 31 March 2007. Soft loans are loans advanced by the Council at nil or below prevailing interest rates. Generally accepted accounting practices require that the discounted interest rate is recognised as a reduction in the fair value of the loan, with the difference being debited to the Comprehensive Income and Expenditure Statement as service expenditure. However, statutory arrangements [or regulations] require that, for soft loans on the Council’s Balance Sheet at 31 March 2021, the reduction in value and corresponding charge to be reversed, so that there is no impact on the General Fund Balance.

	2019-2020	2020-2021
	£000	£000
Balance at 1 April	(55)	(41)
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	14	10
Balance at 31 March	(41)	(31)

4. Movement in the year: Pension Reserve

The Pension 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 or regulations. The Council accounts for post-employment benefits in the comprehensive income and expenditure statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer’s contributions to pension funds. The debit balance on the Pension Reserve shows a significant surplus in the benefits earned by past and current employees.

	2019-2020 £000	2020-2021 £000
Balance at 1 April	(9,491)	12,872
Remeasurement of the net Pension Fund liability/(asset)	32,650	18,349
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(17,684)	(14,498)
Employers Pensions contributions and direct payments to pensioners payable in the year	7,397	7,523
Balance at 31 March	12,872	24,246

5. Movement in the year: Employee Statutory Adjustment Account

The Employee Statutory Adjustment Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for short-term accumulating compensated absences at the end of the financial year. Generally accepted accounting practices require that all short-term employee benefits, including accumulating compensated absences, should be recognised as a cost in the accounts for the year to which they relate. This means that where employees' full holiday entitlement, time in lieu or credit flexi-time balance has not been taken by the financial year-end, the cost of the untaken days or time is calculated and recorded as an accrued expense. However, statutory arrangements require that the impact of such accrued expenditure on the General Fund Balance is neutralised by transfers to or from the Employee Statutory Adjustment Account.

	2019-2020 £000	2020-2021 £000
Balance at 1 April	(2,173)	(2,511)
Amounts accrued at the end of the current year	(338)	(161)
Balance at 31 March	(2,511)	(2,672)

6. Movement in the year: Financial Instruments Revaluation Reserve

Formerly known as the Available for Sale Financial Instruments Reserve, this reserve has been reclassified as the Financial Instruments Revaluation Reserve in accordance with IFRS 9 with effect from 1 April 2018. The Financial Instruments Revaluation Reserve contains the gains made by the Authority arising from increases in the value of its investments held principally for strategic purposes and not held for trading, 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

	2019-2020 £000	2020-2021 £000
Balance at 1 April	2,921	3,333
Upward revaluation of investments	412	266
Downward revaluation of investments not charged to the Surplus/Deficit on the Provision of Services	0	(221)
Balance at 31 March	3,333	3,378

Note 23 Trading Operations

Following a review of the Council's trading operations it was reaffirmed that no significant trading operations existed which required the establishment of separate trading accounts.

Note 24 Agency Services

The Council is required by legislation to provide a collection service for Scottish Water whereby it collects water and waste charges in conjunction with collection of Council Tax. The legislation stipulates the minimum amount Scottish Water must pay by way of commission for this service. For 2020-21 the value of this service amounted to £0.067M (2019-20 £0.062M).

The Council collects Non-Domestic Rates on behalf of the Scottish Government. For 2020-21 £7.019M was collected (2019-20 £10.459M).

During 2020-21 the Council acted as an agent to deliver £11.797M of various COVID-19 related grants on behalf the Scottish Government as follows:

- £8.275M Business Support Grants
- £0.049M Brake Restrictions Fund
- £0.334M Strategic Framework Business Fund
- £0.010M Contingency Fund
- £2.772M Island Equivalent Payment
- £0.075M Taxi and Private Hire Support Fund
- £0.030M Contingency Plus Fund
- £0.018M Business Support – Large Self Catering
- £0.090M Business Support – Bed and Breakfast Establishments
- £0.081M Self Employed Hardship Fund
- £0.063M Winter and Spring Hardship Fund

Note 25 External Audit Costs

Fees payable to Audit Scotland in respect of external audit services undertaken in accordance with Audit Scotland's Code of Audit Practice were as follows:

	2019-2020 £000	2020-2021 £000
Orkney Islands Council	190	196
Charities	1	1
	191	197

Note 26 Capital Grant Receipts in Advance

The Council has received no capital grants in advance of need during 2020-21.

Note 27 Related Parties

The Council's related parties are those bodies or individuals that have the potential to control or significantly influence the Council, or to be controlled or significantly influenced by the council. The Council is required to disclose material transactions that have occurred with related parties and the amount of any material sums due to or from related parties. Related party relationships require to be disclosed where control exists, irrespective of whether there have been transactions between the related parties. Disclosure of this information allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

Scottish Government

- The Scottish Government has effective control over the general operations of the Council, being responsible for providing the statutory framework within which the Council operates. The Scottish Government provides the majority of the Council's funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (such as Council Tax bills and housing benefits).

Companies and Joint Boards

- The Council is deemed to have significant influence or control over a number of wholly owned companies or Joint Boards, including the Orkney Integration Joint Board. Further details of which can be found in the group accounts which are set out within these statements.

Councillors and Officers

- The Council can on occasion transact with individuals or businesses that are owned by Elected Members or employees, but these are neither considered to be material by value or by nature.
- All Elected Members and senior officers are required to declare any related party interests in a formal Register of Interests, which is available for inspection upon request.

Pension Fund

- The Council is the administering authority and scheduled body for the Orkney Islands Council Pension Fund. The related party transactions being payments of employer's contributions in respect of the membership of the Pension Fund by Council employees.

	2019-2020			2020-2021		
	Receipts £000	Payments £000	Debtor / (Creditor) £000	Receipts £000	Payments £000	Debtor / (Creditor) £000
Scottish Government						
Revenue Grants - being payments made in support of Revenue Expenditure	59,234	0	0	76,213	0	0
Capital Grants - being payments made in support of Capital Expenditure	11,404	0	0	7,011	0	0
Companies and Joint Boards						
Orkney Towage Company Limited - being payments made for the provision of Towage Services	0	0	0	571	0	0
Orkney Ferries Limited - being payments made in support of the Ferry Services	0	9,459	748	0	10,033	137
Pickaquoy Centre Trust - being payments for provision of leisure services	242	817	(59)	150	1,106	(36)
Orkney and Shetland Valuation Joint Board - being payments of annual requisition to Joint Boards	0	365	16	0	391	58
Orkney Islands Pension Fund						
Being payments of employers contributions in respect of employees	0	7,642	0	0	7,669	0

Note 28 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. The CFR is analysed in the second part of this note.

Capital Expenditure and Capital Financing	2019-2020 £000	2020-2021 £000
Opening Capital Financing Requirement	31,918	36,286
Property, Plant and Equipment	19,383	15,911
Investment Properties	45	0
Intangible Assets	0	182
Other	6	0
	19,434	16,093
Sources of finance		
Capital receipts	(133)	(1,042)
Government grants and other contributions	(11,403)	(7,011)
Sums set aside from revenue:		
Direct revenue contributions:		
General	(684)	0
HRA	0	(593)
Harbours	(416)	(199)
Loans fund principal	(2,430)	(6,041)
	(15,066)	(14,886)
Closing Capital Finance Requirement	36,286	37,493
Explanation of movements in year		
Increase in underlying need to borrow (unsupported by government financial assistance)	4,368	1,207
Increase/(decrease) in Capital Financing Requirement	4,368	1,207

At 31 March 2021 the Council had commitments on capital contracts for projects of £7.087M. This expenditure will be funded from a combination of government grants, external borrowing, income from the sale of assets and contributions from revenue budgets.

The following significant contracts for capital investment have been entered into by Orkney Islands Council and extend beyond 31 March 2021:

Project Name	Purpose	Approx Value £000	Anticipated Completion
Various Housing Developments	House build programme	1,784	Oct-21
Scapa Flow Visitor Centre	Extension and upgrade	1,677	Sep-21
St Andrews School	Extension and upgrade	3,626	Oct-22
Overall Total		7,087	

Similar commitments at 31 March 2020 were £15.121M.

Note 29 Leases

Orkney Islands Council as Lessee

Operating Leases

The Council has acquired properties by entering into operating leases.

The expenditure charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was £0.202M (2019-20 £0.184M).

Future minimum payments are set out below:

	2019-2020 Land and buildings £000	2020-2021 Land and buildings £000
Minimum lease rentals payable:		
No later than 1 year	171	198
Later than 1 year and no later than 5 years	577	616
Later than 5 years	2,477	2,591
	3,225	3,405

Orkney Islands Council as Lessor

Operating Leases

The Council leases out property under operating leases for the following purposes:

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

The total value of rental income recognised during the period was £1.403M (2019-20 £1.396M). No contingent rents were recognised.

Future minimum lease income is set out below:

	2019-2020 Land and buildings £000	2020-2021 Land and buildings £000
Minimum lease rentals receivable:		
No later than 1 year	1,251	1,252
Later than 1 year and no later than 5 years	2,852	2,796
Later than 5 years	12,812	12,335
	16,915	16,383

Note 30 Impairment Losses

The Code requires disclosure by class of assets of the amounts for impairment losses and impairment reversals charged to the Surplus or Deficit on the Provision of Services and to Other Comprehensive Income and Expenditure. These disclosures are consolidated in Notes 13 and 19 reconciling the movement over the year in the Property, Plant and Equipment, Intangible, Heritage and Assets Held for Sale balances.

Note 31 Capitalisation of Borrowing Costs

The Council does not capitalise its borrowing costs.

Note 32 Pension Schemes Accounted as Defined Contribution Schemes

There are currently two occupational pension schemes for teachers in Scotland, the Scottish Teachers' Superannuation Scheme (STSS) and the Scottish Teachers' Pension Scheme 2015 (STPS 2015). These schemes are administered by the Scottish Public Pensions Agency on behalf of Scottish Ministers. Both are defined benefit schemes, but, as it is not possible to identify each participating Council's share of the underlying liabilities on a consistent and reasonable basis both schemes are accounted for as if they were defined contribution schemes. Employer contributions are set on the basis of periodic reviews by the Government Actuary. The Council's rate of contribution as an employer increased to 23% from 17.2% on 1 September 2019. The employee rate is tiered and ranges from 7.2% to 11.9%. The Council paid £3.247M (£2.868M in 2019-20) of employer contributions to the Scottish Public Pensions Agency during 2020-21. £0.289M of expenditure (£0.302M in 2019-20) was charged to service revenue accounts during 2020-21 in

respect of “added years” pension enhancement termination benefits, representing 2.05% of employees’ pensionable pay (2.15% in 2019-20).

Note 33 Defined Benefit Pension Schemes

Participation in pension schemes

As part of the terms and conditions of employment of its employees, the Council makes contributions towards the cost of post-employment benefits. Although these benefits are not actually payable until employees retire, the Council has a commitment to make the payments, and this commitment needs to be disclosed at the time that employees earn their future entitlement.

The Council participates in two pension schemes:

- The Local Government Pension Scheme, administered locally by Orkney Islands Council - this is a funded defined benefit scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pension’s liabilities with investment assets.
- Arrangements for the award of discretionary post-retirement benefits upon early retirement - this 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 liabilities, and cash has to be generated to meet actual pension payments as they eventually fall due.

