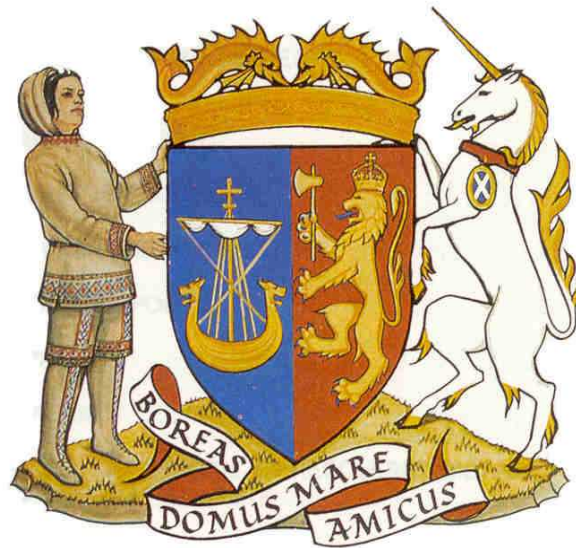


ORKNEY ISLANDS COUNCIL



STATEMENT OF ACCOUNTS

2009 / 2010

Statement of Accounts - 2009/2010

Contents

Foreword by the Director of Finance and Housing	1
Statement of Accounting Policies	6
Statement of Responsibilities for the Statement of Accounts	11
Income and Expenditure Account	12
Statement of Movement on General Fund Balance	13
Statement of Total Recognised Gains and Losses	14
Balance Sheet	15
Cash Flow Statement	16
Notes to Core Financial Statements	17
Harbour Authority Account	34
Orkney College of Further Education Account	37
Housing Revenue Account	39
Council Tax Income Account	41
Non Domestic Rates Income Account	43
Pension Fund Account	44
Charitable Trust Funds	51
Non Charitable Trust Funds	53
Common Good Fund	54
Group Accounting Policies	55
Group Income and Expenditure Account	58
Reconciliation of the Single Entity Surplus or Deficit to the Group Surplus or Deficit	59
Group Statement of Total Recognised Gains and Losses	60
Group Balance Sheet	61
Group Cash Flow Statement	63
Notes to Core Group Financial Statements	64
Statement on the System of Internal Financial Control	69
Independent Auditor's Report	72

FOREWORD BY THE DIRECTOR OF FINANCE AND HOUSING

INTRODUCTION

The purpose of the annual Statement of Accounts is to demonstrate proper stewardship of the Council's financial affairs. The Accounts of the Islands Council are set out on the following pages and have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom.

This foreword provides an explanation of the Statement of Accounts and of the most significant matters reported in the Accounts, together with a summary of the financial outturn for the year ended 31 March 2010.

CORE FINANCIAL STATEMENTS

Income and Expenditure Account

The Income and Expenditure Account is a summary of the financial performance of the Council, measured in terms of the resources generated and consumed in providing services and managing the Council for last financial year.

Statement of Movement on the General Fund Balance

The Statement of Movement on General Fund Balance reconciles the outturn on the Income and Expenditure Account to the General Fund Balance, in recognition of the fact that the Council is required to raise council tax on a different accounting basis taking into account the use of reserves and balances.

Statement of Total Recognised Gains and Losses

This statement brings together all the recognised gains and losses of the Council for the year and shows the aggregate increase in its net worth.

Balance Sheet

This statement brings together all the assets and liabilities in the Council's account as at 31 March 2010, with the exception of the Pension Fund, Charity, Trust and Common Good Funds, which are disclosed separately.

Cash flow Statement

The Cash Flow statement summarises all inflows and outflows of cash for the financial year arising both from capital and revenue transactions.

Notes to the Core Financial Statements

The notes to the core financial statements disclose additional information intended to aid the readers understanding of the financial accounts.

Supplementary Single Entity Financial Statements

The supplementary financial statements cover a number of functions that the Council has specific responsibility for providing.

Harbour Authority Account

The Harbour Authority Account shows the trading position of the Harbour Authority and net movement in reserves for the year.

The main activities of the Harbour Authority includes managing the safe movement of oil tankers through the Scapa Flow Oil Port, the operation of miscellaneous piers and harbours as well as its responsibilities for Oil Pollution.

Orkney College

The Islands Council provides further and higher education provision through the Orkney College using a devolved Board of Management arrangement. The Orkney College is funded by direct grant from the Scottish Funding Council (SFC).

FOREWORD BY THE DIRECTOR OF FINANCE AND HOUSING

Housing Revenue Account

The HRA reflects the statutory requirements to account separately for Local Authority direct housing provision. The account shows the main elements of housing revenue expenditure including capital financing costs, and how these costs are met by rents and other income.

Council Tax and Non Domestic Rates Income Accounts

These statements provide details of net income raised from Council Tax and Non Domestic Rates.

Pension Fund

The Orkney Islands Council Pension Fund is constituted under various Local Government Pension Fund Acts and related regulations. It is a defined benefits contributory pension scheme and provides pension benefits to all local Government employees, excluding principally teachers, of the Islands Council together with employees of a number of external organisations of a statutory and voluntary nature that have been accepted into the scheme as members.

Charity, Trust and Common Good Funds

The Islands Council as sole trustee administers a number of educational, social welfare and miscellaneous bequests. This statements provides a summary of the income and expenditure during the year together with a summary of the balances.

Group Accounts

In accordance with the Code of Practice on Local Authority Accounting in the United Kingdom the Local Authority has prepared Group Accounts to reflect its interests in subsidiaries, associates and joint ventures.

Group Income and Expenditure Account

This statement provides a summary of the expenditure and income for the year ending 31 March 2010 on the services which the group provides and demonstrates how the net costs has been financed.

Reconciliation of the Single Entity Surplus or Deficit to the Group Surplus or Deficit

This Statement reconciles the Council's single entity surplus or deficit for the year to the Group surplus or deficit for the year.

Group Statement of Total Recognised Gains and Losses

This statement brings together all the recognised gains and losses of the Group for the year and shows the aggregate increase in its net worth.

Group Balance Sheet

This statement brings together all the assets and liabilities for the group as at 31 March 2010.

Group Cash Flow Statement

The Group Cash Flow statement provides the details of cash movements arising both from capital and revenue transactions for the financial year.

Group Notes to the Accounts

Notes to the accounts detail the various entities that have been brought into the group accounts and provides supplementary information on the various financial transactions.

Statement on the System of Internal Financial Control

This statement provides an assessment of the adequacy and effectiveness of the system of internal financial control that has operated and been maintained over the past financial year in relation to the Orkney Islands Council group entity. If appropriate, it also includes an assessment of identified weaknesses and remedial actions taken or planned.

FOREWORD BY THE DIRECTOR OF FINANCE AND HOUSING

REVIEW OF THE YEAR

Local Taxation

The Islands Council on 12 February 2009 agreed a General Fund budget of £82.064M and under the Local Government Finance Act 1992 set Council Tax for Band D properties at £1,037. This was the second lowest Council Tax figure in Scotland being some £112 below the Scottish average.

During the year, it was necessary to revise the original budget upwards to £82.7M, to take account of additional resources being provided by the Scottish Government.

On a comparable basis, the actual net cost of General Fund services amounted to some £82.6M, while sources of finance were realised at £82.6M, including a contribution of £4.8M from reserves. Overall, this represents a break even position for General Fund Services and an increase on earmarked balances of £0.9M for the financial year ended 31 March 2010.

Council tax income contributed to this position, with the Islands Council maintaining its position as the top local authority for the collection of council tax in Scotland, with a collection rate of 97.7% in year (97.4% for 2008/09). At the same time it should be noted that the Council's policy is to provide in full for all prior year arrears, while on an ongoing basis expects to collect in excess of 99% of all prior year council tax income.

Income and Expenditure Account

The net cost of services provided by the Council for last year amounted to £115.4M, which after taking into account corporate activities resulted in a Net Operating Expenditure of £94.4M being realised for the Council as a whole.

Principal sources of finance were realised at £77.9M for the year, being Revenue Support Grant of £61.9M, Non Domestic Rate Income of £8.3M and Council Tax Income of £7.7M.

After taking into account the sources of finance, overall the activities of the Council returned a net deficit of £16.6M for the year.

The main source of this deficit can be attributed to a revaluation of fixed assets which was carried out during the year, and resulted in an impairment in the value of fixed assets of £35.1M being applied. This was however partially offset by corporate investment income of £24.7M which was generated through the Harbour Authority's Strategic Reserve Fund.

The main spending pressures for the Council remain, as in previous years, as the provision of care for the elderly, transportation and housing.

Movement in General Fund Balances

During the year, General Fund Balances increased from £18.8M to £19.7M, being an increase of £0.9M.

This increase is represented by a movement on earmarked balances of £0.9M.

Existing policy is to use reserves each year to maintain the level of local authority services currently provided within the county, while keeping the council tax on or below the national average for all Scottish local authorities. The transfer of these funds forms part of a medium term financial strategy, and is intended to clarify the level of balances that are available to support General Fund Services and the Council Tax setting process, over the next five year period while recognising Scottish Governments commitment to freeze the council tax at 2007/08 levels.

After taking into account funds earmarked for specific projects and other purposes, a balance of £8.0M is available for general fund purposes. It is considered prudent for the Council to maintain a general fund balance at this level as a contingency for unforeseen events.

FOREWORD BY THE DIRECTOR OF FINANCE AND HOUSING

Net Worth of the Orkney Islands Council

In financial terms, the Council remains in good health, despite its net worth decreasing from £283.1M to £268.4M for the financial year to 31 March 2010, being an decrease of £14.7M or 5.2%. This movement was largely the result of a reduction in the long term financial assumptions underlying the Pension Fund, such that Pension Liabilities have increased significantly. This increase has however been partly offset by investment gains during the year, which saw much of the value return to Strategic Reserves and Pension Fund assets.

As at 31 March 2010, the Islands Council carries a debt of £10.0M, as part of its capital financing requirement.

Harbour Authority Account

The Harbour Authority generated a trading loss of £2.846M from its various harbour operations for the year. This was mainly as a result of a downturn in the activity of the Scapa Flow Oil Port during the year, together with the recognition of a pension liability.

In addition to this, the Harbour Authority Account generated a surplus on investment activities of £24.7M for the year, after netting off grants and other investment expenditure.

After taking into account the use of reserves during the year, which included a contribution of £4.4M to support general fund services, the net effect of this has been an increase of £17.5M on the Harbour Authority Account Reserves for the year.

Orkney College

The range of higher and further educational activities provided by the College has resulted in a loss of £1.1M being realised for last financial year (surplus £0.2M for 2008/09). After allowing for amounts required by statute and non statutory proper accounting practice, including an impairment in the value of fixed assets by £1.479M, the accumulated deficit position on the College has reduced from £0.770M to £0.486M as at 31 March 2010.

The above figures include financial contributions from the Education Service of £0.426M to offset accumulated deficits and £0.029M from the Strategic Reserve Fund.

Housing Revenue Account (HRA)

The HRA approved budget for the financial year 2009/10 included expenditure of £2.039M to be met from income generated on the year of £2.039M.

The HRA made a loss of £8.978M being realised for last financial year (deficit £0.913M for 2008/09). After allowing for amounts required by statute and non statutory proper accounting practice, including an impairment in the value of fixed assets by £9.136M, the accumulated position on the HRA has increased from £0.0M to £0.487M as at 31 March 2010.

Capital Expenditure

In accordance with the Prudential Regime for capital finance, the Islands Council is allowed to determine its own limits for borrowing and capital expenditure, as long as it can be demonstrated that these plans are affordable, sustainable and prudent.

During the year the following major Capital Projects were in progress or substantially completed:

Housing

Construction of new council houses at Finstown and Andersquoy

Harbour Authority

Inner North Isles hard ramps

FOREWORD BY THE DIRECTOR OF FINANCE AND HOUSING

Capital Expenditure for 2009/10 amounted to £10.5M, financed by internal borrowing £1.0M, capital and grant receipts £9.0M and revenue contributions £0.5M. Unapplied capital receipts decreased by £0.9M, from £2.8M to £1.9M.

To meet Capital Expenditure, the Islands Council as at 31 March 2010 now has a total internal borrowing requirement of £35.2M through the Loans Fund, which is financed by a combination of external debt together with the use of reserves and balances. The capital loan debt outstanding as at 31 March 2010 is in respect of General Fund Services (£34.2M) and the Harbour Authority (£1.0M).

Pension Liability

The Statement of Accounts include the future pension liability of the Islands Council resulting from the full implementation of the Financial Reporting Standard No 17 – Retirement Benefits (FRS 17).

In accordance with the FRS 17, the net pension fund liability as at 31 March 2010 is £54.703M. This represents an increase of £34.497M on the previous year, and is largely due to a significant reduction in the financial assumptions underlying the Present Value of the Scheme Liabilities which have been partially offset by favourable movements in the value of pension fund assets.

The actuarial losses on the fund are regularly considered as part of a triennial revaluation process, with the last carried out for the Pension Fund as at 31 March 2008. At this time the actuarial valuation considered the appropriate level of employers contributions necessary for the three year period 2009/12, taking into account estimated revenues generated from investments in the future, to meet the fund's projected commitments in the long term. As a result the employers rate will see the implementation of a stepped increase from 17.4% in 2008 to 18.4% in 2009, rising to 20.4% in 2010 and 21.4% in 2011.

Euro

Although the Euro at this stage has a minimum impact on Council activities it is worth noting that the financial package the Council uses is Euro compliant.

Acknowledgements

I would like to take this opportunity to thank my colleagues in the Finance Department and in the other Service Departments for their help and co-operation in managing the financial affairs of the Authority.

G Waterson, BAcc., CA
Director of Finance
27 September 2010

STATEMENT OF ACCOUNTING POLICIES

General

The Statement of Accounts summarise the Council's transactions for the financial year 2009/10 and its position at the year end as at 31 March 2010. The Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom, using the historic cost convention modified by the revaluation of certain categories of assets. The Code of Practice has been developed by the CIPFA/LASAAC local authority SORP board. Any exceptions to the Code of Practice are disclosed in the notes to the Accounts.

Corporate and Democratic Core

Costs associated with democratic representation, including members expenses, and costs related to the corporate management of the Council, have been charged to Corporate and Democratic Core in accordance with CIPFA's Best Value Accounting Code of Practice (BVACOP).

Overheads

The costs of Central Support Services have been fully allocated using a time or unit based method of apportionment over the various accounts of the Authority after separately identifying the cost of Corporate and Democratic Core and Unapportioned Central Overheads in accordance with BVACOP. In 2009/10, £9.2M of Central Support Services were apportioned on this basis.

Accruals of Income and Expenditure

The Accounts are prepared on an accruals basis in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice. Accordingly, best estimates of amounts due or payable which relate to activities during the year are included whether or not cash has actually been received or paid in the year.

Pension Costs

The Council participates in two different schemes, which meet the needs of employees in particular services. Both schemes provide members with defined benefits related to pay and service. These schemes are as follows:

Teachers

This is an unfunded scheme administered by the Scottish Government. The pension cost charged to the accounts is the contribution rate set by the Scottish Government on the basis of a national fund. This scheme is exempt from the provisions of FRS 17.

Other Employees

Other employees, subject to certain qualifying criteria, are eligible to join the Local Government Pension Scheme. This is known as The Pension Fund and is administered by Orkney Islands Council. The pension costs included in the accounts in respect of this scheme have been determined in accordance with FRS 17. This means that the accounts include the current service cost rather than the actual contributions made to the scheme. The policies are as follows:

- attributable assets of the scheme have been measured at fair value;
- attributable liabilities have been measured on an actuarial basis using the projected unit method which assesses the future liabilities discounted to their present value;
- scheme liabilities have been discounted at 1.7% in excess of inflation;
- the deficit in the scheme is the shortfall of the value of the assets below the present value of the scheme liabilities;
- the current service cost is deducted based on normal contributions paid by the Council, allowing for any changes in assumptions used for FRS 17 purposes. It is based on assumptions appropriate at the start of the year;
- the interest cost is based on the discount rate and the present value of the scheme liabilities at the beginning of the period;
- the expected return on assets is based on long term expectations at the beginning of the period and is expected to be reasonably stable;

STATEMENT OF ACCOUNTING POLICIES

- actuarial gains and losses arising from new valuations and from updating the latest actuarial valuation have been taken into account to reflect conditions at the balance sheet date;
- past service costs have been disclosed on a straight line basis over the period in which the increases in benefit vest.

The liabilities for retirement benefits as at 31 March 2010 have been assessed using a discount rate of 1.7% in excess of inflation, based on the current rate of return for high quality corporate bonds of equivalent currency and term to the scheme liabilities. When compared to a rate of 3.7% for the previous year, this represents a significant increase in projected scheme liabilities of around 70-75%. Although investment returns for the whole fund have been exceptionally high for the year at around 45-50% with clear rebound of the losses incurred during 2009/10 this has not been sufficient to offset the adverse movement in financial assumptions. The overall position has increased the FRS deficit on the Pension Fund by £34.497M for the year.

Grants

All Revenue Grants are matched with the expenditure to which they relate. Accruals have been made for balances known to be received for the period to 31 March 2010.

Capital Receipts

Receipts from the sale of tangible fixed assets and capital grants received/receivable during the year are recorded in the Capital Account. Grants and contributions received towards the creation of fixed assets are credited to the Government Grants Deferred Account and released to the Income and Expenditure Account over the life of the asset.

Stocks and Work in Progress

Stocks have been valued at the lower of cost or net realisable value. Work in progress has been valued at an amount inclusive of attributable profits and foreseeable losses.

Tangible Fixed Assets

Tangible fixed assets are assets that have physical substance and are held for use in the provision of services or for administration purposes on a continuing basis.

Recognition: all expenditure on the acquisition, creation or enhancement of fixed assets has been capitalised on an accruals basis.

Measurement: assets are initially measured at cost, comprising all expenditure that is directly attributable to bringing into working condition for its intended use. Assets are then carried in the Balance Sheet using the following measurement basis:

Infrastructure and Community Assets are valued at historical cost net of depreciation.

