ORKNEY
ISLANDS COUNCIL

STATEMENT OF ACCOUNTS

2013 / 2014

Contents

Foreword by Head of Finance

Introduction

The purpose of the annual Statement of Accounts is to demonstrate proper stewardship of the Council's financial affairs.

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 2014.

The Financial Statements

The requirements governing the format and content of local authorities' annual accounts are contained in The Code of Practice on Local Authority Accounting in the United Kingdom ("the Code") and are fully based on International Financial Reporting Standards.

Statement of Responsibilities for the Annual Accounts

This statement sets out the respective responsibilities of the Council and the Head of Finance for the financial statements.

Annual Governance Statement

This statement explains how the Council conducts its business, both internally and in its dealings with others. The statement details the review of effectiveness of the Local Code of Governance and outlines any actions the Council is taking to address significant issues.

Remuneration Report

This report outlines the Council's remuneration policies for senior officers and senior elected members, and also provides detailed information as to the remuneration of senior officers and elected members.

Core Financial Statements

An explanation of the financial statements which follow and their purpose are:

The Movement in Reserves Statement

Shows the movement in the year of the different reserves the Council holds; analysed into useable reserves (i.e. those that can be applied to fund future expenditure or reduce local taxation) and other reserves.

The Comprehensive Income and Expenditure Statement

Shows the cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. The Council raises taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

The Balance Sheet

Shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by reserves held by the Council.

The Cash Flow Statement

Shows the change in cash and cash equivalents of the Council during the period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.

The Notes to the Core Financial Statements

Provide further information on the Council's core financial statements.

Supplementary Financial Statements

An explanation of the supplementary financial statements and their purpose are:

The Housing Revenue Account (HRA)

Reflects the statutory requirement to account separately for local authority housing provision, as defined in the Housing (Scotland) Act 1987. The HRA account has three parts:

HRA Income and Expenditure Statement – which shows in more detail the income and expenditure on HRA services included in the whole authority Income and Expenditure Statement.

Statement of Movement on the Housing Revenue Account Balance – which shows how the HRA Income and Expenditure Statement surplus or deficit for the year reconciles to the movement on the Housing Revenue Account balance for the year.

Notes to the Housing Revenue Account – which give additional information on the HRA.

The Council Tax Income Account

Shows the gross and net income from council tax, together with details of the number of properties on which council tax is levied, and the charge per property.

The Non Domestic Rates Income Account

Shows the gross and net income from non domestic rates and details the amount payable to the national non-domestic pool, and the resulting net income for the financial year to the Council that is shown in the Income and Expenditure Statement.

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 include 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.

The Orkney College of Further Education Account

Orkney 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).

The 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.

Review of the Year

<u>Local Taxation</u>

Orkney Islands Council on 14 February 2013 agreed a General Fund budget of £79.456M 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 £80.704M, 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 £80.704M, while sources of finance were realised at £80.704M, including a contribution of £4.093M from reserves. Overall, this represents no movement on General Fund Services but a decrease on earmarked balances of £1.149M for the financial year ended 31 March 2014.

Council tax income contributed to this position, with Orkney 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 (98.1% for 2012/13). 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 it expects to collect in excess of 99% of all prior year council tax income.

Comprehensive Income and Expenditure Statement

The Comprehensive Income and Expenditure Statement on page 28 summarises the total costs of providing Council services and the income available to fund those services. The General Fund is funded by government grant and council tax revenues and the Movement in Reserves Statement on page 27 shows no movement on General Fund Services in 2013/14 financial year.

The outturn for the General Fund reflects well on the management of the Council’s overall finances in what has been a challenging year.

The net cost of services provided by the Council for the year amounted to £87.415M, which after taking into account corporate activities resulted in a deficit on the provision of services of £0.062M being realised for the Council as a whole.

Principal sources of finance were realised at £86.068M for the year, being Revenue Support Grant of £60.403M, Non-Domestic Rate Income of £8.827M, Council Tax Income of £7.604M and Capital Grants and Contributions of £9.234M.

After taking into account other comprehensive income of £32.432M, overall the activities of the Council returned a surplus of £32.370M for the year.

The main source of this surplus can be attributed to £9.234M capital grants to fund capital spend, £12.621M depreciation on fixed assets less actuarial loss of £2.876M, with corporate financing and investment income of £8.110M being generated principally through the Harbour Authority's Strategic Reserve Fund.

Other Operating Expenditure for the year totalled £6.825M which is mainly attributable to the loss on disposals due to the demolition of the former Kirkwall Grammar School.

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 Reserves

During the year, Usable Reserves decreased from £225.987M to £223.997M, being a decrease of £1.990M.

Within this General Fund reserves amount to £23.768M, including earmarked balances.

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 £8.627M remains 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.

Usable reserves include the Harbour Authority fund balance which decreased from £197.546M to £196.784M, being a decrease of £0.762M for the year.

Net Worth of the Orkney Islands Council

In financial terms, the Council remains in good health, with its net worth increasing from £455.2M to £487.6M for the financial year to 31 March 2014, being an increase of £32.4M or 7.1%. This movement was largely the result of a gain on revaluation of non-current assets and investment income.

As at 31 March 2014, Orkney Islands Council carried a debt of £40.0M, as part of its capital financing requirement.

Harbour Authority Account

The Harbour Authority generated a loss of £3.645M from its various harbour operations for the year. After allowing for amounts required by statute and non-statutory proper accounting practice, the underlying trading position was a loss of £0.762M.

In addition to this, the Harbour Authority Account generated a surplus on investment activities of £9.583M for the year, after netting off grants and other investment expenditure.

After taking into account the use of reserves during the year, which included net contributions of £9.247M to support general fund services, the net effect has been a decrease of £0.762M 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 surplus of £0.977M being realised for last financial year (surplus of £0.040M for 2012/13). After allowing for amounts required by statute and non-statutory proper accounting practice, the College realised a deficit of £0.145M.

Housing Revenue Account (HRA)

The HRA approved budget for the financial year 2013/14 included expenditure of £2.946M to be met from income generated in the year of £2.946M.

The HRA returned a deficit of £2.375M being realised for last financial year (deficit £4.036M for 2012/13). After allowing for amounts required by statute and non-statutory proper accounting practice, and transfers to/from Reserves, the HRA has achieved a break-even position for the year (£0.000M as at 31 March 2013).

Capital

The Council is able to regulate its own capital spending limits within a prudential framework recommended by the Chartered Institute of Public Finance and Accountancy and endorsed by the Scottish Government. Our performance confirms that actual capital spending of £28.168M was managed within the overall "Prudential Framework" expenditure limits approved by Council. The Prudential Framework indicators, which are outlined below, are important financial measures which support prudent decision making and assists in securing affordable and financially sustainable investment and borrowing activities undertaken by the Council.

The Council is progressing with a significant level of capital investment projects ongoing in relation to a £3.273M house build programme, together with the development of £8.854M of Harbour infrastructure and £8.297M in respect of a Schools Investment programme.

In addition to these programmes the Council also invested £2.740M in roads and transport, £1.784M in leisure & cultural services, £1.111M in other housing, £0.869M in Community social Services, £1.040M in other services and £0.200M in investment properties.

Funding of capital expenditure included £0.854M from revenue, £9.119M from government grants, £0.891M from the sale of assets in prior years and other receipts, and £8.229M from use of balances.

The council's approved capital programme included a commitment to invest over £58M in a new build programme for school facilities which is now largely completed.

Performance against Prudential Framework Indicators

The Prudential Code for Capital Finance in Local Authorities allows greater local flexibility for investment decisions that are informed and supported by a suite of performance indicators. The indicators for 2013-2014 were approved by Council on 16 April 2013. The Council's overall performance against these indicators provides a firm basis for the monitoring and control of capital investment and borrowing and for determining that it is prudent, affordable and financially sustainable. Certain headline indicators are sub-divided per recommended best practice into two programmes – housing and non-housing.

The key performance indicators are:

1. An "approved limit" for capital expenditure (the maximum that the Council may spend on capital investment during the year).

2. A capital financing requirement (the estimated amount of the Council's aggregate capital expenditure on its balance sheet)

3. An "operational boundary" for the Council's external borrowing (the upper limit for the aggregate external borrowing needed) plus an "authorised limit" for the Council's external borrowing (the upper limit of aggregate external borrowing that is affordable and prudent).

1. Approved Limit

Capital expenditure was less than the original "approved limit" of £30.535M. However, ambitious timescales being approved for capital projects in previous years, required the subsequent reprofiling of £7.373M from 2012-13 into 2013-14, with a further £2.217M into later years. As a result of further slippage in the approved programme for 2013/14, it will be necessary to restate the approved limits in financial year 2014/15.

The capital expenditure incurred during the year compared with the revised approved limit is as follows:

	Approved Limit	**Actual**
	£m	**£m**
Housing	5.339	3.172
Non-Housing	32.569	24.996
Total	**37.908**	**28.168**

2. Capital Financing Requirement

The actual capital financing requirement for 2013-14 is well within the approved limit as a result of the under-spending outlined above. The out-turn capital financing requirement at the year-end compared to the approved limit is as follows:

	Approved Limit	Actual
	£m	£m
Housing	15.881	13.404
Non-Housing	43.036	23.136
Total	**58.917**	**36.540**

3. External Debt at the Year-end

The Council's aggregate external debt was contained within both the operational boundary and the authorised limit. Importantly, when compared with the outturn on the Capital Financing Requirement, the external debt indicator is less, confirming that the Council's external borrowing activities continue to be undertaken only to support planned capital investment activities. These figures reflect the actual principal sum borrowed rather than the carrying value shown in the Balance Sheet. When compared against prudential limits, the lower level of external borrowing is reflective of the capital spend achieved during the year.

	Borrowing Limits	Actual
	£m	£m
Aggregate external debt of the Council at 31 March 2014		40.0
Operational Boundary	50.0	
Authorised Limit	65.0	

Long-term Borrowing

The Council undertook no additional borrowing during the year based on the Council's planned capital commitments.

The borrowing strategy is prepared in accordance with the Code of Practice on Treasury Management in Local Authorities. The majority of the Council's borrowing comes from the Public Works Loan Board with the remainder from market and other loans. Further details are provided at Note 16.

Provisions, Contingencies and Write-offs

The Council has provided for eventualities which may have a material effect on the financial position of the Council. The reasons for the provisions made are outlined in Note 23.

In general, any contingent liabilities known to the Council are covered by insurance arrangements.

As outlined at Note 8, the Council has also earmarked £15.141M for specific purposes.

The Council revalued non-current assets and recognised a net gain of £26.646M.

Net Pension Position

The disclosure requirements for pension benefits under IAS19 are detailed in Notes 45 and 46. The appointed actuaries have confirmed a reduction of £5.431M in their assessment of the funding level for the pension fund. This reduction is principally due to the fact that the financial assumptions as at 31 March 2014 are less favourable than they were at 31 March 2013 largely as a result of the current economic climate. The effect of this has been to increase the assessed pension liability from £30.290M to £35.721M.

The assessment provides only a snapshot as at 31 March 2014 and necessarily changes on a day-to-day basis to reflect stock market movements in particular. The appointed actuaries remain of the view that the asset holdings of the Orkney Islands Council Pension Scheme and the contributions from employees and employers based on existing employers' contributions rates should provide sufficient security and income to meet future pension liabilities.

Changes in Accounting Policy

On 1 April 2013 the Council implemented a change in accounting policies to recognise amendments to accounting standard IAS19, Employee Benefits. The key change affecting the Pension Scheme relates to expected return on assets. As a result, it has been necessary to restate some figures in the prior years audited financial statements. Details of the changes have been included in Note 46.

Service changes and Future Developments

On the 1 April 2014, the Police and Fire Reform Act came into force with the resultant transfer of Police and Fire Services to the Scottish Police Authority and the Scottish Fire and Rescue Service.

Events after the Balance Sheet Date

The annual accounts were signed by the Head of Finance on 25 September 2014. Events taking place after this date have not been reflected in the financial statements. Material events between the balance sheet date and the date of signing have been considered and where necessary reflected in the financial statements.

Charitable Funds including Non-Charitable and Common Good Funds

The Code prescribes that where a Common Good Fund (or other trust fund) is a registered charity, it should follow the financial reporting requirements of the Office of the Scottish Charity Regulator (OSCR). Where a fund is not a registered charity, then the requirements of the Code apply.

The Council administers the Common Good Fund for the areas of Kirkwall and Stromness. In addition, the Council controls a significant number of trust funds, some of which are registered as charities and others are not.

Overall, the Funds achieved a combined deficit of £0.039M for the year.

The total net value of the funds decreased from £1.532M to £1.493M.

Copies of the annual accounts of the Charitable Funds are available on the Council website: www.orkney.gov.uk.

Impact of Economic Climate

Management of Treasury Risk

During the 12 months to 31 March 2014, most major investment markets delivered strong returns. This was partly due to increasing investor confidence, partly to improving economic and corporate fundamentals, and partly in response to the continuation of the exceptionally loose monetary policy that remained a feature in many developed countries for much of the period.

Although the investment environment is continuing to improve, we have no doubt that further political and economic challenges lie ahead. However, we are generally optimistic on the outlook for the global economy. Markets may be volatile in the coming months, but we continue to focus on identifying and investing in companies with excellent growth prospects over the longer term.

Key Financial Risks

It is expected that the level of funding available to the Council will continue to fall in real terms for the foreseeable future. As a result, over the medium term, the Council will continue to plan for a reducing level of resources being available to support its activities. Additionally, it is also anticipated that significant cost pressures will persist beyond 2013-14 resulting from local demographics, the service requirements of the local population and the potential impact of Welfare Reform. The combination of these anticipated cost pressures, coupled with reduced government grant income presents significant challenges and financial risks for the Council over the medium term.

The Council has been proactive in its preparation for the anticipated reductions in grant funding and demand pressures. The budget and council tax levels for 2013/14 were approved on 14 February 2013. A one-year savings target of £1.1m was approved. The Council recognises that this financial challenge is one which will persist over the medium term and as a result the Council's medium term financial plan identifies a requirement to secure ongoing savings. The Council is therefore continuing to progress a range of work streams in order to facilitate this process for future years. A Change Programme team has been established to harness new technologies and look towards innovative solutions to deliver service efficiencies. By working with services and other stakeholders, the programme team will focus on developing a range of options for change which will deliver recommendations for cost reductions and improvements through changes in business processes, efficiencies and better use of technology and innovation.

It is anticipated that the Council's Spend to Save initiative will promote the delivery of further efficiency savings, but it is recognised that the significance of the financial challenge will require further change in service provision in order that the Council maintains its financial stability moving forward and protects its ability to deliver the most important services in the future.

In addition, the Council will develop its longer term financial planning arrangements, which will ensure the Council is pro-active in taking a longer term view to support the identification of key financial risks and facilitate the development of appropriate mitigation strategies.

Conclusion

This is a satisfactory performance in challenging circumstances and reflects well on both the efforts and professionalism of officers and on the Council's financial management, scrutiny and monitoring procedures.

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

Gareth Waterson

Gareth Waterson, BAcc., CA
Head of Finance
25 September 2014

Statement of Responsibilities for the Annual Accounts

The Authority's Responsibilities

The Authority is required

- To make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. The Head of Finance has been designated as that officer in Orkney Islands Council;
- To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

Head of Finance Responsibilities

The Head of Finance is responsible for the preparation of the Authority's Annual Accounts in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code of Practice').

In preparing this Statement of Accounts, the Head of Finance has

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates which were reasonable and prudent, and complied with the Code of Practice;
- Kept proper accounting records which were up to date;
- Taken reasonable steps for the prevention and detection of fraud and other irregularities; and
- Signed and dated the Annual Accounts.

This statement of accounts gives a true and fair view of the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2014.

Gareth Waterson, BAcc., CA
Head of Finance
25 September 2014

Annual Governance Statement

Scope of Responsibility

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

In discharging this accountability, elected members collectively and senior officers individually are responsible for putting in place proper arrangements for the governance of the Council's affairs, the stewardship of the resources at its disposal and the management of risk.

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

Purpose of the Governance Framework

The governance framework comprises the systems and processes, and culture and values by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Council policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The Governance Framework

In July 2012, the Council adopted its Local Code of Corporate Governance (Local Code) which is fully consistent with the principles and requirements of the CIPFA/SOLACE publications entitled, "Delivering Good Governance in Local Government: Framework".

In order to support the Local Code, it is essential that details of the principles, supporting principles and internal controls are fully documented and known to relevant officers and elected members. It is also essential that an annual self-assessment is carried out to establish the extent to which the Council meets the requirements of the Local Code and that where necessary action is taken to address any non-compliance.

The Local Code is underpinned by 6 Key Principles:-

1 Focussing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area;

2 Members and officers working together to achieve a common purpose with clearly defined functions and roles;

3 Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour;

4 Taking informed and transparent decisions which are subject to effective scrutiny and managing risk;

5 Developing the capacity and capabilities of members and officers to be effective;

6 Engaging with local people and other stakeholders to ensure robust public accountability.

We have developed a Corporate Strategic Plan 2013-18 (Our Plan) which sets out the priorities for Orkney within the overall mission statement of 'Working together for a better Orkney". To achieve this, the Council has established 6 main priorities:-

1. Care and support for those who need it;

2. Promote successful, thriving communities;

3. Housing to meet the needs of Orkney's people;

4. A Low Carbon Orkney: Renewables, Energy and Opportunity;

5. Orkney's Economic Development;

6. Orkney's Transport Networks;

The Corporate Strategic Plan is available on the Council website at:

http://www.orkney.gov.uk/Files/Council/Council-Plans/Our_Plan_2013-2018.pdf

The Corporate Strategic Plan feeds into the Community Plan Single Outcome Agreement (SOA) which details how we will work with other organisations across Orkney to achieve the overall vision.

Through our community planning network, major services such as Health and Police work with Council service providers to develop strategies to meet the objectives of the SOA and community engagement increases local participation, accountability and influences decision making. The Annual Report on the Single Outcome Agreement 2011-14, covering the period April 2012 – March 2013 was published in January 2014 and is available on our website at:

http://www.orkney.gov.uk/Files/Council/OCPP/SOA_annual_report_2012-13_FINAL_AT_6_Jan_2014.pdf

The Council's Strategic Planning, Performance and Risk Management Framework was fully reviewed and updated in March 2012.

All services had 3-year service plans from 2009/10 to 2011/12 which had clear links to the corporate priorities of the previous Corporate Strategic Plan. The Council's restructure of 2012/13 led to agreement that there would be a 1-year period of consolidation prior to working up reconfigured service plans for the new structure from 2013/14 onwards. Corporate Services and Orkney Health and Care developed business plans for 2012/13 which continued to include Corporate Strategic Plan priorities where appropriate. Service Plans for 2013/14 to 2015/16 were approved at Policy and Resources Committee in June 2013 for all Council services.

Council Plan targets and actions are reported to the Corporate Management Team and Policy and Resources Committee every 6 months. Performance reports from all Services are reported to their respective management teams and service committees on a 6 monthly basis. Following the introduction in 2013/14 of Aspireview, the electronic performance monitoring system, reporting on the Council Plan targets will move to quarterly in 2014/15.

The Risk Management Policy and Strategy 2012-2014 and the Corporate Risk Register were considered by the Policy and Resources Committee in September 2012. The Monitoring and Audit Committee reviewed the adequacy and effectiveness of the risk management strategy and associated procedures in November

2012. The Risk Management Policy and Strategy is due for reconsideration by the Policy and Resources Committee in September 2014.

During 2013/14 an internal audit focussing on the processes and procedures for risk management was completed. The audit confirmed that the Council fulfils the basic risk management requirements.

Our approach to risk management is well embedded with a Corporate Risk Register supported by Service Risk Registers. The Corporate Risk Register is monitored regularly and formally reviewed annually by the CMT. Review is based on high level service and strategic risks to the achievement of the Council's priority objectives. Service risk registers are included in all Service Plans and the operational services have well developed risk, business continuity and civil contingencies documentation and regular desktop exercises are carried out.

The Monitoring and Audit Committee continues to provide an effective scrutiny role, with the Chief Internal Auditor taking the lead in performing the work necessary to give assurance to the Committee that the Council has an effective system of internal control. The remit of the Monitoring and Audit Committee is set out in the Scheme of Administration and Delegation. All internal audit reports follow a rigorous and robust audit process set out in each report. The findings are evidence based. Managers are involved in the process to ensure ownership of the improvement plans at the outset.

The Internal Audit Section operates in accordance with the Public Sector Internal Audit Standards. The Section undertakes an annual work programme based on an agreed audit strategy and formal assessments of risk that are reviewed regularly. The Chief Internal Auditor reports directly to the Executive Director of Corporate Services and has free access to the Head of Finance, Chief Executive and elected members. She reports to the Monitoring and Audit Committee in her own name.

A calendar of Committee meetings is prepared annually along with deadlines for draft and "signed off" reports and dates for pre meetings. Minutes of all Committees are considered and approved by the General Meeting of the Council. Minutes of Sub Committees are considered by the relevant Service Committee. Professional advice is contained within the Committee Reports including any external advice received. Agendas, papers and minutes of Council meetings are published on the Council's website.

We have continued to enhance and strengthen our internal control environment through the updating and introduction of new policies, procedures and guidance.

The Scheme of Administration and Delegation sets out delegations made to committees, members and officers under the principle that decisions should be made at the lowest or most local level consistent with the nature of the issues involved. The Schemes of Administration and Delegation have been updated and published following the review of the senior management and committee structure. A review of the Standing Orders has been completed and will be reported to the Policy and Resources Committee in June 2014. A further review of the scheme of Delegation will be undertaken and reported to the Policy and Resources Committee in March 2015.