The principal risks to the Authority of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (i.e. large-scale withdrawals from the scheme), changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge to the General Fund and Housing Revenue Account the amounts required by statute as described in the accounting policies note.

Transactions relating to post-employment benefits

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

However, the charge the Council is required to make against Council Tax 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 on 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:

2019-2020 £000		2020-2021 £000
	Comprehensive Income and Expenditure Statement	
	<i>Cost of Services:</i>	
17,329	Current service cost	14,666
8	Past service cost including curtailments	46
	<i>Included within financing and investment income and expenditure:</i>	
347	Net Interest Expense	(214)
17,684	Total of LGPS post-employment benefits charged to the surplus or deficit on the provision of services	14,498
	<i>Included within other comprehensive income and expenditure:</i>	
(12,699)	Changes in demographic assumptions	2,725
(39,381)	Changes in financial assumptions	99,074
(2,018)	Other experience	10,726
21,448	Return on assets excluding amounts included in net interest	(130,874)
(32,650)	Remeasurement of the net Pension Fund Liability/(Assets)	(18,349)
	Movement in reserves statement:	
	<i>Adjustments between accounting and funding basis under regulations:</i>	
(17,684)	Reversal of net charges made to surplus or deficit on the provision of services for post-employment benefits in accordance with the code	(14,498)
32,650	Reversal of re-measurement of net defined benefit liability	18,349
	Actual amount charged against the General Fund balance for pensions in the year:	
7,397	Employer contributions and direct payments payable in the year	7,523
22,363	Net charge to the General Fund Summary	11,374

Pension Assets and Liabilities recognised in the Balance Sheet

	2019-2020 £000	2020-2021 £000
Fair value of scheme assets	(342,160)	(481,638)
Fair value of scheme liabilities	329,288	457,392
Council's share of deficit or (surplus) in the scheme	(12,872)	(24,246)

Asset and Liabilities in Relation to Post-Employment Benefits

Reconciliation of Movements in the Fair Value of Scheme Assets:

2019-2020 £000		2020-2021 £000
(352,668)	Opening balance at 1 April	(342,160)
(8,493)	Interest Income	(7,873)
	<i>Cashflows:-</i>	
(2,384)	Member contributions	(2,500)
(6,854)	Employer contributions	(7,003)
(543)	Contributions in respect of unfunded benefits	(520)
6,791	Benefits paid: other	8,772
543	Benefits paid: unfunded	520
	<i>Remeasurements:-</i>	
21,448	Return on Plan Assets, excl. net interest expense	(130,874)
(342,160)	Closing balance at 31 March	(481,638)

Reconciliation of Present Value of the Scheme Liabilities:

2019-2020 £000		2020-2021 £000
353,554	Present Value of Funded Liabilities	321,656
8,605	Present Value of Unfunded Liabilities	7,632
362,159	Opening balance at 1 April	329,288
17,329	Current service cost	14,666
8	Past service cost including curtailments	46
8,840	Interest cost	7,659
	<i>Cashflows:-</i>	
2,384	Member contributions	2,500
(6,791)	Estimated benefits paid: other	(8,772)
(543)	Estimated benefits paid: unfunded	(520)
	<i>Remeasurements:-</i>	
(12,699)	Changes in demographic assumptions	2,725
(39,381)	Changes in financial assumptions	99,074
(2,018)	Other experience	10,726
329,288		457,392
321,656	Present Value of Funded Liabilities	449,781
7,632	Present Value of Unfunded Liabilities	7,611
329,288	Closing balance at 31 March	457,392

Analysis of Pension Fund's Assets

The below asset values are at bid value as required by IAS19.

2019-2020 £000			2020-2021 £000	
Equities:				
66,689	19%	Consumer	72,946	15%
35,583	10%	Manufacturing	53,274	11%
3,912	1%	Energy and Utilities	6,656	1%
45,349	13%	Financial Institutions	69,288	14%
30,955	9%	Health and Care	38,162	8%
26,273	8%	Information Technology	78,138	17%
Debt Security:				
39,526	12%	UK Government	40,629	8%
0	0%	Private Equity:	14,224	3%
Investment Funds and Unit Trusts:				
91,294	27%	Equities	103,390	22%
2,579	1%	Cash and Cash Equivalents:	4,931	1%
342,160	100%	Total Assets	481,638	100%

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in the future years dependent on assumptions about mortality rates, salary levels, etc. The following table shows the principal assumptions used by Hymans Robertson LLP, the Fund's independent actuaries, to estimate the Council's post-employment benefits transactions, and the Council's share of the Pension Fund's defined benefit obligation (scheme liabilities) and scheme assets:

2019-2020			2020-2021	
2.30%		Discount rate for defined benefit obligation		2.00%
2.20%		Rate of increase in salaries		3.35%
1.90%		Rate of increase in pensions		2.85%
Mortality assumptions:				
Longevity at age 65 for current pensioners:				
21.1 years		Men		21.4
23.0 years		Women		23.9
Longevity at age 65 for future pensioners:				
22.3 years		Men		23.1
25.1 years		Women		26.1
Commutation assumptions - percentage of the maximum additional tax-free cash (per HM Revenue & Customs limits) converted from annual pension into retirement lump sum:				
50%		for pre-April 2009 service		50%
75%		for post-April 2009 service		75%

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

Change in assumptions as at 31 March 2021:	Approximate increase to Employer %	Approximate Monetary Amount £000
0.5% decrease in Real Discount Rate	10%	47,154
0.5% increase in the Salary Increase Rate	1%	5,069
0.5% increase in the Pension Increase Rate	9%	41,064

Orkney Islands Council Pension Fund does not have an asset and liability matching strategy.

Impact on the Authority's Cash Flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The Council has agreed a strategy with the scheme's actuary to maintain a funding level of 100% over the next 20 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed as at 31 March 2023.

The Fund is taking account of recent national changes to the Local Government Pension Scheme in Scotland such as the move from 1 April 2015 to a new Career Average Revalued Earning Scheme (CARE) for future accruals.

The Authority anticipates paying £7.096M in contributions to the scheme in 2021-22.

Statutory Accounts

It is a statutory requirement to publish a separate Annual Report and Accounts for the Orkney Islands Council Pension Fund. A copy of the annual report and accounts is available on the Council website: [Pension Fund Annual Accounts](#)

Note 34 Contingent Liabilities

Contingent liabilities are possible obligations that arise from past events whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events.

Former Landfill and Quarry Sites Re-instatement

The Council is responsible under environmental and planning legislation for the ongoing monitoring and if required maintenance and reinstatement of current and former landfill and quarry sites. As at 31 March 2021, no financial provision has been made in respect of the future reinstatement of these landfill or quarry sites however, work is on-going to address issues at the sites currently assessed as Amber following completion of remedial works at the sites marked as Red. The Council recognises that a contingent liability in respect of current and former landfill and quarry sites operated by the Council may arise as a result of this work however the timing of liabilities in respect of current and former landfill and quarry sites is uncertain and the associated costs cannot be reliably estimated at this time.

Grant Funding Conditions

The Council receives grant income from a number of external agencies and public bodies in support of the delivery of a range of projects being undertaken. The standard conditions for grants received apply for a number of years after the end of the financial year in which the final instalment of the grant is paid. This means that the funding body, as the Grantor, can reclaim grant payments should the standard conditions of the grant be breached during this period.

Merchant Navy Officers Pension Fund (MNOFF)

The MNOFF is closed to new members and closed to future accrual from 31 March 2016 when contributing members were transferred to the Ensign Retirement Plan (for the MNOFF). The MNOFF is a multiple employer scheme and the Council is unable to identify its share of the underlying assets and liabilities. As at the last full valuation in 2018 the Fund had a deficit of £73M which was an improvement from the 2015 deficit position of £329M. The Trustees of the Fund may in future request deficit contributions depending on the results of future actuarial valuations of the Fund. In the Autumn 2020 update from the Chair of the MNOFF, Employers were made aware that the MNOFF had reached the milestone funding level of 100% on an interim valuation. This was not a formal triennial valuation but provides a positive indication that the financial strength of the fund has improved significantly.

The Trustee must carry out a full actuarial valuation at least every three years to assess the scheme's funding level. The next MNOFF Actuarial Valuation will refer to the three-year period ending 31 March 2021. Following a period of consultation with the MNOFF's participating employers, the final valuation results will be agreed by the Board towards the end of 2021 and communicated to members and employers early in 2022.

Orkney Islands Council Pension Fund

Following recent legal judgements, the funding valuation position as at 31 March 2021 include an allowance for full Guaranteed Minimum Pension equalisation (indexation) treatment. A further ruling on Guaranteed Minimum Pension historical transfers is unlikely to be significant in terms of impact on the pension obligations. An allowance for the estimated impact of the McCloud judgement is also included within the funding valuation positions noted above. Whilst there is still uncertainty surrounding the potential remedy to the Goodwin judgement the approximate impact is likely to be minimal, therefore there has been no adjustment applied to the valuation.

The results of the 2017 cost cap will be finalised in 2021-22 and are not anticipated to impact on the employer contribution rates recently certified and put in place by the LGPS administering authority from 1 April 2021.

Note 35 Nature and Extent of Risks Arising from Financial Instruments

The Authority's 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 Council's management of treasury risks actively works to minimise the Council's exposure to the unpredictability of financial markets and to protect the financial resources available to fund services. The Council has fully adopted CIPFA's Code of Treasury Management Practices and has written principles for overall risk management as well as written policies and procedures covering specific areas such as credit risk, liquidity risk and market risk.

Credit Risk

Credit risk arises from the short-term lending of surplus funds to financial institutions and local authorities, as well as credit exposures to the council's customers.

The risk is minimised through the Annual Investment Strategy, which can be found at the following link: [Annual Investment Strategy 2020-2021](#)

Credit Risk Management Practices

The Council's credit risk management practices are set out on pages 46 to 51 of the Annual Investment Strategy. It is the policy of the council to place deposits only with a limited number of high quality banks, building societies and money market funds whose credit rating is independently assessed as sufficiently secure by the Council's treasury advisers and to restrict lending to a prudent maximum amount for each entity.

Deposits are not made with banks and financial institutions unless they are rated independently with minimum score of A1/P1/F1 short term debt ratings with Moodys, Standard & Poors or Fitch. During the year the authority has a policy of not lending more than 25% of its surplus balances to individual institutions at any one time.

The following analysis summarises the Council's potential maximum exposure to credit risk, based on past experience and current market conditions. No credit limits were exceeded during the financial year and the Council expects full repayment on the due date of deposits placed with its counterparties.

2020-2021	Amount at 31 March 2021 £000	Adjustment for Market Conditions at 31 March 2021 %	Estimated maximum exposure to default and uncollectability at 31 March 2021 £000
Deposits with financial institutions and local authorities	34,982		
Customers (sundry income)	4,998	40.26	2,012
Total	39,980		2,012

The following significant inputs, assumptions and estimation techniques have been used in calculating impairment loss allowances:

The Authority has assessed each category of financial asset in order to determine if an impairment loss is required. Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrowers could default on their obligation. The authority has used reasonable and supportable information available for each financial instrument in order to determine the loss allowance model. Considered in this determination is also the credit status of the instrument on initial recognition, if available, together with an assessment of general economic conditions and whether the credit risk has increased significantly since initial recognition. Forward-looking information has been incorporated into the determination of any movement in fair value.