Operational land and buildings and other operational assets are valued at the lower of Net Current Replacement Cost (NCRC) and Net Realisable Value (NRV) in existing use. Council dwellings have been valued on the basis of Existing Use Value for Social Housing using a discounted cashflow methodology.

Intangible fixed assets (expenditure on assets such as software licences that do not have physical substance but are identifiable and controlled by the Council) are capitalised at cost for major purchases when it will bring benefits to the Council for more than two financial years.

Non Operational Assets, including investment property and assets that are surplus to requirements, are valued at the lower of NCRC and NRV. This will normally be open market value.

Assets included in the Balance Sheet at current value are revalued where there have been material changes in the value, but as a minimum every five years. Increase in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Income and Expenditure Account where they arise from the reversal of an impairment loss previously charged to a service revenue account.

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.

STATEMENT OF ACCOUNTING POLICIES

Impairment: the values of each category of assets and of material individual assets that are not being depreciated are reviewed at the end of each financial year for evidence of reductions in value. Where impairment is identified as part of this review or as a result of a valuation exercise, this is accounted for by:

- where attributable to the clear consumption of economic benefits - the loss is charged to the relevant service account;
- otherwise - written off against any revaluation gains attributable to the relevant asset in the Revaluation Reserve, with any excess charges to the relevant service revenue account.

Where an impairment loss is charged to the Income and Expenditure Account but there were accumulated revaluation gains in the Revaluation Reserve for that asset, an amount up to the value of the loss is transferred from the Revaluation Reserve to the Capital Adjustment Account.

Disposals: when an asset is disposed of or decommissioned, the value of the asset in the Balance Sheet is written off to the Income and Expenditure Account as part of the gain or loss on disposal. Receipts from disposal are credited to the Income and Expenditure Account as part of the gain or loss on disposal (ie netted off against the carrying value of the asset at time of disposal). Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account.

The gain or loss on disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the Statement of Movement on General Fund Balance.

Depreciation

All assets are depreciated over their estimated economic useful lives using the straight line method. Where land is estimated to have an infinite useful life no depreciation is applied. Provision has been made for depreciation on buildings, infrastructure, vehicles and equipment, as follows:

- Buildings - each building has been individually assessed to derive outstanding useful life, up to a maximum of 100 years;
- Infrastructure - each infrastructure asset has been individually assessed to derive outstanding useful life, up to a maximum of 80 years;
- Vehicles - varies between 3 and 15 years according to class of vehicles;
- Equipment - 5 years.

Charges to Revenue for Fixed Assets

Service revenue accounts, are charged with the following amounts to reflect the real cost of holding fixed assets during the year:

- depreciation attributable to the assets used by the relevant service;
- impairment losses attributable to the clear consumption of economic benefits on tangible fixed assets used by the service;
- amortisation of intangible fixed assets attributable to the service.

The Council is not required to raise Council Tax to cover depreciation, impairment losses, amortisations. However, it is required to make annual provision from revenue to contribute towards the repayment of loan debt. These charges are therefore replaced by revenue provision in the Statement of Movement on the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account.

Financial Assets

Financial assets are classified into two types:

- loans and receivables - assets that have fixed or determinable payments and are not quoted in an active market;
- for profit or loss assets - assets that are held for trading and have a quoted market price.

STATEMENT OF ACCOUNTING POLICIES

Loans and Receivables

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Income and Expenditure Account 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 Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable and interest credited to the Income and Expenditure Account is the amount receivable for the year in the loan agreement.

However, the Council has made a number of loans to local businesses as part of its function to develop economic development at less than market rates (soft loans). When soft loans are made, a loss is recorded in the Income and Expenditure Account 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 at a marginally higher effective rate of interest than the rate receivable from the local businesses, 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 Income and Expenditure Account 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 Statement of Movement on the General Fund Balance.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Income and Expenditure Account.

Any gains and losses that arise on the derecognition of the asset are credited/debited to the Income and Expenditure Account.

For Profit or Loss Assets

For profit or loss assets are initially measured and carried at fair value. Where the assets have fixed or determinable payments, annual credits to the Income and Expenditure Account for interest receivable are based on the nominal value of the asset multiplied by the coupon rate of interest for the instrument. Where there are no fixed or determinable payments, income (eg, dividends) is credited to the Income and Expenditure Account when it becomes receivable by the council.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

- instruments with quoted market prices - the market price;
- other instruments with fixed and determinable payments - discounted cash flow analysis;
- equity shares with no quoted market prices - independent appraisal of company valuations;

All movements in the fair value of these assets are recognised in full through the Income and Expenditure Account.

Loan Debt

A Loans Fund is maintained under powers contained in the Local Government (Scotland) Act 1975. All loans raised by the Council from the Strategic Reserve Fund are paid into the Fund and all advances to finance capital expenditure are made from the Fund except for capital projects financed directly from Revenue Accounts or financed from capital receipts.

It is the policy of the Council to repay loan debt as quickly as possible and consequently some annual repayments of principal have been made on an accelerated basis. The Capital Adjustment Account is charged with annual repayments of principal and the Income and Expenditure Account with an average rate of interest on the balance outstanding.

The average rate of interest charged by the fund in 2009/10 based on returns generated by the Treasury Management function on cash flow balances were as follows:

Revenue Balances	2.26% (2008/09 3.95%)
Capital Balances	1.82% (2008/09 3.57%)

STATEMENT OF ACCOUNTING POLICIES

Reserves and Provisions

Reserves represent amounts set aside for specific policy purposes, contingencies or earmarked balances. Expenditure is not charged directly to any Reserve, but all movements on the Reserves are disclosed on the Statement of Movement on General Fund Balance.

Provisions are amounts set aside for liabilities or losses likely to be incurred but where there is uncertainty as to the precise amounts or dates on which they will arise.

Provisions are charged to the Income and Expenditure Account in the year that the authority becomes aware of the obligation, based on the best estimate of the likely settlement. When payments are eventually made, they are charged to the provision set up in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year - where it becomes more likely than not that a transfer of economic benefits will not now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the Income and Expenditure Account.

Provisions have been made for doubtful debts as follows:

- Debt Outstanding 2-3 month – 10%;
- Debt Outstanding 4-6 month – 20%;
- Debt Outstanding 7-12 month – 30%;
- Debt Outstanding 2008/09 – 60%;
- Debt Outstanding 2007/08 – 80%;
- Debt Outstanding Pre 2007/08 - 100%;

Harbour Authority Account Fund

Surplus or deficits on the harbour operations are transferred to the Strategic Reserve Fund. The Harbour Authority Account Fund encompasses all the Harbour Authority Account Balances which can be used for purposes specified in the Orkney County Council Act 1974.

Pension Reserve

The Pension Reserve recognises that a net pension liability exists in terms of the Islands Councils obligation to fund the employees defined benefits pension scheme.

Pension Fund Accounting Policies

The accounts have been prepared in accordance with the main recommendations of the Financial Reports of Pension Schemes - A Statement of Recommended Practice (the Pension SORP) and the CIPFA Code of Practice on Local Authority Accounting, with the exception of transfer values, which are credited in the year they are received. All transfer values paid, and the service credit given in exchange for transfer values received, are calculated in accordance with the Scheme's regulations and are consistent with the requirements of Schedule 1A of the Social Security Pensions Act.

Investments held by the Pension Fund are included at fair value. Overseas currencies are translated at the WM/Reuters London closing spot rates on the last business day of the reporting period, being 31 March 2010.

VAT

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue & Customs and all VAT paid is recoverable.

Foreign Currency Translation

Monetary assets denominated in a foreign currency have been translated at the prevailing rate at the year end.

Financial Relationship with Companies

Full disclosure is made of all material relationships with related companies by way of note 6 to the core financial statements.

Group Accounts

In accordance with the Code of Practice on Local Authority Accounting in the United Kingdom the Local Authority has prepared Group Accounts to reflect its interests in subsidiaries, associates and joint ventures.

THE STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

THE AUTHORITY'S RESPONSIBILITIES

The authority is required :

To make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority that officer is the Director of Finance.

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

THE DIRECTOR OF FINANCE'S RESPONSIBILITIES

The Director of Finance is responsible for the preparation of the authority's statement of accounts which, in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code of Practice'), is required to present fairly the financial position of the authority at the accounting date and its income and expenditure for the year ended 31 March 2010.

In preparing the statement of accounts, the Director of Finance has :

- selected suitable accounting policies and then applied them consistently
- made judgments and estimates that were reasonable and prudent
- complied with the local authority SORP

The Director of Finance has also :

- kept proper accounting records which were up to date
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

I confirm that this Statement of Accounts presents fairly the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2010.

G Waterson, BAcc., CA
Director of Finance
27 September 2010

INCOME AND EXPENDITURE ACCOUNT

This account summarises the resources that have been generated and consumed in providing services and managing the council during last year. It includes all day-to-day expenses and related income on an accruals basis, as well as transactions measuring the value of fixed assets actually consumed and real projected value of retirement benefits earned by employees in the year.

2008/09 Net Expenditure £'000		2009/10 Gross Expenditure £'000	2009/10 Gross Income £'000	2009/10 Net Expenditure £'000
28,097	Education	36,885	1,456	35,429
4,358	Cultural & Recreation	9,587	1,042	8,545
14,883	Community Social Services	21,090	5,114	15,976
1,548	Police Services	1,713	0	1,713
1,662	Fire Services	1,824	0	1,824
13,188	Roads and Transportation	17,454	533	16,921
2,206	Planning and Development	3,527	1,034	2,493
3,833	Environmental Services	5,107	811	4,296
3,884	Central Services	6,812	1,343	5,469
2,362	Corporate & Democratic Costs	2,296	(31)	2,327
956	Housing Services	5,276	3,983	1,293
1,076	Housing Revenue Account	10,718	2,042	8,676
2,074	Harbour Authority	15,323	6,752	8,571
1,347	Non Distributed Costs	0	(1,823)	1,823
81,474	Net Cost of Services	137,612	22,256	115,356
(77)	(Gain)/Loss on disposal of fixed assets			1,185
8,913	Net (Surplus)/Deficit on Harbour Investment Activities			(24,735)
(166)	Net (Surplus)/Deficit on Orkney College			1,097
(1,468)	Interest on Balances			(849)
0	Pensions Interest Cost & Expected Return on Pension Assets			1,710
1,288	Interest Payable and Similar Charges			685
89,964	Net Operating Expenditure			94,449
(59,754)	Revenue Support Grant			(61,902)
(7,573)	Distribution of Non-Domestic Rate Pool			(8,330)
(7,686)	Council Tax			(7,650)
14,951	(Surplus)/Deficit for Year			16,567

STATEMENT OF MOVEMENT ON GENERAL FUND BALANCES

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

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

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

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

Statement of Movement on General Fund Balance as at 31 March 2010	2009/10	2008/09
	£'000	£'000
(Surplus)/Deficit for the Year on the Income and Expenditure Account	16,567	14,951
Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund	(17,524)	(16,305)
(Increase)/Decrease in General Fund Balance for the year	(957)	(1,354)
General Fund Balance brought forward	(18,752)	(17,398)
GENERAL FUND BALANCE CARRIED FORWARD	<u>(19,709)</u>	<u>(18,752)</u>

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

This statement brings together all the gains and losses of the Council for the year and shows the aggregate increase in its net worth. In addition to the surplus generated on the Income and Expenditure Account, it includes gains and losses relating to the revaluation of fixed assets and re-measurement of the net liability to cover the cost of retirement benefits.

Statement of Total Recognised Gains and Losses as at 31 March 2010	2009/10 £'000	2008/09 £'000
(Surplus)/Deficit for the year on the Income and Expenditure Account	16,567	14,951
(Surplus)/Deficit arising on revaluation of fixed assets	(35,531)	679
(Surplus)/Deficit arising from valuation of Financial Instruments	0	0
Actuarial (gains)/losses on pension fund assets and liabilities	33,616	16,205
TOTAL RECOGNISED (GAINS) AND LOSSES FOR THE YEAR	<u>14,652</u>	<u>31,835</u>

BALANCE SHEET

The balance sheet is fundamental to the understanding of an authority's financial position at the year-end. It shows its balances and reserves and its long-term indebtedness, and the fixed and net current assets employed in its operations, together with summarised information on the fixed assets held.

	Note	31/03/10	31/03/09
		£'000	£'000
Fixed Assets			
Operational Assets			
Council Dwellings		5,506	14,418
Other Land and Buildings		105,584	95,318
Vehicles, Plant and Equipment		3,319	3,474
Infrastructure Assets		73,611	72,071
Community Assets		3,174	3,361
Intangible Assets		343	0
Non-Operational Assets			
Investment Properties		18,201	21,847
Assets Under Construction		3,616	419
Surplus Assets		1,663	3,127
TOTAL FIXED ASSETS	7	215,017	214,035
Long-term Investments	15	163,816	136,170
Long-term Debtors	9	2,411	2,690
TOTAL LONG-TERM ASSETS		381,244	352,895
Stocks and Work in Progress	10	681	645
Debtors		5,636	6,342
Investments	15	17,073	27,282
Cash and Bank	13	9	9
CURRENT ASSETS		23,399	34,278
Creditors		8,841	7,987
Provisions	12	2,802	0
Bank Overdraft	13	41	44
Loan Debt	13	10,000	20,000
Advances from Other Accounts	13	1,262	1,305
CURRENT LIABILITIES		22,946	29,336
TOTAL ASSETS LESS CURRENT LIABILITIES		381,697	357,837
Net Pension Liability	18	54,703	20,206
Government Grants Deferred	16	58,568	54,553
LONG TERM LIABILITIES		113,271	74,759
TOTAL NET ASSETS	14	268,426	283,078
Represented by:			
Capital Reserves			
Revaluation Reserve		34,894	1,046
Capital Adjustment Account		71,134	103,201
Financial Instruments Adjustment Account		(475)	(542)
Capital Receipts Reserve		1,906	2,805
Capital Fund		2,956	2,820
		110,415	109,330
Revenue Reserves			
General Fund Balances		19,709	18,752
Harbour Authority Account Fund		183,954	166,450
Housing Revenue Account		487	0
Pension Reserve		(54,703)	(20,206)
Repairs and Renewals Fund		8,564	8,752
		158,011	173,748
TOTAL NET WORTH	17	268,426	283,078

The unaudited accounts were issued on 30 June 2010 and the audited accounts were authorised for issue on 27 September 2010.

G Waterson, BAcc., CA
Director of Finance
27 September 2010

CASH FLOW STATEMENT

This statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes. For the purpose of this statement cash is defined as cash-in-hand and deposits repayable on demand less overdrafts repayable on demand.

2008/09 £'000	REVENUE ACTIVITIES Cash Outflows	Note	2009/10 £'000	2009/10 £'000
59,247	Cash paid to and on behalf of employees		62,939	
25,063	Other Operating Cash Payments		(1,719)	
7,238	Non Domestic Rates Payments - to pool		7,238	
1,915	Precepts Paid		48	
1,406	Housing Benefit paid out		1,638	
<u>94,869</u>				<u>70,144</u>
	Cash Inflows			
842	Housing Rents (net of rebates)		963	
9,750	Council Tax		8,011	
7,573	Non Domestic Rate Income - from national pool		8,330	
6,792	Non Domestic Rate Income - rate receipts		6,935	
59,754	Revenue Support Grant		61,902	
3,215	DWP Grants for Housing & Council Tax Benefit		3,590	
4,156	Other Government Grants	23	3,623	
(1,303)	Cash Received for Goods and Services		(19,046)	
<u>90,779</u>	Other Operating Cash Receipts			<u>74,308</u>
<u>(4,090)</u>	NET REVENUE ACTIVITIES	19		<u>4,164</u>
	RETURNS ON INVESTMENT & SERVICING OF FINANCE			
	Cash Outflows			
171,192	Purchase of Harbour Investments		176,111	
18	Interest Paid		34	
	Cash Inflows			
175,888	Sale of Harbour Investments		173,487	
(4,696)	(Increase)/decrease in Harbour Cash Investments		2,624	
325	Interest Received		487	
<u>307</u>	NET INVESTMENTS & SERVICING OF FINANCE			<u>453</u>
	CAPITAL ACTIVITIES			
	Cash Outflows			
12,540	Purchase of Fixed Assets		10,544	
(2)	Purchase of Long Term Investments		1,099	
298	Other Capital Cash Payments		53	
	Cash Inflows			
642	Sale of Fixed Assets		601	
6,000	Sale of Long Term Investments		0	
674	Other Capital Receipts		592	
7,027	Capital Grants Received		5,723	
<u>1,507</u>	NET CAPITAL ACTIVITIES			<u>(4,780)</u>
(2,276)	NET CASH INFLOW/(OUTFLOW) BEFORE FINANCING			(163)
	MANAGEMENT OF LIQUID RESOURCES			
(17,401)	Net (Increase)/Decrease in Short Term Deposits	21		10,209
	FINANCING			
	Cash Outflows			
(271)	Repayment of Amounts Borrowed	22	10,043	
	Cash Inflows			
20,000	New Loans Raised		0	
0	New Short Term Loans		0	
<u>20,271</u>				<u>(10,043)</u>
<u>594</u>	INCREASE /(DECREASE) IN CASH	20		<u>3</u>

NOTES TO CORE FINANCIAL STATEMENTS

1. Reconciling Items for the Statement of Movement in General Fund Balances

In addition to the Income and Expenditure Account surplus or deficit for the year, the following amounts are required by statute and non-statutory proper practice to be charged or credited to General Fund balances in determining the Movement in General Fund Balance for the year.

Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the year	2009/10 £'000	2008/09 £'000
Depreciation and impairment of fixed assets	(39,372)	(11,152)
Government Grants Deferred amortisation	1,812	4,801
Net gain on sale of fixed assets	(1,185)	77
Grants and contributions applied to finance capital expenditure	220	327
Net charges made for retirement benefits in accordance with FRS 17	(6,874)	(5,218)
	(45,399)	(11,165)
Amounts not included in the Income and Expenditure Account but required by statute to be included when determining the Movement on the General Fund Balance for the year		
Loans fund principal repayments	2,404	1,809
Capital expenditure charged in-year to the General Fund Balance	451	1,689
Employers contributions payable to the Orkney Islands Council Pension Fund and retirement benefits direct to pensioners	5,993	6,000
	8,848	9,498
Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year		
Transfers to/(from) the Capital Fund	160	334
Transfers to/(from) the Housing Revenue Account	487	0
Transfers to/(from) the Repairs and Renewals Fund	876	1,192
Transfers to/(from) the Harbour Fund	17,504	(16,164)
	19,027	(14,638)
Net additional amount required to be credited to the General Fund balance for the year	(17,524)	(16,305)

2. Audit Fee

The fee payable to Audit Scotland in respect of external audit services undertaken in accordance with the Code of Practice is £215K (2008/09 £211K). No fees were paid in respect of other services provided by the appointed auditor.

3. Pensions (Teachers)

Teachers employed by the authority are members of the Teachers Pension Scheme, administered by the Scottish Public Pensions Authority. It provides teachers with defined benefits upon their retirement, and the authority contributes towards the costs by making contributions based on a percentage of members pensionable salaries.

NOTES TO CORE FINANCIAL STATEMENTS

3. Pensions (Teachers) - (continued)

In 2009/10 the Islands Council paid an employer's contribution of £1,792K to the Scottish Government in respect of teachers' pension costs, which represented 14.90% of teachers' pensionable pay. The figures for 2008/09 were £1,557K and 13.5%. There were no contributions remaining payable at the year end.

The scheme is a defined benefits scheme. Although the scheme is unfunded, Teachers Pensions use a notional fund as the basis for calculating the employers contribution rate paid by the local authority. However, it is not possible for the authority to identify a share of the underlying liabilities in the scheme attributable to its own employees. For the purposes of this Statement of Accounts it is therefore accounted for on the same basis as a defined contribution scheme.

In addition, the Islands Council is responsible for all pension payments relating to unfunded benefits it has awarded, together with mandatory compensation and related increases. In 2008/09 these amounted to £287K representing 2.39% of pensionable pay. These benefits are fully accrued in the pensions liability described in note 18 to these accounts.

4. Local Government Pension Scheme

The Income and Expenditure Account reflects the SORP accounting requirements as they relate to FRS 17 - Retirement Benefits.

Included within the net cost of services are the following pension costs:

Income and Expenditure Account	2009/10	2009/10	2008/09	2008/09
	£'000	% of	£'000	% of
		Payroll		Payroll
Amount charged to Operating Profit -				
Service Cost	3,341	11.6	3,871	14.0
Past Service Costs	1,359	4.7	133	0.5
Curtailment and Settlements	464	1.6	1,214	4
Total Operating Charge	5,164	17.9	5,218	18.9
Amount credited to Other Finance Income -				
Expected Return on Corporate Assets	5,581	19.4	7,299	26.5
Interest on Pension Scheme Liabilities	(7,291)	(25.4)	(7,299)	(26.5)
Net Return on Assets	(1,710)	(6.0)	0.00	0.00
Net Revenue Account Cost	6,874	23.9	5,218	18.9

Included in the Statement of Movement on General Fund Balance is a transfer of £881K from the pension reserve. The net effect of these accounting entries is that expenditure met from government grants and local taxation equals the actual employers contributions made to the Scheme of £5,993K, representing 20.84% of pensionable pay.

In addition to the recognised gains and losses included in the income and expenditure account, actuarial losses of £33,616K were included in the Statement of Total Recognised Gains and Losses (a loss of £16,205K for 2008/09). The cumulative amount of actuarial losses recognised in the Statement of Total Recognised Gains and Losses is £33,912K.

The employer's contribution rate is determined by the Fund's Actuary based on triennial actuarial valuations. Under Pension Fund Regulations contributions rates are set to meet the overall liabilities of the Fund. The employer' rates are set to meet the overall liabilities of the Fund. The employer's contribution was 18.4% for 2009/10.

In addition the Islands Council is responsible for all pension payments relating to unfunded benefits it has awarded, together with the related increases. In 2009/10 these amounted to £275,664 representing 0.97% pensionable pay.

NOTES TO CORE FINANCIAL STATEMENTS

5. Members' Allowances and Officers' Emoluments

In May 2007, a new allowance scheme introduced the payment of salaries for members, replacing the previous allowance scheme. The total allowances paid to members for the year amounted to £447K being an increase of 2K on the previous year.

	2009/10	2008/09
	£'000	£'000
Remuneration		
Salaries	383	375
Expenses		
Travel, Accommodation and Subsistence	72	77
Telephones/Communications	9	9
Conferences and Seminars	4	5
Less Reimbursement from Other Bodies	(21)	(21)
Total Members Allowances	<u>447</u>	<u>445</u>

Reimbursement of expenses do not include the cost of council provided transport, training and development by in-house providers or insurance cover under the Council policy. The annual salary is subject to tax and national insurance.

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

	2009/10	2008/09
	Number of	Number of
	Employees	Employees
Remuneration Band		
£50,000 - £59,999	37	30
£60,000 - £69,999	9	11
£70,000 - £79,999	1	1
£80,000 - £89,999	4	4
£90,000 - £99,999	1	1

6. Related Parties

	Receipts	Payments	Receipts	Payments
	2009/10	2009/10	2008/09	2008/09
	£'000	£'000	£'000	£'000
Central Government				
Revenue Grants	61,902		59,754	
Being payments made in support of Revenue Expenditure				
Capital Grants	3,872		2,885	
Being payments made in support of Capital Expenditure				
Orkney Towage Company Limited				
Being payments made for the provision of Towage Services		1,540		3,338
Orkney Ferries Limited				
Being subsidy payments made in support of Ferry Services		6,904		6,715
Northern Police Joint Board		1,713		1,548
Highlands and Islands Fire Board		1,824		1,662
Orkney and Shetland Valuation Joint Board		286		280
Being payments of annual requisition to Joint Boards				
Chief Officials				
Being advances and repayments of Car Loans	1		16	
Orkney Islands Pension Fund				
Being payments of employers contributions in respect of employees		5,413		5,283

NOTES TO CORE FINANCIAL STATEMENTS

7. Fixed Assets

The following represents an analysis of fixed assets owned by the Islands Council at 31 March 2010

	Number of Items 31/03/10	31/03/10 £000	Number of Items 31/03/09	31/03/09 £000
Council Dwellings				
Council Dwellings	762	5,506	755	14,418
Operational Buildings				
Concert Halls and Theatres	1	47	1	332
Other Housing Properties	73	2,979	64	882
Depots and Workshops	50	5,817	65	6,748
Museums	7	2,255	2	760
Community/Day Centres	14	13,540	14	12,113
Sports Centres and Pools	3	2,367	2	1,583
Libraries	2	6,227	2	3,321
Schools	28	62,563	28	58,495
Office Buildings	7	5,088	13	8,150
Park and Amenity Properties	7	1,095	3	794
Miscellaneous :-				
Public Conveniences	44	1,490	40	1,321
Refuse Sites	8	809	5	640
Quarries	4	1,306	2	179
	248	105,583	241	95,318
Infrastructure				
Sea Defences	16	178	16	204
Roads (Kilometres)	979	19,456	979	19,236
Piers and Harbours	51	50,086	54	51,535
Airfields	7	791	7	819
Car Parks	25	3,101	23	277
	1,078	73,612	1,079	72,071
Community Assets				
Cemeteries	42	167	41	185
Historic Buildings/Monuments	7	2,613	20	2,892
Parks	11	393	9	284
	60	3,173	70	3,361
Operational Equipment				
Computers	9	363	11	296
Mechanical Plant	162	1,022	158	990
Vehicles	238	1,301	235	1,501
Other Equipment	136	453	136	593
Ferries	11	180	12	94
	556	3,319	552	3,474
Intangible Assets	25	343	0	0
Non Operational Property				
Surplus Assets	30	1,664	51	3,127
Investment Properties	192	18,201	191	21,847
Assets Under Construction	13	3,616	2	419
	235	23,481	244	25,393
TOTAL	2,964	215,017	2,941	214,035

NOTES TO CORE FINANCIAL STATEMENTS

7. Fixed Assets (continued)

Fixed Asset Transactions

All expenditure on the acquisition, creation or enhancement of fixed assets has been capitalised on an accruals basis.

The following statement shows the movements in fixed assets during the year:

	Council Dwellings £'000	Land & Buildings £'000	Infra- structure £'000	Community Assets £'000	Plant & Vehicles £'000	Non Operational £000	Intangible £000	Total £'000
GBV at 1 April 2009	16,645	119,621	108,208	4,695	26,514	26,513	0	302,196
Expenditure	501	2,781	2,111	136	1,502	3,107	90	10,228
Disposals	(633)	(1,637)	0	0	(1,009)	(965)	0	(4,244)
Impairment	(11,146)	(31,788)	-301	-57	0	(9,902)	0	(53,194)
Revaluations	160	20,075	2,966	14	27	3,259	0	26,501
Reclassifications	(21)	(230)	(807)	(407)	(1,852)	1,496	1,821	0
At 31 March 2010	5,506	108,822	112,177	4,381	25,182	23,508	1,911	281,487
Less Depreciation at 1 April 2009	2,227	24,303	36,137	1,335	23,040	1,120	0	88,162
Charge for Year	14	2,650	3,043	56	1,316	0	97	7,176
Disposals	(100)	(424)	0	0	(1,009)	(26)	0	(1,559)
Impairment	(2,145)	(15,302)	0	12	0	(844)	0	(18,279)
Revaluations	4	(7,987)	(633)	(176)	0	(238)	0	(9,030)
Reclassifications	0	(1)	18	(19)	(1,484)	15	1,471	0
At 31 March 2010	0	3,239	38,565	1,208	21,863	27	1,568	66,470
NBV at 31 March 2009	14,418	95,318	72,071	3,361	3,474	25,393	0	214,035
NBV at 31 March 2010	5,506	105,583	73,612	3,173	3,319	23,481	343	215,017

Valuation of Fixed assets carried at current value

The following statement shows the progress of the Council's rolling programme for the revaluation of fixed assets. The valuations were carried out by the Orkney Islands Council's Technical Services Department, by a Chartered Surveyor and Associate Member of the RICS, the basis for Valuation is set out in the statement of accounting policies.

	Council Dwellings £'000	Land & Buildings £'000	Infra- structure £'000	Community Assets £'000	Plant & Vehicles £'000	Non Operational £000	Intangible £000	Total £'000
Historic Cost			73,612	3,173	3,319	3,616	343	84,063
NBV of assets valued at: 31 March 2010	5,506	105,583				19,865		130,954
Total	5,506	105,583	73,612	3,173	3,319	23,481	343	215,017

The authority is not aware of any material change in asset values since the last valuation.

	2009/10 £'000	2008/09 £'000
Assets Employed		
Assets employed by the General Fund	131,445	116,550
Assets employed by the Housing Revenue Account	6,800	14,964
Assets employed by Harbour Fund	70,878	75,188
Assets employed by Orkney College	5,894	7,333
Total	215,017	214,035

NOTES TO CORE FINANCIAL STATEMENTS

7. Fixed Assets (continued)

Sources of Finance for Fixed Assets Acquired

The following statement shows how capital expenditure in the year has been financed. The total of fixed asset expenditure in the year excluding Community Council assets should match the sum of the individual sources of finance.

	2009/10	2008/09
	£'000	£'000
Loans	952	2,405
Capital Receipts	3,375	2,406
Grant Receipts	5,690	5,527
CFCR	451	1,689
	<u>10,468</u>	<u>12,027</u>

Commitments Under Capital Contracts

The following significant contracts for capital investment have been entered into by the Islands Council and extend beyond 31 March 2010 :

Project Name	Purpose	Approx. Value £'000	Anticipated Completion
Inner North Isles Hard Ramps	Boat landing facility upgrades	1,560	August - 2011
Finstown Housing	Construction of new council houses	1,254	January - 2011
Andersquoy Housing	Construction of new council houses	1,271	January - 2010
New Pilot Boat	Pilot boat construction	146	May - 2010

8. Leases

The Council acts as lessor for a number of properties which are leased to locally based businesses on a commercial basis.

	2009/10	2008/09
	£'000	£'000
Asset Value	12,302	14,266
Rental Income	1,230	1,016

During the year £239K of properties were constructed or acquired for this purpose.

The value of rental income generated from these activities amounted to £1,230K for the year. Rent levels are determined by the District Valuer for these operating leases, with no properties being the subject of finance lease arrangements.

9. Long Term Debtors

Long Term Debtors include Housing Loans and Car Loans which are repayable to the Islands Council

	2009/10	2008/09
	£'000	£'000
Housing Loans	162	187
Car Loans	24	47
Cycle Scheme	23	0
Harbours	<u>2,202</u>	<u>2,456</u>
	<u>2,411</u>	<u>2,690</u>

10. Stocks and Works In Progress

	2009/10	2008/09
	£'000	£'000
Stocks		
General Fund	499	474
Harbours	<u>182</u>	<u>171</u>
	<u>681</u>	<u>645</u>
Work in Progress		
General Fund	0	0

NOTES TO CORE FINANCIAL STATEMENTS

11. Debtors and Creditors

Debtors are shown net of bad debt provision, and represents the net amount due to the Council as at 31 March 2010.

The Islands Council provides for any bad or doubtful debts at the end of each financial year, based on the age of debtors outstanding. At 31 March 2010 the Bad Debt Provision has increased from £1,226,000 to £1,340,000 being an increase of £114,000 on the year.

Creditors represent amounts due by the Council as at 31 March 2010.

12. Provisions

A provision of £2,802K has been identified as the Council's Section 75 debt in respect of the Merchant Navy Officers Pension Fund (MNOFF) - Post 78 Section. This debt is triggered when no active members of the Pension Fund are directly employed by the Council. As at 31 March 2010 a formal request for this amount has yet to be received from the MNOFF.

	2009/10		2008/09
31/03/10	31/03/09	Movement	Movement
£'000	£'000	£'000	£'000
2,802	0	2,802	(1,112)
<u>2,802</u>	<u>0</u>	<u>2,802</u>	<u>(1,112)</u>

13. Loan Debt

	2009/10	2008/09
	£'000	£'000
Short Term :		
Bank Overdraft	41	44
Cash In Hand	(9)	(9)
Loan Debt	10,000	20,000
Advances from Other Accounts	1,262	1,305
	<u>11,294</u>	<u>21,340</u>

14. Net Assets Employed

	2009/10	2008/09
	£'000	£'000
General Fund	26,974	47,453
Harbour Fund	234,641	220,834
Housing Revenue Account	6,811	14,791
	<u>268,426</u>	<u>283,078</u>

15. Investments

The investments shown in the balance sheet consist of a number of individual funds, each valued at fair value. The following is a summary of the investments held by the Islands Council as at 31 March 2010:

	Market Value	Market Value
	2009/10	2008/09
	£'000	£'000
Investments		
Long Term		
Bonds and Equities	140,088	114,790
Private Companies	1,662	662
Fishing Quota	1,362	1,240
Deposits	20,358	19,045
Miscellaneous	346	433
	<u>163,816</u>	<u>136,170</u>
Short Term		
Cash Deposits	17,073	27,282

NOTES TO CORE FINANCIAL STATEMENTS

15. Investments (continued)

The Islands Council has interests in the following private limited companies :

	Hammars Hill Energy Co. Ltd	Orkney Cheese Co. Ltd	Orkney Herring Co. Ltd	Orkney Towage Co. Ltd	Weyland Farms Ltd	Orkney Ferries Ltd	Orkney Meat Ltd
2009/10							
Principal Activity	Wind Farm	Food Processing	Food Processing	Tug Operation	Mixed Farming	Sea Transport	Meat Processing
Shares Held	26%	10%	33%	100%	100%	100%	38%
Fair Value	£'000 1,000	£'000 100	£'000 0	£'000 501	£'000 0	£'000 0	£'000 61
Net Assets	3,576	4,768	(43)	4,086	88	(2,656)	623
Profit/(Loss) After Tax	(300)	35	(270)	(598)	34	(17)	(324)
Profit/(Loss) Before Tax	(299)	49	(270)	(598)	34	0	(324)
2008/09							
Net Assets	0	4739	(233)	5,350	76	(525)	948
Profit/(Loss) After Tax	0	139	(224)	1,851	86	(29)	(66)
Profit/(Loss) Before Tax	0	168	(224)	1,851	88	0	(69)

The Profit or Loss after Tax is the figure shown in the latest set of audited accounts.

The appointed auditors for the above companies report that in their opinions the accounts give a true and fair view of the state of each company's affairs, and that no qualifications have been necessary.

A dividend of 5p per share (£5,555.56) was received from Orkney Cheese Company Ltd during the year.

The Islands Council has provided in full against a diminution in the value of its £7,498,999 investment in Orkney Ferries Limited and has also provided in full against a diminution in the value of its £510,000 investment in Weyland Farms Limited and also provided in full against a diminution in the value of its £460,000 investment in Orkney Herring Company Limited.

The Islands Council is committed to ensure an orderly winding up of Weyland Farms Limited should it cease trading entirely and will ensure that all bona fide creditors are paid in full.

Copies of the companies' audited accounts are available for inspection from the following:-

Orkney Cheese Company Limited, Crowness Road, Kirkwall, Orkney, KW15 1RG
 Orkney Herring Company Limited, Garson Industrial Estate, Stromness, KW16 3JN
 Orkney Towage Company Limited, School Place, Kirkwall, Orkney, KW15 1NY
 Weyland Farms Limited, School Place, Kirkwall, Orkney, KW15 1NY
 Orkney Ferries Limited, Shore Street, Kirkwall, Orkney, KW15 1LG
 Orkney Meat Limited, Grainshore Road, Hatston Industrial Estate, Kirkwall, Orkney, KW15 1FL
 Hammars Hill Energy Company Limited, Savigarth, Evie, Orkney, KW17 2PQ

16. Government Grants - Deferred Account

Where the acquisition of a fixed asset is financed wholly or in part by a government grant, the amount of the grant should be credited to the government grants deferred account, and written-off over the useful life of the asset matching the depreciation of the asset to which it relates.