Our Financial Regulations and Contract Standing Orders are an integral part of the stewardship of the Council. The Financial Regulations were reviewed and updated during the 2013/14 financial year and recommended for approval at the Policy and Resources Committee meeting held in September 2013. Contract Standing Orders were also reviewed and updated during the 2013/14 financial year and recommended for approval at the Policy and Resources Committee meeting held in November 2013.

Financial management and reporting is undertaken through the Integra finance system which includes general ledger, accounts payable, accounts receivable and banking services. The Council has well established and effective budget monitoring procedures with budgets devolved down to budget holder level. Exception reporting ensures that all significant budget variances are highlighted and dealt with on a monthly basis. In addition to this member briefing reports are produced for each service committee every month which summarise the spend to budget position across each service function. These briefing reports have rolling action plans attached, with accountable officers clearly assigned to each significant variance. Budget monitoring reports are also presented to Service Committees on a regular basis.

Financial planning continues to improve each year with the Council adopting priority based budget setting, with financial resources reallocated through an open and transparent challenge process, initially within the Senior Management Team before full elected member participation. The budget setting process continues to play a pivotal role in ensuring that all officers and elected members are fully aware of the ongoing financial challenges that remain as government funding continues to reduce in real terms.

The Council recognises that the scope to adopt the previous approach to dealing with reduced grant funding through incremental year on year efficiency savings is reducing and will not be sufficient to deal with the scale of the cost reductions required, particularly over the 2-year period 2016/17 to 2017/18, where funding reductions are likely to be significant.

The 2012/13 annual audit report highlighted that the council does not have a long term financial strategy in place which would align with council priorities over the longer term. In response to this, a Change Programme team has been established to harness new technologies and look towards innovative solutions to deliver service efficiencies. By working with services and other stakeholders, the programme team will focus on developing a range of options for change which will deliver recommendations for cost reductions and improvements through changes in business processes, efficiencies and better use of technology and innovation.

The 2012/13 follow-up of the national report on Scotland's Public Finance: Addressing the Challenges found that the council continued to show a good understanding of the financial challenges it faces, and had been proactive in preparing financial plans to manage budget reductions. The council has a clear understanding of its costs and the impact of efficiency savings on service delivery. It also concluded that senior officials and members demonstrate ownership of financial plans which they scrutinise before approval.

We have a Code of Conduct for employees and elected members adhere to the nationally prescribed Code of Conduct for Members, prepared by the Standards Commission.

The Council has adopted the SPSO (Scottish Public Services Ombudsman) Model Complaints Handling Procedure and complaints are reported to Council committees 6 monthly as part of the Planning, Performance and Risk Management Framework, with plans in place to report to committee on how the complaints have informed service improvements. Relevant staff received training through SPSO e-learning, with members trained by the Head of Legal Services. The 2012/13 Local Code self-assessment process however identified that the complaints system could be improved by recording actions taken to prevent complaints occurring; informing SMT of complaint investigations and publication of complaint statistics on the Council's website.

The Council has adopted the Consultation and Engagement Guidelines issued by the Orkney Community Planning Partnership, which include recommendations on feedback in accordance with national guidelines. This approved document is widely used by the Council to engage with the community on a range of issues.

http://www.orkney.gov.uk/Files/Council/Consultations/PolicyDocs/Revised_Community_Engagement_Guidelines_Feb_2012.pdf

For staff, Personal Development Plans are included as part of the Performance Review and Development (PRD) scheme. Services are gradually improving their appraisal/PRD completion performance targets, although we acknowledge the practical difficulties in achieving 100%. Training courses are organised by the Learning and Development Service and are also available through the staff information portal and by email circular. The Council also has an e-learning system for delivery of relevant training.

For members, an extensive induction programme was delivered to all Councillors following the Local Government Elections in May 2012 which included an introduction to local government, the authority's relationship with other bodies and the context for the authority's many strategies, policies and procedures. A range of seminars and training events are organised for members and briefing notes are routinely prepared and distributed to provide members with up to date information on key strategic and operational issues. Within the Chief Executives Service Plan there are actions identified to ensure that members have the skills, knowledge, experience and resources they need to perform their roles well, both as individuals and as a group.

The section 95 officer (chief finance officer) role has been vested in the Head of Finance for the period of this Governance Statement. The Council needs to continue to ensure that the section 95 officer has adequate authority and profile so that the importance of this role is not compromised, and needs to ensure that this arrangement is kept under review.

The Council's financial management arrangements do not fully comply with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010) because the Head of Finance as Chief Financial Officer for the Council does not report directly to the Chief Executive and with some cross over in responsibilities held by the Executive Director of Corporate Services. The Council's arrangements do however largely achieve the same impact and, with the exception of management reporting lines and the cross over in responsibilities, comply in all other material respects with the CIPFA Statement on the Role of the Chief Financial Officer. The Head of Finance is a member of the Council Management Team, is the Council's most senior adviser on all financial matters, is involved in the development of strategic and financial policy matters and has direct access to the Chief Executive and elected members. For the year under review the Head of Finance was able to fulfil the requirements of the Chief Financial Officer's role through the arrangements which existed.

Review of Effectiveness

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. An annual self-assessment process has been established against the Local Code of Corporate Governance. This process has been carried out across the Corporate Management Team and has identified any areas of non-compliance with the Local Code.

The review of effectiveness is informed by the work of the Corporate Management Team within the authority who have responsibility for the development and maintenance of the governance environment, the Chief Internal Auditor's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Senior Management Team. In addition to the further development of individual Service Action Plans as appropriate, a Council wide Improvement Action Plan will be developed to address weaknesses and non-compliance with the Local Code which will help ensure continuous improvement of the Governance Framework.

An audit was carried out on the 2012/13 self-assessment process. A number of improvement actions were suggested and management have committed to addressing these in the current year. These improvement actions were contained in the final Internal Audit Report that was presented to the M&A Committee on 26 June 2014

There is a Local Area Network (LAN) for each council, comprising representatives of all the scrutiny bodies who engage with the council. The aim of the shared risk assessment process is to focus scrutiny activity where it is most needed and to determine the most proportionate scrutiny response over a three year period.

The LAN now includes the following scrutiny bodies:-

1. Audit Scotland, the Council's external auditors;
2. Care Inspectorate (Social Care and Social Work Improvement Scotland);
3. Education Scotland;
4. Scottish Housing Regulator

The LAN has now published the Assurance and Improvement Plan (AIP) Update 2014-17 and it is worthy of note that paragraph 6 of the May 2014 report states that: "*The overall scrutiny risk assessment of Orkney Islands Council is that of a low risk council which shows good self-awareness and a positive response to external scrutiny bodies. Most areas of the council are assessed as requiring no specific additional scrutiny although there are some areas (governance arrangements, joint children's services and housing services) which require ongoing monitoring by scrutiny bodies*". It is also worthy of note that all five AIPs to date have assessed Orkney Islands Council as being a low risk council. The AIP Update 2014/17 was presented to the Policy and Resources Committee on 24 June 2014 and the Monitoring and Audit Committee on 26 June 2014. This update reported on the revision of risk and reconsideration of the level of scrutiny required. The review process began in December 2013.

The Chief Internal Auditor presented her Internal Audit Annual Report 2013/14 and Assurance Statement to the Monitoring and Audit Committee in June 2014. This provided an assurance statement on the effectiveness of the systems of internal control, corporate governance, and risk management, informed by Internal Audit's review work. In her opinion there were adequate and effective controls operating in the areas subject to audit review, with the exception of those significant governance issues included below.

Update on significant governance issues previously reported

The 2012/2013 annual governance statement reported issues concerning the New Council House Build Programme. An action plan to address the weaknesses identified was agreed with relevant managers.

In 2012/2013, the annual governance statement referred to Orkney Health and Care, as a partnership where there was a lack of recognition of risks and allocation of potential liabilities; a lack of clarity in relation to the resource framework; no protocol for dispute resolution; and concern that the process followed did not follow the approved protocol for out of Orkney childcare placements. Some of these concerns continue to exist and are referred to in the 2013/14 Significant Governance Issues whilst the protocol for out of Orkney childcare placements has been reviewed and is being adhered to.

A lack of awareness of data protection and information security best practice was noted in the 2012/2013 annual governance statement. The Council is making progress towards complying with the Public Records (Scotland) Act 2011, together with the Data Protection Act, these acts require the Council to implement robust information security measures in order to protect information which may be commercially sensitive or contain personal information. Although there is still some work to do to an awareness raising campaign has been undertaken by the Head of Legal Services during the year with progress being achieved and the implementation of a clear desk policy in Corporate Services from 31 August 2014.

Reviews of the Council's Financial Regulations and Contract Regulations were completed during the year with revisions to the regulations approved by the Policy and Resources Committee.

The 2012/2013 annual governance statement reported on a number of External Audit recommendations in relation to their Computer Service Review 2012/13 where the Council may be exposed to significant risk. In the follow up report on the Computer Services review issued in June 2014 the External Auditor concluded that progress in addressing the risk identified in their review has been slower than anticipated. However, some good progress has been made and they would expect that progress will continue after completion of the PSN work in July 2014.

Significant Governance Issues

Each Head of Service has reviewed the arrangements in his/her service area and certified their effectiveness by way of submission of individual Certificates of Assurance to their Executive Directors. Each Executive Director has reviewed these submissions, considered the overall arrangements across his/her Service and reflected on their effectiveness or otherwise through the submission of their own Certificates of Assurance to the Head of Finance. These Certificates of Assurance provided the basis for the draft Annual Governance Statement which was circulated for final discussion to the Corporate Management Team before ultimate sign-off by the Council Convener, the Chief Executive and the Head of Finance.

These reviews have identified actions that will be taken forward to progress improvements in the following areas:-

1 *Segregation of Duties* – it is recognised across the Council that the small number of staff in certain areas presents difficulties in achieving adequate segregation of duties. The external audit 2013/14 review of the Council's main financial systems noted that there were officers with privileges to raise rent invoices, change rents and deal with collections. The level of segregation of duties is therefore not adequate and the proposed action for both Revenues and Housing Teams will be to segregate the duties and reduce the number of staff that can raise invoices and also restrict this privilege to staff not involved in the rent setting process.

2 *Delivery of the Capital Programme* - the Council has an ambitious capital programme which is challenging the level of project management and professional staff capacity to deliver to expected timeframes. Audit Scotland in their report *Major capital investment in councils: A follow-up report* has identified a number of significant weaknesses where improvements are required. Work is underway to address these matters through re-prioritising resources, engaging improved project management tools and resources and refreshing internal processes. There may be a need to enhance staff resources to cover capital project work and this will be considered through the forthcoming budget setting process for 2015/16.

3 *Orkney Health and Care Partnership* – Orkney Health and Care is an unconstituted partnership which was established on 1 April 2010 as a pre-curser to the Public Bodies (Joint Working) (Scotland) Act which is due for implementation in April 2015. The partnership has been identified as requiring the following improvements:-

a. There is no clearly articulated and written down role for the partnership board members set out within the current Scheme of Establishment. It is proposed to address this matter as part of the arrangements made to implement the Act in April 2015.
b. There is no formally agreed protocol for dispute resolution within the Orkney Health and Care partnership. It is proposed to address this matter as part of the arrangements made to implement the Act in April 2015.

4 *Data Protection* - there is a lack of awareness of data protection and information security best practice across some areas of the Council. There is also a lack of policy and procedure governing the use of information in compliance with the Data Protection Act 1998. The lead officer is prioritising this workstream, although it has been identified that additional capacity is required to take this forward and it is included in the Corporate Services Service Plan.

5 *Arms Length External Organisations (ALEOs)* – the Audit Scotland follow up report on ALEOs issued in May 2014 noted that governance arrangements for ALEOs would be strengthened by ensuring service and financial performance is reported in sufficient detail and ensuring members or officers representing the council on ALEO boards are clear about their roles and responsibilities. Improvements to the performance and monitoring arrangements are being developed whilst training on responsibilities will be arranged for members and officers.

Conclusion

We consider the governance and internal control environment operating during 2013/14 to provide reasonable and objective assurance that any significant risks impacting on the achievement of our principal objectives will be identified and actions taken to avoid or mitigate their impact. Weaknesses and issues have been identified and these are set out above. Implementing the Improvement Action Plan is a priority and progress will be regularly reported to the Monitoring and Audit Committee.

Systems are in place to continually review and improve the governance and internal control environment. The annual review has shown that, with the exception of those items listed above, these arrangements are in place and operating as planned.

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and we will monitor and report on their implementation and operation as part of our next annual review.

Councillor Steven Heddle Council Convener 25 September 2014	Alistair Buchan Chief Executive 25 September 2014	Gareth Waterson Head of Finance 25 September 2014

Independent Auditors Report

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

I certify that I have audited the financial statements of Orkney Islands Council and its group for the year ended 31 March 2014 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the group and authority-only Movement in Reserves Statements, Comprehensive Income and Expenditure Statements, Balance Sheets, and Cash Flow Statements, the authority-only Housing Revenue Account Income and Expenditure Statement, Movement on the Housing Revenue Account Statement, Council Tax Income Account, Non-domestic Rate Account, Harbour Authority Account, Orkney College Account and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 (the 2013/14 Code).

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the Head of Finance and auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Finance; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2013/14 Code of the state of the affairs of the group and of the council as at 31 March 2014 and of the income and expenditure of the group and the council for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2013/14 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003.

Opinion on other prescribed matters

In my opinion:

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

Matters on which I am required to report by exception

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

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

I have nothing to report in respect of these matters.

Stephen Boyle CPFA

Assistant Director

Audit Scotland

4th Floor South Suite

The Athenaeum Building

8 Nelson Mandela Place

Glasgow G2 1BT

25 September 2014

Remuneration Report

The Local Authority Accounts (Scotland) Amendment Regulations 2011 (SSI No. 2011/64) amend the Local Authority Accounts (Scotland) Regulations 1985 (SI No 1985/267) and requires local authorities in Scotland to prepare a Remuneration Report as part of the annual statutory accounts.

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

1. Remuneration policy for the Convener of the Council, the Civic Head and Senior Councillors

The remuneration of councillors is regulated by the Local Governance (Scotland) Act 2004 (Remuneration) Regulations 2007 (SSI No. 2007/183). The Regulations provide for the grading of councillors for the purposes of remuneration arrangements, as either the Convener of the Council, the Civic Head, Senior Councillors or Councillors. The Convener of the Council and the Civic Head cannot be the same person for the purposes of payment of remuneration. A senior councillor is a councillor who holds a significant position of responsibility in the Council's political management structure.

When determining the level of remuneration for councillors the Scottish Ministers consider the recommendations of the Scottish Local Authority Remuneration Committee (SLARC). SLARC was established under the provisions of the Local Governance (Scotland) Act 2004 to advise Scottish Ministers on the payment by Local Authorities of remuneration (including pensions), allowances and the reimbursement of expenses incurred by local authority councillors in accordance with criteria specified by Scottish Ministers from time to time. The Committee was stood down in February 2013

The salary that is to be paid to the Leader of the Council is set out in the Regulations. For 2013-14 the salary for the Leader of Orkney Islands Council (Convener) is £27,329. The Regulations permit the council to remunerate one Civic Head. The regulations set out the maximum salary that may be paid to that Civic Head. Council policy is to pay at the national maximum.

The Regulations also set out the remuneration that may be paid to senior councillors and the total number of senior councillors the Council may have. The maximum yearly amount that may be paid to a Senior Councillor is 75 per cent of the total yearly amount payable to the Leader of the Council. The total yearly amount payable by the council for remuneration of all of its Senior Councillors shall not exceed £166,014. The Council is able to exercise local flexibility in the determination of the precise number of Senior Councillors and their salary within these maximum limits. The Council policy in 2013-14 was to pay four Committee Chairs @ £19,267 and three Committee Chairs @ £17,421.

In 2013-14 Orkney Islands Council had 7 senior councillors excluding the Convener and Vice Convener and the remuneration paid to these 7 councillors totalled £129,271. The Regulations also permit the Council to pay contributions or other payments as required to the Local Government Pension Scheme in respect of those councillors who elect to become councillor members of the pension scheme.

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

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

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

2. Remuneration Policy for Senior Employees

The salary of senior employees is set by reference to national arrangements. The Scottish Joint Negotiating Committee (SJNC) for Local Authority Services sets the salaries for the Chief Executives of Scottish local authorities. Circular CO/146 sets the amount of salary for the Chief Executive of Orkney Islands Council for the period 2013 to 2015. Salaries of the Corporate Directors and Heads of Service are also based on Circular CO/146.

Other benefits received by senior employees include car mileage allowance.

These benefits were agreed and approved by the full meeting of the Orkney Islands Council on the 3 July 2008.

3. Remuneration of Senior Employees

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

- who has responsibility for the management of the local authority to the extent that the person has power to direct or control the major activities of the authority whether solely or collectively with other persons.
- who holds a post that is politically restricted by reason of section 2(1)(a), (b) or (c) of the Local Government and Housing Act 1989.
- whose annual remuneration, including any annual remuneration from a local authority subsidiary body is £150,000 or more.

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

The term “remuneration” means gross salary, fees and bonuses, allowances and expenses and compensation for loss of employment. The table below outlines the remuneration details for senior employees, including prior year figures. The table shows the relevant amounts, before tax and other deductions, due to, or receivable by, each of the persons named for the year to 31 March 2014, whether or not those amounts were actually paid to, or received by, those persons within that period.

2012-2013	Senior employees					2013-2014
Total	Name	Post held	Salary, Fees and Allowances	Expenses Allowance Chargeable to UK Income Tax	Compensation for Loss of Employment	Total
£			£	£	£	£
98,988	Alistair Buchan	Chief Executive	99,936	0	0	99,936
0	Albert Tait	Chief Executive (note 1 & 2)	0	0	0	0
85,938	Leslie Manson	Executive Director of Education, Leisure & Housing Services	86,760	0	0	86,760
84,207	Gavin Barr	Executive Director Development & Infrastructure	85,012	0	0	85,012
84,207	Gillian Morrison	Executive Director of Corporate Services	85,012	0	0	85,012
73,355	Alan Moar	Interim Director, Development and Environment Services formerly Project Director – Schools Investment Programme (note 3)	68,225	0	40,560	108,785
84,207	Gareth Waterson	Head of Finance/Section 95 Officer (note 1)	71,742	0	0	71,742
62,538	Dawn Sherwood	Head of IT and Support Services (note 1)	63,136	0	0	63,136
67,630	David Sawkins	Interim Director of Marine Services (note 4)	0	0	0	0
70,524	Caroline Sinclair	Chief Social Work Officer	71,151	0	0	71,151
711,594	Total		630,974	0	40,560	671,534

Note 1: An oversight in respect of Election Payments to Albert Tait (£1,189.23), Gareth Waterson (£600.00) and Dawn Sherwood (£1,200.00) were paid during 2012/2013 but omitted from the 2012/ 2013 Remuneration Report.

Note 2: During the period whilst the Chief Executive, Alistair Buchan was on secondment to Shetland the Council entered into a contract with SOLACE Enterprises Limited (SOLACE) for the services of Albert Tait in the role of Interim Chief Executive. This contract with SOLACE was in place until 22 October 2012 with a short extension of the contract for the period 22 October to 20 December 2012 during which Albert Tait was engaged on project work. The contract with SOLACE was ended on 20 December 2012.

Note 3: Alan Moar was appointed to the post of Interim Director, Development and Environment Services on the 2 November 2011 following Brian Thomson's retirement. Alan was in this post until the 31 May 2012. Full year equivalent £84,225. Alan was made redundant on 1 November 2013 and due to his age was entitled to pension benefits.

Note 4: David Sawkins was appointed to the post of Interim Director of Marine Services with effect from 28 March 2011 until 30 June 2012. Full year equivalent £63,960.

4. Remuneration of Senior Councillors

Under the regulations, remuneration disclosures are to be made for the Convener, the Civic Head and any councillor designated a Senior Councillor by the Council. Orkney Islands Council has no Civic Head.

The table below shows the relevant amounts, before tax and other deductions, due to, or receivable by, each of the persons named for the year to 31 March 2014, whether or not those amounts were actually paid to, or received by, those persons within that period.

2012-2013	Convener and Senior Councillors					2013-2014
Total	Name	Position held	Salary, Fees and Allowances	Expenses Allowance Chargeable to UK Income Tax	Benefits Other Than Cash	Total
£			£	£	£	£
18,602	Janice Annal	Chair (Education, Leisure & Housing)	19,267	0	0	**19,267**
19,132	Rob Crichton	Chair (Planning)	19,267	0	0	**19,267**
19,966	James Foubister	Vice Convener	20,488	0	0	**20,488**
25,603	Steven Heddle	Convener	27,329	0	0	**27,329**
16,749	Russ Madge	Vice Chair (Orkney Health & Care)	17,421	0	0	**17,421**
14,808	John Richards	Chair (Licensing Sub-committee)	17,421	0	0	**17,421**
17,041	Graham Sinclair	Chair (Board of Orkney Ferries)	17,421	0	0	**17,421**
19,132	James Stockan	Chair (Development & Infrastructure)	19,267	0	0	**19,267**
18,602	David Tullock	Chair (Monitoring & Audit)	19,267	0	0	**19,267**
169,635	**Total**		**177,148**	**0**	**0**	**177,148**

5. Pension Entitlement

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

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

For local government employees this is a final salary pension scheme. This means that pension benefits are based on the final year's pay and the number of years that person has been a member of the scheme. The scheme's normal retirement age for both councillors and employees is 65.

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

The tiers for members' contribution rates for 2013-14 have increased from the 2012-13 tiers and are as follows:

Whole time pay	Contribution rate 2012-2013
On earnings up to and including £19,400	5.5%
On earnings above £19,400 and up to £23,700	7.25%
On earnings above £23,700 and up to £32,500	8.5%
On earnings above £32,500 and up to £43,300	9.5%
On earnings above £43,300	12%

Whole time pay	Contribution rate 2013-2014
On earnings up to and including £19,800	5.5%
On earnings above £19,800 and up to £24,200	7.25%
On earnings above £24,200 and up to £33,200	8.5%
On earnings above £33,200 and up to £44,200	9.5%
On earnings above £44,200	12%

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

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

The value of the accrued benefits has been calculated on the basis of the age at which the person will first become entitled to receive a pension on retirement without reduction on account of its payment at that age; without exercising any option to commute pension entitlement into a lump sum; and without any adjustment for the effects of future inflation.
The pension figures shown relate to the benefits that the person has accrued as a consequence of their total local government service, and not just their current appointment.