During the reporting period changes were made to the estimation technique in respect of the provision for bad debt, with the previous aged analysis provision replaced by a risk-based approach to assess the probability of default by debtor.

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 bonds.

The Authority does not allow credit for customers such that of the £4.998M debtors balance, £2.512M is less than one month old, leaving a balance of £2.486M that is past its due date for payment. The past due but not impaired amounts can be analysed by age as follows:

2019-2020 £000		2020-2021 £000
913	Less than three months	191
170	Three to six months	144
169	Six months to one year	272
679	More than one year	669
1,931	Sundry income debtors balance	1,276

During the year the impairment loss allowance on overdue sundry income debtors increased by £0.019M, being an increase from £1.191M to £1.210M.

Amounts Arising from Expected Credit Losses

The Authority has adopted the simplified approach for expected credit losses allowances. There have been no loss allowances recognised during the year and no expected credit losses realised.

Collateral

Orkney Islands Council acts as the lender of last resort for housing loans. In such cases the Council takes a standard security over the property. As at 31 March 2021 the outstanding value of loans advanced by the Council was £1.272M (£1.202M as at 31 March 2020).

Liquidity risk

The authority has a cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen, the authority has ready access to borrowings from the money markets and the Public Works Loans Board. There is no significant risk that it will be unable to raise finance to meet

its commitments under financial instruments. Instead, the risk is that the authority will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The authority sets limits on the proportion of its fixed rate borrowing during specified periods.

The maturity analysis of the principal element of borrowing is as follows:

	2019-2020 £000	2020-2021 £000
Less than one year	29	29
Between one and two years	29	5,029
Between two and five years	5,085	56
More than five years	30,000	30,000
	35,143	35,114

As the authority also maintains a temporary loans portfolio, with lending of surplus funds on the money markets as an integral part of its day to day cash flow management activities, there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

Market risk: interest rate risk

The Authority is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the authority. For instance, a rise in interest rates would have the following effects:



Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance pound for pound. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in Other Comprehensive Income and Expenditure.

The authority's investment strategy aims to manage interest rate risk by maintaining a number of discrete investment portfolios which are managed by external fund managers. The separation of equities, multi-asset and bond investments in this way effectively minimises the Council's exposure to interest rate movements. The risk of loss remains with the authority. In the longer term, the Scottish Government regularly reviews the level of grant support it provides to local authorities, which may result in additional support being provided to recognise the impact of changes in interest rates on the local authority's finances.

To illustrate the notional impact of changes in interest rates upon the Council, the following table shows the financial effect if rates had been 1% higher, with all other variables held constant.

	2019-2020 £000	2020-2021 £000
Increase in interest receivable on variable rate investments	(296)	(350)
Impact on Surplus or Deficit on the Provision of Services	(296)	(350)
Decrease in fair value of variable rate investment assets	518	552
Decrease in fair value of fixed rate borrowings liabilities (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure)	7,576	8,483

The impact of a 1% fall in interest rates would be as above but with the changes being reversed.

Market risk: price risk

The authority held £267.267M of investments as at 31 March 2021 in the form of equities, multi-asset and bonds, including £3.089M in a local wind energy company. The authority is consequently exposed to losses arising from movement in the price of the shares.

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

These clearly defined shares are mainly classified as Fair Value through Profit or Loss with the investment in the local wind energy company and fishing quota classified as Fair Value Other Comprehensive Income, meaning that all movements in price will impact directly on the income and expenditure statement. A general shift of 5% in the general price of shares (positive or negative) would have resulted in a £13.363M gain or loss being recognised in the income and expenditure statement.

Market risk: foreign exchange risk

As part of the portfolio of £267.267M of investments, the authority held £106.361M of investments in the form of global equities and multi-assets pooled funds.

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

These clearly defined shares are all classified as Fair Value through Profit or Loss, meaning that all movements in price will impact directly on the income and expenditure statement. A general shift of 5% in the general price of shares (positive or negative) would have resulted in a £4.896M gain or loss being recognised in the income and expenditure statement.

Note 36 Charitable and Non Charitable Trust Funds

This section of the Annual Accounts shows the summary of transactions relating to the Charitable and Non Charitable Trust Funds administered by Orkney Islands Council as sole trustee. A summary of the balances held at 31 March 2021 and how these balances were invested is also detailed. Orkney Islands Council administers these Funds and separately accounts for them. They do not form part of the Council's single entity balance sheet, although under s222 of the Local Government (Scotland) Act 1973, the property of the Trust Funds "vest[s] in" the relevant local authority. However, they are included in the Annual Accounts of the Council as a note to the core financial statements.

Many of the sundry trusts are registered with the Office of the Scottish Charity Regulator (OSCR) as charities. Details of these are shown in Note 1 below.

Summary Income and Expenditure Statement

2019-2020		2020-2021		
		Registered Charitable Trusts	Non Registered Trusts	Total
£000		£000	£000	£000
	Income			
(44)	Interest on Investments etc.	0	(10)	(10)
	Expenditure			
59	General Expenditure	2	7	9
15	(Surplus)/Deficit for the Year	2	(3)	(1)

Balance Sheet as at 31 March 2021

31 March 2020		Note	31 March 2021		
			Registered Charitable Trusts	Non Registered Trusts	Total
£000			£000	£000	£000
713	Short-term Deposits with Orkney Islands Council		52	663	715
0	Current Liabilities		(1)	0	(1)
713	Total Assets less Liabilities		51	663	714
	Represented by				
713	Trust Fund Balances		51	663	714
713	Total Net Worth	2	51	663	714

1. Registered as Charities

The table below details the names and Scottish Charity number of each of the charitable trust funds which are registered with the OSCR. The Council has prepared Charities SORP compliant financial statements on a receipts and payments basis for submission to OSCR.

Orkney Educational Trust (OET)	SC044607
William Orkney Reid's Bursary Fund	SC044607

2. Trust Fund Balances

The funds registered with OSCR and administered by the Council, and their purposes are as follows:

	£000
Orkney Educational Trust	
Various bursary awards to promote further education opportunities, sports, visual arts, music and drama.	44
William Orkney Reid's Bursary Fund	
To assist the education of any promising pupils at Kirkwall Grammar School.	7
Total	51

Copies of the annual accounts of the Charitable Funds are available on the Council website.

Note 37 Common Good Fund

Common Good Funds were inherited from the former Burgh Councils at reorganisation of local government in 1975. Common Good Funds are held for the benefit of residents of the former Burghs of Stromness and Kirkwall.

The assets of the Fund are the properties of these former Burghs and monies are invested with the Council's Loans Fund. The Fund's main expenditure is incurred in respect of the maintenance of properties and the provision of grants to local organisations, while the Fund's income is derived from property rentals and interest generated on investments.

2019-2020 £000		2020-2021 £000
	Income	
(36)	Interest on Investments etc.	(37)
0	Transfer to revaluation reserve	0
	Expenditure	
32	General Expenditure	32
(4)	(Surplus)/Deficit for the Year	(5)

31 March 2020 Total £000	Balance Sheet	31 March 2021		
		Stromness £000	Kirkwall £000	Total £000
	Investments			
256	Property	36	218	254
169	Heritage Assets	0	169	169
225	Capital Deposits	50	175	225
650	Total Long Term Assets	86	562	648
436	Loans Fund Deposit	104	339	443
436	Current Assets	104	339	443
0	Less Current Liabilities	0	0	0
436	Net Current Assets	104	339	443
1,086	Net Assets	190	901	1,091
	Represented by:			
225	Capital Reserve	50	175	225
462	Revenue Reserve	104	365	469
399	Revaluation Reserve	36	361	397
1,086	Accumulated Funds	190	901	1,091

Housing Revenue Account

Housing Revenue Account income and expenditure statement

The Housing Revenue Account (HRA) reflects a statutory obligation to maintain a revenue account for local authority housing provision in accordance with the Housing (Scotland) Act 1987. The Housing Revenue Account income and expenditure statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Councils charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis on which rents are raised, is shown in the movement on the Housing Revenue Account statement.

2019-2020 £000		2020-2021	
		£000	£000
	<i>Expenditure:</i>		
1,366	Repairs and maintenance	1,407	
753	Supervision and management	660	
1,783	Depreciation and impairment of non-current assets	(1,912)	
16	Increase or (decrease) in the allowance for bad debts	(15)	
3,918			140
	<i>Income:</i>		
(3,818)	Dwelling rents	(3,757)	
(43)	Other income	(15)	
(3,861)			(3,772)
57	Net cost of HRA services as included in the comprehensive income and expenditure statement		(3,632)
	<i>HRA share of the operating income and expenditure included in the comprehensive income and expenditure statement:</i>		
(1,461)	Capital Grants	(751)	
(1)	(Gain) or loss on sale of HRA non-current assets	(82)	
436	Interest payable and similar charges	357	
2	Pensions interest cost and expected return on pensions assets	(1)	
(1,024)			(477)
(967)	(Surplus) or deficit for the year on HRA services		(4,109)

Movement on the Housing Revenue Account statement

This statement shows the movement in the year on the Housing Revenue Account (HRA) Balance. The surplus or deficit for the year on the HRA income and expenditure statement represents the true economic cost of providing the Council's HRA services, more details of which are shown in the HRA income and expenditure statement itself. The adjustments between accounting basis and funding basis under regulations detail the adjustments that are made to the HRA income and expenditure, as recognised by the Council in the year in accordance with proper accounting practice, to the statutory amounts required to be charged to the HRA Balance for dwellings rent setting purposes.

2019-2020 £000		2020-2021			
		£000	£000	£000	£000
(523)	Balance on the HRA at the end of the previous year				(523)
(967)	(Surplus) or deficit for the year on the HRA income and expenditure statement			(4,109)	
	<i>Adjustments between accounting basis and funding basis under regulations:</i>				
1	Reverse out gain or (loss) on sale of HRA non-current assets		82		
	<i>HRA share of contributions to or (from) the Pension Reserve:</i>				
(104)	Reverse out net charges made for post-employment benefits in accordance with IAS19	(86)			
43	Pensions cost chargeable for the year in accordance with statutory provisions: employer's contributions payable to Orkney Islands Council Pension Fund	44			
(61)	HRA share of contributions to or (from) the Pension Reserve		(42)		
0	Capital expenditure funded by the HRA		593		
	<i>Transfer to or (from) the Capital Adjustment Account:</i>				
(1,783)	Reverse out depreciation and impairment gains on non-current assets	1,912			
1,461	Reverse out credits made for capital grants	751			
1,591	Loans fund principal contribution from the HRA	1,279			
1,269	Transfer to or (from) the Capital Adjustment Account		3,942		
1,209	Total of adjustments between accounting basis and funding basis under regulations			4,575	
242	Net (increase) or decrease before transfers to or from reserves			466	
(242)	Transfers to or (from) reserves			(593)	
0	(Increase) or decrease in the year on the HRA				(127)
(523)	Balance on the HRA at the end of the current year				(650)

Notes to the Housing Revenue Account income and expenditure statement

1. The number and types of dwelling in the Council's housing stock

The Council was responsible for managing 945 dwellings during 2020-21 (944 in 2019-20). The following shows an analysis of these dwellings by type.