	Gross Receipts £000	Grants Applied £000	Net Balance £000
Balance at 1 April 2009	81,480	26,927	54,553
Add Grant Receipts	5,827	0	5,827
Add Grants Deferred Adjustment	0	79	(79)
Less Grant Applied	0	1,733	(1,733)
Balance at 31 March 2010	87,307	28,739	58,568

NOTES TO CORE FINANCIAL STATEMENTS

17. Summary of Statement of Reserves

The following table provides a detailed analysis of the Reserves held by the Islands Council as at 31 March 2010 :

	Balance at 31/3/10 £'000	Gain/ (Loss) £'000	Transfers £'000	Balance at 31/3/09 £'000
Capital Reserves				
Revaluation Reserve	34,894	33,848	0	1,046
Capital Adjustments Account	71,134	(32,067)	0	103,201
Financial Instruments Adjustment Account	(475)	67	0	(542)
Capital Receipts Reserve	1,906	(899)	0	2,805
Capital Fund	2,956	136	0	2,820
	110,415	1,085	0	109,330
Revenue Reserves				
	Balance at 31/3/10 £'000	Gain/ (Loss) £'000	Transfers £'000	Balance at 31/3/09 £'000
<i>General Fund Balances :</i>				
General Fund	7,958	0	(7,983)	15,941
Modernising Government Fund	0	0	(17)	17
Corporate Development Fund	10	(30)	0	40
Modernising Teachers Fund	53	0	0	53
Community Council	0	(274)	0	274
Devolved School Management Fund	123	12	0	111
Orkney College	(486)	284	0	(770)
Single Status Fund	0	0	(1,545)	1,545
ALCO Development Fund	183	(182)	0	365
Training Fund	269	79	0	190
Energy Advice Centre Transitional Fund	0	(8)	0	8
Energy Efficiency Fund	94	10	0	84
Care Facility Fund	421	0	0	421
Shared Services Fund	87	(76)	0	163
Spend to Save Fund	2,948	1,093	1,545	310
Renewable Energy Fund	8,000	0	8,000	0
Recreation & Cultural Services Project Fund	49	49	0	0
	19,709	957	0	18,752
<i>Non General Fund Balances :</i>				
Repairs and Renewals Fund	8,564	(188)		8,752
Harbour Authority Account	183,954	17,504		166,450
Housing Revenue Account	487	487		0
Pension Reserve	(54,703)	(34,497)		(20,206)
	158,011	(15,737)	0	173,748
TOTAL RESERVES	268,426	(14,652)	0	283,078

DESCRIPTION OF RESERVES

Capital

The Revaluation Reserve records gains arising from the revaluation of fixed assets made after the 1 April 2007, but yet to be realised through sales.

The Capital Adjustments Account records all the transactions relating to the difference between the cost of fixed assets consumed in the delivery of services, and the capital financing set aside to pay for these assets.

Financial Instruments Adjustment Account represents a balancing account to allow for differences in statutory requirements and proper accounting practices for borrowings and investments.

The Capital Receipts Reserve records all capital receipts generated and applied to finance capital expenditure. The balance in this reserve is available to finance future capital expenditure.

A Capital Fund is maintained in terms of Schedule 3 of the Local Government (Scotland) Act 1975.

NOTES TO CORE FINANCIAL STATEMENTS

17. Summary of Statement of Reserves (continued)

Revenue

The General Fund balance represents the surplus on General Fund Services after crediting all income due and debiting the cost of providing the appropriate services, and after taking account of transfers from Reserves.

Modernising Government Fund represents ring fenced grant funding set aside in respect of the modernising government projects.

Corporate Development Fund represents general balances earmarked for corporate development priorities.

Modernising Teachers Fund represents general balances earmarked for the Education Service.

Community Councils Fund being the balance of the accumulated fund held on behalf of the Community Councils.

The Devolved School Management Fund represents the balance of the funds held on behalf of the schools under the Devolved School Management Scheme. The DSM funds are committed solely to the Education Service and are not available for use by other services.

The Orkney College deficit represents the balance of College losses.

The Single Status balance represents general balances earmarked for Single Status.

The ALCO Development Fund represents general balances earmarked for the development of designated capital projects in respect of the Education Service.

The Training Fund represents general balances earmarked for the development of corporate training provisions.

The Energy Advice Centre Transitional Fund represents general balances earmarked for the provision of an Energy Advice service during financial year 2009/10.

The Care Facility Fund represents general balances earmarked to provide for future running costs of a new elderly care facility.

The Shared Services Fund represents general balances earmarked for the development of joint working initiatives.

The Spend to Save Fund represents general balances earmarked as part of a programme of efficiency measures.

The Renewable Energy Fund represents general balances earmarked for the development of renewable energy projects.

The Recreation & Cultural Services Projects Fund represents general balances earmarked for Recreation & Cultural specific projects.

Repairs and Renewals funds are maintained for the purpose of providing for the replacement of plant and vehicles on the General Fund of the Islands Council. In particular, funds in respect of general repairs and renewals, ferry replacement and plant and vehicle replacement.

The Harbour Authority Account Fund represents the balance of accumulated funds generated on harbour operations and held by the Islands Council.

The Housing Revenue Account represents the balance of accumulated funds generated in terms of the Housing (Scotland) Act 1987.

The Pension Reserve recognises that a net pension liability exists in terms of the Islands Councils obligation to fund the employees defined benefits pension scheme.

NOTES TO CORE FINANCIAL STATEMENTS

18. Pension Assets and Liabilities

In accordance with the Financial Reporting Standard No.17 - Retirement Benefits (FRS 17), the Council is required to disclose certain information concerning assets, liabilities, income and expenditure related to the pension schemes for its employees. As explained in the Accounting Policies the Council participates in two formal schemes, the Local Government Superannuation Scheme, which is administered by the Orkney Islands Council Pension Fund and the Teachers Scheme. The Council is not required to record information related to the Teachers Scheme as the liability for payment of pensions rests ultimately with the Scottish Government.

Local government legislation provides that local authorities have an obligation to meet the expenditure of the Joint Boards of which they are constituent members. As a consequence Orkney Islands Council has additional liabilities from the pension deficits of Highlands and Islands Fire Board, Northern Joint Police Board and Orkney and Shetland Valuation Joint Board. Further information regarding these deficits can be found in the annual report and accounts of the relevant bodies.

Assets and liabilities in relation to retirement benefits

Reconciliation of present value of scheme liabilities:	31/3/2010	31/03/2009
	£'000	£'000
Opening Defined Benefit Obligation	104,155	104,573
Current Service Cost	3,341	3,871
Interest Cost	7,291	7,299
Contributions by Members	1,854	1,710
Actuarial Losses / (Gains)	65,232	(10,319)
Past Service Costs / (Gains)	1,359	133
Losses / (Gains) on Curtailments	464	1,214
Estimated Unfunded Benefits Paid	(580)	(717)
Estimated Benefits Paid	(3,359)	(3,609)
Closing Defined Benefit Obligation	179,757	104,155

Reconciliation of fair value of employer assets:

	31/3/2010	31/03/2009
	£'000	£'000
Opening Fair Value of Employer Assets	83,949	99,790
Expected return on Assets	5,581	7,299
Contributions by Members	1,854	1,710
Contributions by the Employer	5,413	5,283
Contribution in respect of Unfunded Benefits	580	717
Actuarial Gains / (Losses)	31,616	(26,524)
Estimated Unfunded Benefits Paid	(580)	(717)
Estimated Benefits Paid	(3,359)	(3,609)
Closing Fair Value of Employer Assets	125,054	83,949

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual return on scheme assets in the year was a gain of £37,215K (2008/09 a loss of £19,127K)

Scheme History	31/3/2010	31/3/2009	31/03/2008	31/3/2007
	£'000	£'000	£'000	£'000
Fair Value of Employer Assets	125,054	83,949	99,790	95,330
Present Value of Defined Benefit Obligation	(179,757)	(104,155)	(104,573)	(117,462)
Surplus / (Deficit)	(54,703)	(20,206)	(4,783)	(22,132)

The liabilities show the underlying commitment that the authority has in the long run to pay retirement benefits. The total liability of £54,703K has a significant impact on the net worth of the authority as recorded in the Balance Sheet, however statutory arrangements for funding a deficit mean that the financial position of the authority remains healthy. The deficit on the local government pension scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.

NOTES TO CORE FINANCIAL STATEMENTS

18. Pension Assets and Liabilities (continued)

The total contributions expected to be made to the local government pension scheme by the council in the year to 31 March 2011 is £5,807K.

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 future years dependent on assumptions about mortality rates, salary levels, etc. The Islands Council Fund liabilities have been assessed by Hymans Robertson, an independent firm of actuaries, estimates for the Local Government Pension Scheme being based on the full valuation of the scheme as at 1 April 2008.

The actuarial valuation considers the appropriate employers rates and this together with the revenues generated from the investments will be utilised to meet the funds commitments.

The principal assumptions used by the actuary have been:

	31/3/2010	31/03/2009
Long-term expected rate of return on assets in the scheme:		
Equities	7.8%	7.0%
Bonds	5.0%	5.4%
Property	5.8%	4.9%
Cash	4.8%	4.0%
Mortality assumptions:		
Longevity at 65 for current pensioners:		
Men	21.5 years	20.7 years
Women	24.9 years	23.8 years
Longevity at 65 for future pensioners:		
Men	23.5 years	22.0 years
Women	27.0 years	25.0 years
Inflation / Pension Increase Rate	3.8%	3.1%
Salary Increase Rate	5.3%	4.6%
Expected Return on Assets	7.2%	6.5%
Discount Rate	5.5%	6.9%
Take-up Option to Convert Annual Pension into Retirement Lump Sum for pre-April 2009 service	50.0%	50.0%
Take-up Option to Convert Annual Pension into Retirement Lump Sum for post-April 2009 service	75.0%	N/A

The liabilities for retirement benefits as at 31 March 2010 have been assessed using a discount rate of 1.7% in excess of inflation, based on the current rate of return for high quality corporate bonds of equivalent currency and term to the scheme of liabilities. When compared to a rate of 3.7% for the previous year, this represents a significant increase in projected scheme liabilities of around 70-75%. Although investment returns for the whole fund have been exceptionally high for the year at around 45-50% with a clear rebound of the losses incurred during 2009/10 this has not been sufficient to offset the adverse movement in financial assumptions. The overall position has increased the FRS deficit on the Pension Fund by £34.497M for the year.

The Pension Fund assets attributable to the Orkney Islands Council consists of the following categories, by proportion of the total assets held:

	31/3/2010	31/03/2009
	%	%
Equities	80.0	70.0
Bonds	17.0	26.0
Property	0.0	0.0
Cash	3.0	4.0
Total	100.0	100.0

NOTES TO CORE FINANCIAL STATEMENTS

18. Pension Assets and Liabilities (continued)

History of Experience Gains and Losses

The actuarial gains identified as movements on the pension reserve in 2009/10 can be analysed into the following categories, measured as a percentage of assets or liabilities as at 31 March 2010:

	31/3/2010	31/3/2009	31/3/2008	31/3/2007	31/03/2006
	%	%	%	%	%
Difference Between the Expected and Actual Return on Assets	25.3	(31.6)	(6.8)	(2.5)	16.7
Experience Gains and Losses on Liabilities	(0.4)	(0.1)	0.7	0.1	(4.1)

Additional disclosures in respect of Pensions are included in note 4 to the Core Financial Statements.

19. Reconciliation of Operating Surplus to Net Cash Outflow from Revenue Activities

	2009/10	2008/09
	Total	Total
	£'000	£'000
Operating Surplus/(Deficit) for Year	957	1,354
Non Cash Transactions		
Contributions to Reserves	23,184	(14,331)
Adjustments not Involving the Movement of Funds	(26,914)	9,689
Contributions to Capital	4,522	2,002
Increase/(Decrease) in Bad Debt Provision	114	140
	<u>1,863</u>	<u>(1,146)</u>
Items on an Accruals Basis		
(Increase)/Decrease in Stock and Work in Progress	(36)	100
(Increase)/Decrease in Debtors	1,407	(2,084)
Increase/(Decrease) in Creditors	930	(960)
	<u>2,301</u>	<u>(2,944)</u>
Cash Outflow from Revenue Activities	4,164	(4,090)

20. Movement in Cash

	31/03/10	31/03/09	2009/10	2008/09
	£'000	£'000	Movement	Movement
			£'000	£'000
Bank Overdraft	(41)	(44)	3	594
Cash	9	9	0	0
Increase/(Decrease) in Cash	(32)	(35)	3	594

21. Reconciliation of Liquid Resources

	31/03/10	31/03/09	2009/10	2008/09
	£'000	£'000	Movement	Movement
			£'000	£'000
Temporary Lending	17,073	27,282	(10,209)	17,401

22. Reconciliation of Financing

	31/03/10	31/03/09	2009/10	2008/09
	£'000	£'000	Movement	Movement
			£'000	£'000
Public Works Loan Board	(10,000)	(20,000)	10,000	0
Revenue Advances from Common Good, Charities, Trusts and Community Councils	(1,262)	(1,305)	43	(271)
	<u>(11,262)</u>	<u>(21,305)</u>	<u>10,043</u>	<u>(271)</u>

23. Analysis of Government Grants

	2009/10	2008/09
	£'000	£'000
Other Education Grants	480	576
Other Miscellaneous Grants	1,362	1,637
Community Social Services - Specific Training	3	124
Offender Services	0	28
Strategic Waste Fund	7	7
Scottish Funding Council for Further Education	1,628	1,741
Transportation Grants	143	43
Total Government Grants Per Cash Flow Statement	3,623	4,156

NOTES TO CORE FINANCIAL STATEMENTS

24. Loan Debt

The Council has externalised its capital financing requirement by means of borrowing from the UK Debt Management Office as follows:-

	2009/10	2008/09
	£'000	£'000
1 Year	0	20,000
3-5 Years	10,000	0
5-10 Years	0	0
10-20 Years	0	0
20-30 Years	0	0
Total	10,000	20,000

25. Note to the Accounts on Financial Instrument Balances

The borrowings and investments disclosed in the Balance Sheet are made up of the following categories of financial instruments:

	Long-Term		Current	
	31/3/09	31/3/10	31/3/09	31/3/10
	£'000	£'000	£000	£'000
Financial liabilities at amortised costs	0	0	20,000	10,000
Financial liabilities at fair value through profit and loss	0	0	0	0
TOTAL BORROWINGS	0	0	20,000	10,000
Loans and receivables	2,690	2,411	27,282	17,073
For profit or loss financial assets	135,737	163,470	0	0
Unquoted equity investment at cost	433	346	0	0
TOTAL INVESTMENTS	138,860	166,227	27,282	17,073

26. Note to the Accounts on Financial Instrument Gains/Losses

The gains and losses recognised in the Income and Expenditure Account and STRGL in relation to the financial instruments are made up as follows:

	Liabilities measured at amortised cost	Assets Loans & Receivables	Total £'000
	£'000	£'000	
Interest expense	0	0	0
Losses on derecognition	0	0	0
Impairment losses	0	0	0
INTEREST PAYABLE AND SIMILAR CHARGES	0	0	0
Interest income	0	0	0
Gains on derecognition	0	0	0
INTEREST AND INVESTMENT INCOME	0	0	0
Gains on revaluation	0	0	0
Losses on revaluation	0	0	0
Amounts recycled to Income and Expenditure a/c after impairment	0	67	67
SURPLUS/(DEFICIT) ARISING ON REVALUATION OF FINANCIAL ASSETS NET GAIN/(LOSS) FOR THE YEAR	0	67	67

27. Fair value of Assets and Liabilities Carried at Amortised Cost

Financial liabilities and financial assets represented by loans and receivables 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 interest rates at 31 March 2010 of 5.5% for loans receivable and payable
- no early repayment or impairment is recognised
- where an instrument will mature in the next 12 months, carrying amount is assumed to approximate fair value
- the fair value of trade and other receivables is taken to be the invoiced or billed amount

NOTES TO CORE FINANCIAL STATEMENTS

27. Fair value of Assets and Liabilities Carried at Amortised Cost (continued)

The fair values calculated are as follows:

	31 March 2009		31 March 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£'000	£'000	£'000	£'000
Financial Liabilities	20,000	19,342	10,000	10,043

The fair value of the financial instruments are higher than the carrying amount due to the fact that the authority's portfolio of loans includes a number of fixed rate loans on where the interest rate payable is higher than the prevailing rates at the balance sheet date.

Loans and receivables	3,232	2,690	2,886	2,411
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The fair value of the financial instruments are lower than the carrying amount due to the fact that the authority's portfolio of investments includes a number of loans on interest free terms.

28. 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 authority's overall risk management practices focus on the unpredictable nature of financial markets and seeks to minimise the potential adverse effects on the resources available to fund Council Services. Risk management is carried out by a central treasury function, under policies approved by the council as part of the annual treasury management strategy. The council provides written principals for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash through Treasury Management Practices (TMP's).

Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposure to the authority's customers. 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. The authority has a policy of not lending more than £10M of its surplus balances to individual institutions at any one time.

Customers are assessed, taking into account their financial position, past experience and other factors, to determine individual credit limits.

The following analysis summarises the authority's potential maximum exposure to credit risk as at 31 March 2010, based on experience of default and uncollectability over the last five financial years, adjusted to reflect current market conditions.

	Amount £000	Historic Experience Of Market		Estimated Default & Non Collection £000
		Default %	Adjustment %	
Deposits with banks and financial institutions	17,073	0.01	0.01	2
Local Authorities	0	0.01	0.01	0
Trade Debtors	6,976	5.00	19.2	1,340
	24,049			1,342

Trade debtors of £6,976K are stated before any provision for default and uncollectability. A provision for this purpose amounting to £1,340K has been set aside for this purpose.

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

NOTES TO CORE FINANCIAL STATEMENTS

28. Nature and Extent of Risks Arising from Financial Instruments (continued)

The authority does not generally allow credit for customers, such that £2,363K of the £3,893K balance is past its due date for payment. The past due amount can be analysed by age as follows:

	£000	£000
	31/3/09	31/3/10
Less than three months	389	286
Three to six months	178	357
Six months to one year	172	314
More than one year	1015	1406
	<u>1,754</u>	<u>2,363</u>

Liquidity Risk

As the authority 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. In addition, the authority has ready access to borrowings from the money markets and the debt management office.