The pension entitlements for Senior Employees and Senior Councillors for the year to 31 March 2014 are shown in the following table, together with the contribution made by the Council to each individual's pension during the year.

Senior employees						
Name	**Post held**	**Accrued pension benefits as at 31 March 2014**		**Change in accrued pension benefits since 31 March 2013**		**Pension contributions made by Orkney Islands Council during 2013-2014**
		Pension	**Lump Sum**	**Pension**	**Lump Sum**	
		£	**£**	**£**	**£**	**£**
Alistair Buchan	Chief Executive	34,286	77,255	+2,543	+1,823	21,386
Leslie Manson	Executive Director of Education, Leisure & Housing Services	41,518	102,854	+1,846	+1,024	18,566
Gavin Barr	Executive Director Development & Infrastructure formerly Principal Planner	10,353	9,796	+1,506	+98	18,192
Gillian Morrison	Executive Director of Corporate Services formerly Assistant Director Strategy & Improvement/Chief Social Work Officer	33,487	79,197	+1,737	+788	18,192
Alan Moar	Interim Director, Development and Environment Services formerly Project Director – Schools Investment Programme	40,970	99,955	+5,990	+9,571	9,930
Gareth Waterson	Head of Finance/Section 95 Officer formerly Director of Finance & Housing/Section 95 Officer	23,034	48,050	+1,403	+0	15,352
Dawn Sherwood	Head of IT and Support Services	11,869	19,814	+1,161	+198	13,511
Caroline Sinclair	Chief Social Work Officer	15,103	27,522	+1,316	+256	15,226
Total		**210,620**	**464,443**	**+17,502**	**+13,758**	**130,355**

Convener and Senior Councillors						
Name	**Post held**	**Accrued pension benefits as at 31 March 2014 or date of cessation**		**Change in accrued pension benefits since 31 March 2013**		**Pension contributions made by Orkney Islands Council during 2013-2014**
		Pension	**Lump Sum**	**Pension**	**Lump Sum**	
		£	**£**	**£**	**£**	**£**
Janice Annal	Chair (Education, Leisure & Housing)	**2,371**	**1,300**	**+505**	**+54**	**4,121**
Rob Crichton	Chair (Planning)	**2,227**	**1,253**	**+369**	**+4**	**4,121**
James Foubister	Vice Convener	**2,500**	**1,590**	**+523**	**+67**	**4,384**
Steven Heddle	Convener	**2,235**	**1,494**	**+490**	**+112**	**5,845**
Russ Madge	Vice Chair (Orkney Health & Care)	**2,319**	**2,318**	**+323**	**+28**	**3,726**
John Richards	Chair (Licensing Sub-committee)	**555**	**0**	**+296**	**0**	**3,726**
Graham Sinclair	Chair (Board of Orkney Ferries)	**1,934**	**1,293**	**+330**	**+23**	**3,726**
James Stockan	Chair (Development & Infrastructure)	**19,986**	**54,498**	**+795**	**+1,274**	**4,121**
David Tullock	Chair (Monitoring & Audit)	**1,902**	**1,070**	**+358**	**+32**	**4,121**
Total		**36,029**	**64,816**	**+3,989**	**+1,594**	**37,891**

Note 1: All senior employees and councillors shown in the tables above are members of the Local Government Pension Scheme (LGPS). The pension figures shown relate to the benefits that the person

has accrued as a consequence of their total local government service, and not just their current appointment.

In accordance with guidance provided by the Scottish Government, the above figures reflect any transfer of pension benefits from another pension fund or scheme to their current employment and pension scheme. Para 5 of the schedule requires the remuneration report to include certain remuneration information of local authority subsidiary bodies. However, the Orkney Towage Company Limited and Orkney Ferries Limited are managed ultimately by the Executive Director Development & Infrastructure. No remuneration is paid directly by these companies to the manager, or elected councillors.

6. Councillors' remuneration

The Council paid the following amounts to its elected members (councillors) during the year.

2012-2013		2013-2014
£000		£000
381	Salaries	377
20	Mileage	18
1	Conferences and Courses	1
35	Travel Costs	37
10	Subsistence	13
7	Other allowances and expenses	7
(31)	Reimbursed Costs	(18)
423	**Total**	**435**

The annual return of Councillors' salaries and expenses for 2013/14 is available for any member of the public to view at all Council libraries and public offices during normal working hours and is also available on the Council's website at www.orkney.gov.uk.

7. Remuneration of Employees

The following table gives a statement of the number of employees whose remuneration, excluding pension contributions, was in excess of £50,000 during 2013-2014, in bands of £5,000. This information includes those senior employees who are subject to the fuller disclosure requirements in the tables above.

2012-2013		2013-2014
Number of employees	Remuneration band	Number of employees
1	£95,000 to £99,999	1
0	£90,000 to £94,999	0
1	£85,000 to £89,999	3
3	£80,000 to £84,999	0
0	£75,000 to £79,999	0
3	£70,000 to £74,999	5
7	£65,000 to £69,999	6
7	£60,000 to £64,999	8
15	£55,000 to £59,999	10
14	£50,000 to £54,999	14
51		**47**

8. Exit Packages

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

Exit Package Cost Band	Number of Compulsory Redundancies		Number of Other Departures Agreed		Total Number of Exit Packages by Cost Band		Total Cost of Exit Packages in each Band	
	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14	2012/13 £,000	2013/14 £,000
£0 - £19,999	3	0	23	4	26	4	71	30
£20,000 - £39,999	0	0	2	0	2	0	53	0
£40,000 - £79,999	0	0	3	0	3	0	172	0
£80,000 - £99,999	0	0	0	0	0	0	0	0
£100,000 - £199,999	0	0	0	1	0	1	0	125
£200,000 - £299,999	0	0	0	0	0	0	0	0
	3	**0**	**28**	**5**	**31**	**5**	**296**	**155**

Steven Heddle
Convener
25 September 2014

Alistair Buchan
Chief Executive
25 September 2014

Movement in Reserve Statement

This statement shows the movement in the year on the different reserves held by the council, analysed into usable reserves (those reserves that can be applied to fund expenditure or to reduce local taxation) and unusable reserves. The surplus or deficit on the provision of services line shows the true economic cost of providing the council's services, more details of which are shown in the comprehensive income and expenditure statement. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax-setting and dwellings rent-setting purposes. The net increase or (decrease) before transfers to other statutory reserves line shows the statutory General Fund Balance and the Housing Revenue Account Balance before any discretionary transfers to or from the other statutory reserves of the council. Additional information to support these movements can be found in notes 24 and 25 to these accounts.

	General Fund Balance	Earmarked General Fund Reserves	Capital Fund	HRA Balance	Harbour Reserves	Capital Receipts Reserve	Renewals and Repairs Fund	Total Usable Reserves	Total Unusable Reserves	Total Reserves of the Authority
	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000
Balance as At 1 April 2012	**8,627**	**14,181**	**508**	**0**	**188,224**	**407**	**3,691**	**215,638**	**205,459**	**421,097**
Movement in reserves during the year										
Surplus or (deficit) on the provision of services	19,740	0	0	(3,431)	22,972	0	0	**39,281**	0	**39,281**
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	0	**0**	(5,185)	**(5,185)**
Total Comprehensive Income and Expenditure	**19,740**	**0**	**0**	**(3,431)**	**22,972**	**0**	**0**	39,281	**(5,185)**	34,096
Adjustments between accounting basis & funding basis under regulations (Note 7)	(24,059)	0	0	2,482	(7,025)	(330)	0	**(28,932)**	28,932	**0**
Net Increase/Decrease before Transfers to Earmarked Reserves Statutory and Other Reserves	**(4,319)**	**0**	**0**	**(949)**	**15,947**	**(330)**	**0**	10,349	23,747	34,096
Transfers to or from earmarked reserves Statutory and Other Reserves	4,319	2,109	0	949	(6,625)	0	(752)	**0**	0	**0**
Increase/Decrease in Year	**0**	**2,109**	**0**	**0**	**9,322**	**(330)**	**(752)**	10,349	23,747	34,096
Balance as at 31 March 2013	**8,627**	**16,290**	**508**	**0**	**197,546**	**77**	**2,939**	**225,987**	**229,206**	**455,193**
Movement in reserves during the year										
Surplus or (deficit) on provision of services	(5,392)	0	0	(1,828)	7,158	0	0	**(62)**	0	**(62)**
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	0	**0**	32,432	**32,432**
Total Comprehensive Income and Expenditure	**(5,392)**	**0**	**0**	**(1,828)**	**7,158**	**0**	**0**	**(62)**	**32,432**	**32,370**
Adjustments between accounting basis & funding basis under regulations	(5,316)	0	0	2,118	1,327	(57)	0	**(1,928)**	1,928	**0**
Net Increase/Decrease before Transfers to Earmarked Reserves Statutory and Other Reserves	**(10,708)**	**0**	**0**	**290**	**8,485**	**(57)**	**0**	**(1,990)**	**34,360**	**32,370**
Transfers to or from earmarked reserves Statutory and Other Reserves	10,708	(1,149)	0	(290)	(9,247)	0	(22)	**0**	0	**0**
Increase/Decrease in Year	**0**	**(1,149)**	**0**	**0**	**(762)**	**(57)**	**(22)**	**(1,990)**	**34,360**	**32,370**
Balance Sheet As At 31 March 2014	**8,627**	**15,141**	**508**	**0**	**196,784**	**20**	**2,917**	**223,997**	**263,566**	**487,563**

Comprehensive Income and Expenditure Statement

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

		2013-2014			Restated 2012-2013		
		£,000	£,000	£,000	£,000	£,000	£,000
	Notes	**Expenditure**	**Income**	**Net**	**Expenditure**	**Income**	**Net**
Central services		4,857	(266)	4,591	2,723	(1,364)	1,359
Cultural and Recreation		5,030	(844)	4,186	5,634	(880)	4,754
Education		28,594	(1,207)	27,387	31,016	(1,119)	29,897
Roads and Transportation		16,303	(180)	16,123	15,296	(284)	15,012
Housing Revenue Account		5,368	(2,993)	2,375	6,747	(2,711)	4,036
Harbour Authority		10,031	(6,386)	3,645	7,907	(6,484)	1,423
Housing services		5,577	(4,087)	1,490	6,130	(4,560)	1,570
Community Social Services		22,973	(4,929)	18,044	22,151	(4,742)	17,409
Planning and Development		4,661	(1,498)	3,163	5,416	(2,814)	2,602
Environmental Services		4,444	(939)	3,505	4,426	(861)	3,565
Police Services ($)		27	0	27	1,279	0	1,279
Fire Services ($)		2	0	2	1,675	0	1,675
Corporate and democratic core		2,796	(21)	2,775	2,292	0	2,292
Non distributed costs		0	102	102	0	65	65
Surplus/Deficit on Continuing Operations		**110,663**	**(23,248)**	**87,415**	**112,692**	**(25,754)**	**86,938**
Other Operating Expenditure	**9**			6,825			574
Financing and Investment Income and Expenditure	**10**			(8,110)			(15,699)
Taxation and Non-Specific Grant Income	**11**			(86,068)			(111,094)
(Surplus) or Deficit on Provision of Services				**62**			**(39,281)**
Surplus or deficit on revaluation of non-current assets	**12**			(35,308)			(264)
Remeasurement of the net defined benefit liability/(asset)	**46**			2,876			5,449
Other Comprehensive Income and Expenditure				**(32,432)**			**5,185**
Total Comprehensive Income and Expenditure				**(32,370)**			**(34,096)**

Notes:

$ Police and Fire Rescue Services transferred to the Scottish Government on 1 April 2013.

Balance Sheet as at 31 March 2014

The balance sheet shows the value as at 31 March 2014 of the assets and liabilities recognised by the council. The net assets of the council are matched by the reserves held by the council. Reserves are reported in two categories. The first category comprises usable reserves, which are those reserves that the council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve, which may only be used to fund capital expenditure or to repay debt). The second category of reserves comprises those that the council is not able to use to provide services. This category includes reserves that hold unrealised gains and losses in the value of assets (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold, and reserves that hold timing differences shown as ‘adjustments between accounting basis and funding basis under regulations’ in the movement in reserves statement.

	Note	31 March 2014	31 March 2013	31 March 2012
		£,000	£,000	£,000
Property, Plant & Equipment	12	321,569	283,149	252,892
Heritage Assets	15	912	762	755
Investment Property	13	30,116	22,690	19,980
Intangible Assets	14	50	433	366
Long Term Debtors	16	3,427	3,131	3,015
Long Term Assets		**356,074**	**310,165**	**277,008**
Short Term Investments	16	174,075	166,359	149,613
Inventories	17	714	650	684
Short Term Debtors	19	8,144	9,050	8,072
Cash and Cash Equivalents	20	38,031	55,954	66,132
Assets held for sale	21	1,047	1,362	352
Current Assets		**222,011**	**233,375**	**224,853**
Short Term Borrowing	16	10,450	450	450
Short Term Creditors	22	11,407	14,785	13,305
Provisions	23	142	0	84
Grants receipts in advance	37	0	20	90
Current Liabilities		**21,999**	**15,255**	**13,929**
Provisions	23	2,802	2,802	2,802
Long Term Borrowing	16	30,000	40,000	40,000
Other Long Term Liabilities	46	35,721	30,290	24,033
Long Term Liabilities		**68,523**	**73,092**	**66,835**
Net Assets		**487,563**	**455,193**	**421,097**
Usable reserves	24	223,997	225,987	215,638
Unusable Reserves	25	263,566	229,206	205,459
Total Reserves		**487,563**	**455,193**	**421,097**

The unaudited accounts were issued on 26 June 2014 and the audited accounts were authorised for issue on 25 September 2014.

Gareth Waterson, BAcc., CA
Head of Finance
25 September 2014

Cash Flow Statement

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

	Note	2013-2014	Restated 2012-2013
		£,000	£,000
Net surplus or (deficit) on the provision of services		(62)	39,281
Adjustment to surplus or deficit on the provision of services for noncash movements	**26**	(12,578)	(44,821)
Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	**26**	357	363
Net cash flows from operating activities		**(12,283)**	**(5,177)**
Net Cash flows from Investing Activities	**27**	**(5,640)**	**(5,001)**
Net increase or decrease in cash and cash equivalents		**(17,923)**	**(10,178)**
Cash and cash equivalents at the beginning of the reporting period		**55,954**	**66,132**
Cash and cash equivalents at the end of the reporting period		**38,031**	**55,954**

Notes to the Core Financial Statements

Note 1 Summary of Significant Accounting Policies

The Financial Statements for the year ended 31 March 2014 have been prepared in accordance with proper accounting practice as per section 12 of the Local Government in Scotland Act 2003. Proper accounting practice comprises the Code of Practice on Local Authority Accounting in the United Kingdom (the Accounting Code) and the Service Reporting Code of Practice (SeRCOP), supported by International Financial Reporting Standards and recommendations made by the Local Authority (Scotland) Accounts Advisory Committee (LASAAC). They are designed to give a true and fair view of the financial performance and position of the Council and comparative figures for the previous financial year are provided. There are no significant departures from these recommendations.

The following accounting concepts have been considered in the application of accounting policies:

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

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

Best Value Reporting

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

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

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

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

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

Accruals of Expenditure and Income

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

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser, and it is probable that the economic benefits or service potential associated with the transaction will flow to the Council.

- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that the economic benefits or service potential associated with the transaction will flow to the Council.

- Supplies are recorded as expenditure when they are consumed. Where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.

- Expenses in relation to services received (including those rendered by the Authority's officers) are recorded as expenditure when the services are received, rather than when payments are made.

- Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument, rather than on the basis of the cash flows fixed or determined by the contract.

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

Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

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

Charges for the Use of Assets

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

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

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

Charities

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

Contingent Assets and Liabilities

Contingent assets and liabilities are not recognised in the financial statements, but are disclosed as a note to the accounts where they are deemed material.

Employee Benefits

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

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

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

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

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

- The liabilities of the Orkney Islands Council pension fund attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 4.3% (based on the indicative rate of return on high quality corporate bond iBoxx sterling corporate AA over 15 year index).
- The assets of the Orkney Islands Council pension fund attributable to the Authority are included in the Balance Sheet at their fair value:
    - quoted securities – current bid price
    - unquoted securities – professional estimate
    - unitised securities – current bid price
    - property – market value.
- The change in the net pensions liability is analysed into seven components:
    - current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
    - past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non-Distributed Costs
    - interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
    - expected return on assets – the annual investment return on the fund assets attributable to the Authority, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
    - gains/losses on settlements and curtailments – the result of actions to relieve the Authority of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited/credited to the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non-Distributed Costs
    - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve
    - contributions paid to the Orkney Islands Council pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact on the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

The Notes to the Core Financial Statements provide further information.

Events after the Balance Sheet date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statements are authorised for issue. There are two types of events:

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

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

Exceptional Items and Prior Period Adjustments

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

Where there has been a change in accounting policy, that change will be applied retrospectively, that is, prior period figures will be restated unless the Code specifies transitional provisions that shall be followed. Where there has been a change in accounting estimate, that change will be applied prospectively, that is, prior period figures will not be restated. Where a material misstatement or omission has been discovered relating to a prior period, that misstatement or omission will be restated unless it is impracticable to do so.

Financial Instruments

<u>Financial Assets</u>
Financial assets are classified into two types:

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

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

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

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

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 Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

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

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 Statement 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 (e.g., dividends) is credited to the Income and Expenditure Statement 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 Statement.

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

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Income and Expenditure Statement in the year of extinguishment. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The

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

Loans Fund

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

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

Foreign Currency Translation

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

Government Grants and other Contributions

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

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

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

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants/contributions) or Taxation and Non-Specific Grant Income (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement. Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Account. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Account are transferred to the Capital Adjustment Account once they have been applied.

Intangible Assets

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

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

Expenditure is capitalised where it can be measured reliably as attributable to the asset and restricted to that incurred during the development phase (research expenditure is not capitalised). Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

Intangible assets are measured initially at cost. Amounts are not revalued, as the fair value of the assets held by the Council cannot be determined by reference to an active market. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

Interests in Companies and Other Entities

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

Inventories

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

Investment Property

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

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

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

Leases

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

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

Operating Leases
Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g., there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

Overheads and Central Support Costs

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

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

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

Property, Plant and Equipment

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

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

Measurement
Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management

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

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

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

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

- infrastructure, community assets and assets under construction – depreciated historical cost
- council dwellings – fair value, determined using the Beacon Principle of valuation which reduces the open market value (OMV) of a property by a percentage factor based on existing use value for social housing (EUV-SH).
- all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV). Operational assets are shown at the lower of net current replacement cost or net realisable value in existing use. Non-operational assets are shown at the lower of net current replacement cost or net realisable value.
- heritage assets – premium market valuation

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

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

Where decreases in value are identified, the revaluation loss is accounted for as follows:

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

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

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

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

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)

- where there is no balance in the Revaluation Reserve, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Disposals

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale. Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

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

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council’s underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

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

Depreciation

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

Depreciation is charged in full in the year of acquisition and no charge made in the year of disposal.

Depreciation is calculated on the following bases:

- dwellings and other buildings – straight-line allocation over 10 years up to 100 years as estimated by the Council Valuer.
- vehicles, plant and equipment – straight-line allocation over 3 years up to 15 years.
- infrastructure – straight-line allocation over 40 years up to 200 years.

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

Where a Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. Significance is determined by comparing a component's cost against the overall cost of an asset, and a component is deemed significant if its cost is 10% or more of the total asset cost. The de-minimus threshold for componentisation is £0.500M.

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

Heritage Assets

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

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

Provisions, Contingent Liabilities & Contingent Assets

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

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

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

<u>Contingent Liabilities</u>
A contingent liability arises where an event has taken place that gives the authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

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

Contingent Assets

A contingent asset arises where an event has taken place that gives the authority a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority.

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

Reserves

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

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

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

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

The Pension Reserve arises from the IAS19 accounting disclosures for retirement benefits and recognises the Council's share of actuarial gains and losses in the Orkney Islands Council Pension Fund and the change in the Council’s share of the Pension Fund net liability chargeable to the Comprehensive Income and Expenditure Statement.

Revenue Expenditure Funded from Capital under Statute

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

Service Expenditure analysis and Segment reporting

The Comprehensive Income and Expenditure Statement is presented in accordance with the CIPFA Service Reporting Code of Practice, and the analysis of service income and expenditure is based on this Code. However, decisions taken about resource allocation are taken by the Council on the basis of financial information analysed across services. These reports are prepared on a different basis from the accounting policies used in the financial statements Note 28 details the income and expenditure of the Council’s main services as recorded in budget monitoring reports throughout the year.

VAT

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

Note 2 Accounting Standards Issued not Adopted

The Code requires the disclosure of information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the following new or amended standards within the 2014/15 Code:

- IFRS 10 Consolidated Financial Statements (May 2011)
- IFRS 11 Joint Arrangements (May 2011)
- IFRS 12 Disclosure of Interests in Other Entities (May 2011)
- IAS 27 Separate Financial Statements (as amended in May 2011)
- IAS 28 Investments in Associates and Joint Ventures (as amended in May 2011)
- IAS 32 Financial Instruments: Presentation (as amended in December 2011)
- Annual Improvements to IFRS 2009-2011 Cycle

The code requires implementation from 1 April 2014 and there is therefore no impact on the 2013/14 statements.