Number at 31 March 2020 (Restated)	Type of dwelling	Number at 31 March 2021
27	One-apartment	27
355	Two-apartment	357
303	Three-apartment	303
241	Four-apartment	240
15	Five-apartment	15
3	Six-apartment	3
944	Total	945

2. The amount of rent arrears

At 31 March 2021 total rent arrears amounted to £0.495M (£0.455M at 31 March 2020). This is 13.19% of the total value of rental income at 31 March 2021.

3. The provision considered to be necessary in respect of uncollectable rent arrears

In the financial year 2020-21 the rental bad debt provision has decreased by £0.005M (£0.030M decrease during 2019-20). The provision to cover the potential loss of income stands at £0.158M at 31 March 2021. This is 4.2% of the total value of rents at that date.

4. The total value of uncollectable void rents

The total value of uncollectable void rents for Council dwellings that were not let during the year was £0.048M (£0.024M during 2019-20).

Council Tax Income Account

Councils raise taxes from residents by way of a property tax – the council tax – which is based on property values. Each dwelling house in a local authority area is placed into one of eight valuation bands, “A” to “H”. The Council declares an annual charge for band D properties and all other properties are charged a proportion of this – lower valued properties pay less; higher valued properties pay more. The Council Tax Income Account shows the gross income raised from Council Taxes levied and deductions made under statute. The resultant net income is transferred to the Council’s comprehensive income and expenditure statement.

2019-2020 £000		2020-2021 £000
11,936	Gross council tax levied	12,620
(781)	Council Tax Reduction Scheme	(905)
(1,549)	Other discounts and reductions	(1,567)
(44)	Write-off of uncollectable debts and allowance for impairment	(33)
(81)	Adjustment to previous years’ council tax	(89)
9,481	Transfer to the General Fund	10,026

Calculation of the council tax

Dwellings are valued by the Assessor and placed within valuation bands ranging from the lowest “A” to the highest “H”. The Council Tax base is the number of chargeable dwellings across all valuation bands (adjusted for dwellings where discounts apply), after providing for non-payment, expressed as an equivalent number of band D dwellings. The band D Council Tax charge is calculated using the Council Tax base and this in turn fixes the charge for each of the other bands, which are based on pre-determined proportions relative to the band D charge. The band D charge for 2020-21 was £1,208.48 (£1,152.69 in 2019-20).

A discount of 25% on the Council Tax is made where there are fewer than two residents in a property. Discounts of 50% are made for unoccupied property for a period of up to six months. Certain persons are disregarded for Council Tax purposes, including people who are in detention, students and people who are severely mentally impaired. Reductions in Council Tax payable are also available for people with disabilities.

Charges for water and sewerage services are the responsibility of Scottish Water. Orkney Islands Council collects total monies and makes a precept payment to Scottish Water on the basis of collection levels based on a pre-determined formula. The figures below exclude the water and sewerage charges.

Annual council tax charges

2020-2021							
Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H
£805.65	£939.93	£1,074.20	£1,208.48	£1,587.81	£1,963.78	£2,366.61	£2,960.78

Calculation of the council tax base

2020-2021	Number of dwellings	Number of exemptions	Disabled relief	Discounts of 25%	Discounts of 50%	Council Tax Reduction	Total equivalent dwellings	Ratio to Band D	Band D equivalents
@	0	0	10	(1)	0	(5)	4	(200/360)	2
Band A	2,375	(285)	3	(263)	(94)	(318)	1,418	(240/360)	945
Band B	2,899	(161)	7	(301)	(61)	(308)	2,075	(280/360)	1,614
Band C	2,393	(101)	0	(193)	(48)	(161)	1,890	(320/360)	1,680
Band D	1,874	(34)	(2)	(119)	(33)	(68)	1,618	(360/360)	1,618
Band E	1,451	(20)	(13)	(62)	(21)	(11)	1,323	(473/360)	1,739
Band F	347	(3)	(5)	(9)	(2)	(3)	325	(585/360)	528
Band G	23	0	0	(1)	(1)	0	22	(705/360)	43
Band H	5	(1)	0	0	0	0	4	(882/360)	10
Total	11,367	(605)	0	(949)	(260)	(874)	8,679		8,179

Class 17 and 24 dwellings	0
Sub-total	8,179
Provision for non-payment and future award of discounts and reliefs	(30)
Council tax base	8,149

@ denotes additional relief for disabled persons occupying Band A properties

Non-Domestic Rates Account

This account is an agent's statement that reflects the statutory obligation for those councils who issue bills to non-domestic rate payers to maintain a separate non-domestic rate account. The account shows the rates collected from non-domestic rate payers during the year. Any difference between the rates collected and the amount the Council is guaranteed to receive under the national pooling arrangements is adjusted via the Scottish Government's general revenue grant to the Council. Non-domestic rate income is redistributed from the national non-domestic rate pool in proportion to the resident population of each council area, and therefore bears no direct relationship with the amount charged or collected by those councils.

2019-2020		2020-2021
£000		£000
15,139	Gross rates levied	14,884
(4,465)	Reliefs and other deductions	(6,293)
(42)	Write-offs of uncollectable debts and allowance for impairment	(34)
10,632	Net non-domestic rate income	8,557
(226)	Adjustment to previous years' non-domestic rates	(1,438)
53	Contribution (to) or from the national non-domestic rate pool	(100)
10,459	Transfer to comprehensive income and expenditure statement	7,019

The nature and amount of each rate fixed

The non-domestic rates charge for each subject is determined by the rateable value placed upon it by the Assessor, multiplied by the rate per pound (the "rate poundage"). The national non-domestic rates poundage is set each year by the Scottish Ministers. For 2020-21 the charge was 49.8 pence in the pound. From 1 April 2017 the Scottish Government amended the existing Small Business Bonus Scheme (SBBS). Under the SBBS properties with a rateable value up to and including £15,000 are entitled to a 100% reduction in their business rates. Properties with a rateable value of between £15,001 and £18,000 receive a 25% reduction. Additionally, a business with two or more properties with a combined rateable value of £35,000 are eligible to qualify for relief of 25% on individual properties with a rateable value of £18,000 or less. In addition to the existing reliefs, all properties received a one-off relief of 1.6 pence in the pound, regardless of any other reliefs, and properties operating in the retail, hospitality and leisure sectors were entitled to a 100% reduction in the rates. These reliefs were part of the government response to the coronavirus pandemic.

For properties with a rateable value over £51,000 but less than £95,000 a supplement of 1.3 pence in the pound was added as per the Non-Domestic Rates (Levying) (Scotland) Regulations 2020. For properties with a rateable value over £95,000 the supplement was 2.6 pence in the pound.

Analysis of Orkney Islands Council's rateable values:

2020-2021		£000	£000
Rateable value at 1 April 2020:	commercial	8,741	
	industrial and freight transport	4,836	
	others	17,067	
			30,644
Running roll (full-year rateable value)			(1,126)
Rateable value at 31 March 2021			29,518
Wholly exempt subjects			(430)
Net rateable value at 31 March 2021			29,088

Harbour Authority Account

Harbour Authority Revenue Account income and expenditure statement

The Orkney County Council Act 1974 permits the Council to establish and operate a Harbour Authority Account. The trading position from harbour operations is reflected within the Council's Cost of Services, with surpluses carried to a Strategic Reserve Fund within the Harbour Authority Account.

The purpose of the Strategic Reserve Fund is to provide for the benefit of Orkney and its inhabitants including the development of one-off strategic capital projects as well as supporting the level of General Fund Services as part of an agreed Medium Term Financial Strategy at a time when support from Central Government is forecast to decline.

As surplus balances have accumulated over the years, the range of asset classes that the Strategic Reserve Fund holds has expanded to include an extensive portfolio of equities, bonds, diversified growth and UK property funds that are all managed by external fund managers. In addition to this, the Council also holds a range of local investments, including a portfolio of investment properties, shares in companies, fishing quota and loans to business.

The prime objective for the managed fund investments is to maintain or increase their value in real terms over time, after allowing for disbursements or spending commitments on the Strategic Reserve Fund. To achieve this external fund managers are incentivised to outperform the financial markets for their respective mandates in order to meet the targets set by the Council.

2019-2020 £000 Net		2020-2021		
		£000 Expenditure	£000 Income	£000 Net
(1,814)	Scapa Flow Oil Port	6,663	(8,805)	(2,142)
(185)	Miscellaneous Piers and Harbours	7,427	(4,862)	2,565
(1,999)		14,090	(13,667)	423
(1,999)	Net cost of Harbour Services as included in the comprehensive income and expenditure statement			423
	<i>Harbours share of the operating income and expenditure included in the comprehensive income and expenditure statement:</i>			
(223)	Capital Grants			(163)
2	(Gain) or loss on sale of Harbour Authority assets			79
488	Interest payable and similar charges			682
16,585	Harbours Investment Income			(48,306)
29	Pensions interest cost and expected return on pensions assets			(14)
14,882	(Surplus) or deficit for the year on Harbour Authority			(47,299)

Movement on the Harbour Authority Revenue Account Statement

This statement shows the movement in the year on the Harbour Authority Revenue Account Balance. The surplus or deficit for the year on the Harbour income and expenditure statement represents the true economic cost of providing the Council's Harbour Authority, more details of which are shown in the Harbour income and expenditure statement itself. The adjustments between accounting basis and funding basis under regulations detail the adjustments that are made to the Harbour income and expenditure, as recognised by the Council in the year in accordance with proper accounting practice, to the statutory amounts required to be charged to the Harbour Balance.

2019-2020		2020-2021		
£000		£000	£000	£000
(217,972)	Balance on the Harbour Authority at the end of the previous year			(199,300)
14,882	(Surplus) or deficit for the year on the Harbour income and expenditure statement			(47,299)
	<i>Adjustments between accounting basis and funding basis under regulations:</i>			
14	Difference between any other item of income and expenditure determined in accordance with the Code and determined in accordance with statutory Harbour requirements		10	
(2)	Reverse out gain or (loss) on sale of Harbour non-current assets		(79)	
	Harbour share of contributions to or (from) the Pension Reserve:			
(1,429)	Reverse out net charges made for post-employment benefits in accordance with IAS19	(1,193)		
598	Pensions cost chargeable for the year in accordance with statutory provisions: employer's contributions payable to Orkney Islands Council Pension Fund	619		
(831)	Harbour share of contributions to or (from) the Pension Reserve		(574)	
0	Harbour share of contributions to or (from) the Employee Statutory Adjustment Account		(2)	
416	Capital expenditure funded by the Harbour Authority		199	
	Transfer to or (from) the Capital Adjustment Account:			
(2,499)	Reverse out depreciation and impairment losses on non-current assets	(3,065)		
223	Reverse out credits made for capital grants	163		
473	Loans fund principal contribution from the Harbour Authority	808		
(1,803)	Transfer to or (from) the Capital Adjustment Account		(2,094)	
(2,206)	Total of adjustments between accounting basis and funding basis under regulations			(2,540)
12,676	Net (increase) or decrease before transfers to or from reserves			(49,839)
5,996	Contributions to/(from) General Fund Services		9,589	
0	Contributions to/(from) Housing Revenue Account House Build Programme			
5,996	Transfers to or (from) reserves:			9,589
18,672	(Increase) or decrease in the year on the Harbour Authority			(40,250)
(199,300)	Balance on the Harbour authority at the end of the current year			(239,550)

The Harbour Authority fund balance is represented by the following earmarked funds:

	2019-2020			2020-2021			
	Balance as at 1 April 2019 £000	Transfers in 2019-2020 £000	Transfers out 2019-2020 £000	Balance as at 31 March 2020 £000	Transfers in 2020-2021 £000	Transfers out 2020-2021 £000	Balance as at 31 March 2021 £000
Harbour Balances							
Strategic Reserve Fund	194,991	2,664	(22,915)	174,740	50,930	(9,774)	215,896
Flotta Terminal Decline & Decommissioning Fund	6,497	724	(724)	6,497	414	(414)	6,497
Conservation Fund	191	2	0	193	1	0	194
Talented Performers Fund	61	1	0	62	0	0	62
Travel Fund	104	1	0	105	0	0	105
Fisheries Fund	0	0	0	0	0	0	0
Orkney Memorial Fund	485	5	(27)	463	3	(5)	461
Talented Young Persons Fund	15	0	(3)	12	0	0	12
Miscellaneous Piers Reserve Fund	6,879	1,379	0	8,258	0	(1,054)	7,204
Renewable Energy Fund	8,749	221	0	8,970	149	0	9,119
Harbour Fund Balances	217,972	4,997	(23,669)	199,300	51,497	(11,247)	239,550

Orkney College Account

Orkney College Revenue Account income and expenditure statement

Orkney Islands Council provides further and higher education provision through the Orkney College using a devolved Board of Management arrangement with a dedicated College Management Sub-Committee under the remit of the Education, Leisure and Housing Service. The Orkney College is funded by direct grant from the Scottish Funding Council (SFC). The trading position from these activities is reflected within the Council's Comprehensive Income and Expenditure Statement as part of financing and investment expenditure.