Market Risk

Interest rate risk

The authority is exposed to significant risk in terms of its exposure to interest rate movements on its 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 at variable rates - the interest expense charged to the Income and Expenditure Account will rise.
- borrowings at fixed rates - the fair value of the liabilities borrowings will fall.
- investments at variable rates - the interest income credited to the Income and Expenditure Account will rise.
- investments at fixed rates - the fair value of the assets will fall.

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Income and Expenditure account or STRGL. However, changes in interest receivable on variable rate investments will be posted to the Income and Expenditure Account and affect the General Fund Balance £ for £. Movements in fair value of fixed rate investments will be reflected in the STRGL.

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 equity and cash/bond investments in this way effectively minimises the councils exposure to interest rate movements. The risk of loss remains with the authority. In the longer term, the Scottish Government reviews the level of grant support it provides to local authority's every three years, which may result in additional support being provided to recognise the impact of changes in interest rates on the local authority's finances.

NOTES TO CORE FINANCIAL STATEMENTS

28. Nature and Extent of Risks Arising from Financial Instruments (continued)

According to this assessment strategy, at 31 March 2010, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	2008/09	2009/10
	£'000	£'000
Increase in interest payable on variable rate borrowings	0	0
Increase in interest receivable on variable rate investments	(463)	(374)
Increase in government grant receivable for financing costs	0	0
Impact on Income and Expenditure Account	(463)	(374)
Share of overall impact debited to the HRA	0	0
Decrease in fair value of fixed rate investment assets	71	67
Impact on STRGL	0	0
Decrease in fair value rate borrowings liabilities (no impact on I&E Account or STRGL)	71	67

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

Price Risk

The authority held £143,458K of investments as at 31 March 2010 in the form of equity shares and bonds, including £346K in a number of joint ventures and in local industry. 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 all classified as 'for profit or sale', meaning that all movements in price will impact directly on the income and expenditure account. A general shift of 5% in the general price of shares (positive or negative) would have resulted in a £7,173K gain or loss being recognised in the income and expenditure account.

Foreign Exchange Risk

The authority has no financial assets or liabilities denominated in foreign currencies and therefore has no exposure to loss arising from movements in exchange rates.

29. Contingent Liabilities

The Council has guaranteed any shortfall on the MNOPF in respect of the Orkney Towage Co Ltd. Based on a valuation exercise carried out in 2009, the amount of the potential shortfall has been quantified as £807K, and is due for settlement on 30 September 2010. This amount will only be payable to the extent that the Company fails to meet its obligations to the MNOPF. It should be noted that the Council has a controlling interest in the Orkney Towage Co Ltd.

30. Significant Trading Operations

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

31. Post Balance Sheet Event

"The Chancellor of the Exchequer announced in his emergency budget on 22 June 2010 that the consumer prices index rather than the retail prices index will be the basis for future public sector pension increases. In accordance with paragraph 21 of Financial Reporting Standard 21 (events after the balance sheet date), this change is deemed to be a non-adjusting post balance sheet event. It is estimated that this change will reduce the value of the Authority's FRS 17 liabilities and balance sheet deficit".

32. Date of Accounts Authorised for Issue

The Director of Finance and Housing, being the proper officer for the financial administration of the Islands Council, signed the Annual Accounts on 27 September 2010. Events after the 31 March 2010, being the date of the Balance Sheet, and up until the date of signing have been considered.

HARBOUR AUTHORITY ACCOUNT

The Orkney County Council Act 1974 permitted the Council to establish a harbour authority account. The trading position from harbour operations is reflected within the council's cost of services. Over the years, surpluses have been carried to a Harbour Authority Account Fund and balances largely managed by external fund managers.

This statement shows:

- The trading position from the various harbour operations for the year.
- The net return generated on investment activities associated with balances on the harbour authority account fund.

Income and Expenditure Account for year ended 31 March 2010

	2009/10 Expenditure £'000	2009/10 Income £'000	2009/10 Net Expenditure £'000	2008/09 Net Expenditure £
Scapa Flow Oil Port	6,814	3,337	3,477	1,991
Miscellaneous Piers and Harbours	8,422	3,402	5,020	79
Oil Pollution Account	87	13	74	4
Net Cost of Harbours Services	15,323	6,752	8,571	2,074
(Gain)/Loss on sale of Harbour fixed assets	(120)	0	(120)	0
Interest payable and similar charges	4	0	4	24
Pensions interest cost and expected return on pension assets	136	0	136	0
(Surplus)/Deficit for Year	15,343	6,752	8,591	2,098

Statement of Movement on Harbour Authority Account Fund Balance as at 31 March 2010

	2009/10 £'000	2008/09 £'000
(Surplus)/Deficit for the Year on the Income and Expenditure Account	8,591	2,098
Net additional Amount required by statute and non-statutory proper practices to be debited or credited to the Harbour Authority Account Fund	(5,745)	940
(Increase)/Decrease in Harbour Authority Account Fund Balance	2,846	3,038
Harbour Authority Account Investment Summary		
Income Receivable		
Net Surplus/(Deficit) on Harbour Investment Activities	26,618	(8,991)
Rents	1,230	1,021
Interest on Revenue Balances	408	533
Other	0	0
	28,256	(7,437)
Expenditure		
Payments of Grants	2,812	1,192
Other	709	284
	3,521	1,476
Net Return on Investment Activities	24,735	-8,913

HARBOUR AUTHORITY ACCOUNT

	2009/10	2008/09
	£'000	£'000
Appropriations :		
Deficit on Harbour Authority activities	(2,846)	(3,038)
Transfer to General Fund	(4,356)	(4,177)
Transfer to Orkney College	(29)	(36)
Transfer to Capital Financing Account	0	0

Net Increase in Fund During Year	17,504	(16,164)
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Represented by :	Balance at	Net	Balance at
	31/3/10	Movement	31/3/09
	£'000	£'000	£'000
Strategic Reserve Fund	132,781	16,308	116,473
Flotta Terminal Decline and Decommissioning Fund	41,103	(16)	41,119
Conservation Fund	190	4	186
Talented Performers Fund	58	1	57
Travel Fund	94	2	92
Fisheries Fund	5,850	361	5,489
Orkney Memorial Fund	678	11	667
Talented Young Persons Fund	29	(4)	33
Miscellaneous Piers Vessel Reserve Fund	1,099	791	308
Renewable Energy Fund	2,072	46	2,026
TOTAL	183,954	17,504	166,450

1. Reconciling Items for the Statement of Movement in Harbour Authority Account Fund Balances

Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the Harbour Authority Account Fund Balance for the year

	2009/10	2008/09
	£'000	£'000
Depreciation and impairment of fixed assets	(6,973)	(2,091)
Government Grants Deferred amortisation	1,041	1,541
Net gain on sale of fixed assets	120	0
Grants and contributions applied to finance capital expenditure	189	0
Net charges made for retirement benefits in accordance with FRS 17	(402)	(441)
	(6,025)	(991)

Amounts not included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the Harbour Authority Account Fund Balance for the year

Loans fund principal repayments	0	0
Capital expenditure funded by the Harbour Authority	(198)	1,247
Employers contributions payable to the Orkney Islands Council Pension Fund and retirement benefits direct to pensioners	478	684
	280	1,931
Net additional amount required to be credited to the Harbour Authority Account Fund balance for the year	(5,745)	940

HARBOUR AUTHORITY ACCOUNT

2. Reserves held in the form of investments managed by external fund managers are as follows :-

Fund Manager		Value £(M)	Performance (%)	Benchmark (%)
Prudential	Cash and Bonds	54.40	5.70	0.60
Schroders	Cash and Bonds	46.50	6.30	5.50
Schroders	Equities	59.50	54.20	54.40
Total Funds		160.40		

The movement on the Harbour Authority Account managed funds represents a gain of £26.4M for the year.

ORKNEY COLLEGE OF FURTHER EDUCATION ACCOUNT

PURPOSE

The Islands Council provided further and higher education provision through the Orkney College using a devolved Board of Management arrangement. The Orkney College is funded by direct grant from the Scottish Funding Council (SFC).

Income and Expenditure Account for year ended 31 March 2010

	2009/10 £'000	2008/09 £'000
EXPENDITURE		
Staff Costs	2,992	2,708
Property Costs	372	335
Supplies and Services	657	767
Transport Costs	136	133
Administration Costs	145	124
Apportioned Costs	60	46
Depreciation and impairment of fixed assets	1,499	55
TOTAL EXPENDITURE	5,861	4,168
INCOME		
Grants	3,664	3,221
Fees and Charges	1,086	1,093
Other Income	14	22
TOTAL INCOME	4,764	4,336
NET COST OF ORKNEY COLLEGE PER AUTHORITY INCOME AND EXPENDITURE ACCOUNT	1,097	(168)
Interest payable and similar charges	0	0
Pensions interest cost and expected return on pension assets	0	0
(SURPLUS)/DEFICIT FOR THE YEAR ON ORKNEY COLLEGE SERVICES	1,097	(168)

Statement of Movement on Orkney College Balance as at 31 March 2010

	2009/10 £'000	2008/09 £'000
(Surplus)/Deficit for the Year on the Income and Expenditure Account	1,097	(168)
Pensions interest cost and expected return on pension assets	75	0
Net additional Amount required by statute and non-statutory proper practices to be debited or credited to the Orkney College Balance	(1,456)	63
(Increase)/Decrease in the Orkney College Balance	(284)	(105)
Orkney College deficit brought forward	770	875
ORKNEY COLLEGE DEFICIT CARRIED FORWARD	486	770

ORKNEY COLLEGE OF FURTHER EDUCATION ACCOUNT

1. Reconciling Items for the Statement of Movement in Orkney College Balance

Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the Orkney College Balance for the year	2009/10 £'000	2008/09 £'000
Depreciation and impairment of fixed assets	(1,617)	(173)
Government Grants Deferred amortisation	118	118
Net charges made for retirement benefits in accordance with FRS 17	(222)	(208)
	(1,721)	(263)
Amounts not included in the Income and Expenditure Account but required by statute to be included when determining the Movement on the Orkney College Balance for the year		
Loans fund principal repayments	0	0
Capital expenditure funded by the Orkney College	1	3
Employers contributions payable to the Orkney Islands Council Pension Fund and retirement benefits direct to pensioners	264	323
	265	326
Net additional amount required to be (credited) or debited to the Orkney College Balance for the year	(1,456)	63

HOUSING REVENUE ACCOUNT

PURPOSE

This account reflects the statutory requirement to account for Local Authority housing provision, as defined in the Housing (Scotland) Act 1987. It summarises the main elements of housing revenue expenditure and capital financing costs, and shows how these costs are met by rents, housing support grant and other income.

Income and Expenditure Account for year ended 31 March 2010

	2009/10 £'000	2008/09 £'000
EXPENDITURE		
Repairs and maintenance	816	789
Supervision and management	702	643
Depreciation and impairment of fixed assets	9,170	1,471
Increase in bad debt provision	15	8
Other expenditure	15	20
TOTAL EXPENDITURE	10,718	2,931
INCOME		
Dwelling rents (gross)	1,937	1,777
Non-dwelling rents (gross)	7	16
Other Income	98	62
TOTAL INCOME	2,042	1,855
NET COST OF HRA SERVICES PER AUTHORITY INCOME AND EXPENDITURE ACCOUNT	8,676	1,076
(Gain) or Loss on sale of HRA fixed assets	303	(110)
Interest receivable and similar credits	(16)	(53)
Pensions interest cost and expected return on pension assets	15	0
(SURPLUS)/DEFICIT FOR THE YEAR ON HRA SERVICES	8,978	913

Statement of Movement on HRA Balance as at 31 March 2010

	2009/10 £'000	2008/09 £'000
(Surplus)/Deficit for the Year on the Income and Expenditure Account	8,978	913
Net additional Amount required by statute and non-statutory proper practices to be debited or credited to the HRA Balance	(9,465)	(913)
Increase/(Decrease) in the Housing Revenue Account Balance	487	0
Housing Revenue Account balance brought forward	0	0
HRA BALANCE CARRIED FORWARD	487	0

HOUSING REVENUE ACCOUNT

1. Reconciling Items for the Statement of Movement in HRA Balance

Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the movement on the HRA Balance for the year	2009/10 £'000	2008/09 £'000
Depreciation and impairment of fixed assets	(9,173)	(1,474)
Government Grants Deferred amortisation	3	3
Gain/(Loss) on sale of HRA fixed assets	(303)	110
Net charges made for retirement benefits in accordance with FRS 17	(44)	(33)
	<u>(9,517)</u>	<u>(1,394)</u>
Amounts not included in the Income and Expenditure Account but required by statute to be included when determining the movement on the HRA Balance for the year		
Capital expenditure funded by the HRA	0	430
Employers contributions payable to the Orkney Islands Council Pension Fund and retirement benefits direct to pensioners	52	51
	<u>52</u>	<u>481</u>
Net additional amount required to be (credited) or debited to the HRA Balance for the year	<u>(9,465)</u>	<u>(913)</u>

2. Housing Stock

The numbers and types of dwellings included in the Council's Housing Stock as at 31 March 2010 are as follows:

	2009/10 Number of Dwellings	2008/09 Number of Dwellings
1 Apartment	30	38
2 Apartment	276	282
3 Apartment	223	225
4 Apartment	219	196
5 Apartment	14	14
	<u>762</u>	<u>755</u>

3. Rent Arrears

	2009/10 £	2008/09 £
Dwelling Arrears	78,235	78,193
Non Dwelling & Other Arrears	78,137	57,163
	<u>156,372</u>	<u>135,356</u>

Number of Tenants in Arrears	85	89
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4. Provision for Bad Debts

	2009/10 £	2008/09 £
Dwelling Arrears	45,428	46,189
Non Dwelling & Other Arrears	50,359	35,076
	<u>95,787</u>	<u>81,265</u>

COUNCIL TAX ACCOUNT

PURPOSE

This account shows the net income raised from the Council Tax levied under the Local Government Finance Act 1992.

	2009/10	2008/09
	£'000	£'000
Gross Council Tax Levied	9,230	9,084
Less Relieved, Remitted and Written Off	(1,162)	(1,150)
NET COUNCIL TAX DUE FOR YEAR	8,068	7,934
Reduced Discount on Second Homes	(184)	(181)
Provision for Bad Debts	(36)	(31)
Council Tax Benefit (Net of Government Grants)	0	0
NET CURRENT YEAR COUNCIL TAX INCOME	7,848	7,722
PRIOR YEARS' COUNCIL TAX		
Adjustments to Charges	(150)	10
Reduction in Previous Years Council Tax Liability	(48)	(46)
TRANSFER TO INCOME AND EXPENDITURE ACCOUNT	7,650	7,686

1. Details of Charges Levied

	2009/10	2008/09
	£	£
Council Tax - Band D - General Rate	1037.00	1037.00

Council Tax Charges for 2009/10

Valuation Band	Property Valuation Range	Fraction of Band D	Council Tax £
A	£0 - £27,000	6/9	691.33
B	£27,001 - £35,000	7/9	806.56
C	£35,001 - £45,000	8/9	921.78
D	£45,001 - £58,000	9/9	1037.00
E	£58,001 - £80,000	11/9	1267.44
F	£80,001 - £106,000	13/9	1497.89
G	£106,001 - £212,000	15/9	1728.33
H	Over £212,000	18/9	2074.00

The above table shows the Council Tax Charges due for 2009/10 on a domestic dwelling with an unmetered public water supply, based on two or more people aged 18 years or over resident in the property before any exemption, discounts or relief is applied.

Generally, exemptions apply to properties which are unfurnished and unoccupied, or where a person is in long term care or the property is occupied by students. Discounts apply where fewer than two people aged 18 years or over are resident in the property, or where a person is disabled. Properties which have been adapted for the disabled or are used for charitable purposes are also eligible for relief.

However, exemptions, discounts and relief against the Council Tax can only be obtained by application to the Council.

COUNCIL TAX ACCOUNT

2. Calculation of the Council Tax Base 2009/10

	Valuation Band									Total
	@	A	B	C	D	E	F	G	H	
Total Number of Properties	0	2,565	2,706	2,046	1,540	1,058	211	16	3	10,145
Less Exemption/Deductions	0	226	96	66	21	11	1	2	0	423
Less Disabled Relief	(10)	(11)	(5)	4	2	19	1	0	0	0
Less Adj for Single Discounts	1	286	250	150	87	37	6	0	0	817
Less Adj for Double Discounts	0	138	80	48	26	14	4	0	0	310
Effective Number of Properties	9	1926	2285	1778	1404	977	199	14	3	8595
Band D Equivalent (Ratio)	(5/9)	(6/9)	(7/9)	(8/9)	(9/9)	(11/9)	(13/9)	(15/9)	(18/9)	
Band D Equivalent Number of Properties	5	1284	1777	1580	1404	1194	287	23	6	7,560
Less Provision for Non-Collection %										(66)
COUNCIL TAX BASE 2009/10										<u>7,626</u>

@ denotes additional relief for disabled persons occupying Band A properties.

Council Tax is payable on any domestic dwelling which is not exempted by Scottish Ministers. The amount of Council Tax payable depends on the valuation band into which the property falls, and the number of people aged 18 or over using the property as their sole or main residence. The Council Tax is set to cover the cost of Council Services, net of fees and charges, grants received, and non-domestic rates.

In addition water and sewerage charges are collected by the Islands Council on behalf of Scottish Water. These charges are not accounted for on the Council Tax Income Account.

3. Arrears of Council Tax

	31/3/10	31/3/09
	£	£
Council Tax Arrears	656,755	758,358

NON-DOMESTIC RATE INCOME ACCOUNT

PURPOSE

This account shows the income from the rate levied under the Local Government (Scotland) Act 1975 as amended by the Local Government Finance Act 1992 on non domestic property.