IFRS 10, IFRS 11, IFRS 12, IAS 27 and IAS 28 relate specifically to the group accounts. These new amended standards include a change to the definition of control and will require consideration of joint arrangements, a reassessment of the group boundary and potentially further disclosure. IAS 32 outlines disclosure requirements in respect of offsetting financial assets and liabilities. IFRS improvements are generally minor, principally providing clarification. Overall, these new or amended standards are not expected to have a significant impact on the financial statements.

Note 3 Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in Note 1, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. Where a critical judgement has been made this is referred to in the relevant note to the core financial statements; however a summary of those with the most significant effect is detailed below.

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

Note 4 Assumptions made about the future

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

The items in the Council's Balance Sheet as at 31 March 2014 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Results differ from Assumption
Property, Plant & Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Authority will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by £0.364M for every year that useful lives had to be reduced.

Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £24.721M. However, the assumptions interact in complex ways. During 2013/14, the Council's actuaries advised that the net pensions liability had increased by £5.431M as a result of estimates being revised with an actuarial gain of £6.399M being attributable to updating of the assumptions.
Debt Impairment	At 31 March 2014, the Council had a balance for trade debtors of £9.892M. A review of significant balances suggested that an impairment of doubtful debts of 17.7% (£1.748M) was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient.	If collection rates were to deteriorate, an increase of 10% of the amount of the impairment of doubtful debts would require an additional £1.006M to be set aside as an allowance.

This list does not include assets and liabilities that are carried at fair value based on a recently observed market price.

Note 5 Material Items of Income and Expenditure

All material items are disclosed on the face of the comprehensive income and expenditure statement.

Note 6 Events after the balance sheet date

The Head of Finance, being the officer responsible for the Council's financial affairs, signed the Annual Accounts on 26 June 2014. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2014, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

Note 7 Adjustment between accounting basis and funding basis under regulations

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

2013-14	Usable Reserves					
	General Fund Balance £,000	Housing Revenue Account £,000	Harbour Reserves £,000	Capital Receipts Reserve £,000	Major Repair Reserves £,000	Movement in Unusable Reserves £,000
Adjustments involving the Capital Adjustment Account:						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:						
Charges for depreciation and impairment of non-current assets	19,619	1,492	924	0	0	(22,035)
Amortisation of intangible Assets	453	0	0	0	0	(453)
Revaluation losses on Property Plant and Equipment	(16,287)	1,981	1,422	0	0	12,884
Movements in the market value of Investment Properties	0	0	967	0	0	(967)
Capital grants and contributions	(5,478)	(1,150)	(2,606)	0	0	9,234
Revenue expenditure funded from capital under statute	64	0	0	0	0	(64)
Carrying amount of non-current assets sold	5,835	603	1,105	0	0	(7,543)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:						
Statutory Provision for the Financing of Capital Investment	(2,866)	(315)	(253)	0	0	3,434
Capital expenditure charged against the General Fund and HRA balances	(8,763)	(32)	(288)	0	0	9,083
Adjustments involving the Capital Receipts Reserve:						
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	0	(775)	0	775
Proceeds From Sale of Non-Current Assets	(161)	(482)	(75)	718	0	0
Adjustments involving the Financial Instruments Adjustment Account:						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	0	0	(29)	0	0	29
Adjustments involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 46)	8,630	77	573	0	0	(9,280)
Employer's pensions contributions and direct payments to pensioners payable in the year	(6,255)	(56)	(414)	0	0	6,725
Adjustment involving the Accumulating Compensated Absences Adjustment Account						
Adjustments in relation to Short-term compensated absences	(107)	0	1	0	0	106
Total Adjustments	**(5,316)**	**2,118**	**1,327**	**(57)**	**0**	**(1,928)**

2012-13	Usable Reserves					
	General Fund Balance	Housing Revenue Account	Harbour Reserves	Capital Receipts Reserve	Major Repair Reserves	Movement in Unusable Reserves
	£,000	£,000	£,000	£,000	£,000	£,000
Adjustments involving the Capital Adjustment Account:						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:						
Charges for depreciation and impairment of non-current assets	7,012	1,395	2,162	0	0	(10,569)
Amortisation of intangible Assets	428	0	0	0	0	(428)
Revaluation losses on Property Plant and Equipment	(330)	3,505	1,893	0	0	(5,068)
Movements in the market value of Investment Properties	0	0	(3,109)	0	0	3,109
Capital grants and contributions	(23,902)	(1,126)	(7,201)	20	0	32,209
Revenue expenditure funded from capital under statute	180	0	17	0	0	(197)
Carrying amount of non-current assets sold	671	328	135	0	0	(1,134)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:						
Statutory Provision for the Financing of Capital Investment	(4,324)	(276)	(57)	0	0	4,657
Capital expenditure charged against the General Fund and HRA balances	(4,539)	(1,026)	(506)	0	0	6,071
Adjustments involving the Capital Receipts Reserve:						
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	0	(910)	0	910
Proceeds From Sale of Non-Current Assets	(162)	(298)	(100)	560	0	0
Adjustment involving the Major Repairs Reserve:						
Use of the Major Repairs Reserve to finance new capital expenditure	0	0	0	0	0	0
Adjustments involving the Financial Instruments Adjustment Account:						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	0	0	(127)	0	0	127
Adjustments involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 47)	7,006	42	302	0	0	(7,350)
Employer's pensions contributions and direct payments to pensioners payable in the year	(6,092)	(55)	(395)	0	0	6,542
Adjustment involving the Accumulating Compensated Absences Adjustment Account						
Adjustments in relation to Short-term compensated absences	(7)	(7)	(39)	0	0	53
Total Adjustments	**(24,059)**	**2,482**	**(7,025)**	**(330)**	**0**	**28,932**

Note 8 Transfer to or from earmarked and other statutory reserves

This note sets out the amounts set aside from the General Fund Balance in statutory reserves established under Schedule 3 of the Local Government (Scotland) Act 1975 to provide financing for specific areas of expenditure, and the amounts transferred back from these funds to meet General Fund expenditure in 2013-2014.

	2012-13				2013-14		
	Balance at 31 March 2012	Transfers Out 2012-13	Transfers In 2012-13	Balance at 31 March 2013	Transfers Out 2013-14	Transfers In 2013-14	Balance at 31 March 2014
	£,000	£,000	£,000	£,000	£,000	£,000	£,000
Repairs & Renewals Fund	3,691	(1,408)	656	2,939	(615)	593	2,917
Revenue statutory funds	**3,691**	**(1,408)**	**656**	**2,939**	**(615)**	**593**	**2,917**
Capital Fund	508	(0)	0	508	(0)	0	508
Capital statutory funds	**508**	**(0)**	**0**	**508**	**(0)**	**0**	**508**
Total	**4,199**	**(1,408)**	**656**	**3,447**	**(615)**	**593**	**3,425**

A Capital Fund is maintained for the replacement of plant and equipment in terms of Schedule 3 of the Local Government (Scotland) Act 1975.

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

Ring-fenced elements of the General Fund Balance

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

	2012-13				2013-14		
	Balance at 31 March 2012	Transfers In 2012/13	Transfers Out 2012/13	Balance at 31 March 2013	Transfers In 2013/14	Transfers Out 2013/14	Balance at 31 March 2014
General Fund:	**£,000**	**£,000**	**£,000**	**£,000**	**£,000**	**£,000**	**£,000**
Devolved School Management Fund	144	44	0	188	0	(44)	144
Orkney College	72	195	0	267	0	(145)	122
Training Fund	374	0	0	374	0	0	374
Energy Efficiency Fund	137	10	0	147	0	(45)	102
Care Facility Fund	421	0	0	421	0	0	421
Spend to Save Fund	3,198	0	(1,214)	1,984	5	(285)	1,704
Renewable Energy Fund	8,000	0	(1,089)	6,911	0	(1,928)	4,983
Recreation & Cultural Services Project Fund	225	0	0	225	75	0	300
Conservation Grants Fund	16	0	(8)	8	0	(8)	0
Development Grants Fund	1,500	701	0	2,201	220	(30)	2,391
Sustainable Communities Fund	0	65	0	65	0	(38)	27
Community Planning Fund	0	15	0	15	0	(15)	0
Roads Project Fund	0	512	0	512	0	(159)	353
Pathfinder Project Fund	0	1,764	0	1,764	0	(227)	1,537
Outwith Orkney Placements Fund	0	1,036	0	1,036	1,444	(606)	1,874
Welfare Fund	0	0	0	0	14	0	14
SIP Life Cycle Fund	94	78	0	172	623	0	795
Total General Fund	**14,181**	**4,420**	**(2,311)**	**16,290**	**2,381**	**(3,530)**	**15,141**
Total Earmarked Reserves	**14,181**	**4,420**	**(2,311)**	**16,290**	**2,381**	**(3,530)**	**15,141**

The unallocated balance of £8.627 million is approximately 10% of the Council's annual running costs.

Note 9 Other operating expenditure

	2013-14	2012-13
	£,000	£,000
(Gains)/losses on the disposal of non-current assets	6,825	574
	6,825	**574**

Note 10 Financing and investment income and expenditure

	2013-14	2012-13
	£,000	£,000
Interest payable and similar charges	1,394	1,181
Pensions interest cost and expected return on pensions assets	1,389	1,147
Interest receivable and similar income	(13,440)	(13,417)
Income and expenditure in relation to investment properties and changes in their fair value	3,524	(4,970)
Other investment income	(977)	(40)
Total	**(8,110)**	**(16,099)**

Note 11 Taxation and non-specific grant income

The council credited the following taxation and non-specific grant income to the comprehensive income and expenditure statement during 2013-2014.

	2013-14	2012-13
	£,000	£,000
Council Tax Income	7,604	8,288
NDR Redistribution	8,827	8,203
Non-ring-fenced government grants	60,403	62,374
Capital Grants	9,234	32,229
Total Taxation and Non-Specific Grant Income	**86,068**	**111,094**

Note 12 Property, Plant and Equipment

2013-2014	**Council Dwellings**	**Buildings**	**Infra-structure Assets**	**Vehicles, Plant & Equipment**	**Community Assets**	**PP&E Under Construction**	**Surplus Assets**	**Total PP&E**
	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000
Cost or Valuation								
At 1 April 2013	41,665	114,843	127,633	34,369	4,509	46,719	1,651	**371,389**
Additions (Note 39)	941	1,255	3,329	2,867	16	18,618	0	**27,026**
Revaluation increases/decreases to Revaluation Reserve	(1)	25,331	0	1,630	2	0	18	**26,980**
Revaluation increases/decreases to Surplus or Deficit on the Provision of Services	(1,984)	4,079	(1,425)	(130)	3	0	0	**543**
Derecognition - Disposals	(488)	(8,104)	(235)	(493)	0		(30)	**(9,350)**
Reclassifications & Transfers	3,216	37,019	267	181	0	(49,043)	0	**(8,360)**
Reclassified to Held for Sale	0	0	0	0	0	0	0	**0**
Reclassified from Held for Sale	0	0	0	0	0	121	0	**121**
Balance as at 31 March 2014	**43,349**	**174,423**	**129,569**	**38,424**	**4,530**	**16,415**	**1,639**	**408,349**
Depreciation and Impairment								
At 1 April 2013	1,393	9,851	50,146	25,331	1,342	61	116	**88,240**
Depreciation Charge	1,488	4,403	3,409	3,210	56		55	**12,621**
Depreciation written out on Revaluation Reserve	(2)	(8,208)	0	0	0	0	(25)	**(8,235)**
Depreciation written out on Revaluation taken to Surplus or Deficit on the Provision of Services	(3)	(1,865)	(1,256)	(128)	(26)	0	(68)	**(3,346)**
Impairment losses/reversals to Surplus or Deficit on the Provision of Services	0	0	0	0	0	429	0	**429**
Derecognition - Disposals	(35)	(2,348)	(221)	(493)	0	0	0	**(3,097)**
Reclassifications & Transfers	0	(13)	0	181	0	0	0	**168**
Eliminated on reclassification to Held for Sale	0	0	0	0	0	0	0	**0**
Balance as at 31 March 2014	**2,841**	**1,820**	**52,078**	**28,101**	**1,372**	**490**	**78**	**86780**
Net Book Value								
Balance as at 31 March 2014	**40,508**	**172,603**	**77,491**	**10,323**	**3,158**	**15,925**	**1,561**	**321,569**
Balance as at 31 March 2013	**40,272**	**104,992**	**77,487**	**9,038**	**3,167**	**46,658**	**1,535**	**283,149**

2012-2013	Council Dwellings	Buildings	Infra-structure Assets	Vehicles, Plant & Equipment	Community Assets	PP&E Under Construction	Surplus Assets	Total PP&E
	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000
Cost or Valuation								
At 1 April 2012	37,576	107,395	119,906	29,549	4,482	31,217	926	**331,051**
Additions (Note 39)	965	1,197	7,727	4,879	16	31,661	0	**46,445**
Revaluation increases/decreases to Revaluation Reserve	0	227	0	0	24	0	(334)	**(83)**
Revaluation increases/decreases to Surplus or Deficit on the Provision of Services	(4,029)	(1,127)	0	0	1	0	(285)	**(5,440)**
Derecognition - Disposals	(328)	(505)	0	(59)	(14)	0	(56)	**(962)**
Reclassifications & Transfers	7,839	7,839	0	0	0	(16,159)	1,590	**1,109**
Reclassified to Held for Sale	(358)	(188)	0	0	0	0	(190)	**(736)**
Reclassified from Held for Sale	0	5	0	0	0	0	0	**5**
Balance as at 31 March 2013	**41,665**	**114,843**	**127,633**	**34,369**	**4,509**	**46,719**	**1,651**	**371,389**
Depreciation and Impairment								
At 1 April 2012	0	6,915	46,708	23,149	1,289	12	86	**78,159**
Depreciation Charge	1,393	3,383	3,438	2,241	56	0	57	**10,568**
Depreciation written out on Revaluation Reserve	0	0	0	0	0	0	0	**0**
Depreciation written out on Revaluation taken to Surplus or Deficit on the Provision of Services	0	(258)	0	0	0	49	(165)	**(374)**
Derecognition - Disposals	0	(20)	0	(59)	(3)	0	(8)	**(90)**
Reclassifications & Transfers	0	(165)	0	0	0	0	165	**0**
Eliminated on reclassification to Held for Sale	0	(4)	0	0	0	0	(19)	**(23)**
Balance as at 31 March 2013	**1,393**	**9,851**	**50,146**	**25,331**	**1,342**	**61**	**116**	**88,240**
Net Book Value								
Balance as at 31 March 2013	**40,272**	**104,992**	**77,487**	**9,038**	**3,167**	**46,658**	**1,535**	**283,149**
Balance as at 31 March 2012	**37,576**	**100,480**	**73,198**	**6,400**	**3,193**	**31,205**	**840**	**252,892**

Revaluations

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. Valuations were carried out by the District Valuer prior to the 31 March 2011 and thereafter by the Assistant Assessor to the Orkney and Shetland Valuation Joint Board. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

2013-2014	Council Dwellings	Investment Properties	Buildings	Infra-structure Assets	Vehicles, Plant & Equipment	Community Assets	Intangible Assets	PP&E Under Construction	Surplus Assets	Total Assets
	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000
Historic Cost	**0**	**0**	**0**	**76,017**	**9,752**	**3,132**	**50**	**16,325**	**0**	**105,276**
NBV of assets valued at:										
31 March 2010	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**1,558**	**1,558**
31 March 2011	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
31 March 2012	**40,539**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**40,539**
31 March 2013	**0**	**30,116**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**30,116**
31 March 2014	**0**	**0**	**173,091**	**0**	**0**	**0**	**0**	**0**	**0**	**173,091**
Total	**40,539**	**30,116**	**173,091**	**76,017**	**9,752**	**3,132**	**50**	**16,325**	**1,558**	**350,580**

Note 13 Investment properties

The following items of income and expense have been accounted for in the "financing and investment income and expenditure" line in the comprehensive income and expenditure statement:

	31 March 2014	31 March 2013
	£,000	£,000
Rental income from investment property	(1,303)	(1,029)
Direct operating expenses arising from investment property	2,830	(545)
'Net Gain/Loss included in Financing & Investment Income in the CIES'	**1,527**	**(1,574)**
Proceeds from sale	(75)	(111)
Carrying amount of investment properties sold	1,105	224
(Surplus)/deficit on sale of Investment Properties:	**1,030**	**113**
Changes in Fair Value of Investment Properties	967	(3,109)
	3,524	**(4,570)**

There are no restrictions on the council's ability to realise the value inherent in its investment property or on the council's right to the remittance of income and the proceeds of disposal. The council has no contractual obligations to purchase, construct or develop investment property, nor does it have contractual obligations in relation to repairs, maintenance or enhancement.

The following table summarises the movement in the fair value of investment properties during the year:

	31 March 2014	31 March 2013
	£,000	£,000
Balance at start of the year	22,690	19,980
Additions:		
- Purchases	957	934
Disposals	(1,105)	(224)
Net gains/losses from fair value adjustments	(967)	3,109
Transfers:		
-to/from Property, Plant and Equipment	8,541	(1,109)
Balance at end of the year	30,116	22,690

Note 14 Intangible assets

The council accounts for its purchased and developed software, which relate to the various information and communications technology (ICT) systems used throughout the council, as intangible assets. The cost is amortised on a straight-line basis over the expected life of the licences, which is three to five years for all ICT systems.

The movement on intangible asset balances during the year is as follows:

	2013-14		2012-13	
	Other Assets	Total	Other Assets	Total
	£,000	£,000	£,000	£,000
Balance at start of year:				
Gross carrying amounts	2,798	2,798	2,303	2,303
Accumulated amortisation	(2,365)	(2,365)	(1,937)	(1,937)
Net carrying amount at start of year	**433**	**433**	**366**	**366**
Additions:				
Purchases	71	71	495	495
	504	**504**	**861**	**861**
Assets Reclassification	(181)	(181)	0	0
Other Disposals	(531)	(531)	0	0
Reversals of past impairment losses written back to the Surplus/Deficit on the provision of Service	530	530	0	0
Amortisation for the period	(453)	(453)	(428)	(428)
Other Changes	181	181	0	0
Net carrying amount at end of year	**50**	**50**	**433**	**433**
Comprising:				
Gross carrying amounts	2,157	2,157	2,798	2,798
Accumulated amortisation	(2,107)	(2,107)	(2,365)	(2,365)
	50	**50**	**433**	**433**

There are no individual intangible assets that are material to the financial statements and there are currently no contractual commitments for the acquisition of intangible assets.

Note 15 Heritage assets

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

The movement on heritage asset balances during the year is as follows:-

2012-2013		2013-2014
Total		Total
£000		£000
755	**Restated Cost or valuation at start of year**	762
0	Additions	50
7	Revaluation gains (losses) other	100
762	**Cost or Valuation at year-end**	**912**

The Arts, Museums and Heritage Service collects items and associated information relating to all aspects of Orkney's human history in all periods. The collections are held for the public benefit, for display and for research.

The collection is held at various locations in Orkney but the principal one is The Orkney Museum, Tankerness House, Broad Street, Kirkwall.

The Museum recognises its responsibility, in acquiring additions to its collections, to ensure the care of collections, documentation arrangements and use of collections will meet the requirements of the Accreditation Standard. Full details can be seen in the Arts, Museums and Heritage Service Collection Management policy 2010-2015, including Acquisition and Disposal Procedures.

The Orkney Archives Service seeks to collect archives relating to the history of Orkney and its people, whether it is official, economic, cultural or otherwise with the area being defined as all of the Orkney Islands.

The collection is held at the Orkney Library and Archives, Junction Road, Kirkwall.

The Archive storage and reading rooms conform to BS 5454.2000 – Recommendations for the storage and exhibition of archival documents.

The following collections are held:-

Archaeology

This material is held for display and research. Each new group of material is not only useful in its own right but also adds to the understanding of the existing collection, and attracts researchers to develop new interpretations of Orkney's past environment and human history.

Social History

The social history collection is categorised as follows:-

Commerce and Industry – contains items relating to Agriculture, Weaving and Knitting, Kelp and Straw, Brewing and Distilling, Modern Crafts, Traditional and Commercial Food Production, Shops, Restaurants and Hotels, Trades and Tourism.
Domestic and Community Life – contains items of furniture and household effects, garments, the Baikie Family Collection, soft furnishings and items relating to Education, Health, Law, Order and Local Government, Religion, Clubs, Societies and Institutions and Transport.
Fine Art – contains a large collection of art including works by famous local artists and reputable artists from out-with Orkney.
Wartime Orkney – contains collections that reflect Orkney's major role in two World Wars as a naval base.

Orkney Archives Collection

The Orkney Archives has items relating to the history of the Orkney and its people, whether it is official, social, economic, cultural or otherwise. The area for collection is defined as all of Orkney and records relating to out-with Orkney will not be collected if there is not a close connection with the area. All items are held under one of four arrangements:-

- Official deposit
- Charge and superintendence
- Permanent loan
- Gifts

The Council has recognised 166 Heritage Assets that are considered to have a significant value in the Asset Register for 2013/14.

Note 16 Financial Instruments

Categories of financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The term 'financial instrument' covers both financial assets and financial liabilities and includes trade payables, borrowings (for example Public Works Loan Board debt and market debt), financial guarantees, bank overdraft, trade receivables, loans receivable, cash deposits with financial institutions (some on a fixed term basis and some which are immediately available) and longer term investments. The following categories of financial instrument are carried in the balance sheet. (Those financial instruments that are classified as cash and cash equivalents are not included in this table – please see Note 20 for details of these.)