2019-2020		2020-2021	
		£000	£000
	<i>Expenditure:</i>		
4,398	Staff Costs	4,292	
483	Property Costs	395	
599	Supplies & Services	480	
141	Transport Costs	95	
86	Administration Costs	107	
94	Apportioned Costs	89	
309	Depreciation and impairment of non-current assets	292	
(41)	Provision for Bad Debts	7	
6,069			5,757
	<i>Income:</i>		
(3,850)	Grants	(3,747)	
(1,423)	Fees & Charges	(1,393)	
(167)	Other income	(100)	
(5,440)			(5,240)
629	Net cost of Orkney College services as included in the comprehensive income and expenditure statement		517
	<i>Orkney College share of the operating income and expenditure included in the comprehensive income and expenditure statement:</i>		
0	Capital Grants		0
12	Pensions interest cost and expected return on pensions assets		(6)
641	(Surplus) or deficit for the year on Orkney College		511

Movement on the Orkney College Revenue Account Statement

This statement shows the movement in the year on the Orkney College Revenue Account Balance. The surplus or deficit for the year on the Orkney College income and expenditure statement represents the true economic cost of providing the Council's Further and Higher Education services, more details of which are shown in the Orkney College income and expenditure statement itself. The adjustments between accounting basis and funding basis under regulations detail the adjustments that are made to the Orkney College income and expenditure, as recognised by the Council in the year in accordance with proper accounting practice, to the statutory amounts required to be charged to the Orkney College Balance.

2019-2020 £000		2020-2021			
		£000	£000	£000	£000
(4)	Balance on the College at the end of the previous year				(63)
641	(Surplus) or deficit for the year on the College income and expenditure statement			511	
	<i>Adjustments between accounting basis and funding basis under regulations:</i>				
	College share of contributions to or (from) the Pension Reserve:				
(624)	Reverse out net charges made for post-employment benefits in accordance with IAS19	(485)			
261	Pensions cost chargeable for the year in accordance with statutory provisions: employer's contributions payable to Orkney Islands Council Pension Fund	252			
(363)	College share of contributions to or (from) the Pension Reserve		(233)		
(35)	College share of contributions to or (from) the Employee Statutory Adjustment Account		(30)		
(302)	Reverse out depreciation and impairment losses on non-current assets	(291)			
(302)	Transfer to or (from) the Capital Adjustment Account		(291)		
(700)	Total of adjustments between accounting basis and funding basis under regulations			(554)	
(59)	Net (increase) or decrease before transfers to or from reserves			(43)	
(59)	(Increase) or decrease in the year on the College				(43)
(63)	Balance on the College at the end of the current year				(106)

Group Accounts

Statement of Group Accounting Policies

The Code of Practice on Local Authority Accounting in the United Kingdom 2010-2011 (the Code) placed a requirement on authorities to consider all their interests in external organisations including limited companies and other statutory organisations. This includes other local authorities or similar bodies defined in section 106 of the Local Government (Scotland) Act 1973 e.g. statutory bodies such as Valuation Boards.

Authorities are required to prepare a full set of group accounts in addition to their own Council's accounts where they have a material interest in such entities. The group Financial Statements to 31 March 2021 represents the consolidation of the balances and transactions of the Council, its subsidiaries, associate and joint ventures.

The group accounting policies are those specified for the single entity financial statements. The financial reporting framework that has been applied in the preparation of the group members is FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006.

Combining Entities

A full set of group accounts, in addition to the Council's accounts, has been prepared which incorporates material balances from identified subsidiaries, associate and joint ventures. The Group Accounts consolidate the results of the Council with five other entities.

Name of Combining Entity	Method of Accounting
Orkney Towage Company Limited	Subsidiary
Orkney Ferries Limited	Subsidiary
Pickaquoy Centre Trust	Subsidiary
Hammars Hill Energy Ltd	Associate
Orkney Integration Joint Board	Joint Venture
Orkney Research and Innovation Campus	Joint Venture

To comply with the Code, the Council has identified a number of companies where the Council has a "controlling interest" - these are termed "subsidiaries". The Council holds 100% of the shares in 2 Companies (Orkney Towage Company Limited and Orkney Ferries Limited). In accordance with the definition of 'control', the Council has included the results of the Pickaquoy Centre Trust which are reported as a "subsidiary" on the basis that the Council has power over the investee; exposure, or rights, to variable returns from its involvement with the investee; and the ability to use its power over the investee to affect the amount of the investor's returns.

The Council is also required to include the results of organisations termed as "associates", or "joint ventures" if it has a "joint control of", or "significant influence" over financial and operating policies.

The Council has included the results of Hammars Hill Energy Ltd as an "associate" within the Group Accounts, as the Council holds 28% of voting rights which is considered "significant influence". The Council's policy is to account for shareholdings in an associate to a round percentage calculation of the number of shares it holds in the entity. The Council holds 1,103,200 shares in the Company.

The Council has included the Orkney Integration Joint Board (OIJB) as a "joint venture" within the Group Accounts on the basis that the Council and the National Health Service (NHS), as the parties participating in the arrangement, have joint equal rights to the net assets of the OIJB.

The Orkney Research and Innovation Campus (ORIC) has also been included by the Council as a "joint venture" within the Group Accounts on the basis that the Council and the Highlands and Islands Enterprise Network, as the parties participating in the arrangement, have joint equal rights to the net assets of ORIC.

The associate organisation and joint ventures were consolidated on the following basis:

Name of Combining Entity	Method of Combining	2019-2020 %	2020-2021 %
Hammars Hill Energy Ltd	Equity Method	28	28
Orkney Integrated Joint Board	Equity Method	50	50
Orkney Research and Innovation Campus	Equity Method	50	50

Further details for each entity are provided in the notes to the Group Accounts.

Basis of Consolidation and Going Concern

In line with the principles contained within the Code, the Group Financial Statement for the year ended 31 March 2021 has been prepared on the basis of a full consolidation of the financial transactions and balances of the Council and its subsidiaries.

"Subsidiaries" have been accounted for under the accounting convention of the "acquisition basis". The "associate" and the "joint ventures" have been included using the equity method, where the Council's share of the net assets or liabilities of the "associate" is incorporated and adjusted each year by the Council's share of the entity's results (recognised in the Group Income & Expenditure Statement), and its share of other gains and losses.

The effect of inclusion of the above bodies on the Group Balance Sheet is to reduce both Reserves and Net Assets by £3.129M representing the Council's share of the net assets in these entities.

The above subsidiaries, associate and joint ventures consider it appropriate that their Annual Accounts should follow the "going concern" basis of accounting with the exception of Orkney Towage Company Ltd. A meeting of the Policy and Resources Committee on 16 February 2016 approved the project plan and timeline for integration of Orkney Towage Company Limited into the Council. Following the decision to transfer the company's trade and assets to the parent, the assets were transferred during 2016-2017. During 2017-2018 the Orkney Towage Company provided a restricted staffing supply service only to the Council, with employees formally transferring to the Council on 1 April 2018.

The intention is to wind the company up in due course. Currently no formal steps have been taken to begin a formal liquidation. Accordingly, the financial statements of Orkney Towage were prepared on a break-up basis rather than on a going concern basis.

Group Movement in Reserves

For the Year Ended 31 March 2021

This statement shows the movement in the year on the different reserves held by the group, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation), unusable reserves and the group share of subsidiaries and associate reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the group's services, more details of which are shown in the Group Comprehensive Income and Expenditure Statement.

	General Fund Balance £000	HRA Balance £000	Other Reserves £000	Harbour Reserves £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000	Authority's share of subsidiaries & associates £000	Total Group Reserves £000
Balance as at 1 April 2020	(18,788)	(523)	(11,010)	(199,300)	(229,621)	(350,413)	(580,034)	2,858	(577,176)
(Surplus) or deficit on provision of services	2,391	(4,109)		(47,298)	(49,016)		(49,016)	(1,349)	(50,365)
Other Comprehensive Expenditure and Income	0	0	0	0	0	(28,791)	(28,791)	1,620	(27,171)
Total Comprehensive Expenditure and Income	2,391	(4,109)	0	(47,298)	(49,016)	(28,791)	(77,807)	271	(77,536)
Net (Increase) / Decrease before Transfers	2,391	(4,109)	0	(47,298)	(49,016)	(28,791)	(77,807)	271	(77,536)
Adjustments between accounting basis & funding basis under regulations	(6,837)	4,575	528	(2,541)	(4,275)	4,275	0	0	0
Net (Increase) / Decrease before Transfers to Earmarked Reserves	(4,446)	466	528	(49,839)	(53,291)	(24,516)	(77,807)	271	(77,536)
Transfers (to) / from Earmarked Reserves	(6,197)	(592)	(2,800)	9,589	0	0	0	0	0
(Increase) / Decrease in Year	(10,643)	(126)	(2,272)	(40,250)	(53,291)	(24,516)	(77,807)	271	(77,536)
Balance as at 31 March 2021	(29,431)	(649)	(13,282)	(239,550)	(282,912)	(374,929)	(657,841)	3,129	(654,712)

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	General Fund Balance £000	HRA Balance £000	Other Reserves £000	Harbour Reserves Restated £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000	Authority's share of subsidiaries & associates £000	Total Group Reserves £000
Balance as at 1 April 2019	(13,175)	(523)	(12,294)	(217,972)	(243,964)	(328,981)	(572,945)	3,076	(569,869)
(Surplus) or deficit on provision of services	99,174	(967)	0	14,882	113,089	0	113,089	1,289	114,378
Other Comprehensive Expenditure and Income	(88,111)	0	0	0	(88,111)	(32,067)	(120,178)	(1,507)	(121,685)
Total Comprehensive Expenditure and Income	11,063	(967)	0	14,882	24,978	(32,067)	(7,089)	(218)	(7,307)
Net (Increase) / Decrease before Transfers	11,063	(967)	0	14,882	24,978	(32,067)	(7,089)	(218)	(7,307)
Adjustments between accounting basis & funding basis under regulations	(9,126)	1,209	(512)	(2,206)	(10,635)	10,635	0	0	0
Net (Increase) / Decrease before Transfers to Earmarked Reserves	1,937	242	(512)	12,676	14,343	(21,432)	(7,089)	(218)	(7,307)
Transfers (to) / from Earmarked Reserves	(7,550)	(242)	1,796	5,996	0	0	0	0	0
(Increase) / Decrease in Year	(5,613)	0	1,284	18,672	14,343	(21,432)	(7,089)	(218)	(7,307)
Adjustment to eliminate Orkney Towage Loan	0	0	0	0	0	0	0	0	0
Balance as at 31 March 2020	(18,788)	(523)	(11,010)	(199,300)	(229,621)	(350,413)	(580,034)	2,858	(577,176)

Group Comprehensive Income and Expenditure Statement for the year ended 31 March 2021

This statement shows the accounting cost in the year of providing services and managing the group in accordance with generally accepted accounting practices, 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.