	2009/10	2008/09
	£'000	£'000
Gross Rates Levied and Contributions in Lieu	8,759	8,394
Adjust for :		
Reliefs and Other Deductions	(1,846)	(1,545)
Interest on Overpaid Rates	(2)	(58)
Provision for Bad Debts	69	(8)
Reduction in Rates Liability for previous years	(172)	(698)
Change in Accounting Policies	(80)	0
NET NON DOMESTIC RATES INCOME	6,728	6,085
Contribution from National Non-Domestic Rate Pool	1,602	1,489
TRANSFER TO INCOME AND EXPENDITURE ACCOUNT	8,330	7,574

1. Rateable Values and Number of Subjects (1 April 2009)

Non-Domestic Rateable Subjects	Number		RV	
	Of	01/04/09	Of	01/04/08
	Subjects	£000	Subjects	£000
Shops	270	1,622	270	1,602
Public Houses/Hotels	64	740	61	718
Offices	139	1,450	142	1,448
Industrial Subjects	511	2,792	502	2,694
Leisure/Entertainment	298	781	283	764
Garages & Petrol Stations	80	306	81	306
Cultural/Sporting/Education	84	1,882	84	1,865
Public Services Subjects	176	1,778	176	1,774
Miscellaneous	331	6,900	328	7,680
	1,953	18,251	1,927	18,851

2. Non-Domestic Rate Poundage

	31/3/10	31/3/09
Property Rate	0.481	£0.458

Non Domestic Rates are levied by the Islands Council on local Commercial and Industrial properties. The rate is, however, set by Central Government. An additional supplement of £0.004 is applied to properties with a rateable value exceeding £29,000, while small business relief is available for properties with a rateable value of £15,000 or less.

3. Non-Domestic Rate Arrears

	31/3/10	31/3/09
	£	£
Arrears of Non Domestic Rates	116,838	123,775

4. Contribution due to National NDR Pool for year

	2009/10	2008/09
	£000	£000
Provisional Contributable Amount	7,008	7,238
Difference from Notified Amount	(251)	(1,143)
Contribution due to National NDR Pool for year	6,757	6,095

PENSION FUND ACCOUNT

The Orkney Islands Council Pension Fund is constituted under the various Local Government Pension Fund Acts and related regulations and provides pension benefits to all local government employees, excluding principally teachers, of Orkney Islands Council, together with 13 other organisations of a statutory and voluntary nature which have been accepted into the fund as admitted bodies. The members of the scheme reduced from 1,652 employees at 31 March 2009 to 1,604 employees at 31 March 2010 and the number of pension payments increased from 505 at 31 March 2009 to 531 at 31 March 2010.

The Fund is built up from contributions from both employees and employing bodies, together with interest and dividends from investments, out of which pensions and other benefits are paid.

The monies belonging to the Pension Fund are entirely managed by external investment managers Baillie Gifford & Co, and are held separately from any of the employing bodies which participate in the Pension Fund. During the financial year 2009/10 the Fund's return on investments was 44.2% against a benchmark of 36.7%.

As an administering authority, the Island Council has delegated the management of the Pension Fund administration and investments to an Investment Sub Committee comprising of 5 elected members. The committee meets 3 times an year, with summary investment monitoring reports being issued directly to all members on a quarterly basis.

After meeting the cost of current benefits, all surplus cash income is invested and the increasing value of investment is then available to meet future liabilities to employees within the Fund. In addition to a contingent liability to meet future pension benefits payable to existing employees, the funds must also provide for the future payment deferred pension benefits which have been preserved by former employees prior to their leaving.

Employees contributions are fixed by statute, with employers contributions being assessed every three years by an independent Actuary to determine the level of contribution necessary by employing bodies to ensure that the fund is able to meet all future benefits. The standard employee contribution rate is 6% with some manual workers retaining the right to pay 5%. Following completion of the 2008 Actuarial valuation, the employers rate will see the implementation of a stepped increase from 17.4% in 2008 to 18.4% in 2009, rising to 20.4% in 2010 and 21.4% in 2011.

The funds have been invested in accordance with the investment controls laid down in the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 1998 as amended, and quoted investments of the fund have been revalued to market value at 31 March 2010 with the loss on revaluation being debited to the fund.

PENSION FUND ACCOUNT

FUND ACCOUNT	2009/10	2008/09
Contributions Receivable	£'000	£'000
Employer Contributions - Normal	5,909	5,497
Employer Contributions - Additional	122	821
Employees Contributions - Normal	2,091	1,934
Transfers In - Individual Transfers in from Other Schemes	439	988
TOTAL CONTRIBUTIONS RECEIVABLE	8,561	9,240
Benefits Payable		
Pensions	2,827	2,563
Commutation of Pensions and Lump Sum Retirement Benefits	731	1,860
Lump Sum Death Benefits	81	100
Refund of Contributions	20	13
State Scheme Premiums	8	5
Transfers Out - Group Transfers out to Other Schemes	0	0
Transfers Out - Individual Transfers out to Other Schemes	873	266
Fund Administration	221	293
TOTAL BENEFITS PAYABLE	4,761	5,100
NET ADDITIONS FROM DEALING WITH MEMBERS	3,800	4,140
Returns on Investments		
Investment Income:-		
Interest from Fixed Interest Securities	207	164
Dividend from Equities	2,304	2,073
Income from Index Linked Securities	140	144
Income from Pooled Investment Vehicles	939	942
Interest on Cash Deposits	18	319
Recoverable Tax	18	17
Gain in Market Value of Investments:		
Realised	12	(2,499)
Unrealised	38,502	(22,839)
Irrecoverable Withholding Tax	(194)	(181)
Investment Management Expenses	(309)	(302)
NET RETURN ON INVESTMENTS	41,637	(22,162)
NET INCREASE IN FUND DURING YEAR	45,437	(18,022)
Opening Net Assets of Fund at 1 April 2009	92,936	110,958
Net Increase/(Decrease) in Fund During the Year	45,437	(18,022)
CLOSING NET ASSETS OF FUND	138,373	92,936
Net Assets Statement (as at 31 March)		
Investment Assets		
Fixed Interest - Public Sector	4,612	3,127
Fixed Interest - Other	321	281
Index Linked - Public Sector	7,489	8,103
Index Linked - Other	0	0
Equities - Quoted	91,972	55,465
Pooled Investment Vehicles - Other Managed Funds	29,307	22,471
Funds held by Investment Managers - Other (Cash)	5,255	3,732
TOTAL INVESTMENT ASSETS	138,956	93,179

PENSION FUND ACCOUNT

Current Assets

Sundry Debtors	0	0
Loans Fund Deposit	0	0

Less Current Liabilities

Sundry Creditors	86	101
Loans Fund Advance	497	142

NET CURRENT ASSETS

	(583)	(243)
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NET ASSETS

	138,373	92,936
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Financed by :

ACCUMULATED FUND

	138,373	92,936
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G Waterson, BAcc., CA
Director of Finance
27 September 2010

NOTES

Accounting Policies

The accounts have been prepared in accordance with the main recommendations of the Financial Reports of Pension Schemes - A Statement of Recommended Practice (the Pension SORP) and the CIPFA Code of Practice on Local Authority Accounting, with the exception of transfer values, which are credited in the year they are received. All transfer values paid, and the service credit given in exchange for transfer values received, are calculated in accordance with the Scheme's regulations and are consistent with the requirements of Schedule 1A of the Social Security Pensions Act.

All investments are valued at their market value at 31 March 2010, determined as follows:

Investments listed on recognised Stock Exchanges are included at their official closing price on the last business day of the reporting period and adjusted, where applicable, for accrued interest to the valuation date.

Overseas currencies are translated at the WM Reuters London closing spot rates ruling at the last business day of the reporting period.

Open Ended Companies are valued using a single price reflecting the official closing price of the underlying shares.

Private equity assets are independently valued by the appointed fund manager.

Unlisted investments are valued using one of the following methodologies:

- Discounted Cash Flows or Earnings from Underlying Business
- Independent appraisal of company valuations

The Accounts have been prepared on an accruals basis and do not take account of liabilities to pay pensions and other benefits after the year end. However, the actuarial position does account for such obligations. This is disclosed in the Accounts and should be read in conjunction with the actuary's report.

PENSION FUND ACCOUNT

1. Actuarial Valuation Reports

The level of funding in terms of the percentage of assets to meet liabilities was 86% (compared to 87% at 31 March 2005).

The Council has prepared a Funding Strategy Statement which sets out its funding objectives for the Fund as follows:

To ensure the long-term solvency of the Fund as a whole and the solvency of each of the notional sub-funds allocated to individual employers.

To ensure that sufficient funds are available to meet all benefits as they fall due for payment.

Not to restrain unnecessarily the investment strategy of the Fund so that the Authority can seek to maximise investment returns (and hence minimise the cost of benefits) for an appropriate level of risk.

To help employers recognise and manage pension liabilities as they accrue with consideration to the effect on the operation of their business where the Authority considers it reasonable to do so.

To use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from defaulting on its obligations.

To maintain the affordability of the Fund to employers as far as is reasonable over the longer term.

The Council has adopted the following objectives to achieve the funding objectives:

- A stepped increase over 3 years for employer contributions.
- A deficit recovery period of 20 years for the Fund.

In determining the deficit recovery period the Council has had regard to the following factors:

- Current deficit on valuation.
- Actual investment returns to date.
- Changes in financial assumptions.
- Stability of contributions for employers.

Actuarial report was provided in 2009 after undertaking valuations on the fund as at 31 March 2008. Information from this actuarial valuation is undernoted:

Market value of assets at valuation £110,542,000.

Members Contributions

Officers	6.00%
Manual Workers before 01/04/98	5.00%
Manual Workers after 01/04/98	6.00%

Employers contributions

1 April 2009	18.4%
1 April 2010	20.4%
1 April 2011	21.4%

PENSION FUND ACCOUNT

1. Actuarial Valuation Reports (continued)

Actuarial assumptions	Funding Position 31 March 2008
Annual rate of price inflation	3.6%
Annual rate of pension increases:	
- on pension in excess of GMPs	3.6%
- on pension accrued after April 1997	3.6%
- on post-88 GMPs in payment	2.8%
- on pre-88 GMPs in payment	0.0%
Annual rate of increase of deferred pensions	3.6%
Annual rate of pay increases	5.1%
Discount rate	6.1%
Expenses	0.6%

The Projected Unit method was used for the valuation of the fund

The level of funding in terms of the percentage of assets available to meet liabilities was 86% (compared to 87% at 31 March 2005)

2. Investment Assets

The undernoted table identifies for the market value of the assets for the Orkney Islands Council Pension Fund, the value and proportion which are under the management of the fund managers.

	2009/10 £'000	%	2008/09 £'000	%
Baillie Gifford and Company	138,956	100.42	93,288	100.26
Loans Fund Advance	(497)	(0.36)	(142)	(0.15)
Sundry Debtors Less Creditors	(86)	(0.06)	(101)	(0.11)

A copy of the Statement of Investment Principles is available from the Director of Finance.

Details of the investment assets between UK or Foreign, and listed or unlisted are set out below :

	2009/10 £'000	2008/09 £'000
UK Listed	94,648	52,251
UK Unlisted	0	0
Foreign Listed	44,308	41,037
Foreign Unlisted	0	0
	138,956	93,288

Three of the investments held by the Pension Fund exceed 5% of the total value of net assets.

Company	Nature of Investment	2009/10 £'000
Baillie Gifford & Company	Open Ended Investment Company	9,053
Baillie Gifford & Company	Open Ended Investment Company	8,710
Baillie Gifford & Company	Open Ended Investment Company	9,531

PENSION FUND ACCOUNT

2. Investment Assets (continued)

Investment Movement Summary.

	Value at 1 April 2009 £'000	Purchases at Cost £'000	Sales Proceeds £'000	Change in Market Value £'000	Value at 31 March 2010 £'000
Fixed Interest - Public Sector	3,127	2,049	(373)	(191)	4,612
Fixed Interest - Other	281	0	0	40	321
Index Linked - Public Sector	8,103	1,576	(2,694)	504	7,489
Index Linked - Other	0	0	0	0	0
Equities - Quoted	55,465	20,097	(11,650)	28,060	91,972
Pooled Investment - Other Managed Funds	22,471	2,073	(5,316)	10,079	29,307
Cash Deposits	3,732	0	0	1,523	5,255
	93,179	25,795	(20,033)	40,015	138,956

Transaction costs are included in the cost of purchases and sale proceeds. These include costs charged directly to the Fund such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £143K (2008/09 £177K). In addition to the transaction costs disclosed above, indirect costs may be incurred through the bid-offer spread on some pooled investment vehicles, the amount of any such costs is not separately provided to the fund.

Fund Performance.

In the year to 31 March the fund rose by 44.2%, performing better than its benchmark which rose by 36.7%. During the period under review economies around the world regained some stability and confidence grew that measures adopted by governments to stimulate economies were proving effective. This helped investment markets to stage a recovery, and most rallied strongly over the twelve months to the end of March. Liquidity and pricing in credit markets improved markedly from the weakness of 2008 which had been caused by concerns that defaults would reach historically high levels. Although some developed economies continued to display mixed signals, there was growing optimism that the worst was over in the US and in some of the Eurozone member states. However, despite the improving data and the massive economic stimulus deployed by governments in the west, concerns persist that the recovery from here will be slow as a result of massive levels of debt that have been built up.

At a portfolio level, our main focus is still on the bottom-up analysis of companies to ensure as far as possible that the business in which we invest have good prospects for earnings growth. Baillie Gifford are finding attractive investment opportunities in companies that are either based in emerging markets or benefiting from the growth that is taking place there.

3. Contributions Receivable and Benefits Payable

An analysis is provided below for the Orkney Islands Council Pension Fund of contributions receivable and benefits payable between the administering authority and admitted bodies.

	2009/10 £'000	2008/09 £'000
Administering Authority :		
- Contributions Receivable	7,177	6,590
- Benefits Payable	3,377	4,343
Admitted Bodies		
-Contributions Receivable	823	841
-Benefits Payable	262	180

4. Investment Sub Committee

The Orkney Islands Council carries out its administration functions through its Investment Sub Committee which comprises the Convener S Hagan, Vice Convener J Stockan, Councillor I Johnstone, Councillor M Drever and Councillor A Gordon. The committee meets 3 times a year, with quarterly investment monitoring reports being issued directly to the above sub committee members throughout the year.

PENSION FUND ACCOUNT

5. Admitted Bodies

The list of bodies admitted to the fund is as follows:

Orkney Tourist Board (Visit Scotland)
Orkney Heritage Society
Orkney Towage Company Limited
Weyland Farms Limited
Orkney Meat Limited
Orkney Ferries Limited
Orkney Enterprise
Drinkwise Orkney
Orkney Islands Property Development Limited
Pickaquoy Centre Trust
Orkney Opportunities Centre
D & H Glue
Golder Landscapes

6. Additional Voluntary Contributions

The Council also operates an AVC Scheme administered by Prudential. As the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 does not permit AVC's to be paid into the Pension Fund, these figures are additional to the LGPS and provided for information only.

During the year, member contributions amounted to £272K.

Members contributions are invested in "with profits" funds. During the year, the value of AVC investments increased by £259K from £1,122K to £1,381K as at 31 March 2010.

CHARITABLE TRUST FUNDS

PURPOSE

The Islands Council as the sole Trustee administers a number of charitable trusts. Income from the trusts is used to provide educational grants and prizes, comforts for residents in Islands Council homes for the elderly and handicapped and various community facilities.

INCOME AND EXPENDITURE ACCOUNT FOR YEAR ENDED 31 MARCH 2010

	2009/10 £'000	2008/09 £'000
EXPENDITURE		
Supplies and Services	23	25
Advertising	0	1
Transfer Payments	3	3
Miscellaneous Costs	10	7
TOTAL EXPENDITURE	36	36
INCOME		
Interest	6	13
Donations	3	2
Legacies	0	0
Miscellaneous Income	1	0
TOTAL INCOME	10	15
DEFICIT ON YEAR	(26)	(21)

CHARITABLE TRUST FUNDS

BALANCE SHEET AS AT 31 MARCH 2010

	2009/10 £'000	2008/09 £'000
Investments		
Listed Securities	0	18
Property	2	2
TOTAL LONG TERM ASSETS	2	20
Current Assets		
Loans Fund Deposit	264	271
Less Current Liabilities	0	0
NET CURRENT ASSETS	264	271
NET ASSETS	266	291
Represented By :		
Orkney Educational Trust	63	66
Sheriff Thoms' Bequest	21	21
Baron Stewart Moncrieff's Bequest	2	2
Frances Taylor's Bequest	7	6
James Cumming's Bequest	1	1
Ms Annie Peace's Bequest	1	1
PC Flett's Bequest	43	42
William Orkney Reid's Bursary Fund	11	11
Baikie Bursary Fund	1	1
Mowat Bequest	1	1
Mrs Flett's Bequest	4	4
County Home Comfort Fund	41	60
St Peter's House Comfort Fund	41	46
North Ronaldsay Common Good Fund	13	12
Isabella Sutherland Isbister Bequest	1	1
Miss Maggie A Sutherland Bequest	2	2
Anderson Trust	1	1
Queens Own Highlanders Fund	2	2
Lord Lieutenants Orkney Relief Fund	4	4
John Murray Slater's Bequest	0	1
PC Flett's Bequest	6	6
ACCUMULATED FUNDS	266	291

NOTES

Accounting Policies

The accounts have been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting with the exception of property held as fixed assets which are valued at historic cost.

G Waterson, BAcc., CA
Director of Finance
27 September 2010

NON CHARITABLE TRUST FUNDS

PURPOSE

The Islands Council as the sole Trustee administers a number of non charitable trust funds. Income is used to provide educational grants and prizes, comforts for residents in Islands Council homes for the elderly and handicapped and various community facilities.