	Long-term			Current		
	31 March 2014	31 March 2013	01 April 2012	31 March 2014	31 March 2013	01 April 2012
	£,000	£,000	£,000	£,000	£,000	£,000
Investments						
Unquoted equity investment at cost	0	0	0	2,868	2,600	1,601
Financial assets at fair value through profit and loss	0	0	0	171,207	163,759	148,012
Total investments	**0**	**0**	**0**	**174,075**	**166,359**	**149,613**
Debtors						
Loans and receivables	3,427	3,131	3,015	0	0	0
Financial assets carried at contract amounts	0	0	0	8,313	9,050	8,072
Total Debtors	**3,427**	**3,131**	**3,015**	**8,313**	**9,050**	**8,072**
Borrowings						
Financial liabilities at amortised cost	30,000	40,000	40,000	10,450	450	450
Total borrowings	**30,000**	**40,000**	**40,000**	**10,450**	**450**	**450**
Financial liabilities carried at contract amount	0	0	0	11,035	14,785	13,305
Total creditors	**0**	**0**	**0**	**11,035**	**14,785**	**13,305**

Loans and receivables include a loan to Orkney Islands Property Development Limited of £1.293 million.

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

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

2013-2014	Financial liabilities at amortised cost	Financial assets: loans and receivables	Available-for-sale financial assets	At fair value through profit and loss	Total
	£,000	£,000	£,000	£,000	£,000
Interest expense (including finance lease interest)	1,348	0	1	0	1,349
Impairment losses	0	66	1,567	0	1,633
Fee expense	40	5	0	474	519
Total expense in the (surplus) or deficit on the provision of services	**1,388**	**71**	**1,568**	**474**	**3,501**
Interest income	(473)	(68)	(0)	(0)	(541)
Interest income accrued on impaired financial assets	(0)	(29)	(0)	(0)	(29)
Dividend income	(0)	(0)	(221)	(0)	(221)
Other income	(0)	(0)	(0)	(9,896)	(9,896)
Total income in the (surplus) or deficit on the provision of services	**(473)**	**(97)**	**(221)**	**(9,896)**	**(10,687)**
Net gain on revaluation	0	0	0	0	0
(Surplus) or deficit on the revaluation of available-for-sale financial assets (in other comprehensive income and expenditure)	**0**	**0**	**0**	**0**	**0**
Net (gain) or loss for the year (in the total comprehensive income and expenditure)	**915**	**(26)**	**1,347**	**(9,422)**	**(7,186)**

2012-2013	Financial liabilities at amortised cost	Financial assets: loans and receivables	Available-for-sale financial assets	At fair value through profit and loss	Total
	£,000	£,000	£,000	£,000	£,000
Interest expense (including finance lease interest)	1,348	0	0	0	1,348
Impairment losses	0	821	0	569	1,390
Fee expense	38	11	0	257	306
Total expense in the (surplus) or deficit on the provision of services	**1,386**	**832**	**0**	**826**	**3,044**
Interest income	(1,064)	(69)	(0)	(0)	(1,133)
Interest income accrued on impaired financial assets	(0)	(127)	(0)	(0)	(127)
Dividend income	(0)	(0)	(144)	(0)	(144)
Other income	(0)	(1)	(0)	(15,748)	(15,749)
Total income in the (surplus) or deficit on the provision of services	**(1,064)**	**(197)**	**(144)**	**(15,748)**	**(17,153)**
Net gain on revaluation	0	0	(1,600)	0	(1,600)
(Surplus) or deficit on the revaluation of available-for-sale financial assets (in other comprehensive income and expenditure)	**0**	**(0)**	**(1,600)**	**0**	**(1,600)**
Net (gain) or loss for the year (in the total comprehensive income and expenditure)	**322**	**635**	**(1,744)**	**(14,922)**	**(15,709)**

Fair Values of Assets and Liabilities

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

- Estimated ranges of interest rates at 31 March 2014 of 2.60% to 4.28% for loans from the PWLB and 5.5% for other loans receivable and payable, based on new lending rates for equivalent loans at that date
- No early repayment or impairment is recognised
- Where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

	31/03/2014		31/03/2013	
	Carrying amount	Fair value	Carrying amount	Fair value
	£,000	£,000	£,000	£,000
Financial liabilities	40,000	41,029	40,000	46,391

The fair value of the liabilities is higher than the carrying amount because the Authority's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the prevailing rates at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31 March 2014) arising from a commitment to pay interest to lenders above current market rates.

	31/03/2014		31/03/2013	
	Carrying amount	Fair value	Carrying amount	Fair value
	£,000	£,000	£,000	£,000
Long-term debtors less provision	2,886	2,886	3,131	3,131

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

Note 17 Inventories

	2013-14	2012-13
	£,000	£,000
Other	714	650
Total	**714**	**650**

Note 18 Construction Contracts

The following significant contracts for capital investment have been entered into by Orkney Islands Council and extend beyond 31 March 2014:

Project Name	**Purpose**	**Approx. Value**	**Anticipated Completion**
		£,000	
Stromness Pierhead Regeneration	Construction of new library/offices	**2,242**	July - 2014
Lifestyle Facility, Pickaquoy	Construction of new day care facility	**824**	Sept - 2014
House Build Prog. – Phase 2	Construction of new HRA properties	**8,329**	Nov - 2015
Schools Investment Programme	Construction of new school facilities	**5,568**	Various
Coplands Dock	Construction of new pier	**598**	April - 2014

Note 19 Short-term debtors

	2013-14	2012-13
	£,000	£,000
NDR & Council Tax	241	788
Rents	221	317
Value Added Tax	762	1,070
Trade debtors	6,842	6,707
NHS Bodies	78	168
Total	**8,144**	**9,050**

Note 20 Cash and cash equivalents

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

	2013-14	2012-13
	£,000	£,000
Cash and Bank balances	9	10
Short Term Investments (considered to be Cash Equivalents)	25,000	53,000
Short Term Deposits (considered to be Cash Equivalents)	13,022	2,944
Total	**38,031**	**55,954**

Note 21 Assets held for sale

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

	Current	
	31 March 2014	31 March 2013
	£000's	£000's
Balance outstanding at start of year	**1,362**	**352**
Assets newly classified as held for sale:		
Additions	0	0
Transferred from /(to) Non-Current Assets during year	(121)	732
Revaluation Gains/(losses) taken to Surplus or deficit on the provision of services	(7)	340
Revaluation gains/(losses) other	(3)	(24)
Assets declassified as held for sale:		
Assets sold Cost	(184)	(38)
Other Disposals	0	0
Balance outstanding at year-end	**1,047**	**1,362**

Note 22 Short-term creditors

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

	2013-14	2012-13
	£,000	£,000
NHS Bodies	2	44
NDR & Council Tax	119	128
HRA	102	334
Accumulated Absences	2,245	2,351
Receipts in advance	445	293
Trade creditors	6,712	10,637
Other	1,782	998
Total Short Term Creditors	**11,407**	**14,785**

Note 23 Provisions

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

	At 1 April 2013	Increase in provision during year	Utilised during year	Unused Amounts Reversed	Interest earned	Balance as at 31 March 2014
	£,000	**£,000**	**£,000**	**£,000**	**£,000**	**£,000**
Compensation Payments	0	0	0	0	0	0
Other	2,802	142	0	0	0	2,944
	2,802	142	0	0	0	**2,944**
Current Provisions	0	142	0	0	0	142
Long Term Provisions	2,802	0	0	0	0	2,802
	2,802	**142**	**0**	**0**	**0**	**2,944**

Other

A provision of £0.142M has been identified in respect of the terms and conditions of harbour related staff.

A provision of £2.802M has been identified as the Council's Section 75 debt in respect of the Merchant Navy Officers Pension Fund (MNOPF) - Post 78 Section. A Section 75 debt was triggered when the last active member retired and no active members of the Pension Fund were directly employed by the Council. As at 31 March 2014 a formal request for this amount has yet to be received from the MNOPF. The Council has been negotiating a withdrawal from the MNOPF which would require the Council to guarantee the future liabilities of both Orkney Towage Company Limited and Orkney Ferries Limited to the MNOPF but this would avoid payment of the Section 75 debt. The withdrawal agreement has not yet been concluded.

Note 24 Usable reserves

Usable reserves are those reserves the council is able to apply to fund expenditure or reduce taxation, and comprise both capital and revenue reserves. Movements in the revenue reserves during the year are outlined in the movement in reserves statement, however a summary is shown below.

31 March 2013		31 March 2014
£m		**£m**
24.917	General Fund Balance	23.768
0.000	Housing Revenue Account Balance	0.000
0.077	Capital Receipts Reserve	0.020
0.508	Other Statutory Funds	0.508
197.546	Harbours	196.784
2.939	Repairs and Renewals Fund	2.917
225.987	**Total usable reserves**	**223.997**

Note 25 Unusable reserves

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

(i) Reserves that hold unrealised gains and losses, in relation to the revaluation of property, plant and equipment where amounts will only become available to provide services (or limit resources in the case of losses) once the gains or losses are realised as the assets are disposed of.

(ii) Adjustment accounts that deal with situations where income and expenditure are recognised according to statutory regulations against the General Fund Balance and the Housing Revenue Account Balance on a different basis from that expected by generally accepted accounting practices. These adjustment accounts will carry either a debit balance (showing that the council is required by statute to fund its expenditure more slowly than accounting standards would expect) or a credit balance (where the council has set resources aside under statute earlier than accounting standards require). The adjustment accounts effectively offset the General Fund Balance and the Housing Revenue Account Balance to give the council more or less spending power in the short term than proper accounting practices would allow. The adjustment accounts comprise the Capital Adjustment Account, the Financial Instruments Adjustment Account, the Pension Reserve and the Employee Statutory Adjustment Account.

Summary of unusable reserves

	31 March 2014	31 March 2013
	£,000	**£,000**
Capital Adjustment Account	228,218	219,489
Financial Instruments Adjustment Account	(194)	(223)
Revaluation Reserve	73,508	42,981
Pensions Reserve	(35,721)	(30,290)
Employee Statutory Adjustment Account	(2,245)	(2,351)
Total Unusable Reserves	**263,566**	**229,606**

(i) Movement in the year: Revaluation Reserve

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

	31 March 2014	31 March 2013
	£,000	£,000
Balance at 1 April	42,981	44,510
Upward revaluation of assets	35,308	264
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(3,470)	(196)
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	**74,819**	**44,578**
Difference between fair value depreciation and historical cost depreciation	(1,311)	(1,597)
Balance at 31 March	**73,508**	**42,981**

(ii) Movement in the year: Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions or regulations. The Capital Adjustment Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the comprehensive income and expenditure statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Capital Adjustment Account is credited with the amounts set aside by the council as finance for the costs of acquisition, construction and enhancement.

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

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

Note 7 provides details of the source of all the transactions posted to the Capital Adjustment Account, apart from those involving the Revaluation Reserve.

	31 March 2014		31 March 2013	
	£,000	£,000	£,000	£,000
Balance at 1 April		**219,089**		**187,736**
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:				
Charges for depreciation and impairment of non-current assets	(22,488)		(10,997)	
Revaluation losses on Property, Plant and Equipment	12,884		(5,068)	
Revenue expenditure funded from capital under statute	(64)		(197)	
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(4,073)		(938)	
		(13,741)		**(17,200)**
Adjusting amounts written out of the Revaluation Reserve		1,311		1,597
Net written out amount of the cost of non-current assets consumed in the year		**(12,430)**		**(15,603)**
Capital financing applied in the year:				
Use of the Capital Receipts Reserve to finance new capital expenditure	775		910	
Use of the Major Repairs Reserve to finance new capital expenditure	0		0	
Loans Lease principal repayments	3,434		4,657	
Application of grants to capital financing from the Capital Grants Unapplied Account	9,234		32,209	
Capital expenditure charged against the General Fund and HRA balances	9,083		6,071	
		22,526		**43,847**
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		(967)		3,109
Balance at 31 March		**228,218**		**219,089**

(iii) Movement in the year: Financial Instruments Adjustment Account

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

	31 March 2014	31 March 2013
	£,000	£,000
Balance at 1 April	**(223)**	**(350)**
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	29	127
Balance at 31 March	**(194)**	**(223)**

(iv) Movement in the year: Pension Reserve

The Pension Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions or regulations. The council accounts for post-employment benefits in the comprehensive income and expenditure statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the council makes employer's contributions to pension funds. The debit balance on the Pension Reserve shows a significant shortfall in the benefits earned by past and current employees. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid. Employers' contribution rates and contribution strategy will be reviewed following the next formal pension fund valuation as at 31 March 2014.

	31 March 2014	31 March 2013
	£,000	£,000
Balance at 1 April	**(30,290)**	**(24,033)**
Remeasurement of the net defined benefit liability/(asset)	(2,876)	(5,449)
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(9,280)	(7,350)
Employers Pensions contributions and direct payments to pensioners payable in the year	6,725	6,542
Balance at 31 March	**(35,721)**	**(30,290)**

(v) Movement in the year: Employee Statutory Adjustment Account

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

	31 March 2014	31 March 2013
	£,000	£,000
Balance at 1 April	**(2,351)**	**(2,404)**
Amounts accrued at the end of the current year	106	53
Balance at 31 March	**(2,245)**	**(2,351)**

Note 26 Cash flow statement: operating activities

	2013-14	Restated 2012-13
	£,000	£,000
Adjustment to surplus or deficit on the provision of services for noncash movements		
Depreciation and Impairment losses	22,035	10,569
Revaluation Gains	(12,884)	5,068
Amortisation (included with depreciation above)	453	428
(Increase)/Decrease in Stock	(64)	34
(Increase)/Decrease in Debtors	756	(261)
Increase/(decrease) in impairment provision for bad debts	142	(84)
Increase/(Decrease) in Creditors	(1,326)	178
Movements in the Pension Reserve not relating to actuarial changes	2,555	808
Carrying amount of non-current assets sold	7,543	1,134
Investment Income not involving movement of cash	(9,446)	(16,601)
Contributions to Other Reserves/Provisions	(23,309)	(42,985)
Movement in value of investment properties-included above in impairment & downward revaluations (& non-sale de-recognitions)	967	(3,109)
	(12,578)	**(44,821)**
Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities		
Purchase of short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)	169,898	91,552
Proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)	(169,541)	(91,189)
	357	**363**

Note 27 Cash flow statement: investing activities

	2013-14	2012-13
	£,000	£,000
Purchase of PP&E, investment property and intangible assets	30,440	46,413
Purchase of Short Term Investments (not considered to be cash equivalents)	(15,786)	(10,073)
Other Payments for Investing Activities	1,579	1,092
Proceeds from the sale of PP&E, investment property and intangible assets	(718)	(560)
Proceeds from Long Term Investments	0	0
Capital Grants and Contributions Received	(9,384)	(31,396)
Other Receipts from Investing Activities	(491)	(475)
Net Cash flows from Investing Activities	**5,640**	**5,001**

Note 28 Amounts reported for resource allocation decisions

The standard service groups shown on the face of the comprehensive income and expenditure statement are those specified by CIPFA's Service Reporting Code of Practice (SeRCOP) and are designed to make comparisons between local authorities' accounts more meaningful. However, the standard service groups do not reflect the local management of service delivery and budgetary responsibilities as determined by the Council.

The management of Orkney Islands Council is led by the Chief Executive and the operational structure of the Council is divided into eight main service areas, each led by a Head of Service. Financial reports to management are prepared on a different basis from the accounting policies used in the statement of accounts. In particular:

- no charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the comprehensive income and expenditure statement);
- the cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than the current service cost of benefits accrued in the year;
- expenditure on support services is budgeted for centrally and is not charged to service areas.

The income and expenditure of the Council's main service areas, as reported to management, for the financial year is as follows:

Service Area income and expenditure analysis 2013-14	Education	Leisure & Cultural	Community Social Services	Roads	Transport	Environmental Services	Housing Revenue Account	Harbours	Total
	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000
Fees, charges & other income	853	608	2,256	117	47	931	2,993	6,386	**14,191**
Government grants	186	37	47	0	3	4	0	0	**277**
Other grants & contributions	211	199	3,259	172	0	36	222	3,207	**7,306**
Total Income	**1,250**	**844**	**5,562**	**289**	**50**	**971**	**3,215**	**9,593**	**21,774**
Employee expenses	19,141	1,844	14,829	(60)	726	509	314	2,688	**39,991**
Other service expenses	9,032	2,845	8,207	4,181	8,315	3,392	2,478	5,421	**43,871**
Support service recharges	798	441	969	186	231	171	423	298	**3,517**
Total Expenditure	**28,971**	**5,130**	**24,005**	**4,307**	**9,272**	**4,072**	**3,215**	**8,407**	**87,379**
Net Expenditure	**27,721**	**4,286**	**18,443**	**4,018**	**9,222**	**3,101**	**0**	**(1,186)**	**65,605**

Service Area income and expenditure analysis 2012-13	Education	Leisure & Cultural	Community Social Services	Roads	Transport	Environmental Services	Housing Revenue Account	Harbours	Total
	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000
Fees, charges & other income	788	695	2,158	137	47	834	2,711	6,484	**13,854**
Government grants	182	6	27	0	87	12	0	0	**314**
Other grants & contributions	150	180	2,677	13	0	0	1,705	1,920	**6,645**
Total Income	**1,120**	**881**	**4,862**	**150**	**134**	**846**	**4,416**	**8,404**	**20,813**
Employee expenses	19,035	2,004	14,673	34	727	569	325	2,578	**39,945**
Other service expenses	8,813	2,722	5,704	4,330	7,816	3,236	3,630	3,881	**40,132**
Support service recharges	900	409	1,006	139	219	130	461	265	**3,529**
Total Expenditure	**28,748**	**5,135**	**21,383**	**4,503**	**8,762**	**3,935**	**4,416**	**6,724**	**83,606**
Net Expenditure	**27,628**	**4,254**	**16,521**	**4,353**	**8,628**	**3,089**	**0**	**(1,680)**	**62,793**

Reconciliation of service area income and expenditure to the net cost of services in the comprehensive income and expenditure statement

The following table shows how the figures in the above analysis of service area income and expenditure reconcile to the amounts included in the **comprehensive income and expenditure statement**.

	2013-14	2012-13
	£m	**£m**
Net expenditure in the [Directorate] Analysis	65.605	62.793
Net expenditure of services and support services not included in the Analysis	9.047	16.238
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	25.170	9.504
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	(12.407)	(1.597)
Cost of Services	**87.415**	**86.938**

Reconciliation to subjective analysis of income and expenditure

This table shows how the figures in the above analysis of service area income and expenditure reconcile to a subjective analysis of the surplus or deficit on the provision of services as included in the **comprehensive income and expenditure statement**.

2013-14	Directorate Analysis	Services and Support Services not in Analysis	Amounts not reported to management for decision making	Amounts not included in I&E	Cost of Services	Corporate Amounts	Total
	£,000	£,000	£,000	£,000	£,000	£,000	£,000
Government Grants	277	4,173	0	0	4,450	71,237	**75,687**
Other Grants, Reimbursements & Contributions	3,005	2,005	0	0	5,010	0	**5,010**
Rents & Lettings	3,756	359	0	0	4,115	1,222	**5,337**
Sales	1,232	43	0	0	1,275	0	**1,275**
Investment Income	0	0	0	0	0	10,124	**10,124**
Interest & Loans	53	0	0	0	53	927	**980**
Fees & Charges	8,770	1,583	0	0	10,353	1,540	**11,893**
Miscellaneous Income	4,682	12,945	(17,190)	0	437	2	**439**
Capital Grants & Contributions	0	5,372	0	0	5,372	9,234	**14,606**
Income from Council Tax	0	0	0	0	0	8,380	**8,380**
Total Income	**21,775**	**26,480**	**(17,190)**	**0**	**31,065**	**102,666**	**133,731**
Staff Costs	39,992	11,259	(108)	0	51,143	3,118	**54,261**
Property Costs	8,797	1,293	0	0	10,090	1,314	**11,404**
Supplies & Services	3,388	1,507	0	0	4,895	463	**5,358**
Transport Costs	4,245	227	0	0	4,472	151	**4,623**
Administration Costs	902	1,211	0	0	2,113	160	**2,273**
Apportioned Costs	3,516	0	0	0	3,516	69	**3,585**
Third Party Payments	13,971	1,129	0	0	15,100	649	**15,749**
Transfer Payments	1,737	7,073	0	0	8,810	(29)	**8,781**
Miscellaneous Expenditure	8,500	1,310	(3,810)	0	6,000	7	**6,007**
Finance and Capital Charges	2,005	3,600	0	(12,407)	(6,802)	1,416	**(5,386)**
Depreciation and Impairment	327	6,816	10,834	0	17,977	(219)	**17,758**
Gain or Loss on Disposal of Fixed Assets	0	0	0	0	0	6,825	**6,825**
Accounting for Pensions	0	102	1,064	0	1,166	1,389	**2,555**
Total expenditure	**87,380**	**35,527**	**7,980**	**(12,407)**	**118,480**	**15,313**	**133,793**
(Surplus) or deficit on the provision of services	**65,605**	**9,047**	**25,170**	**(12,407)**	**87,415**	**(87,353)**	**62**

2012-13	Directorate Analysis	Services and Support Services not in Analysis	Amounts not reported to management for decision making	Amounts not included in I&E	Cost of Services	Corporate Amounts	Total
	£,000	£,000	£,000	£,000	£,000	£,000	£,000
Government Grants	315	5,794	0	0	6,109	74,610	**80,719**
Other Grants, Reimbursements & Contributions	2,900	3,232	0	0	6,132	0	**6,132**
Rents & Lettings	3,405	429	0	0	3,834	941	**4,775**
Sales	1,129	42	0	0	1,171	0	**1,171**
Investment Income	0	0	0	0	0	16,203	**16,203**
Interest & Loans	65	0	0	0	65	2,643	**2,708**
Fees & Charges	8,965	708	0	0	9,673	1,427	**11,100**
Miscellaneous Income	4,034	(5)	(3,625)	0	404	0	**404**
Capital Grants & Contributions	0	5,560	0	0	5,560	32,229	**37,789**
Income from Council Tax	0	0	0	0	0	8,288	**8,288**
Total Income	**20,813**	**15,760**	**(3,625)**	**0**	**32,948**	**136,341**	**169,289**
Staff Costs	39,946	11,023	(45)	0	50,924	2,843	**53,767**
Property Costs	8,194	1,238	0	0	9,432	1,320	**10,752**
Supplies & Services	3,141	2,018	0	0	5,159	1,574	**6,733**
Transport Costs	4,428	190	0	0	4,618	114	**4,732**
Administration Costs	934	1,275	0	0	2,209	130	**2,339**
Apportioned Costs	3,529	0	0	0	3,529	64	**3,593**
Third Party Payments	12,674	3,230	0	0	15,904	445	**16,349**
Transfer Payments	1,570	7,834	0	0	9,406	1,228	**10,632**
Miscellaneous Expenditure	6,711	(857)	(756)	0	5,098	0	**5,098**
Finance and Capital Charges	560	5,307	0	(1,597)	4,270	1,181	**5,451**
Depreciation and Impairment	1,919	675	7,084	0	9,678	(898)	**8,780**
Gain or Loss on Disposal of Fixed Assets	0	0	0	0	0	574	**574**
Accounting for Pensions	0	65	(404)	0	(339)	(389)	**(728)**
Total expenditure	**83,606**	**31,998**	**5,879**	**(1,597)**	**119,888**	**8,186**	**128,072**
(Surplus) or deficit on the provision of services	**62,793**	**16,238**	**9,504**	**(1,597)**	**86,940**	**(128,155)**	**(41,217)**

Note 29 Acquired and Discontinued Operations

The Council has no acquired or discontinued operations in the year to 31 March 2014.