	Notes	2019-2020			2020-2021		
		£000 Expenditure	£000 Income	£000 Net	£000 Expenditure	£000 Income	£000 Net
Cultural and Recreation		10,047	(3,806)	6,241	8,900	(2,723)	6,177
Education		40,517	(2,608)	37,909	42,148	(3,112)	39,036
Roads and Transportation		22,658	(8,663)	13,995	21,384	(7,551)	13,833
Housing Revenue Account		3,918	(3,862)	56	134	(3,766)	(3,632)
Harbour Authority		13,746	(15,747)	(2,001)	14,090	(13,667)	423
Housing services		6,648	(5,097)	1,551	5,834	(4,435)	1,399
Community Social Services		51,144	(27,251)	23,893	52,757	(29,356)	23,401
Planning and Development		5,413	(2,445)	2,968	5,023	(2,355)	2,668
Environmental Services		6,061	(1,169)	4,892	5,654	(1,032)	4,622
Other Services		11,391	(3,340)	8,051	12,970	(3,521)	9,449
Non distributed costs		8	0	8	46	0	46
(Surplus)/Deficit on Continuing Operations		171,551	(73,988)	97,563	168,940	(71,518)	97,422
(Surplus) or Deficit on Discontinued Operations				0			0
Other Operating Expenditure				(76)			170
Financing and Investment Income and Expenditure				18,345			(46,441)
Taxation and Non-Specific Grant Income				(90,577)			(100,206)
Associates and Joint Ventures accounted for on an equity basis	6			1,012			(1,309)
Tax Expense				0			0
Group (Surplus) or Deficit				26,267			(50,364)
(Surplus) or deficit on revaluation of non-current assets				995			(10,397)
(Surplus) or deficit on revaluation of available for sale financial assets at fair value through Other Comprehensive Income and Expenditure				(412)			(45)
Actuarial gains / losses on pension assets / liabilities				(34,157)			(16,729)
Other Comprehensive Income and Expenditure				(33,574)			(27,171)
Total Comprehensive Income and Expenditure (Surplus)/Deficit	8			(7,307)			(77,535)

Group Balance Sheet as at 31 March 2021

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the group. The net assets of the group (assets less liabilities) are matched by the reserves held by the group. Group Reserves have three categories of underlying other reserves. The first category is usable reserves, the second category is those that the authority is not able to use to provide services and the final category is the group's share in the reserves of its consolidated subsidiaries and associate. Further details relating to these categories can be found within the Council's notes to the core financial statements.

	31 March 2020 £000	31 March 2021 £000
Property, Plant & Equipment	365,858	380,364
Heritage Assets	912	912
Investment Property	19,725	19,802
Intangible Assets	72	230
Long Term Debtors	2,365	2,580
Long Term Investments	2,455	5,401
Investments in associates and joint ventures	1,982	3,149
Long Term Assets	393,369	412,438
Short Term Investments	208,838	255,441
Inventories	1,447	1,876
Short Term Debtors	8,027	10,119
Cash and Cash Equivalents	31,791	37,254
Assets held for sale	1,057	741
Current Assets	251,160	305,431
Short Term Borrowing	378	407
Short Term Creditors	15,084	20,115
Current Liabilities	15,462	20,522
Provisions	30,590	31,004
Long Term Borrowing	35,143	35,085
Other Long Term Liabilities	(13,842)	(23,454)
Long Term Liabilities	51,891	42,635
Net Assets	577,176	654,712
Group Reserves	577,176	654,712
Total Reserves	577,176	654,712

The unaudited accounts were issued on 29 June 2021.

The audited accounts were authorised for issue on 11 November 2021.

Gareth Waterson, BAcc., CA
Section 95 Officer
11 November 2021

Group Cash Flow Statement at 31 March 2021

The Cash Flow Statement shows the changes in cash and cash equivalents of the group during the reporting period. The statement shows how the group 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 group are funded by way of taxation and grant income or from the recipients of services provided by the group. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the group's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the group.

	Notes	2019-2020 £000	2020-2021 £000
Net surplus or deficit on the provision of services		(26,268)	50,364
Adjustment to surplus or deficit on the provision of services for noncash movements		24,649	(32,155)
Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities		1,119	1,108
Net Cash flows from Operating Activities		(500)	19,317
Net Cash flows from Investing Activities		(7,289)	(11,766)
Net Cash flows from Financing Activities		3,818	(2,088)
Net Cash flows from Taxation		0	0
Net increase or decrease in cash and cash equivalents		(3,971)	5,463
Cash and cash equivalents at the beginning of the reporting period		35,762	31,791
Cash and cash equivalents at the end of the reporting period		31,791	37,254

Analysis of Adjustments to Surplus/Deficit on the Provision of Services

	2019-2020 £000	2020-2021 £000
Adjustment to surplus or deficit on the provision of services for noncash movements		
Depreciation	13,977	13,504
Impairment & downward revaluations (& non-sale de-recognition)	409	(1,937)
(Increase)/Decrease in Stock	(16)	(428)
(Increase)/Decrease in Debtors	(144)	(3,582)
Increase/(Decrease) in Creditors	(2,235)	4,292
Payments to Pension fund	10,513	7,134
Carrying amount of non-current assets sold	646	693
Investment Income not involving the movement of cash	15,394	(49,083)
Contributions to Other Reserves/Provisions	(14,018)	(2,577)
Movement in value of investment properties-included above in Impairment & downward revaluations (& non-sale de-recognition)	123	(171)
	24,649	(32,155)
Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities		
Purchase of short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)	6,598	275,206
Proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)	(5,479)	(274,098)
	1,119	1,108

Cash Flow from Investing Activities

	2019-2020	2020-2021
	£000	£000
Purchase of PP&E, investment property and intangible assets	19,543	16,456
Purchase of Short Term Investments (not considered to be cash equivalents)	(4,518)	357
Purchase of Long Term Investments	4,490	4,180
Other Payments for Investing Activities	565	1,051
Proceeds from the sale of PP&E, investment property and intangible assets	(645)	(517)
Proceeds from Long Term Investments	(1,462)	(3,953)
Capital Grants and Contributions Received	(10,987)	(6,223)
Other Receipts from Investing Activities	303	415
Net Cash flows from Investing Activities	7,289	11,766

Cash Flow from Financing Activities

	2019-2020	2020-2021
	£000	£000
Cash receipts from Short and Long Term Borrowing	(10,000)	0
Other Receipts form Financing Activities	(268)	(165)
Repayment of Short and Long Term borrowing	5,028	29
Other payments for Financing Activities	1,422	2,224
Net Cash flows from Financing Activities	(3,818)	2,088

Notes to the Financial Statements

For the Year Ended 31 March 2021

The notes required for the accounts of Orkney Islands Council itself are disclosed separately in the preceding pages. The following notes provide material additional amounts and details in relation to the other combining entities. The accounting regulations require specific disclosures about the combining entities and the nature of their business.

1. Disclosure of Differences with Main Statement of Accounting Policies

The financial statements in the Group Accounts of Orkney Islands Council are prepared in accordance with the accounting policies set out in the Council's Financial Statement Notes section with the additions and exceptions shown in the following section.

Group Income and Expenditure Statement

Retirement Benefits

In common with Orkney Islands Council, the subsidiaries participate in the Council's Pension Scheme. This is explained within the Council's Financial Statements Notes 32 and 33. The subsidiaries have accounting policies for pensions accounting that are consistent with those of the Council.

Value Added Tax

VAT paid by the Pickaquoy Centre Trust is accounted for within "net cost of service" to the extent that it is irrecoverable from H.M. Revenue and Customs.

Proceeds from Disposals of Fixed Assets

Profits and losses on the disposal of non-current assets are credited or debited to the Group Income & Expenditure Statement in a separate line. In the case of proceeds for the Council's assets, these are taken to the Usable Capital Receipts Reserve. Amounts in respect of Council assets are appropriated to the Capital Adjustment Account. For the share of proceeds for associates, these are taken instead to the Group.

Group Balance Sheet

Valuation of Fixed Assets

The basis of valuation across the combining entities is in accordance with International Financial Reporting Standards (IFRS). Operational assets are shown at the lower of net replacement cost or net realisable value in existing use. There are no material inconsistencies with the policies adopted by Orkney Islands Council

For the year to 31 March 2021 the Orkney Towage Company Ltd had no fixed assets.

Stock

Stock is valued at the lower of cost or net realisable value. The difference in valuation methods does not have a material effect on the Group given the levels of stockholdings.

2. Combining Entities

The Subsidiaries have been consolidated on a line by line basis. To permit consolidation, the Profit and Loss Accounts of the subsidiary entities have been presented in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom. The following section provides some additional information on the relationship between the Council and each subsidiary. The Council would ensure an orderly winding up of each subsidiary should the businesses cease.

Orkney Towage Company Limited

Orkney Towage Company Ltd is a company incorporated in 1976 under the terms of the Companies Acts to operate tugs within and around the Orkney Islands. The Council is the sole shareholder in the company holding all 501 £1 ordinary 'A' shares, and all 499 £1 ordinary 'B' shares representing 100% of the issued share capital. Under accounting standards, the Council has a controlling interest in this company, and it is

therefore included in the group accounts as a subsidiary. Councillors hold all 4 seats on the board, with each director entitled to one vote.

At a special meeting of the Policy and Resources Committee of the Council on 16 February 2016 the committee approved the project plan and timeline for integration of Orkney Towage Company Limited into the Council.

During 2016-2017 the tangible assets were transferred to the parent and staff were formally transferred to the Council by 1 April 2018.

The Orkney Towage operations are now undertaken by the Council's Marine Services; however, the transfer of assets and liabilities has not yet been fully concluded.

The net assets of the company as at 31 March 2021 were £0.025M compared to net assets of £0.596M at 31 March 2020. The profit before taxation for the period to 31 March 2021 was £nil compared to £0.003M for the period to 31 March 2020. Dividend payments of £0.571M were received by the Council for the period to 31 March 2021 in respect of its investment.

No loan advances were made from the Council to the company during 2020-21.