INCOME AND EXPENDITURE ACCOUNT FOR YEAR ENDED 31 MARCH 2010

	2009/10	2008/09
	£'000	£'000
EXPENDITURE		
Supplies and Services	12	13
Third Party Payments	6	3
Transfer Payments	6	9
Miscellaneous Costs	6	24
TOTAL EXPENDITURE	30	49
INCOME		
Sales	4	3
Interest	14	24
Fees & Charges	2	1
Donations	21	13
Legacies	0	24
Miscellaneous Income	0	3
TOTAL INCOME	41	68
SURPLUS ON YEAR	11	19

BALANCE SHEET AS AT 31 MARCH 2010

	2009/10	2008/09
	£'000	£'000
Investments		
Listed Securities	0	1
Property	0	0
TOTAL LONG TERM ASSETS	0	1
Current Assets		
Loans Fund Deposit	633	615
Less Current Liabilities	6	0
NET CURRENT ASSETS	627	615
NET ASSETS	627	616

Represented By :

Cathedral Promotion Fund	27	21
Cathedral Fabric Fund	89	83
Educational	358	357
Social	141	137
Community and Cultural	7	13
Burial Grounds	5	5
ACCUMULATED FUNDS	627	616

NOTES

Accounting Policies

The accounts have been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting with the exception of property held as fixed assets which are valued at historic cost.

G Waterson, BAcc., CA
Director of Finance
27 September 2010

COMMON GOOD FUND

PURPOSE

Common Good Funds were inherited from the former Burgh Council's 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 Funds are the properties of these former Burghs and monies are invested with the Council's Loans Fund. The Funds expenditure is mainly on the maintenance of properties and on grants made to local organisations, while the Funds income comes from property rentals and interest generated on investments.

INCOME AND EXPENDITURE ACCOUNT FOR YEAR ENDED 31 MARCH 2010

	2009/10	2008/09
	£'000	£'000
EXPENDITURE		
Property Costs	1	3
Supplies and Services	1	1
Transfer Payments	30	40
Miscellaneous Costs	12	1
TOTAL EXPENDITURE	44	45
INCOME		
Rent & Lettings	23	23
Interest	9	21
Miscellaneous Income	3	0
TOTAL INCOME	35	44
DEFICIT ON YEAR	(9)	(1)

BALANCE SHEET AS AT 31 MARCH 2010

	Stromness	Kirkwall	Total	Total
	2009/10	2009/10	2009/10	2008/09
	£'000	£'000	£'000	£'000
Investments				
Property	1	26	27	27
Capital Deposits	50	149	199	149
TOTAL LONG TERM ASSETS	51	175	226	176
Current Assets				
Loans Fund Deposit	44	358	402	411
Less Current Liabilities	0	0	0	0
NET CURRENT ASSETS	44	358	402	411
NET ASSETS	95	533	628	587
Represented By :				
Capital Reserve	50	149	199	149
Revenue Reserve	45	384	429	438
ACCUMULATED FUNDS	95	533	628	587

NOTES

Accounting Policies

The accounts have been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting with the exception of property held as fixed assets which are valued at historic cost.

G Waterson, BAcc., CA
Director of Finance
27 September 2010

GROUP ACCOUNTING POLICIES

PURPOSE

The Code of Practice on Local Authority Accounting in the United Kingdom 2004: A Statement of Recommended Practice (the 2004 SORP) 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 Police, Fire and 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 2010 represents the consolidation of the balances and transactions of the Council its subsidiaries and associates.

Combining Entities

The Group Accounts consolidate the results of the Council with five other entities.

Name of combining entity	Method of Accounting
Orkney Towage Company Ltd	Subsidiary
Orkney Ferries Ltd	Subsidiary
Pickaquoy Centre Trust	Associate
Northern Joint Police Board	Associate
Highlands and Islands Fire Board	Associate

To comply with the 2004 SORP, 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). Under accounting standards, the council is required to include the results of organisations termed as "associates", or "joint ventures" because it has a "significant influence" over financial and operating policies. The Council has no shares nor ownership of any of these organisations which are entirely independent of the Council under law and for taxation.

Orkney Islands Council's share of each associate or joint venture's net assets or liabilities is calculated in a variety of methods. "Associate" and "joint venture" organisations were consolidated on the following basis :-

		2009/10	2008/09
		%	%
Pickaquoy Centre Trust		100.00	100.00
Northern Joint Police Board	% Revenue Contribution	5.43	5.51
Highlands and Islands Fire Board	% Revenue Contribution	7.29	7.17

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

Materiality

A number of other organisations were also considered for consolidation

Name of considered entity

Orkney Meat Limited
Orkney Cheese Company Limited
Orkney Herring Company Limited
Hammars Hill Energy Limited

Following a full review it was deemed that for the purposes of this exercise the above organisations could not be considered to have a group relationship on basis that Orkney Islands Council would be unable to derive future economic benefits and would have no material exposure to financial risk.

GROUP ACCOUNTING POLICIES

Basis of Combination & Going Concern

In line with the principles contained within the 2004 SORP, the Group Financial Statement for the year ended 31 March 2010 has been prepared on the basis of a full consolidation of the financial transactions and balances of the Council and its subsidiaries.

The combination has been accounted for under the accounting conventions of the "acquisition basis." All "associates" have been included using the equity method – the Council's share of the net assets or liabilities of each "associate" is incorporated and adjusted each year by the Council's share of the entities' results (recognised in the Group Income & Expenditure Account), and its share of other gains and losses.

All of the five entities, the Council has a share in a net liability. The negative balances arise from the inclusion of liabilities related to the defined benefit pension schemes as required by FRS17 (i.e. Their pension liability to pay retirement benefits in the long term). There is a significant negative net worth in the case of the Police and Fire Joint Boards.

The effect of inclusion of the above bodies on the Group Balance Sheet is to reduce both Reserves and Net Assets by £29.841 million. As above, this reflect the combined pension liability of these organisations, particularly those recorded for the Police and Firemen's Pension Schemes.

All consolidated organisations consider it appropriate that their Statement of Accounts should follow the "going concern" basis of accounting arrangements with the constituent local authorities for the funding of the deficits of Police and Fire Joint Boards means that the financial position of these Boards remains assured. The Council have procedures in place to ensure the funding of deficits of the subsidiaries.

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 on pages 6 to 10 with the additions and exceptions shown in the following section.

GROUP INCOME AND EXPENDITURE ACCOUNT

Retirement Benefits

In common with Orkney Islands Council, the subsidiaries participate in the Council's Pension Scheme. This is explained on pages 27 to 29. The subsidiaries have accounting policies for pensions accounting that are consistent with those of the Council.

Police and fire fighters have separate pension arrangements. The Police Pension Scheme and the Firemen's Pension Scheme are unfunded and therefore net pension payments are charged to the income and expenditure account in the year in which payment is made. The Police and Fire Joint Boards have used the same assumptions as those used by Orkney Islands Council in their separate calculations to arrive at their net pension liability i.e. price increases, salary increases, pension increases and discount rates.

Grants and Contributions

Amounts credited to the Group Income & Expenditure Account from government grants deferred are included within the "net cost of services".

Value Added Tax

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

GROUP ACCOUNTING POLICIES

Proceeds from Disposals of Fixed Assets

Profits and losses on the disposal of fixed assets are credited or debited to the Group Income & Expenditure Account within "net cost of service". The proceeds of disposals for the Group are appropriated out after "net operating expenditure". In the case of proceeds for the Council's assets, these are taken to the Usable Capital Receipts Reserve. Amounts written off to the Group Income and Expenditure Account in respect of Council assets are appropriated out after "net operating expenditure" to the Capital Adjustment Account. For the share of proceeds for associates, these are taken instead to the Group Income and Expenditure Reserve.

GROUP BALANCE SHEET

Valuation of Fixed Assets

The basis of valuation across the combining entities is in accordance with UK GAAP and there are no material inconsistencies with the policies adopted by Orkney Islands Council.

Depreciation

Periods and categories of assets for the Group are:	Useful Life
Buildings	10 – 100 years
Infrastructure	60 years
Plant & Equipment, Furniture & Fittings	3 – 15 years
Vehicles	3 – 15 years

Depreciation is charged using either the reducing balance method or the straight line method. The difference in methods does not have a material effect on the results of the Group given the levels of assets held outwith the Council.

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.

Goodwill

Goodwill is written off in full against profits on acquisition. The 2004 SORP requires group accounts for accounting periods ending on or after 31 March 2008, as such no goodwill was written off (£Nil in 2009).

Investments

All investments are initially measured and carried at fair value.

THE GROUP INCOME AND EXPENDITURE ACCOUNT

This account summarises the resources that have been generated and consumed in providing services and managing the group during last year. It includes all day-to-day expenses and related income on an accruals basis, as well as transactions measuring the value of fixed assets actually consumed and real projected value of retirement benefits earned by employees in the year.

Group Income and Expenditure Account for year ended 31 March 2010

2008/09		2009/10	2009/10	2009/10
Net		Gross	Gross	Net
Expenditure		Expenditure	Income	Expenditure
£'000		£'000	£'000	£'000
28,097	Education	36,885	1,456	35,429
4,358	Cultural and Recreation	9,587	1,042	8,545
14,883	Community Social Services	21,090	5,114	15,976
1,548	Police Services	1,713	0	1,713
1,662	Fire Services	1,824	0	1,824
13,258	Roads and Transportation	19,710	2,831	16,879
2,206	Planning and Development	3,527	1,034	2,493
3,833	Environmental Services	5,107	811	4,296
3,884	Central Services	6,812	1,343	5,469
2,362	Corporate & Democratic Costs	2,296	(31)	2,327
956	Housing Services	5,276	3,983	1,293
1,076	Housing Revenue Account	10,718	2,042	8,676
706	Harbour Authority	15,972	6,060	9,912
156	Net (Surplus)/Deficit on Associate			(97)
1,391	Non Distributed Cost	0	(1,823)	1,823
<u>80,376</u>	NET COST OF SERVICES	<u>140,517</u>	<u>23,862</u>	<u>116,558</u>
(77)	(Profit)/Loss on Disposal of Fixed Assets			1,185
8,398	Net (Surplus)/Deficit on Harbour Investment Activities			(24,735)
(166)	Net (Surplus)/Deficit on Orkney College			1,097
(1,502)	Interest on Balances			(852)
(35)	Share of Interest Receivable of Associate			(3)
(54)	Pensions Interest Cost & Expected Return on Pensions Assets			1,819
1,330	Pensions Interest Cost & Expected Return on Pensions Assets of Associates			1,399
1,277	Net (Income)/Expenditure on Interest Payable			685
<u>89,547</u>	NET OPERATING EXPENDITURE			<u>97,153</u>
0	Transfer to/(from) Reserves			0
29	Tax on profit on Ordinary Activities			0
0	Share of tax of Subsidiary			16
<u>89,576</u>	NET EXPENDITURE			<u>97,169</u>
(59,754)	Revenue Support Grant			(61,902)
(7,573)	Distribution on Non-Domestic Rate Pool			(8,330)
(7,686)	Council Tax			(7,650)
<u>14,563</u>	(SURPLUS)/DEFICIT FOR YEAR			<u>19,287</u>

RECONCILIATION OF THE SINGLE ENTITY TO THE GROUP

PURPOSE

This Statement reconciles the Council's single entity surplus or deficit for the year to the Group surplus or deficit for the year.

Reconciliation of the Single Entity Surplus or Deficit for the Year to the Group Surplus or Deficit as at 31 March 2010

	2009/10		2008/09	
	£'000	£'000	£'000	£'000
(Surplus) or deficit on the authority's single Income and Expenditure Account for the year		16,567		14,951
Less Adjustments for transactions with group entities		(8,077)		(12,224)
SURPLUS IN GROUP INCOME AND EXPENDITURE ACCOUNT ATTRIBUTABLE TO THE AUTHORITY		<u>8,490</u>		<u>2,727</u>
Add (Surplus)/Deficit arising in the Group Income and Expenditure Account attributable to the Group entities (Adjusted for intra-group transactions)				
Subsidiaries				
Orkney Towage Company Limited		1,922		2,358
Orkney Ferries Limited		7,576		8,027
		<u>9,498</u>		<u>10,385</u>
Associates				
The Pickaquoy Centre Trust		(107)		52
Northern Joint Police Board		1,110		1,116
Highlands and Islands Fire Board		296		283
		<u>1,299</u>		<u>1,451</u>
GROUP ACCOUNT (SURPLUS) OR DEFICIT FOR THE YEAR		<u><u>19,287</u></u>		<u><u>14,563</u></u>

GROUP STATEMENT OF TOTAL GAINS AND LOSSES

PURPOSE

This statement brings together all the gains and losses of the Group for the year and shows the aggregate increase in its net worth. In addition to the surplus generated on the Income and Expenditure Account, it includes gains and losses relating to the revaluation of fixed assets and re-measurement of the net liability to cover the cost of retirement benefits.

Group Statement of Total Recognised Gains and Losses as at 31 March 2010

	2009/10	2008/09
	£'000	£'000
(Surplus)/Deficit for the year on the Income and Expenditure Account	19,287	14,563
(Surplus)/Deficit arising on revaluation of fixed assets	(35,531)	(6,591)
(Surplus)/Deficit arising from valuation of financial instruments	0	0
Actuarial (gains)/losses on pension fund assets and liabilities	36,396	17,610
Any other (gains) and losses required to be included in the STRGL		
- Loss on Associates Reserves for year	10,512	0
- Prior year movements on Group Balances	0	(2,742)
TOTAL RECOGNISED (GAINS) AND LOSSES FOR THE YEAR	<u>30,664</u>	<u>22,840</u>

Notes to Group Statement of Total Recognised Gains and Losses as at 31 March 2010

1. (Surplus)/Deficit arising on revaluation of fixed assets	2009/10	2008/09
	£'000	£'000
Orkney Islands Council	(35,531)	(679)
Orkney Towage Company Limited	0	(5,912)
	<u>(35,531)</u>	<u>(6,591)</u>
2. Actuarial (gains)/losses on pension fund assets and liabilities	2009/10	2008/09
	£'000	£'000
Orkney Island Council	33,616	16,205
Orkney Towage Company Limited	666	692
Orkney Ferries Ltd	2,114	614
	<u>36,396</u>	<u>17,511</u>

THE GROUP BALANCE SHEET

PURPOSE

The balance sheet is fundamental to the understanding of the Group's financial position at the year-end. It shows its balances and reserves and its long-term indebtedness, and the fixed and net current assets employed in its operations, together with summarised information on the fixed assets held.

Group Balance Sheet as at 31 March 2010

	2009/10	2008/09
Fixed Assets		
Operational Assets:-	£'000	£'000
-Council Dwellings	5,506	14,418
-Other Land and Buildings	105,584	95,318
-Vehicles, Plant and Equipment	8,700	9,562
Infrastructure Assets	73,611	72,071
Community Assets	3,174	3,361
Non-Operational Assets:-		
-Investment Properties	18,201	21,847
-Assets Under Construction	3,616	419
-Surplus Assets	1,663	3,127
Intangible Assets	343	-
TOTAL FIXED ASSETS	220,398	220,123
Long Term Investments	163,815	136,169
Share of Net Assets of Associate	0	6,692
Long-term Debtors	2,411	2,690
TOTAL LONG-TERM ASSETS	386,624	365,674
Current Assets		
Stocks and Work in Progress	936	869
Debtors	5,569	5,968
Investments	17,073	27,282
Cash in Hand	2,078	1,265
TOTAL CURRENT ASSETS	25,656	35,384
Less Current Liabilities		
Creditors	11,845	9,173
Provisions	2,802	0
Bank Overdraft	41	44
Loan Debt	10,000	20,000
Advances from Pension, Charity and Trust Funds	1,262	1,305
TOTAL CURRENT LIABILITIES	25,950	30,522
TOTAL ASSETS LESS CURRENT LIABILITIES	386,330	370,536
Net Pension Liability	58,709	21,373
Government Grants Deferred	58,568	54,553
Liability in Associates	30,464	25,346
Long Term Creditors	4	15
TOTAL ASSETS LESS LIABILITIES	238,585	269,249

THE GROUP BALANCE SHEET

Represented by:

Capital Reserves

Revaluation Reserve	40,214	6,958
Capital Adjustment Account	71,134	103,201
Financial Instruments Adjustment Account	(475)	(542)
Capital Receipts Reserve	1,906	2,805
Capital Fund	2,956	2,820
	<hr/>	<hr/>
	115,735	115,242

Revenue Reserves

General Fund Balances	19,018	18,832
Harbour Authority Fund	183,954	166,450
Housing Revenue Account	487	0
Pension Reserve	(58,709)	(21,373)
Repairs and Renewals Fund	8,564	8,752
Reserves of Associates	(30,464)	(18,654)
	<hr/>	<hr/>
	122,850	154,007

TOTAL EQUITY

	<hr/>	<hr/>
	238,585	269,249

G Waterson, BAcc., CA
Director of Finance
27 September 2010

THE GROUP CASH FLOW STATEMENT

This statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes. For the purpose of this statement cash is defined as cash-in-hand and deposits repayable on demand less overdrafts repayable on demand.

2008/09		'2009/10	
£'000		£'000	£'000
(3,654)	NET CASH INFLOWS FROM REVENUE ACTIVITIES		5,051
	RETURNS ON INVESTMENT & SERVICING OF FINANCE		
	Cash Outflows		
171,192	Purchase of Harbour Investments	176,111	
18	Interest Paid	34	
	Cash Inflows		
175,888	Sale of Harbour Investments	173,487	
(4,696)	(Increase)/decrease in Harbour Cash Investments	2,624	
360	Interest Received	490	
<u>342</u>	NET INVESTMENTS AND SERVICING OF FINANCE		456
26	Tax Charge For Year		29
	CAPITAL ACTIVITIES		
	Cash Outflows		
12,567	Purchase of Fixed Assets	10,592	
(2)	Purchase of Long Term Investments	1,099	
298	Other Capital Cash Payments	53	
	Cash Inflows		
642	Sale of Fixed Assets	601	
6,000	Sale of Long Term Investments	0	
674	Other Capital Receipts	592	
7,027	Capital Grants Received	5,723	
<u>1,480</u>	NET CAPITAL ACTIVITIES		(4,828)
(1,858)	NET CASH INFLOW/(OUTFLOW) BEFORE FINANCING		650
	MANAGEMENT OF LIQUID RESOURCES		
(17,401)	Net (Increase)/Decrease in Short Term Deposits		10,209
	FINANCING		
	Cash Outflows		
(271)	Repayment of Amounts Borrowed	10,043	
	Cash Inflows		
20,000	New Loans Raised	0	
<u>0</u>	New Short Term Loans	<u>0</u>	
20,271			(10,043)
<u>1,012</u>	INCREASE /(DECREASE) IN CASH		816

NOTES TO CORE GROUP FINANCIAL STATEMENTS

PURPOSE

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.