Note 30 Trading operations

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

Note 31 Agency Services

The Council is required by legislation to provide a collection service for Scottish Water whereby it collects water and waste charges in conjunction with collection of Council Tax. The legislation stipulates the minimum amount Scottish Water must pay by way of commission for this service. For 2013/14 the value of this service amounted to £0.077 million (2012/13 £0.075 million).

Note 32 Road Charging Schemes Under the Transport (Scotland) Act 2001

The Council does not operate a road charging or workplace charging scheme.

Note 33 Pooled Budgets

The Council has not entered into any pooled budget arrangements during the year to 31 March 2014.

Note 34 Members Allowances

These details are included in the Remuneration Report on pages 20 to 26.

Note 35 Officers Remuneration

These details are included in the Remuneration Report on pages 20 to 26.

Note 36 External Audit Costs

Fees payable to Audit Scotland in respect of external audit services undertaken in accordance with Audit Scotland's Code of Audit Practice in 2013-2014 were as follows:-

	2012/2013	2013/2014
	£000	£000
Orkney Islands Council	184	184
Pension Fund	21	21
Charities	2	2
	207	**207**

Note 37 Capital Grants Receipts in Advance

The council had previously received a capital grant in advance that has now been recognised as income and complied with the grant conditions attached. The balance at 31 March 2014 is as follows:

31 March 2013		31 March 2014
£m	*Capital Grants Receipts in Advance*	£m
0.020	LIDL Store – Proposed Road Works	0.000
0.020	**Total Capital Grants Receipts in Advance**	**0.000**

Note 38 Related parties

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

Scottish Government

The Scottish Government has effective control over the general operations of the council, being responsible for providing the statutory framework within which the council operates. The Scottish Government provides the majority of the council's funding in the form of grants and prescribes the terms of many of the transactions that the council has with other parties (such as council tax bills and housing benefits). Grants received from the Scottish Government are set out in the subjective analysis in note 28 on amounts reported for resource allocation decisions. Grant receipts outstanding at 31 March 2014 are shown in note 37.

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

Councillors' and Officers
The Council can on occasion transact with individuals or businesses that are owned by elected councillors or employees, but these are neither considered to be material by value or by nature.

All elected councillors' and senior officers are required to declare any related party interests in a formal Register of Interests, which are available for inspection upon request.

Pension fund
The Council is the administering authority and scheduled body for the Orkney Islands Council Pension Fund. The related party transactions being in respect of the membership of the pension fund by council employees.

	2013-14			2012-13		
	Receipts	**Payments**	Debtor / (Creditor)	**Receipts**	**Payments**	Debtor / (Creditor)
	£m	£m	£m	£m	£m	£m
Scottish Government						
Revenue Grants	59.627			62.374		
Being payments made in support of Revenue Expenditure						
Capital Grants	6.058			26.572		
Being payments made in support of Capital Expenditure						
Companies and Joint Boards						
Orkney Towage Company Limited	1.159	1.975	2.818		0.691	(0.079)
Being payments made for the provision of Towage Services						
Orkney Ferries Limited	0.031	6.925	(0.664)		6.397	(0.666)
Being payments made in support of the Ferry Services						
Pickaquoy Centre Trust	0.434	0.953	0.126	0.182	0.696	(0.038)
Orkney and Shetland Valuation Joint Board		0.278	0.021		0.287	(0.006)
Being payments of annual requisition to Joint Boards						
Orkney Islands Pension Fund						
Being payments of employers contributions in respect of employees		6.138			5.956	

Note 39 Capital expenditure and capital financing

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

Capital Expenditure and Capital Financing	**2013-14**	**2012-13**
	£,000	£,000
Opening Capital Financing Requirement	**30,898**	**26,671**
Property, Plant and Equipment	27,026	46,445
Investment Properties	957	934
Intangible Assets	71	495
Heritage Assets	50	0
Other	0	3
Revenue Expenditure Funded from Capital under Statute	64	197
	28,168	**48,074**
Sources of finance		
Capital receipts	(775)	(910)
Government grants and other contributions	(9,234)	(32,209)
Major Repairs Allowance	0	0
Sums set aside from revenue:		
Direct revenue contributions:		
General	(8,763)	(4,539)
HRA	(32)	(1,026)
Harbours	(288)	(506)
Loans fund principal	(3,434)	(4,657)
	(22,526)	**(43,847)**
Closing Capital Finance Requirement	**36,540**	**30,898**
Explanation of movements in year		
Increase in underlying need to borrowing (unsupported by government financial assistance)	(3,434)	(4,657)
Increase/(decrease) in Capital Financing Requirement	**(3,434)**	**(4,657)**

At 31 March 2014 the Council had commitments on capital contracts for non-housing projects of £17.561 million. This expenditure will be funded from a combination of government grants, external borrowing, and income from selling assets and contributions from revenue budgets.

Note 40 Leases

Orkney Islands Council as Lessee

Operating Leases

The Council has acquired properties by entering into operating leases.

The expenditure charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was £0.623m (2012/13 £0.481m).

Future minimum payments are set out below:-

	2013/14		2012/13	
	Land and buildings	Vehicles, plant and equipment	Land and buildings	Vehicles, plant and equipment
	£,000	£,000	£,000	£,000
Minimum lease rentals payable:				
No later than 1 year	120	0	94	0
Later than 1 year and no later than 5 years	412	0	366	0
Later than 5 years	2,597	0	2,345	0
	3,129	**0**	**2,805**	**0**

Orkney Islands Council as Lessor

Operating Leases

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

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

The total value of rental income recognised during the period was £1.924m (2012/13 £1.704m). No contingent rents were recognised.

Future minimum lease income is set out below:-

	2013/14		2012/13	
	Land and buildings	Vehicles, plant and equipment	Land and buildings	Vehicles, plant and equipment
	£,000	£,000	£,000	£,000
Minimum lease rentals payable:				
No later than 1 year	1,788	0	1,689	0
Later than 1 year and no later than 5 years	5,174	0	4,806	0
Later than 5 years	17,411	0	17,648	0
	24,373	**0**	**24,143**	**0**

Note 41 Private Finance Initiatives and Similar Contracts

The Council has not entered into any PFI or similar arrangements during the year to 31 March 2014.

Note 42 Impairment Losses

The Code requires disclosure by class of assets of the amounts for impairment losses and impairment reversals charged to the Surplus or Deficit on the Provision of Services and to Other Comprehensive Income and Expenditure. These disclosures are consolidated in Notes 12, 14, 15 and 21 reconciling the movement over the year in the Property, Plant and Equipment, Intangible, Heritage and Assets Held For Sale balances.

Note 43 Capitalisation of Borrowing Costs

The Council does not capitalise its borrowing costs.

Note 44 Termination benefits

See note 8 of the remuneration report for the number of exit packages and total cost per band.

Note 45 Pension schemes accounted for as defined contribution schemes

The Scottish Teachers' Superannuation Scheme is a contributory pension scheme administered and regulated by the Scottish Public Pensions Agency (an executive agency of the Scottish Government) on behalf of the Scottish Ministers. The Scottish Teachers' Superannuation Scheme is a defined benefit scheme but, as it is not possible to identify each participating council's share of the underlying liabilities on a consistent and reasonable basis, the Scottish Teachers' Superannuation Scheme is accounted for as if it were a defined contribution scheme. Employer contributions are set on the basis of periodic reviews by the Government Actuary. Throughout the year the council's rate of contribution as employer was 14.9% (14.9% in 2012-2013) and the employee rate is tiered and ranges from 6.4% to 11.2% (6.4% to 10.6% in 2012-2013). Employer contribution rates for 2014-15 are expected to be the same as for 2013/14.The council paid £1.660 million (£1.646 million in 2012-2013) for employer's contributions to the Scottish Public Pensions Agency £0.310 million of expenditure (£0.305 million in 2012-2013) was charged to service revenue accounts in respect of "added years" pension enhancement termination benefits, representing 2.78% of employees' pensionable pay (2.76% in 2012-2013).

Note 46 Defined benefit pension schemes

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

The council participates in two pension schemes:

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

The Orkney Islands Council Pension Scheme is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of the Investments Sub Committee of Orkney Islands Council. In addition the Human Resources Sub Committee, Monitoring and Audit Committee and Policy and Resources Committee also have a role in the governance per the scheme of delegation. Policy is determined in accordance with the Public Service Pensions Act 2013. The investment manager of the fund is appointed by the Sub Committee which comprises of Elected Members of Orkney Island Council.

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

Transactions relating to post-employment benefits

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

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

2012-2013		2013-2014
£m	**Comprehensive Income and Expenditure Statement**	**£m**
	Cost of Services:	
6.138	Current service cost	7.789
0.000	Past service cost	0.000
0.065	Losses or (gains) on curtailments and settlements	0.102
	Included within financing and investment income and expenditure:	
1.147	Net Interest Expense	1.389
0	Expected return on scheme assets	0
7.350	**Total of LGPS post-employment benefits charged to the surplus or deficit on the provision of services**	**9.280**
	Included within other comprehensive income and expenditure:	
(18.070)	Expected return on scheme assets	(6.399)
23.519	Actuarial losses or (gains)	9.275
12.799	**Total of LGPS post-employment benefits charged to the comprehensive income and expenditure statement**	**12.156**
	Movement in reserves statement:	
	Adjustments between accounting and funding basis under regulations:	
(7.350)	Reversal of net charges made to surplus or deficit on the provision of services for post-employment benefits in accordance with the code	(9.280)
(5.449)	Reversal of re-measurement of net defined benefit liability	(2.876)
	Actual amount charged against the General Fund balance for pensions in the year:	
6.542	Employer contributions and direct payments payable in the year	6.725
(6.257)	**Net charge to the General Fund Summary**	**(5.431)**

Pension Assets and Liabilities recognised in the Balance Sheet

	31 March 2013	31 March 2014
	£m	£m
Fair value of scheme assets	180.782	198.693
Fair value of scheme liabilities	(211.072)	(234.414)
Council's share of (deficit) or surplus in the scheme	**(30.290)**	**(35.721)**

Asset and Liabilities in Relation to Post-Employment Benefits

Reconciliation of Movements in the fair value of Scheme Assets:

2012-2013		2013-2014
£m		£m
151.950	**Opening balance at 1 April 2013**	**180.782**
7.373	Interest Income	8.209
	Remeasurement Gains and (Losses):	
18.070	Return on Plan Assets, excl. net interest expense	6.399
1.763	Member contributions	1.763
5.956	Employer contributions	6.138
0.586	Contributions in respect of unfunded benefits	0.587
(4.330)	Benefits paid: other	(4.598)
(0.586)	Benefits paid: unfunded	(0.587)
180.782	**Closing balance at 31 March 2014**	**198.693**

Reconciliation of present value of the Scheme Liabilities:

2012-2013		2013-2014
£m		£m
165.824	Present Value of Funded Liabilities	201.499
10.159	Present Value of Unfunded Liabilities	9.573
175.983	**Opening balance at 1 April 2013**	**211.072**
6.138	Current service cost	7.789
8.520	Interest cost	9.598
1.763	Member contributions	1.763
	Remeasurement Gains and (Losses):	
23.519	Actuarial losses or (gains)	9.275
0.000	Past service cost	0.000
0.065	Losses or (gains) on curtailment	0.102
(4.330)	Estimated benefits paid: other	(4.598)
(0.586)	Estimated benefits paid: unfunded	(0.587)
211.072		**234.414**
201.499	Present Value of Funded Liabilities	224.767
9.573	Present Value of Unfunded Liabilities	9.647
211.072	**Closing balance at 31 March 2014**	**234.414**

Analysis of Pension Fund's Assets

2012-2013 £m		Equities:	2013-2014 £m	
42.552	24%	Consumer	38.640	19%
24.394	14%	Manufacturing	27.717	14%
10.001	6%	Energy and Utilities	10.678	5%
30.843	17%	Financial Institutions	38.847	20%
10.898	6%	Health and Care	9.732	5%
10.696	6%	Information Technology	13.825	7%
6.087	3%	Other	4.882	3%
0.000	0%	**Bonds:**	0.000	0%
0.000	0%	**Private Equity:**	0.000	0%
0.000	0%	**Property:**	0.000	0%
		Investment Funds and Unit Trusts:		
18.714	10%	Equities	25.372	13%
22.123	12%	Bonds	24.133	12%
0.000	0%	**Derivatives:**	0.000	0%
4.473	2%	**Cash and Cash Equivalents:**	4.867	2%
180.782	**100%**	**Total Assets**	**198.693**	**100%**

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in the future years dependent on assumptions about mortality rates, salary levels, etc. The following table shows the principal assumptions used by Hymans Robertson LLP, the Fund's independent actuaries, to estimate the council's post-employment benefits transactions for 2013-2014, and the council's share of the Pension Fund's defined benefit obligation (scheme liabilities) and scheme assets as at 31 March 2014:

31 March 2013		31 March 2014
4.5%	Discount rate for defined benefit obligation	4.3%
4.5%	Long-term expected rate of return on scheme assets	4.5%
5.1%	Rate of increase in salaries*	5.1%
2.8%	Rate of increase in pensions	2.8%
2.8%	Rate of inflation	2.8%
	Mortality assumptions:	
	Longevity at age 65 for current pensioners:	
23.0 years	Men	23.0 years
25.8 years	Women	25.8 years
	Longevity at age 65 for future pensioners:	
24.9 years	Men	24.9 years
27.7 years	Women	27.7 years
	Commutation assumptions - percentage of the maximum additional tax-free cash (per HM Revenue & Customs limits) converted from annual pension into retirement lump sum:	
50%	for pre-April 2009 service	50%
75%	for post-April 2009 service	75%

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

Change in assumptions as at 31 March 2014:	Approximate increase to Employer	Approximate Monetary Amount
	%	£m
0.5% decrease in Real Discount Rate	11%	24.721
1 year increase in member life expectancy	3%	7.032
0.5% increase in the Salary Increase Rate	3%	8.149
0.5% increase in the Pension Increase Rate	7%	16.068

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

Impact on the Authority's Cash Flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 20 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed as at 31 March 2014.

The Fund will need to take account of impending National changes to the Local Government Pension Scheme in Scotland such as the move from 1st April 2015 to a new Career Average Revalued Earning Scheme (CARE) for future accruals.

The Authority anticipates to pay £6.200m expected contributions to the scheme in 2014/2015.

The weighted average duration of the defined benefit obligation for scheme members is 20.2 years, 2013/14.

Change in Accounting Policy IAS19

On 1 April 2013 the Council implemented a change in accounting policies to recognise amendments to accounting standard IAS19, Employee Benefits. The key change affecting the Pension Scheme relates to expected return on assets. As a result, it has been necessary to restate some figures in the prior years audited financial statements.

There has been a redistribution of costs within the Comprehensive Income and Expenditure Statement. The pension interest cost within the Surplus or Deficit on the Provision of Services has increased with a corresponding reduction in actuarial (gains) or losses on pension assets and liabilities in Other Comprehensive Income and Expenditure. Essentially, the expected return on Scheme Assets that was previously credited to the Surplus or Deficit on Provision of Services has been replaced with an equivalent figure using the discount rate.

The effects of the restatement on the financial statements are as follows (only those lines that have changed are shown):

Comprehensive Income and Expenditure Statement	Original 2012/13 £m	Restated 2012/13 £m	Adjustment £m
Financing and Investment Income and Expenditure	(17.635)	(16.099)	1.536
(Surplus)/Deficit on Provision of Services	(41.217)	(39.681)	1.536
Actuarial (Gains)/Losses on Pension Fund Assets/Liabilities	6.985	5.449	(1.536)
Other Comprehensive Income and Expenditure	6.721	5.185	(1.536)

Movement in Reserves Statement – Usable Reserves	Original 2012/13 £m	Restated 2012/13 £m	Adjustment £m
(Surplus)/Deficit on Provision of Services	41.217	39.681	1.536
Total Comprehensive Income and Expenditure	41.217	39.681	1.536
Adjustments between Accounting and Funding Basis under Regulations	(30.868)	(29.332)	(1.536)

Movement in Reserves Statement – Unusable Reserves	Original 2012/13 £m	Restated 2012/13 £m	Adjustment £m
Other Comprehensive Income and Expenditure	(6.721)	(5.185)	(1.536)
Total Comprehensive Income and Expenditure	(6.721)	(5.185)	(1.536)
Adjustments between Accounting and Funding Basis under Regulations	30.868	29.332	1.536

Cash Flow Statement	Original 2012/13 £m	Restated 2012/13 £m	Adjustment £m
Net Surplus/(Deficit) on Provision of Services	41.217	39.681	1.536
Adjustment to Net Surplus/Deficit on Provision of Services for non-cash movements	(46.757)	(45.221)	(1.536)

Statutory Accounts

It is a statutory requirement to publish a separate Annual Report and Accounts for the Orkney Islands Council Pension Fund. A copy of the annual report and accounts is available on the Council website: www.orkney.gov.uk.

Note 47 Contingent liabilities

The Council's risk register includes one pension related risk: that Ferries and Towage fold, leaving the council with liabilities to the fund of £13m.

Note 48 Contingent assets

The Council has no material contingent assets as at 31 March 2014.

Note 49 Nature and extent of risks arising from Financial Instruments

The Authority's activities expose it to a variety of financial risks:

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

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

Credit Risk

Credit risk arises from the short-term lending of surplus funds to financial institutions and local authorities, as well as credit exposures to the council's customers. It is the policy of the council to place deposits only with a limited number of high quality banks, building societies and money market funds whose credit rating is independently assessed as sufficiently secure by the council's treasury advisers and to restrict lending to a prudent maximum amount for each entity.

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

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

2013-2014	Amount at 31 March 2014	Historical experience of non-payment adjusted for market conditions at 31 March 2014	Adjustment for Market Conditions at 31/03/14	Estimated maximum exposure to default and uncollectability at 31 March 2014
	£m	%	%	£m
Deposits with financial institutions and local authorities	40.018	0.0	0.0	0.000
Customers (sundry income)	10.061	5.0	17.4	1.748
Total	**50.079**			**1.748**

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

The Authority does not generally allow credit for customers, such that £2.805M of the £4.686M balance is past its due date for payment. The past due but not impaired amount can be analysed by age as follows:

31 March 2013		31 March 2014
£m		£m
0.335	Less than three months	0.352
0.225	Three to six months	0.514
0.155	Six months to one year	0.251
1.721	More than one year	1.688
2.436	**Sundry income debtors balance**	**2.805**

Collateral
Orkney Islands Council acts as the lender of last resort for housing loans. In such cases the council takes a standard security over the property. As at 31 March 2014 the outstanding value of loans advanced by the council was £0.190 million (£0.200 million as at 31 March 2013).

Liquidity risk
The authority has a cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen, the authority has ready access to borrowings from the money markets and the Public Works Loans Board. There is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the authority will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The authority sets limits on the proportion of its fixed rate borrowing during specified periods.

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

	31/03/14	31/03/13
	£m	£m
Between one and two years	10	10
Between two and five years	10	10
More Than 5 Years	20	20
	40	**40**

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

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

- borrowings at variable rates – the interest expense charged to the Surplus or Deficit on the Provision of Services 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 Surplus or Deficit on the Provision of Services 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 Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance £ for £. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in Other Comprehensive Income and Expenditure.

The authority's investment strategy aims to manage interest rate risk by maintaining a number of discrete investment portfolios which are managed by external fund managers. The separation of equity and cash/bond investments in this way effectively minimises the council's exposure to interest rate movements. The risk of loss remains with the authority. In the longer term, the Scottish Government 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.

To illustrate the notional impact of changes in interest rates upon the council, the following table shows the financial effect if rates had been 1% higher during 2013-2014, with all other variables held constant.

	31/03/14	31/03/13
	£,000	£,000
Increase in interest receivable on variable rate investments	(26)	(28)
Impact on Surplus or Deficit on the Provision of Services	**(26)**	**(28)**
Decrease in fair value of fixed rate investment assets	826	638
Decrease in fair value of fixed rate borrowings liabilities (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure)	**826**	**638**

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

Market risk: price risk

The authority held £171.468M of investments as at 31 March 2014 in the form of equity shares and bonds, including £2.886M 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 statement. A general shift of 5% in the general price of shares (positive or negative) would have resulted in a £8.573M gain or loss being recognised in the income and expenditure statement.