The Council is currently liaising with the MNOPF regarding a Flexible Apportionment Arrangement for Orkney Towage Company Ltd. The MNOPF is currently conducting diligence on the covenant strength of the Council to evidence that statutory declarations satisfying the two limbs of the funding test under the Section 75 debt legislation can be made. There has been a renewed effort to progress this action with a view to concluding the FAA 2021/22.

The latest set of audited accounts is for the year to 31 March 2021. Copies of these accounts can be obtained from Orkney Islands Council, School Place, Kirkwall, Orkney, KW15 1NY.

Orkney Ferries Limited

Orkney Ferries Ltd is a company incorporated in 1961 under the terms of the Companies Acts to provide sea transport to the North and South Isles of Orkney. The Council is the principle shareholder in the company holding all 7,500,000 £1 ordinary shares, representing 100% of the issued share capital. Under accounting standards, the Council has a controlling interest in this company, and it is therefore included in the group accounts as a subsidiary. Councillors hold all 5 seats on the board, with each director entitled to one vote.

The net assets of the company at 31 March 2021 were £0.598M compared to net assets of £1.109M at 31 March 2020. There was profit of £0.497M before taxation for the period to 31 March 2021 compared to £0.001M to 31 March 2020. In 2020-21, Orkney Islands Council contributed £10.033M or 83.5% of the company's income. Orkney Ferries is deficit funded, whereby, any surpluses or deficits earned by the Company will be repaid to or recovered from the Council. No dividend payments were due to, or received by, the Council in respect of its investment.

The latest set of audited accounts is for the year to 31 March 2021. Copies of these accounts can be obtained from Orkney Islands Council, School Place, Kirkwall, Orkney, KW15 1NY.

Pickaquoy Centre Trust

The Pickaquoy Centre Trust is a charitable trust formed in 1999 and is registered in Scotland. Its principal place of business is The Pickaquoy Centre, Muddisdale Loan, Kirkwall KW15 1LR. The Trust provides leisure facilities within Orkney Islands Council's area to the general public. The objectives of the Trust are to provide facilities for recreation, sport, cultural and other leisure activities for the benefit of the community in Orkney. Any surplus generated by the charity is applied solely to its continuation and development. Councillors hold 5 of the 12 seats on the board, with each trustee entitled to one vote.

In 2020-21, Orkney Islands Council contributed £0.777M or 27.4% of the company's income and its share of the year-end net liabilities of £0.476M (2019-20 net assets of £0.021M) is included in the Group Balance Sheet.

The latest set of audited accounts is for the year to 31 March 2021. When available, copies of these accounts can be obtained from The Pickaquoy Centre, Muddisdale Loan, Kirkwall KW15 1LR.

Hammars Hill Energy Ltd

Hammars Hill Energy Ltd is a private limited company incorporated in 2006. Its principal activity is that of wind farm developer and electricity generator.

Hammars Hill Energy Ltd is included in the Council's Group Accounts as, although no Council Member sits on the Board of Directors, the Council hold 28% of shares in the company and is therefore classed as "exerting a dominant or significant influence".

The latest set of audited accounts is for the year to 31 December 2020. Copies of these accounts can be obtained from Hammars Hill Energy Ltd, Savigarth, Evie KW17 2PQ.

The following additional disclosures are required under accounting regulations for Hammars Hill Energy Ltd as the Council's share of the net assets of the Company exceeds 25%.

Council's Share of Hammars Hill Energy Ltd	2019-2020 28.0% £000	2020-2021 28.0% £000
Turnover	524	451
Profit/(Loss) before tax	225	180
Taxation	(44)	(37)
Profit/(Loss) after tax	181	143
Fixed Assets	952	903
Current Assets	362	430
Liabilities due within one year	(99)	(78)
Liabilities due after one year or more	(116)	(116)
Net Assets / Liabilities	1,099	1,139
Contingent Liabilities	None	None
Capital Commitments	None	None

Orkney Integration Joint Board

The Orkney Integration Joint Board was established as a body corporate by order of Scottish Ministers with effect from 6 February 2016. The main purpose of the OIJB is to plan, resource and oversee the delivery of high quality health and social care services for and with the people of Orkney. The Council and the NHS are jointly accountable for the delivery of services by the OIJB; however, there is no role for either Party to independently sanction or veto decisions of the OIJB. The OIJB has therefore been included in the Group Accounts using the equity method.

The OIJB Financial Statements have been prepared to show transactions occurring between 1 April 2020 to 31 March 2021. The expenditure was £70.026M and the income was £72.349M resulting in net surplus of £2.323M. The balance sheet consisted of short-term debtors of £2.341M and short-term creditors of £0.018M, with total reserves of £2.323M. This surplus has been classed as earmarked balances and accounted for on a 50% equity basis by OIC. This means a total of £1.161M has been included in the total reserves of the Group Accounts.

The latest set of audited accounts is for the year to 31 March 2021. Copies of these accounts can be obtained from Orkney Islands Council, School Place, Kirkwall, Orkney, KW15 1NY.

Orkney Research and Innovation Campus

Orkney Islands Council has entered into a Limited Liability Partnership with Highlands and Islands Enterprise to establish the Orkney Research and Innovation Campus. The partnership was established on 26 March 2018 and has been included in the Group Accounts as a "joint venture" under IFRS11 which defines joint venture as "a business arrangement in which two or more parties agree to pool their resources for the purpose of accomplishing a specific task".

The ORIC Financial statements have been prepared to show transactions occurring between 1 April 2020 to 31 March 2021. The expenditure was £0.651M and the income was £0.424M resulting in net expenditure of £0.227M which included an impairment of £0.329M on the valuation of Fixed Assets under construction. The net assets as at 31 March 2021 were £1.699M. The Council also invested an additional £0.080M to ORIC during 2020-21, bringing the total investment in ORIC up to £3.335M.

The latest set of audited accounts is for the year to 31 March 2021. Copies of these accounts can be obtained from Orkney Islands Council, School Place, Kirkwall, Orkney, KW15 1NY.

3. Financial Impact of Consolidation

The effect of inclusion of the above bodies on the Group Balance Sheet is to decrease both Reserves and Net Assets by £3.129M representing the Council's share of the net liabilities in these entities.

4. Non-Material Interest in Subsidiaries, Associates and Joint Committees

The following bodies have not been consolidated into the group accounts as they are considered immaterial to the understanding of the accounts or where the Council does not exert a dominant or significant influence on the Company.

Name of considered entity	Reason for exclusion from Group Accounts
Orkney Cheese Company Limited	The Council does not exert a dominant or significant influence on the Company.
Orkney Islands Property Development Limited	The Council does not exert a dominant or significant influence on the Company.
Orkney and Shetland Joint Valuation Board	Not material to Group Accounts
Common Good Fund	Not material to Group Accounts
Weyland Farms Limited	Not material to Group Accounts
HiTrans	Not material to Group Accounts
Charitable Trusts	Not material to Group Accounts
SEEMIS Limited Liability Partnership	Not material to Group Accounts
Community Co-op's	Not material to Group Accounts

5. Surplus/Deficit on Continuing Operations of Subsidiaries

The inclusion of Orkney Ferries Limited, the Orkney Towage Company Limited and the Pickaquoy Centre Trust had the following effect on the Best Value Accounting Code of Practice service analysis as set out in the single entity Comprehensive Income and Expenditure Statement.

	2019-2020			2020-2021		
	£000 Expenditure	£000 Income	£000 Net	£000 Expenditure	£000 Income	£000 Net
Roads and Transportation	2,928	(2,924)	4	1,492	(1,988)	(496)
Harbour Authority	0	(2)	(2)	0	0	0
Cultural, environmental, regulatory and planning services	3,097	(2,768)	329	2,061	(2,176)	(115)
Total	6,025	(5,694)	331	3,553	(4,164)	(611)

6. Share of Operating Results of Associates and Joint Ventures

	2019-2020	2020-2021
	Net (Income)/ Expenditure £000	Net (Income)/ Expenditure £000
Associate and Joint Venture accounted for on an equity basis	1,012	(1,309)
Total	1,012	(1,309)

7. Financing and Investment Income and Expenditure Attributable to Group Entities

The inclusion of Orkney Ferries Limited, the Orkney Towage Company Limited and the Pickaquoy Centre Trust had the following effect on the service analysis as set out in the single entity Comprehensive Income and Expenditure Statement.

Subsidiaries	2019-2020 £000	2020-2021 £000
Interest Expense	0	0
Interest Income	(6)	(1)
Pension Interest	17	578
Total Group Entities	11	577

8. Reconciliation of the Deficit / (Surplus) on the Authority's single entity Income and Expenditure Statement to the Group Income and Expenditure Statement deficit / (surplus).

	2019-2020 £000	2020-2021 £000
Deficit/ (Surplus) for the year on the Authority Income and Expenditure Statement	(7,089)	(77,807)
Deficit/(Surplus) for the year attributable to group entities	(218)	272
Deficit/ (Surplus) for the year on the Group Income and Expenditure Statement	(7,307)	(77,535)

9. Pension Costs

Orkney Islands Council, Orkney Ferries Limited, the Orkney Towage Company Limited and the Pickaquoy Centre Trust are members of the Local Government Pension Scheme – a defined benefit scheme that offers retirement benefits to employees under the terms and conditions of employment. Although these benefits will not actually be payable until employees retire, the group has a commitment to make the payments that need to be disclosed at the time employees earn their future entitlement. The net liability of the Council and its subsidiaries is detailed below.

	2019-2020 Total £000	Council £000	Group Entities £000	2020-2021 Total £000
Fair Value of Employer Assets	(367,180)	(481,638)	(34,410)	(516,048)
Present value of funded liabilities	353,244	457,392	35,104	492,496
Net (Under)/Overfunding in Funded Plans	(13,936)	(24,246)	694	(23,552)
Present Value of Unfunded Liabilities	94	0	98	98
Net (Asset)/Liability	(13,842)	(24,246)	792	(23,454)

10. Other Pension Costs

A number of employees of Orkney Islands Council, Orkney Towage Company Limited and Orkney Ferries Limited are not members of the Council's pension scheme. Most of them participate in one of the Merchant Navy Pension Funds.

Ensign Retirement Plan

Some employees from Orkney Ferries Limited and the Council contribute to this defined contribution pension plan. Contribution rates of 10% and 20% of pensionable salary are payable by employees and employers, respectively. Contributions payable in the year amounted to £60,433.

Merchant Navy Officers Pension Fund (MNOF)

The MNOF is closed to new members and closed to future accrual from 31 March 2016 when contributing members were transferred to the Ensign Retirement Plan (for the MNOF). The MNOF is a multiple employer scheme and the Council is unable to identify its share of the underlying assets and liabilities. As at the last full valuation in 2018 the Fund had a deficit of £73M which was an improvement from the 2015 deficit position of £329M. The Trustees of the Fund may in future request deficit contributions depending on the results of future actuarial valuations of the Fund. In the Autumn 2020 update from the Chair of the MNOF, Employers were made aware that the MNOF had reached the milestone funding level of 100%

on an interim valuation. This was not a formal triennial valuation but provides a positive indication that the financial strength of the fund has improved significantly.

The Trustee must carry out a full actuarial valuation at least every three years to assess the scheme's funding level. The next MNOF Actuarial Valuation will refer to the three-year period ending 31 March 2021. Following a period of consultation with the MNOF's participating employers, the final valuation results will be agreed by the Board towards the end of 2021 and communicated to members and employers early in 2022.