1. Details of Combining Entities

In addition to the information included in the consolidated Group Accounts on the preceding pages, the accounting regulations require specific disclosures about the combining entities and the nature of their business. The accounting period for the entities are the twelve months to 31 March 2010.

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 CIPFA Best Value Accounting Code of Practice (BVACOP) Service Expenditure Analysis. The following section provides some additional information on the relationship between the Council and each subsidiary. The Council would ensure an orderly winding up any of each subsidiary should the businesses cease.

Orkney Towage Company Ltd is a company incorporated in 1976 under the terms of the Companies Acts to operated tugs within and around the Orkney Islands. The Council is the principle shareholder in the company holding all 1000 £1 ordinary 'A' shares, and all 1000 £1 ordinary 'B' shares representing 100% of the issued share capital. Under accounting standards, the Council has a controlling interest in this company, and is therefore included in the group accounts as a subsidiary. Councillors and Council Officials hold 6 of the 9 seats on the board, with each director entitled to one vote.

The latest set of audited accounts is for the year to 31 March 2010. Copies of these accounts can be obtained from Orkney Islands Council, School Place, Kirkwall, Orkney, KW15 1NY.

The net liability of the company at 31 March 2010 was £3.279M compared to £5.350M at 31 March 2009. The loss before taxation for the period to 31 March 2010 was £0.814M compared to a profit of £1.851M for the period to 31 March 2009. In 2009-10, Orkney Islands Council contributed £1.556M or 82.4% of the companies turnover. No dividend payments were due to, or received by, the Council in respect of its investment.

Orkney Ferries Ltd is a company incorporated in 1987 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 and Council Officials hold all 7 seats on the board, with each director entitled to one vote.

The latest set of audited accounts is for the year to 31 March 2010. Copies of these accounts can be obtained from Orkney Ferries Ltd, Shore Street, Kirkwall, Orkney, KW15 1LG.

The net liability of the company at 31 March 2010 was £2.656M compared to net assets of £0.525M at 31 March 2009. There was no profit or loss before taxation for the period to 31 March 2010 or the period to 31 March 2009. In 2009-10, Orkney Islands Council contributed £7.560M or 76.8% of the companies turnover.

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.

NOTES TO CORE GROUP FINANCIAL STATEMENTS

The Pickaquoy Centre Trust is a company limited by 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.

The Pickaquoy Centre Trust are included in the Council's Group Accounts, because the Council has ultimately been prepared to accept the risk of cash shortfalls in the entity, and as such it was ultimately exercising significant influence over it. Councillors and Council Officials hold 5 of the 11 seats on the board, with each trustee entitled to one vote.

The latest set of unaudited accounts is for the year to 31 March 2010. When available, copies of these accounts can be obtained from The Pickaquoy Centre, Muddisdale Loan, Kirkwall KW15 1LR.

In 2009-10, Orkney Islands Council contributed £0.738M or 55.6% of the company's turnover and its share of the year-end net liability of £0.083M (2008-09 assets of £0.108M) is included in the Group Balance Sheet. The following additional disclosures are required under accounting regulations for the Pickaquoy Centre Trust because the Council's share of the net assets of the Company exceeds 25%.

	2009/10	2008/09
Council's Share of Pickaquoy Centre Trust Limited	100.00%	100.00%
	£M	£M
Turnover	1.328	1.253
Profit/(Loss) before tax	(0.191)	0.047
Interest Payable/Receivable	Nil	0.006
Taxation	Nil	Nil
Profit/(Loss) after tax	(0.191)	0.047
Fixed Assets	0.086	0.117
Current Assets	0.344	0.153
Liabilities due within one year	(0.206)	(0.116)
Liabilities due after one year or more	(0.307)	(0.046)
Net Liabilities	(0.083)	0.108
Contingent Liabilities	None	None
Capital Commitments	None	None

Northern Joint Police Board is the statutory body established under the Local Government Reorganisation in 1975, and provides a vast range of policing services on behalf of the 4 local authorities in the Highlands and Islands of Scotland. In 2009-10, Orkney Islands Council contributed £1.628M or 5.43% of the Board's estimated running costs and its share of the year-end net liability of £453.682M (2008-09 £280.136M) is included in the Group Balance Sheet. Copies of its accounts may be obtained from the Highland Council.

The following additional disclosures are required under accounting regulations:

	2009/10	2008/09
Council's Share of Northern Joint Police Board	5.43%	5.51%
	£M	£M
Turnover	0.578	0.367
Fixed Assets	2.615	2.581
Current Assets	0.668	0.87
Liabilities due within one year	(0.382)	(0.520)
Liabilities due after one year or more	(27.542)	(18.355)
Net Liabilities	(24.641)	(15.424)
Contingent Liabilities	None	None
Capital Commitments	0.025	0.208

NOTES TO CORE GROUP FINANCIAL STATEMENTS

Highlands and Islands Fire Board is the statutory body established under the Local Government Reorganisation in 1975, and provides fire services on behalf of the 4 local authorities in the Highlands and Islands of Scotland. In 2009-10, Orkney Islands Council contributed £1.786M or 7.29% of the Board's estimated running costs and its share of the year-end net liability of £78.791M (2008-09 £46.872M) is included in the Group Balance Sheet. Copies of its accounts may be obtained from the Highland Council.

The following additional disclosures are required under accounting regulations:

	2009/10	2008/09
Council's Share of Highlands and Islands Fire Board	7.29%	7.17%
	£M	£M
Turnover	0.106	0.076
Fixed Assets	3.399	2.901
Current Assets	0.299	0.232
Liabilities due within one year	(0.303)	(0.199)
Liabilities due after one year or more	(9.139)	(6.271)
Net Liabilities	(5.744)	(3.337)
Contingent Liabilities	None	None
Capital Commitments	None	0.053

2. Financial Impact of Consolidation

The effect of inclusion of the above bodies on the Group Balance Sheet is to reduce both Reserves and Net Assets by £29.841M representing the Council's share of the net liabilities in these entities. As above, this reflects the combined pension liability of these organisations, particularly those recorded for the Police and Firemen's Pension Schemes.

3. Council's Consideration for Acquisition of Subsidiaries, Associates and Joint Ventures Net Assets or Liabilities

The assets, liabilities and reserves of the Council have been combined with its share of the net assets or liabilities of its subsidiaries, associates and joint ventures under the accounting conventions of the "acquisition basis" using the equity method. The accounting regulations require certain disclosures about the net assets or liabilities so acquired:-

The Council paid a market price for its consideration in Orkney Towage Company Ltd.

There is no deferred or contingent purchase consideration.

All goodwill arising from these purchases has been written off in 2005-06.

A "fair value" for its share of the net assets or liability of the two Joint Boards at the point of acquisition and the post-acquisition results are unable to be accurately determined in view of length of time since the transfer responsibilities at local government re-organisation in 1975 and 1996, and the change in accounting for pensions under FRS17 in 2003-04.

No consideration was given for the interest in the remaining subsidiaries, associates or joint ventures therefore no goodwill arose.

4. Exceptional Items

The Exceptional items included in the accounts represent accrued staff costs, a provision for equal pay and goodwill written of the balances during the year as follows:-

	2009/10	2008/09
	£'000	£'000
Staff Costs	Nil	44
Pension Costs	Nil	1,347
	Nil	1,391

5. Taxation

The tax charge for the year relates to corporation tax in this year for Orkney Ferries Ltd. The difference between tax at the standard rate on the company's profits for the actual level of corporation tax is mainly as a result of timing differences on capital expenditure.

NOTES TO CORE GROUP FINANCIAL STATEMENTS

6. Other Pension Schemes

A number of employees are not members of the Council's pension scheme. Most of them participate in one of the Merchant Navy Pension Funds.

Merchant Navy Ratings Pension Plan (MNRPP)

Some employees contribute to this defined contribution pension plan. The contribution rate is 5.1%. Contributions payable in the year amounted to £1,690.

Merchant Navy Officers Pension Fund (MNOFP)

The MNOFP is closed to new members however some existing employees may qualify to contribute to the MNOFP, a defined benefit scheme, with a contribution rate of 11.9%. The group made contributions to this fund of £64,235 in the year. It is a multiple employer scheme and the company is unable to identify its share of the underlying assets and liabilities. A valuation was concluded in 2009. The deficit that Orkney Towage and Orkney Ferries have been requested to make is £806,817 and £1,236,061 respectively. These amounts are due to be paid on 30 September 2010.

The Trustees of the new section have requested deficit contributions from each employer and the group entities agreed to make additional contributions, payable in 10 equal instalments due on 31 March annually until 2014, as follows:-

	'£
Orkney Towage Company Ltd	60,329
Orkney Islands Council	52,116
	<u>112,445</u>

The additional contributions are subject to change, dependent on the results of future actuarial valuations of the fund.

Merchant Navy Rating Pension Fund (MNRPP)

Some employees may qualify to contribute to the MNRPP, a defined benefit scheme, with a contribution rate of 11.9%. The group made contributions to this fund of £2,390 in the year. 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 2005, the MNRPP had a deficit of assets over liabilities. The trustees of the New section have requested deficit contributions from each and the group has made additional contributions totalling £79,509 during the current year. The additional contributions are subject to change dependent on the results of the future actuarial valuations of the fund.

7. Reconciliation of Operating Surplus to Net Cash Inflow from Revenue Activities

	2009/10	2008/09
	Total	Total
	£'000	£'000
Operating Surplus/(Deficit) for Year	(1,763)	(1,742)
Non Cash Transactions		
Contributions to Reserves	23,184	(8,674)
Adjustments not Involving the Movement of Funds	(24,798)	7,158
Contributions to Capital	4,522	2,002
Increase/(Decrease) in Bad Debt Provision	114	140
	<u>3,022</u>	<u>626</u>
Items on an Accruals Basis		
(Increase)/Decrease in Stock and Work in Progress	(67)	280
(Increase)/Decrease in Debtors	1,395	(822)
(Increase)/Decrease in Creditors	2,464	(1,996)
	<u>3,792</u>	<u>(2,538)</u>
Cash Inflow from Revenue Activities	<u><u>5,051</u></u>	<u><u>(3,654)</u></u>

NOTES TO CORE GROUP FINANCIAL STATEMENTS

8. Movement in Cash

	31/03/10	31/03/09	2009/10 Movement	2008/09 Movement
	£'000	£'000	£'000	£'000
Bank Overdraft	(41)	(44)	3	594
Cash	2,078	1,265	813	418
Increase/(Decrease) in Cash	2,037	1,221	816	1,012

9. Reconciliation of Liquid Reserves

	31/03/10	31/03/09	2009/10 Movement	2008/09 Movement
	£'000	£'000	£'000	£'000
Temporary Lending	17,073	27,282	(10,209)	17,401

10. Reconciliation of Financing

	31/03/10	31/03/09	2009/10 Movement	2008/09 Movement
	£'000	£'000	£'000	£'000
Public Works Loan Board	(10,000)	(20,000)	10,000	0
Revenue Advances from Common Good, Charities, Trusts and Community Councils	(1,262)	(1,305)	43	(271)
	(11,262)	(21,305)	10,043	(271)

SYSTEM OF INTERNAL FINANCIAL CONTROL

1. This statement is given in respect of the group activities as set out in the Orkney Islands Council Group Accounts. We acknowledge our responsibility for ensuring that an effective system of internal financial control is maintained and operated in connection with the resources concerned.

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

3. The system of internal financial control is based on a framework of financial regulations, regular management information, administrative procedures (including segregation of duties), management supervision and a system of delegation and accountability. Development and maintenance of the system is undertaken by managers within the Group entity. In particular, the system includes :-

- comprehensive budgeting systems;
- regular reviews of periodic and annual financial reports which indicate financial performance against the forecast;
- setting targets to measure financial and other performance;
- the preparation of regular financial reports which indicate actual expenditure against the forecasts;
- clearly defined capital expenditure guidelines;
- as appropriate, formal project management disciplines; and
- best value review processes incorporating the preparation and implementation of service improvement plans.

4. Internal Audit is an independent appraisal function established by the Council for the review of the internal control system as a service to the organisation. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.

The Internal Audit section reports directly to the Director of Finance and Housing. The section operates in accordance with the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom. The Chief Internal Auditor provides an independent opinion on the adequacy and effectiveness of the system of internal financial controls.

The Council also has a Monitoring and Audit Committee who are responsible for ensuring that arrangements are in place to secure proper stewardship of the Council's resources, including the arrangements for internal audit and financial control.

The internal audit work plan, which is based on an audit needs assessment and a risk exposure analysis, is prepared following consultation across all departments and outlines the strategy to be adopted by the Internal Audit section in undertaking audit inspections. The annual plan is approved by the Monitoring and Audit Committee.

SYSTEM OF INTERNAL FINANCIAL CONTROL

Audit reports are produced following the completion of each audit, which outline any system weaknesses identified, and/or non compliance with expected controls. These reports are presented to the Monitoring and Audit Committee to enable the committee to monitor the implementation of any audit recommendations made. Managers agree action to be taken following audits to correct any weaknesses identified in the system of internal control.

On the basis of information gained over the period from internal and external audit reports, the Director of Finance and Housing and the Council therefore have a better understanding of the adequacy and effectiveness of the system of internal financial control.

5. Our review of the effectiveness of the system of internal financial control is informed by :

- the work of managers within the Group entity
- the best value review process
- the work of internal audit as described above; and
- the external auditors in their annual audit letter and other reports

And, from the above, I am satisfied that the Group entity has in place a sound system of internal financial controls and where any weaknesses have been identified, improvement actions have been formulated . I am also satisfied that mechanisms are in place which would identify, and address, any material areas of weaknesses on a timeous basis.

6. The development of the Council's Medium Term Financial Strategy remains a priority for the Council. As part of this workstream the Council is undertaking a comprehensive review of the full range of services it currently provides, with a view to developing specific proposals for the generation of significant financial savings. This requirement follows on from Central Government plans to reduce public sector funding on average by 12% in real terms during the next financial settlement period 2011/12 to 2013/14.

With regard to risk management, work remains ongoing with the implementation of a risk management framework across the Council. During the year the year the corporate risk register has been reviewed and updated with action plans developed for each significant risk. In addition to this individual service risk registers have also been reviewed along with detailed action plans to mitigate identified risks.

In general, across the Council, and in those bodies which are substantially funded by the Council, there is often a lack of segregation of duties, arising from the small number of staff that are employed in some areas. To address this, compensating controls are introduced where it is not possible to separate specific responsibilities.

Orkney Health and Care, as a joint working arrangement, was created as a shadow board between the Council and NHS Orkney during the year. Whilst detailed governance arrangements surrounding this partnership have yet to be concluded, including a clear separation of the risks and responsibilities for each organisation as well as key staff, this arrangement was formally established on the 1 April 2010.

The Council acknowledges that the way that the finances of a small number of its clients are managed in terms of Adults with Incapacity and Direct Payments does not meet best practice. An action plan has since been agreed to ensure that existing controls are improved with a view to protecting the interests of these clients.

The Council currently operates decentralised arrangements for the procurement of goods and services, and lacks a corporate procurement strategy. Work remains ongoing to develop a centralised procurement function within the Council, as part of the Council's Efficient Government Agenda. During the year the Council has updated its contract standing orders and signed up to Scotland Excel - a Scotland wide centralised purchasing framework for local government.

SYSTEM OF INTERNAL FINANCIAL CONTROL

Several weaknesses previously identified in relation to asset management and planning arrangements currently remain outstanding. The Council does not have an asset management strategy which links to the asset plans for services. While this has been identified as a priority for development in the corporate improvement plan, progress has been slower than originally planned over the past year. Work currently remains ongoing to improve the systems for recording the Council's assets.

I am satisfied, that the responsible officers are aware of, and are addressing the issues detailed above and which relate to the financial year ended 31 March 2010.

G Waterson, BAcc., CA
Director of Finance
27 September 2010

Independent auditors' report to the members of Orkney Islands Council and the Accounts Commission for Scotland

We certify that we have audited the financial statements of Orkney Islands Council and its group for the year ended 31 March 2010 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Income and Expenditure Account, Statement of Movement on the General Fund Balance, Statement of Total Recognised Gains and Losses, Balance Sheet and Cash Flow Statement, the Harbour Authority Account, Orkney College of Further Education Account, the Housing Revenue Account Income and Expenditure Account, Statement of Movement on the HRA Balance, the Council Tax Income Account, the Non-Domestic Rate Income Account, the Pension Fund Account and Net Assets Statement, Charitable Trust Funds, Non Charitable Trust Funds, Common Good and the related notes and the Statement of Accounting Policies together with the Group Accounts. These financial statements have been prepared under the accounting policies set out within them.

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

Respective responsibilities of the Director of Finance & Housing and auditor

The Director of Finance & Housing's responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009 - A Statement of Recommended Practice (the 2009 SORP) are set out in the Statement of Responsibilities for the financial statements.

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

We report our opinion as to whether the financial statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the 2009 SORP, and have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

In addition, we report to you if, in our opinion, the local government body has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We review whether the Statement on the System of Internal Financial Control reflects compliance with the SORP, and we report if, in our opinion, it does not. We are not required to consider whether this statement covers all risk and controls, or form an opinion on the effectiveness of the local government body's corporate governance procedures or its risk and control procedures.

We read the other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the Foreword by the Director of Finance & Housing. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Independent auditors' report to the members of Orkney Islands Council and the Accounts Commission for Scotland

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements

- give a true and fair view, in accordance with relevant legal and regulatory requirements and the 2009 SORP, of the financial position of Orkney Islands Council and its group as at 31 March 2010 and the income and expenditure of Orkney Islands Council and its group for the year then ended; and
- have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

Scott-Moncrieff
Chartered Accountants
Statutory Auditor
Exchange Place 3
Semple Street
Edinburgh
EH3 8BL

27 September 2010