Market risk: foreign exchange risk

The Council does not lend or borrow in foreign currencies and has no exposure to gains or losses arising from movements in exchange rates.

Note 50 Charitable and Non Charitable Trust Funds

This section of the Annual Accounts shows the summary of transactions relating to the Charitable and Non charitable Trust Funds administered by Orkney Islands Council as sole trustee. A summary of the balances held at 31 March 2014 and how these balances were invested is also detailed. Orkney Islands Council administers these Funds and separately accounts for them. They do not form part of the Council's single entity balance sheet, although under s222 of the Local Government (Scotland) Act 1973, the property of the Trust Funds "vest[s] in" the relevant local authority. However they are included in the annual accounts of the Council as a note to the core financial statements.

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

Summary Income and Expenditure Statement

2012-2013				2013-2014
		Registered Charitable Trusts	Non Registered Trusts	Total
£000		£000	£000	£000
	Income			
(51)	Interest on Investments etc.	(3)	(45)	(48)
	Expenditure			
69	General Expenditure	53	35	88
18	**(Surplus)/Deficit for the Year**	**50**	**(10)**	**40**

Balance Sheet as at 31 March 2014

31 March 2013		Note			31 March 2014
		Note	Registered Charitable Trusts	Non Registered Trusts	Total
£000			£000	£000	£000
2	Property		0	0	0
868	Short-term Deposits with Orkney Islands Council		167	672	839
(3)	Current Liabilities		(5)	(7)	(12)
867	**Total Assets less Liabilities**		**162**	**665**	**827**
	Represented by				
867	Trust Fund Balances		162	665	827
867	**Total Net Worth**	(ii)	**162**	**665**	**827**

(i) Registered as Charities

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

Orkney Educational Trust	SC019752	County Home Comforts Fund	SC044607
Sheriff Thoms Bequest	SC044607	St Peter's House Comforts Fund	SC044607
Baron Stewart Moncrieff's	SC044607	Queens Own Highlanders	SC044607
Frances Taylor's Bequest	SC044607	Lord Lieutenants Orkney Relief Fund	SC044607
James Cumming's Bequest	SC044607	PC Flett's Amenities Bequest	SC044607
Miss M J Peace's Bequest	SC044607	PC Flett's Cursiter Bequest	SC044607
William Orkney Reid's Bursary Fund	SC044607	Mrs Flett's Bequest	SC044607
Baikie Bursary	SC044607		

(ii) Trust Fund Balances

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

	£000
Orkney Educational Trust Various bursary awards made to individuals for further education opportunities, and in the promotion of sport, visual arts, music and drama.	55
Sheriff Thoms Bequest The restoration of St Magnus Cathedral.	19
William Orkney Reid's Bursary Fund To assist the education of any promising pupils of Kirkwall Grammar School.	11
County Home Comforts Fund To promote the social welfare and comfort of residents of the County Home subsequently renamed as St Rognvald's House, Kirkwall, Orkney.	14
St Peter's House Comforts Fund To promote the social welfare and comfort of residents of St Peters House, Stromness, Orkney.	21
PC Flett's Bequest Improvement of amenities in Kirkwall	26
Others For various purposes including the upkeep of lairs, financial assistance to poor and infirm persons, the provision of prizes to school pupils, and other charitable activities.	16
Total	**162**

Note 51 Common Good Fund

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.

2012-2013 Total £000		2013-2014 Total £000
	Income	
(39)	Interest on Investments etc.	(34)
0	Gain on Sale of Fixed Asset	0
	Expenditure	
30	General Expenditure	33
(9)	**(Surplus)/Deficit for the Year**	**(1)**

31 March 2013	Balance Sheet			31 March 2014
Total £000	Investments	Stromness £000	Kirkwall £000	Total £000
27	Property	1	26	27
224	Capital Deposits	50	174	224
	TOTAL LONG TERM ASSETS			
	Current Assets			
414	Loans Fund Deposit	63	352	415
0	**Less Current Liabilities**	0	0	0
	NET CURRENT ASSETS			
665	**NET ASSETS**	**114**	**552**	**666**
	Represented by			
224	Capital Reserve	50	174	224
441	Revenue Reserve	64	378	442
665	**ACCUMULATED FUNDS**	**114**	**552**	**666**

NOTES

Accounting Policies

The accounts have been prepared in accordance with “the Code” with the exception of property held as fixed assets which are valued at historic cost.

Housing Revenue Account

Housing Revenue Account income and expenditure statement

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

2012-2013		2013-2014	
£m		£m	£m
	Expenditure:		
1.243	Repairs and maintenance	1.246	
0.619	Supervision and management	0.641	
4.900	Depreciation and impairment of non-current assets	3.473	
(0.015)	Increase or (decrease) in the allowance for bad debts	0.008	
6.747			5.368
	Income:		
(2.685)	Dwelling rents	(2.967)	
(0.007)	Non-dwelling rents	(0.008)	
(0.019)	Other income	(0.018)	
(2.711)			(2.993)
4.036	**Net cost of HRA services as included in the comprehensive income and expenditure statement**		**2.375**
	HRA share of the operating income and expenditure included in the comprehensive income and expenditure statement:		
(1.126)	Capital Grants		(1.150)
0.030	(Gain) or loss on sale of HRA non-current assets		0.121
0.501	Interest payable and similar charges		0.469
(0.010)	Pensions interest cost and expected return on pensions assets		0.013
3.431	**(Surplus) or deficit for the year on HRA services**		**1.828**

Movement on the Housing Revenue Account statement

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

2012-2013		2013-2014			
£m		£m	£m	£m	£m
0.000	Balance on the HRA at the end of the previous year				0.000
3.431	(Surplus) or deficit for the year on the HRA income and expenditure statement			1.828	
	Adjustments between accounting basis and funding basis under regulations:				
(0.030)	Reverse out gain or (loss) on sale of HRA non-current assets		(0.121)		
	HRA share of contributions to or (from) the Pension Reserve:				
(0.042)	Reverse out net charges made for post-employment benefits in accordance with IAS19	(0.077)			
0.055	Pensions cost chargeable for the year in accordance with statutory provisions: employer's contributions payable to Orkney Islands Council Pension Fund	0.056			
0.013	HRA share of contributions to or (from) the Pension Reserve		(0.021)		
0.007	HRA share of contributions to or (from) the Employee Statutory Adjustment Account		0.000		
1.026	Capital expenditure funded by the HRA		0.032		
	Transfer to or (from) the Capital Adjustment Account:				
(4.900)	Reverse out depreciation and impairment gains on non-current assets	(3.473)			
1.126	Reverse out credits made for capital grants	1.150			
0.276	Loans fund principal contribution from the HRA	0.315			
(3.498)	Transfer to or (from) the Capital Adjustment Account		(2.008)		
(2.482)	Total of adjustments between accounting basis and funding basis under regulations			(2.118)	
0.949	**Net (increase) or decrease before transfers to or from reserves**			**(0.290)**	
(0.949)	Transfers to or (from) reserves			0.290	
0.000	**(Increase) or decrease in the year on the HRA**				**0.000**
0.000	**Balance on the HRA at the end of the current year**				**0.000**

Notes to the Housing Revenue Account income and expenditure statement

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

The Council was responsible for managing 889 dwellings during 2013-2014 (870 in 2012-2013) after allowing for 29 new build additions, no purchases, 9 sales and the demolition of 1 dwelling. The following shows an analysis of these dwellings by type.

2012-2013		2013-2014
Number at 31 March 2013	**Type of dwelling**	**Number at 31 March 2014**
31	One-apartment	31
286	Two-apartment	295
289	Three-apartment	301
247	Four-apartment	246
16	Five-apartment	15
1	Six-apartment	1
870	**Total**	**889**

2. The amount of rent arrears

At 31 March 2014 total rent arrears amounted to £0.159M (£0.112M at 31 March 2013). This is 5.4% of the total value of rents due at 31 March 2014.

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

In the financial year 2013-2014 the rental bad debt provision has increased by £0.009M (£0.006M decrease during 2012-2013). The provision to cover the potential loss of income stands at £0.0431M at 31 March 2014. This is 1.4% of the total value of rents due at that date.

4. The total value of uncollectable void rents

The total value of uncollectable void rents for Council dwellings that were not let during the year was £0.102M (£0.106M during 2012-2013).

5. The nature and amount of any exceptional or prior year items not disclosed in the statement

NIL.

Council Tax Income Account

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

2012-2013		2013-2014
£m		£m
9.688	Gross council tax levied	9.810
(1.317)	Other discounts and reductions	(2.115)
(0.030)	Write-off of uncollectable debts and allowance for impairment	(0.036)
(0.053)	Adjustment to previous years' council tax	(0.055)
8.288	**Transfer to the comprehensive income and expenditure statement**	**7.604**

Calculation of the council tax

Dwellings are valued by the Assessor and placed within valuation bands ranging from the lowest "A" to the highest "H". The council tax base is the number of chargeable dwellings across all valuation bands (adjusted for dwellings where discounts apply), after providing for non-payment, expressed as an equivalent number of band D dwellings. The band D council tax charge is calculated using the council tax base and this in turn fixes the charge for each of the other bands, which are based on pre-determined proportions relative to the band D charge. The band D charge for 2013-2014 was £1,037 (unchanged from 2012-2013).

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

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

Annual council tax charges

2013-2014	Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H
	£691.33	£806.56	£921.78	£1,037.00	£1,267.44	£1,497.89	£1,728.33	£2,074.00

Calculation of the council tax base

2013-2014	Number of dwellings	Number of exemptions	Disabled relief	Discounts of 25%	Discounts of 50%	Council Tax Reduction	Total equivalent dwellings	Ratio to Band D	Band D equivalents
@	0	0	6	(1)	0	0	5	5 : 9	3
Band A	2,514	(272)	8	(274)	(140)	(353)	1,483	6 : 9	989
Band B	2,805	(140)	7	(259)	(104)	(341)	1,968	7 : 9	1,531
Band C	2,244	(63)	1	(175)	(56)	(192)	1,759	8 : 9	1,564
Band D	1,666	(39)	(3)	(92)	(34)	(71)	1,427	9 : 9	1,427
Band E	1,177	(14)	(18)	(46)	(17)	(9)	1,073	11 : 9	1,311
Band F	256	(3)	(1)	(8)	(5)	0	239	13 : 9	345
Band G	19	(1)	0	(1)	(1)	(2)	14	15 : 9	23
Band H	3	0	0	0	0	0	3	18 : 9	6
Total	**10,684**	**(532)**	**0**	**(856)**	**(357)**	**(968)**	**7,971**		**7,199**
						Class 17 and 24 dwellings			0
						Sub-total			**7,199**
						Provision for non-payment and future award of discounts and reliefs			(31)
						Council tax base			**7,168**

@ denotes additional relief for disabled persons occupying Band A properties

Non Domestic Rates Account

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

2012-2013		2013-2014
£m		£m
11.399	Gross rates levied	11.973
(3.000)	Reliefs and other deductions	(3.321)
(0.028)	Write-offs of uncollectable debts and allowance for impairment	(0.030)
8.371	**Net non-domestic rate income**	**8.622**
(0.182)	Adjustment to previous years' non-domestic rates	(0.318)
0.014	**Contribution (to) or from the national non-domestic rate pool**	**0.523**
8.203	Transfer to comprehensive income and expenditure statement	**8.827**

The nature and amount of each rate fixed

The non-domestic rates charge for each subject is determined by the rateable value placed upon it by the Assessor, multiplied by the rate per pound (the "rate poundage"). The national non-domestic rates poundage is set each year by the First Minister for Scotland. For 2013-2014 the charge was 46.2 pence in the pound. From 1 April 2010 the Scottish Government amended the existing Small Business Bonus Scheme (SBBS). Under the SBBS properties with a rateable value up to and including £10,000 are entitled to a 100% reduction in their business rates. Properties with a rateable value of between £10,001 and £12,000 receive a 50% reduction and properties with a rateable value of between £12,001 and £18,000 receive a 25% reduction. This allows a business with two or more properties with a combined rateable value of under £25,000 to qualify for relief. The relief is 25% for properties with an individual rateable value less than £18,000. For properties with a rateable value over £35,000 a supplement of 0.8 pence in the pound was added as per the Non-domestic Rates (Levying) (Scotland) Regulations 2004 as amended.

Analysis of Orkney Islands Council's rateable values

2013-2014		£m	£m
Rateable value at 1 April 2013:	commercial	6.790	
	industrial and freight transport	4.154	
	others	14.188	
			25.132
Running roll (full-year rateable value)			0.837
Rateable value at 31 March 2014			**25.969**
Wholly exempt subjects			(0.422)
Net rateable value at 31 March 2014			**25.547**

Harbour Authority Account

Harbour Authority Revenue Account income and expenditure statement

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.

2012-2013		2013-2014		
£m		£m	£m	£m
Net		*Expenditure*	*Income*	*Net*
2.061	Scapa Flow Oil Port	4.534	(1.092)	3.442
(0.638)	Miscellaneous Piers and Harbours	5.497	(5.294)	0.203
1.423		10.031	(6.386)	3.645
1.423	**Net cost of Harbour Services as included in the comprehensive income and expenditure statement**			**3.645**
	Harbours share of the operating income and expenditure included in the comprehensive income and expenditure statement:			
(7.201)	Capital Grants			(2.606)
0.035	(Gain) or loss on sale of Harbour Authority assets			1.030
0.119	Interest payable and similar charges			0.264
(17.279)	Harbours Investment Income			(9.583)
(0.069)	Pensions interest cost and expected return on pensions assets			0.092
(22,972)	**(Surplus) or deficit for the year on Harbour Authority**			**(7.158)**

Movement on the Harbour Authority Revenue Account statement

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

2012-2013		2013-2014			
£m		£m	£m	£m	£m
(188.224)	Balance on the Harbour Authority at the end of the previous year				(197.546)
(22.972)	(Surplus) or deficit for the year on the Harbour income and expenditure statement			(7.158)	
	Adjustments between accounting basis and funding basis under regulations:				
0.127	Difference between any other item of income and expenditure determined in accordance with the Code and determined in accordance with statutory Harbour requirements		0.029		
(0.035)	Reverse out gain or (loss) on sale of Harbour non-current assets		(1.030)		
	Harbour share of contributions to or (from) the Pension Reserve:				
(0.301)	Reverse out net charges made for post-employment benefits in accordance with IAS19	(0. 573)			
0.395	Pensions cost chargeable for the year in accordance with statutory provisions: employer's contributions payable to Orkney Islands Council Pension Fund	0.414			
0.094	Harbour share of contributions to or (from) the Pension Reserve		(0.159)		
0.039	Harbour share of contributions to or (from) the Employee Statutory Adjustment Account		(0.001)		
0.506	Capital expenditure funded by the Harbour Authority		0.288		
	Transfer to or (from) the Capital Adjustment Account:				
(0.964)	Reverse out depreciation and impairment losses on non-current assets	(3.313)			
7.201	Reverse out credits made for capital grants	2.606			
0.057	Loans fund principal contribution from the Harbour Authority	0.253			
6.294	Transfer to or (from) the Capital Adjustment Account		(0.454)		
7.025	Total of adjustments between accounting basis and funding basis under regulations			(1.327)	
(15.947)	**Net (increase) or decrease before transfers to or from reserves**			**(8.485)**	
6.625	Transfers to or (from) reserves			9.247	
(9.322)	**(Increase) or decrease in the year on the Harbour Authority**				**0.762**
197.546	**Balance on the Harbour authority at the end of the current year**				**196.784**

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

	2012-2013				2013-2014		
	Balance at 1 April 2012	Transfers out 2012-2013	Transfers in 2012-2013	Balance at 31 March 2013	Transfers out 2013-2014	Transfers in 2013-2014	Balance at 31 March 2014
Harbour Balances	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Strategic Reserve Fund	133.175	(9.807)	16.424	139.792	(10.691)	10.736	139.837
Flotta Terminal Decline & Decommissioning Fund	37.754	(1.682)	0.808	36.880	(3.207)	0.692	34.365
Conservation Fund	0.189	(0.000)	0.003	0.192	(0.005)	0.002	0.189
Talented Performers Fund	0.060	(0.001)	0.001	0.060	(0.000)	0.001	0.061
Travel Fund	0.097	(0.000)	0.002	0.099	(0.000)	0.001	0.100
Fisheries Fund	6.590	(0.008)	0.170	6.752	(0.000)	0.346	7.098
Orkney Memorial Fund	0.673	(0.026)	0.013	0.660	(0.048)	0.007	0.619
Talented Young Persons Fund	0.023	(0.002)	0.001	0.022	(0.003)	0.000	0.019
Miscellaneous Piers Reserve Fund	2.507	(0.000)	1.681	4.188	(0.100)	1.287	5.375
Renewable Energy Fund	7.156	(0.000)	1.745	8.901	(0.001)	0.221	9.121
Harbour Fund Balances	**188.224**	**(11.526)**	**20.848**	**197.546**	**(14.055)**	**13.293**	**196.784**

Orkney College Account

Orkney College Revenue Account income and expenditure statement

Orkney Islands Council provides further and higher education provision through the Orkney College using a devolved Board of Management arrangement. The Orkney College is funded by direct grant from the Scottish Funding Council (SFC). The trading position from these activities is reflected within the council's comprehensive income and expenditure statement as part of financing and investment expenditure.

2012-2013		2013-2014	
£m		£m	£m
	Expenditure:		
2.843	Staff Costs	3.118	
0.423	Property Costs	0.449	
1.425	Supplies & Services	0.470	
0.114	Transport Costs	0.151	
0.130	Administration Costs	0.160	
0.064	Apportioned Costs	0.069	
0.184	Depreciation and impairment of non-current assets	(1.150)	
5.183			3.267
	Income:		
(4.033)	Grants	(2.783)	
(1.190)	Fees & Charges	(1.459)	
(0.000)	Other income	(0.002)	
(5.223)			(4.244)
(0.040)	**Net cost of Orkney College services as included in the comprehensive income and expenditure statement**		**(0.977)**
	Orkney College share of the operating income and expenditure included in the comprehensive income and expenditure statement:		
0.000	Capital Grants		(0.055)
(0.048)	Pensions interest cost and expected return on pensions assets		0.063
(0.088)	**(Surplus) or deficit for the year on Orkney College**		**(0.969)**

Movement on the Orkney College Revenue Account statement

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

2012-2013		2013-2014			
£m		£m	£m	£m	£m
(0.073)	Balance on the College at the end of the previous year				(0.267)
(0.088)	(Surplus) or deficit for the year on the College income and expenditure statement			(0.969)	
	Adjustments between accounting basis and funding basis under regulations:				
	College share of contributions to or (from) the Pension Reserve:				
(0.214)	Reverse out net charges made for post-employment benefits in accordance with IAS19	(0.392)			
0.279	Pensions cost chargeable for the year in accordance with statutory provisions: employer's contributions payable to Orkney Islands Council Pension Fund	0.284			
0.065	College share of contributions to or (from) the Pension Reserve		(0.108)		
0.013	College share of contributions to or (from) the Employee Statutory Adjustment Account		(0.002)		
0.000	Capital expenditure funded by the College		0.019		
	Transfer to or (from) the Capital Adjustment Account:				
0.000	Reverse out credits made for capital grants	0.055			
(0.184)	Reverse out depreciation and impairment losses on non-current assets	1.150			
(0.184)	Transfer to or (from) the Capital Adjustment Account		1.205		
(0.106)	Total of adjustments between accounting basis and funding basis under regulations			1.114	
(0.194)	**Net (increase) or decrease before transfers to or from reserves**			**0.145**	
(0.194)	**(Increase) or decrease in the year on the College**				**0.145**
(0.267)	**Balance on the College at the end of the current year**				**(0.122)**

Group Accounts

Statement of Group Accounting Policies

The Code of Practice on Local Authority Accounting in the United Kingdom 2010-11 (the Code) placed a requirement on authorities to consider all their interests in external organisations including limited companies and other statutory organisations. This includes other local authorities or similar bodies defined in section 106 of the Local Government (Scotland) Act 1973 e.g. statutory bodies such as Valuation Boards.

Authorities are required to prepare a full set of group accounts in addition to their own Council's accounts where they have a material interest in such entities. The group Financial Statements to 31 March 2014 represents the consolidation of the balances and transactions of the Council, its subsidiaries and associates.

The group accounting policies are those specified for the single entity financial statements. The financial reporting framework that has been applied in the preparation of the group members is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). The accounting policies of all group members are materially the same as those of the single entity; except for the calculation of holiday accruals which has led to an adjustment in the Group Comprehensive Income and Expenditure Statement and in the Group Balance Sheet.

Combining Entities

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

Name of Combining Entity	Method of Accounting
Orkney Towage Company Limited	Subsidiary
Orkney Ferries Limited	Subsidiary
Pickaquoy Centre Trust	Associate
Hammars Hill Energy Ltd	Associate

To comply with the Code, the Council has identified a number of companies where the Council has a "controlling interest" - these are termed "subsidiaries". The Council holds 100% of the shares in 2 Companies (Orkney Towage Company Limited and Orkney Ferries Limited).

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 requires to include the results of the Pickaquoy Centre Trust as an “associate” because it has a “power to participate” in their financial and operating policies. In addition, the Council is now required to include the results of Hammars Hill Energy Ltd as an “associate” within the Group Accounts, as the Council holds 28% of voting rights which is considered “significant influence”. The Council holds 1,103,200 shares in the Company.

In 2012/13 the Council identified Northern Joint Police Board and Highlands and Islands Fire Board entities were included within the Group Accounts under the wider definition of an “associate” although the Council held less than 20% of voting rights that is normally presumed to confer significant influence. The Police and Fire Reform (Scotland) Act 2012 (the 2012 Act) transferred responsibility for the provision of Police and Fire functions from local authorities to the newly formed Scottish Police Authority (SPA) and Scottish Fire and Rescue Service (SFRS) with effect from 1 April 2013. Police and Fire Joint Boards have therefore been wound up at 31 March 2013 and will no longer be part of the Council’s group arrangements.