Merchant Navy Rating Pension Fund (MNRPF)

Some employees may qualify for membership of the MNRPF, a defined benefit scheme which closed to future accrual on 31 May 2001. For qualifying employees in the scheme Employers make contributions at the rate of 2% to provide for revaluation of benefits up to the date of retirement. It is a multiple employer scheme and the group is unable to identify its share of the underlying assets and liabilities. As at the last full valuation in March 2020, the MNRPF had a deficit of £96M which included a reserve figure of £70M for an unresolved court case. The trustees have indicated that they will not be seeking additional deficit contributions from participating employers at the present time.

Glossary of Terms

AAA Fitch Rating

Highest credit quality - 'AAA' ratings denote the lowest expectation of credit risk. They are assigned only in case of exceptionally strong capacity for timely payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.

AA Fitch Rating

Very high credit quality - 'AA' ratings denote a very low expectation of credit risk. They indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.

A Fitch Rating

High credit quality - 'A' ratings denote a low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.

Accounting Period

The period of time covered by the accounts, normally a period of twelve months commencing on 1 April. The end of the accounting period is the Balance Sheet date.

Accruals

Sums included in the final accounts to recognise revenue and capital income and expenditure earned or incurred in the financial year, but for which actual payment had not been received or made as at 31 March.

Actuarial Gains and Losses

For a defined benefit pension scheme, the changes in actuarial surpluses or deficits that arise because:

- Events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses); or
- The actuarial assumptions have changed.

Asset

An item having value to the authority in monetary terms. Assets are categorised as either current or non-current.

- A current asset will be consumed or cease to have material value within the next financial year (e.g. cash and stock);
- A non-current asset provides benefits to the Authority and to the services it provides for a period of more than one year and may be tangible e.g. a community centre, or intangible, e.g. computer software licences.

Audit of Accounts

An independent examination of the Authority's financial affairs.

Balance Sheet

A statement of the recorded assets, liabilities and other balances at the end of the accounting period.

Borrowing

Using cash provided by another party to pay for expenditure, on the basis of an agreement to repay the cash at a future point, usually incurring additional interest charges over and above the original amount.

Budget

The forecast of net revenue and capital expenditure over the accounting period.

Capital Expenditure

Expenditure on the acquisition of a fixed asset, which will be used in providing services beyond the current accounting period, or expenditure which adds to and not merely maintains the value of an existing fixed asset.

Capital Financing

Funds raised to pay for capital expenditure. There are various methods of financing capital expenditure including borrowing, leasing, direct revenue financing, usable capital receipts, capital grants, capital contributions, revenue reserves and earmarked balances.

Capital Programme

The capital schemes the Authority intends to carry out over a specific period of time.

Capital Receipt

The proceeds from the disposal of land or other fixed assets. Proportions of capital receipts can be used to finance new capital expenditure, within rules set down by the government but they cannot be used to finance revenue expenditure.

Claw-Back

Where average council house rents are set higher than the government's prescribed average limit rent, used in the calculation of rent rebates, the percentage difference reduces the amount of rent rebate subsidy due to the authority, i.e. it is "clawed-back" by the government.

CIPFA

The Chartered Institute of Public Finance and Accountancy

Collection Fund

A separate fund that records the income and expenditure relating to Council Tax and non-domestic rates.

Community Assets

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

Comprehensive Income and Expenditure Statement

The account of the Authority that reports the net cost for the year of the functions for which it is responsible and demonstrates how that cost has been financed from precepts, grants and other income.

Consistency

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

Contingent Asset

A contingent asset is a possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Authority's accounts.

Contingent Liability

A contingent liability is either:

- A possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Authority's control; or
- A present obligation arising from past events where it is not probable that a transfer of economic benefits will be required, or the amount of the obligation cannot be measured with sufficient reliability.

Corporate and Democratic Core

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

Creditor

Amount owed by the Authority for work done, goods received, or services rendered within the accounting period, but for which payment has not been made by the end of that accounting period.

Current Service Cost (Pensions)

The increase in the present value of a defined benefits pension scheme's liabilities, expected to arise from employee service in the current period.

Debtor

Amount owed to the Authority for works done, goods received, or services rendered within the accounting period, but for which payment has not been received by the end of that accounting period.

Defined Benefit Pension Scheme

Pension schemes in which the benefits received by the participants are independent of the contributions paid and are not directly related to the investments of the scheme.

Depreciation

The measure of the cost of wearing out, consumption or other reduction in the useful economic life of the Authority's fixed assets during the accounting period, whether from use, the passage of time or obsolescence through technical or other changes.

Discretionary Benefits (Pensions)

Retirement benefits, which the employer has no legal, contractual or constructive obligation to award and are awarded under the Authority's discretionary powers such as the Local Government (Discretionary Payments) Regulations 1996.

Equity

The Authority's value of total assets less total liabilities.

Events after the Balance Sheet Date

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

Expected Return on Pension Assets

For a funded defined benefit scheme, this is the average rate of return, including both income and changes in fair value but net of scheme expenses, which is expected over the remaining life of the related obligation on the actual assets held by the scheme.

Fair Value

The fair value of an asset is the price at which it could be exchanged in an arm's length transaction.

Finance Lease

A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee.

Going Concern

The concept that the Annual Accounts is prepared on the assumption that the Authority will continue in operational existence for the foreseeable future.

Government Grants

Grants made by the government towards either revenue or capital expenditure in return for past or future compliance with certain conditions relating to the activities of the Authority. These grants may be specific to a particular scheme or may support the revenue spend of the Authority in general.

Housing Benefits

A system of financial assistance to individuals towards certain housing costs administered by authorities and subsidised by central government.

Housing Revenue Account (HRA)

A separate account to the General Fund, which includes the income and expenditure arising from the provision of housing accommodation by the Authority.

Impairment

A reduction in the value of a fixed asset to below its recoverable amount, the higher of the asset's fair value less costs to sell and its value in use.

Infrastructure Assets

Fixed assets belonging to the Authority that cannot be transferred or sold, on which expenditure is only recoverable by the continued use of the asset created. Examples are highways, footpaths and bridges.

Intangible Assets

An intangible (non-physical) item may be defined as an asset when access to the future economic benefits it represents is controlled by the reporting entity. This Authority's intangible assets comprise computer software licences.

Interest Cost (Pensions)

For a defined benefit scheme, the expected increase during the period of the present value of the scheme liabilities because the benefits are one period closer to settlement.

Investments (Pension Fund)

The investments of the Pension Fund will be accounted for in the statements of that fund. However, authorities are also required to disclose, as part of the disclosure requirements relating to retirement benefits, the attributable share of the pension scheme assets associated with their underlying obligations.

Liability

A liability is where the Authority owes payment to an individual or another organisation.

- A current liability is an amount which will become payable or could be called in within the next accounting period, e.g. creditors or cash overdrawn.
- A deferred liability is an amount which by arrangement is payable beyond the next year at some point in the future or to be paid off by an annual sum over a period of time.

Liquid Resources

Current asset investments that are readily disposable by the Authority without disrupting its business and are either:

- Readily convertible to known amounts of cash at or close to the carrying amount; or
- Traded in an active market

Long-Term Contract

A contract entered into for the design, manufacture or construction of a single substantial asset or the provision of a service (or a combination of assets or services which together constitute a single project), where the time taken to substantially complete the contract is such that the contract activity falls into more than one accounting period.

Materiality

The concept that the Annual Accounts should include all amounts which, if omitted, or mis-stated, could be expected to lead to a distortion of the financial statements and ultimately mislead a user of the accounts.

Minimum Revenue Provision (MRP)

The minimum amount which must be charged to the revenue account each year in order to provide for the repayment of loans and other amounts borrowed by the Authority.

Net Book Value

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

Net Debt

The Authority's borrowings less cash and liquid resources.

Non-Distributed Costs

These are overheads for which no user now benefits and as such are not apportioned to services.

Non-Domestic Rates (NDR)

The Non-Domestic Rate is a levy on businesses, based on a national rate in the pound set by central government and multiplied by the assessed rateable value of the premises they occupy. In England it is collected by the Authority on behalf of itself, central government and major preceptors. In Scotland it is collected by the Authority on behalf of central government and then redistributed back to support the cost of services.

Non-Operational Assets

Fixed assets held by the Authority but not directly occupied, used or consumed in the delivery of services. Examples are investment properties, assets under construction or assets surplus to requirements pending sale or redevelopment.

Operating Lease

A lease where the ownership of the fixed asset remains with the lessor.

Operational Assets

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

Past Service Cost (Pensions)

For a defined benefit pension scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to retirement benefits.

Pension Scheme Liabilities

The liabilities of a defined benefit pension scheme for outgoings due after the valuation date. Scheme liabilities measured during the projected unit method reflect the benefits that the employer is committed to provide for service up to the valuation date.

Precept

The levy made by precepting authorities by billing authorities, requiring the latter to collect income from Council Tax on their behalf.

Prior Year Adjustment

Material adjustments applicable to previous years arising from changes in accounting policies or from the correction of fundamental errors. This does not include normal recurring corrections or adjustments of accounting estimates made in prior years.

Provision

An amount put aside in the accounts for future liabilities or losses which are certain or very likely to occur but the amounts or dates of when they will arise are uncertain.

Public Works Loan Board (PWLB)

A Central Government Agency, which provides loans for one year and above to authorities at interest rates only slightly higher than those at which the government can borrow itself.

Rateable Value

The annual assumed rental of a hereditament, which is used for National Non-Domestic Rate purposes.

Related Parties

There is a detailed definition of related parties in FRS 8. For the Council's purposes related parties are deemed to include the Authority's members, the Chief Executive, its Directors and their close family and household members.

Related Party Transactions

The Statement of Recommended Practice requires the disclosure of any material transactions between the Authority and related parties to ensure that stakeholders are aware when these transactions occur and the amount and implications of such.

Remuneration

All sums paid to or receivable by an employee and sums due by way of expenses allowances (as far as those sums are chargeable to UK income tax) and the money value of any other benefits received, other than in cash. Pension contributions payable by the employer are excluded.

Reserves

The accumulation of surpluses, deficits and appropriations over past years. Reserves of a revenue nature are available and can be spent or earmarked at the discretion of the Authority. Some capital reserves such as the fixed asset restatement account cannot be used to meet current expenditure.

Residual Value

The net realisable value of an asset at the end of its useful life.

Retirement Benefits

All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment.

Revenue Expenditure

The day-to-day expenses of providing services.

Revenue Expenditure Capitalised Under Statute (REFCUS)

Expenditure which ordinarily would be revenue but is statutorily defined as capital. Examples of REFCUS include grants of a capital nature to voluntary organisations and back pay expenditure capitalised under Secretary of State Direction.

Revenue Support Grant

A grant paid by Central Government to authorities, contributing towards the general cost of their services.

Stocks

Items of raw materials and stores an authority has procured and holds in expectation of future use. Examples are consumable stores, raw materials and products and services in intermediate stages of completion.

Temporary Borrowing

Money borrowed for a period of less than one year.

Trust Funds

Funds administered by the Authority for such purposes as prizes, charities, specific projects and on behalf of minors.

Useful Economic Life (UEL)

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



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