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

		2013/14	2012/13
Name of Combining Entity	**Method of Combining**	%	%
Pickaquoy Centre Trust	Power to Participate	**100.00**	**100.00**
Hammars Hill Energy Ltd	Significant Influence	**28.00**	**26.00**

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

Basis of Combination and Going Concern

In line with the principles contained within the Code, the Group Financial Statement for the year ended 31 March 2014 has been prepared on the basis of a full consolidation of the financial transactions and balances of the Council and its subsidiaries.

"Subsidiaries" have been accounted for under the accounting convention of the "acquisition basis". 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 Statement), and its share of other gains and losses.

For three of the four 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 IAS 19 (i.e. their pension liability to pay retirement benefits in the long term). There was 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 £2.129 million, representing the Council's share of the net liabilities in these entities. As above, this reflects the combined pension liability of these organisations. This liability has reduced from 2012/13 due to no further liability for the Police and Firemen's Pension Schemes.

All of the above associates consider it appropriate that their Statement of Accounts should follow the "going concern" basis of accounting.

Group Movement in Reserves

FOR THE YEAR ENDED 31 MARCH 2014

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

	General Fund Balance	HRA Balance	Other Reserves	Harbour Reserves	Total Usable Reserves	Unusable Reserves	Total Authority Reserves	Authority's share of subsidiaries & associates	Total Reserves Attributable to Authority	Total Group Reserves
	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000
Restated Balance at 1 April 2013	**8,627**	**0**	**19,814**	**197,546**	**225,987**	**229,206**	**455,193**	**(38)**	**455,593**	**455,593**
Movement in reserves during the year	0	0	0		**0**	0	**0**	0	**0**	**0**
Surplus or (deficit) on provision of services	(5,392)	(1,828)	0	7,158	**(62)**	0	**(62)**	(1,743)	**(1,805)**	**(1,805)**
Other Comprehensive Expenditure and Income	0	0	0	0	**0**	32,432	**32,432**	**(349)**	**32,083**	**32,083**
Total Comprehensive Expenditure and Income	**(5,392)**	**(1,828)**	**0**	**7,158**	**(62)**	**32,432**	**32,370**	**(2,092)**	**30,278**	**30,278**
Adjustments between Group accounts and Authority accounts	0	0	0	0	**0**	0	**0**	**0**	**0**	**0**
Net Increase / Decrease before Transfers	**(5,392)**	**(1,828)**	**0**	**7,158**	**(62)**	**32,432**	**32,370**	**(2,092)**	**30,278**	
Adjustments between accounting basis & funding basis under regulations	(5,316)	2,118	(57)	1,327	**(1,928)**	1,928	**0**	0	**0**	**0**
Net Increase / Decrease before Transfers to Earmarked Reserves	**(10,708)**	**290**	**(57)**	**8,485**	**(1,990)**	**34,360**	**32,370**	**(2,092)**	**30,278**	**30,278**
Transfers to / from Earmarked Reserves	10,708	(290)	(1,171)	(9,247)	**0**	0	**0**	0	**0**	**0**
Increase / Decrease in Year	**0**	**0**	**(1,228)**	**(762)**	**(1,990)**	**34,360**	**32,370**	**(2,092)**	**30,278**	**30,278**
Balance at 31 March 2014	**8,627**	**0**	**18,586**	**196,784**	**223,997**	**263,566**	**487,563**	**(2,129)**	**485,434**	**485,434**

	General Fund Balance	HRA Balance	Other Reserves	Harbour Reserves	Total Usable Reserves	Unusable Reserves	Total Authority Reserves	Authority's share of subsidiaries & associates	Total Reserves Attributable to Authority	Total Group Reserves
	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000
Balance at 31 March 2012	**8,627**	**0**	**18,787**	**188,224**	**215,638**	**205,459**	**421,097**	**(19,626)**	**401,471**	**401,471**
Surplus or (deficit) on provision of services	19,740	(3,431)	0	22,972	**39,281**	0	**39,281**		**39,281**	**39,281**
Other Comprehensive Expenditure and Income	0	0	0	0	**0**	(5,185)	**(5,185)**	**0**	**(5,185)**	**(5,185)**
Total Comprehensive Expenditure and Income	**19,740**	**(3,431)**	**0**	**22,972**	39,281	**(5,185)**	34,096	**(5,089)**	**34,096**	**34,096**
Adjustments between Group accounts and Authority accounts	0	0	0	0	0	0	0		**0**	**0**
Net Increase / Decrease before Transfers	**19,740**	**(3,431)**	**0**	**22,972**	39,281	**(5,185)**	34,096	**(5,089)**	**32,158**	**32,158**
Adjustments between accounting basis & funding basis under regulations	(24,059)	2,482	(330)	(7,025)	**(28,932)**	28,932	**0**	0	**0**	**0**
Net Increase / Decrease before Transfers to Earmarked Reserves	**(4,319)**	**(949)**	**(330)**	**15,547**	**10,349**	**23,747**	**34,096**	**(5,089)**	**29,007**	**29,007**
Transfers to / from Earmarked Reserves	4,319	949	1,357	(6,625)	**0**		**0**		**0)**	**0)**
Increase / Decrease in Year	**0**	**0**	**1,027**	**9,322**	**10,349**	**23,747**	**34,096**	**(5,089)**	**29,407**	**29,407**
Balance at 31 March 2013	**8,627**	**0**	**19,814**	**197,546**	**225,987**	**229,206**	**455,193**	**(24,715)**	**430,878**	**430,878**
Balances eliminated for Police and Fire								**25,677**	**25,677**	**25,677**
Adjustment for investment in Hammars Hill								**(1,000)**	**(1,000)**	**(1,000)**
Restated opening balance at 1 April 2013	**8,627**	**0**	**19,814**	**197,546**	**225,987**	**229,206**	**455,193**	**(38)**	**455,155**	**455,155**

Group Comprehensive Income and Expenditure Statement for the year ended 31 March 2014

This statement shows the accounting cost in the year of providing services and managing the group in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

		2013-2014			2012-2013		
		£,000	£,000	£,000	£,000	£,000	£,000
	Notes	Expenditure	Income	Net	Expenditure	Income	Net
Central services		4,857	(266)	4,591	2,723	(1,364)	1,359
Cultural and Recreation		5,030	(844)	4,186	5,634	(880)	4,754
Education		28,594	(1,207)	27,387	31,016	(1,119)	29,897
Roads and Transportation		18,993	(2,851)	16,142	18,094	(3,168)	14,926
Housing Revenue Account		5,368	(2,993)	2,375	6,747	(2,711)	4,036
Harbour Authority		11,204	(5,742)	5,462	8,676	(5,828)	2,848
Housing services		5,577	(4,087)	1,490	6,130	(4,560)	1,570
Community Social Services		22,973	(4,929)	18,044	22,151	(4,742)	17,409
Planning and Development		4,661	(1,498)	3,163	5,416	(2,814)	2,602
Environmental Services		4,444	(939)	3,505	4,426	(861)	3,565
Police Services		27	0	27	1,279	0	1,279
Fire Services		2	0	2	1,675	0	1,675
Corporate and democratic core		2,796	(21)	2,775	2,292	0	2,292
Non distributed costs		0	102	102	0	65	65
Surplus/Deficit on Continuing Operations	**5**	**114,526**	**(25,275)**	**89,251**	**116,259**	**(27,982)**	**88,277**
Other Operating Expenditure				6,825			574
Financing and Investment Income and Expenditure	7			(8,150)			(16,218)
Taxation and Non-Specific Grant Income				(86,068)			(111,094)
Associates and Joint Ventures accounted for on an equity basis	6			(54)			(55)
Tax Expense				1			37
Group(Surplus) or Deficit				**1,805**			**(38,479)**
Surplus or deficit on revaluation of non-current assets				(35,667)			(264)
Actuarial gains / losses on pension assets / liabilities				3,480			5,449
Share of other Comprehensive Expenditure & Income of associates & joint ventures	10			104			(869)
Other Comprehensive Income and Expenditure				**(32,083)**			**4,316**
Total Comprehensive Income and Expenditure	**8**			**(30,278)**			**(34,163)**

Group Balance Sheet As At 31 March 2014

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the group. The net assets of the group (assets less liabilities) are matched by the reserves held by the group. Group Reserves have two categories of underlying other reserves. The first category are usable reserves, i.e. those reserves that the authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category is those that the authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'. The final category is the group's share in the reserves of its consolidated subsidiaries and associates.

	Notes	31 March 2014	Restated 31 March 2013	Movement	31 March 2013
		£,000	£,000		£,000
Property, Plant & Equipment		324,881	287,481		287,481
Heritage Assets		912	0		0
Investment Property		30,116	22,690		22,690
Intangible Assets		50	433		433
Long Term Debtors		3,427	3,131		3,131
Investments in associates and joint ventures		377	0		0
Long Term Assets		**359,763**	**313,735**		**313,735**
Short Term Investments		174,075	166,359		166,359
Inventories		1,001	886		886
Short Term Debtors		5,261	7,553		7,553
Cash and Cash Equivalents		39,024	57,495		57,495
Assets held for sale		1,047	1,362		1,362
Current Assets		**220,408**	**233,655**		**233,655**
Short Term Borrowing		10,450	450		450
Short Term Creditors		12,588	16,693		16,693
Provisions		142	0		0
Capital Grants Receipts in Advance		0	20		20
Current Liabilities		**23,180**	**17,163**		**17,163**
Provisions		2,802	2,802		2,802
Long Term Borrowing		30,934	40,000		40,000
Other Long Term Liabilities		37,821	32,696		32,696
Long Term Investments in Associates		0	(426)	(24,677)	24,251
Long Term Liabilities		**71,557**	**75,072**	**(24,677)**	**99,749**
Net Assets		**485,434**	**455,155**	**24,677**	**430,478**
Group Reserves		**485,434**	**455,155**	**24,677**	**430,478**
Total Reserves		**485,434**	**455,155**	**24,677**	**430,478**

Gareth Waterson

Gareth Waterson, BAcc., CA
Head of Finance
25 September 2014

Group Cash Flow Statement at 31 March 2014

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

	Notes	2013/14	2012/13
		£,000	£,000
Net surplus or deficit on the provision of services		(1,805)	38,479
Adjustment to surplus or deficit on the provision of services for noncash movements	**11**	(11,265)	(53,568)
Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	**11**	357	363
Net cash flows from operating activities		**(12,767)**	**(14,726)**
Net Cash flows from Investing Activities	**12**	**(5,732)**	**5,001**
Net increase or decrease in cash and cash equivalents		**(18,499)**	**(9,725)**
Cash and cash equivalents at the beginning of the reporting period		**57,495**	**67,220**
Cash and cash equivalents at the end of the reporting period	**$**	**38,996**	**57,495**

$ The cash and cash equivalents at the end of the reporting period does not agree to the Group Balance Sheet figure as the overdraft of Orkney Towage Company Ltd of £28,000 is shown under short-term creditors.

Notes to the Financial Statements

For the Year Ended 31 March 2014

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

1. Disclosure of Differences with Main Statement of Accounting Policies

The financial statements in the Group Accounts of Orkney Islands Council are prepared in accordance with the accounting policies set out on pages 31 to 43 with the additions and exceptions shown in the following section.

Group Income and Expenditure Statement

Retirement Benefits

In common with Orkney Islands Council, the subsidiaries participate in the Council's Pension Scheme. This is explained on pages 72 to 77. The subsidiaries have accounting policies for pensions accounting that are consistent with those of the Council.

Value Added Tax

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

Proceeds from Disposals of Fixed Assets

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

Group Balance Sheet

Valuation of Fixed Assets

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

Depreciation

Categories of assets	Useful Life
Buildings	10 – 100 years
Infrastructure	Up to 200 years
Plant & Equipment, Furniture & Fittings	3 – 15 years
Vehicles	3 – 15 years

Depreciation is charged in full in the year of acquisition and no charge made in the year of disposal 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 out with 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.

2. Combining Entities

The Subsidiaries have been consolidated on a line by line basis. To permit consolidation, the Profit and Loss Accounts of the subsidiary entities have been presented in accordance with the CIPFA Service Reporting Code of Practice (SeRCOP) 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 of each subsidiary should the businesses cease.

Orkney Towage Company Limited

Orkney Towage Company Ltd is a company incorporated in 1976 under the terms of the Companies Acts to 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 net liabilities of the company as at 31 March 2014 were (£0.185M) compared to £1.381M at 31 March 2013. The loss before taxation for the period to 31 March 2014 was (£1.808M) compared to a loss of (£1.400M) for the period to 31 March 2013. In 2013-14, Orkney Islands Council contributed £0.415M or 45% of the company's turnover. No dividend payments were due to, or received by, the Council in respect of its investment.

The latest set of audited accounts is for the year to 31 March 2014. Copies of these accounts can be obtained from Orkney Islands Council, School Place, Kirkwall, Orkney, KW15 1NY.

Orkney Ferries Limited

Orkney Ferries Ltd is a company incorporated in 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 net liability of the company at 31 March 2014 was £2.204M compared to £1.715M at 31 March 2013. There was no profit or loss before taxation for the period to 31 March 2014 or the period to 31 March 2013. In 2013-14, Orkney Islands Council contributed £6.925M or 72.2% of the company's turnover. Orkney Ferries is deficit funded, where by, any surpluses or deficits earned by the Company will be repaid to, or recovered from the Council. No dividend payments were due to, or received by, the Council in respect of its investment.

The latest set of audited accounts is for the year to 31 March 2014. Copies of these accounts can be obtained from Orkney Islands Council, School Place, Kirkwall, Orkney, KW15 1NY.

Pickaquoy Centre Trust

The Pickaquoy Centre Trust is a 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 is 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.

In 2013-14, Orkney Islands Council contributed £0.789M or 39.0% of the company's turnover and its share of the year-end net assets of £0.275M (2012-13 £0.343M) are included in the Group Balance Sheet.

The latest set of audited accounts is for the year to 31 March 2014. When available, copies of these accounts can be obtained from The Pickaquoy Centre, Muddisdale Loan, Kirkwall KW15 1LR.

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%.

	2013/14	2012/13
Council's Share of Pickaquoy Centre Trust Limited	**100.00%**	**100.00%**
	£M	**£M**
Turnover	**2.000**	**1.632**
Profit/(Loss) before tax	**0.036**	**0.224**
Interest Payable/Receivable	**Nil**	**Nil**
Taxation	**Nil**	**Nil**
Profit/(Loss) after tax	**0.036**	**0.224**
Fixed Assets	**0.376**	**0.228**
Current Assets	**0.908**	**0.599**
Liabilities due within one year	**(0.599)**	**(0.273)**
Liabilities due after one year or more	**(0.075)**	**(0.000)**
Defined benefit pension liability	(0.335)	(0.211)
Net Assets / Liabilities	**0.275**	**0.343**
Contingent Liabilities	**None**	**None**
Capital Commitments	**None**	**None**

Hammars Hill Energy Ltd

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

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

In 2013-14, the value of Orkney Islands Council’s shareholding in the company rose to £2.868M and its share of the year-end net assets of £4.337M (2013-14 £4.244M) are included in the Group Balance Sheet.

A prior year adjustment has been made to the opening Authority’s share of subsidiaries and associates of £1m in the Group Movement in Reserves Statement. This is because the par value of the Council’s shares was also included in investments of Orkney Islands Council, which has led to double counting of the value of the Hammars Hill investment.

The latest set of audited accounts is for the year to 31 December 2013. When available, copies of these accounts can be obtained from Hammars Hill Energy Ltd, Savisgarth, Evie KW17 SPQ.

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

	2013/14	2012/13
Council's Share of Hammars Hill Energy Ltd	**28.00%**	**26.00%**
	£M	**£M**
Turnover	**0.547**	**0.449**
Profit/(Loss) before tax	**0.136**	**0.183**
Interest Payable/Receivable	**Nil**	**Nil**
Taxation	**(0.027)**	**(0.037)**
Profit/(Loss) after tax	**0.109**	**0.146**
Fixed Assets	**1.493**	**1.444**
Current Assets	**0.244**	**0.680**
Liabilities due within one year	**(0.372)**	**(0.150)**
Liabilities due after one year or more	**(0.131)**	**(0.871)**
Net Assets / Liabilities	**1.234**	**1.103**
Contingent Liabilities	**None**	**None**
Capital Commitments	**None**	**None**

3. 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 £2.129m representing the Council's share of the net liabilities in these entities.

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

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

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

5. Surplus/Deficit on Continuing Operations of Subsidiaries

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

			2013/14			2012/13
	£,000	£,000	£,000	£,000	£,000	£,000
	Expenditure	Income	Net	Expenditure	Income	Net
Roads and Transportation	9,615	(9,596)	**19**	2,798	(2,884)	**(86)**
Harbour Authority	2,760	(943)	**1,817**	769	656	**1,425**
Total	**12,375**	**(10,539)**	**1,836**	**3,567**	**(2,228)**	**1,339**

6. Share of Operating Results of Associates & Joint Ventures

			2013/14	2012/13
	£,000	£,000	£,000	£,000
	Expenditure	Income	Net Income Expenditure	Net Income Expenditure
Cultural, environmental, regulatory and planning services	2,418	(2,472)	**(54)**	**(439)**
Police	0	0	**0**	**41**
Fire Service	0	0	**0**	**343**
Total	**2,418**	**(2,472)**	**(54)**	**(55)**

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

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

	2013/14	2012/13
Subsidiaries	£,000	£,000
Interest Income	(40)	(12)
Total Group Entities	**(40)**	**(12)**

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

	2013/14	2012/13
	£,000	£,000
Deficit/ (Surplus) for the year on the Authority Income and Expenditure Statement	(32,370)	(34,096)
Deficit/(Surplus) for the year attributable to group entities:	2,092	(67)
Deficit/ (Surplus) for the year on the Group Income and Expenditure Statement	**(30,278)**	**(34,163)**

9. Pension Costs

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

	IFRS Council	Group Entities	31 March 2014 Total	31 March 2013 Total	31 March 2012 Total
	£,000	£,000	£,000	£,000	£,000
Fair Value of Employer Assets	198,693	17,364	216,057	196,536	165,084
Present value of funded liabilities	(224,767)	(20,256)	(245,023)	(219,522)	(181,459)
Net (Under)/Overfunding in Funded Plans	(26,074)	(2,892)	(28,966)	(22,986)	(16,375)
Present Value of Unfunded Liabilities	(9,647)	(142)	(9,789)	(9,710)	(9,258)
Net Asset/(Liability)	**(35,721)**	**(3,034)**	**(38,755)**	**(32,696)**	**(25,633)**

Other Pension Costs

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 from Orkney Towage contribute to this defined contribution pension plan. The contribution rate is 5.1%. Contributions payable in the year amounted to £1,887.

Merchant Navy Officers Pension Fund (MNOPF)

The MNOPF is closed to new members however some existing employees may qualify to contribute to the MNOPF, a defined benefit scheme, with a contribution rate of 15.5%. The Council, Orkney Towage and Orkney Ferries made contributions to this fund of £121,900 in the year. It is a multiple employer scheme and the company is unable to identify its share of the underlying assets and liabilities. As at the last full valuation, reported in March 2012, the pre-78 (old) section of MNOPF had a surplus of assets over liabilities, while the post-78 (new) section had a deficit. The trustees of the new section may in future request further deficit contributions depending on the results of future actuarial valuations of the fund.

Merchant Navy Rating Pension Fund (MNRPF)

Some employees may qualify to contribute to the MNRPF, a defined benefit scheme, with a contribution rate of 11.9%. Orkney Ferries made contributions to this fund of £1,469 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 2011, the MNRPF had a deficit of assets over liabilities of £212M. The trustees of the new section have requested deficit contributions from each employer, and the company has made additional contributions. The additional contributions are subject to change, dependent on the results of future actuarial valuations of the fund.

10. Share of other Comprehensive Expenditure & Income of associates & joint ventures

	2013/14	2012/13
	£,000	£,000
Surplus or deficit on revaluation of non-current assets	0	0
Other Gains and Losses	0	0
Actuarial gains / losses on pension assets / liabilities	104	861
Total	**104**	**861**

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

	2013/14	2012/13
	£,000	£,000
Adjustment to surplus or deficit on the provision of services for noncash movements		
Depreciation	22,705	9,363
Impairment & downward revaluations (& non-sale de-recognition)	(12,431)	5,118
(Increase)/Decrease in Stock	(115)	34
(Increase)/Decrease in Debtors	662	(1,352)
Increase/(decrease) in impairment provision for bad debts	142	0
Increase/(Decrease) in Creditors	(601)	3,616
Payments to Pension fund	2,610	(1,273)
Carrying amount of non-current assets sold	7,551	1,134
Investment Income not involving the movement of cash	(9,446)	(16,850)
Contributions to Other Reserves/Provisions	(23,309)	(50,649)
Movement in value of investment properties-included above in Impairment & downward revaluations (& non-sale de-recognition)	967	(3,109)
	(11,265)	**(53,568)**
Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities		
Purchase of short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)	169,898	91,552
Proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)	(169,541)	(91,189)
	357	**363**

12. Cash Flow from Investing Activities

	2013/14	2012/13
	£,000	£,000
Purchase of PP&E, investment property and intangible assets	30,513	46,413
Purchase of Short Term Investments (not considered to be cash equivalents)	(15,786)	(10,073)
Other Payments for Investing Activities	1,579	1,092
Proceeds from the sale of PP&E, investment property and intangible assets	(707)	(560)
Proceeds from Long Term Investments	0	0
Capital Grants and Contributions Received	(9,384)	(31,396)
Other Receipts from Investing Activities	(483)	(475)
Net Cash flows from Investing Activities	**5,732**	**5,001**

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