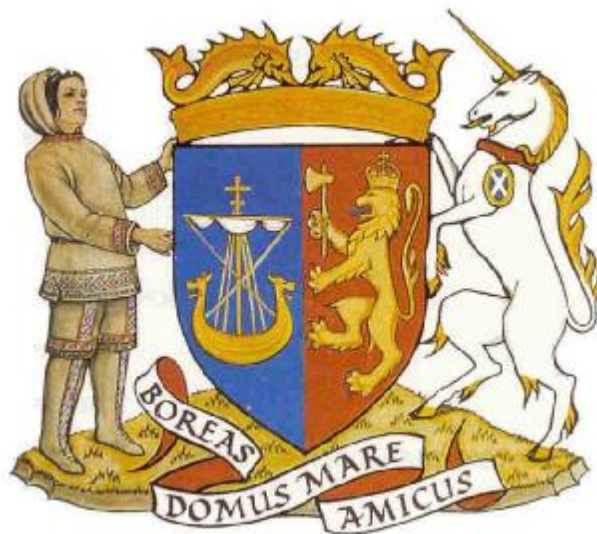


ORKNEY ISLANDS COUNCIL



STATEMENT OF ACCOUNTS

2005 / 2006

CONTENTS

<i>Explanatory Foreword by the Director of Finance</i>	1 - 5
<i>Statement of Accounting Policies</i>	6 - 9
<i>Consolidated Revenue Account</i>	10 - 14
<i>Harbour Authority Summary Account</i>	15 - 16
<i>Orkney College of Further Education</i>	17
<i>Housing Revenue Account</i>	18 - 19
<i>Council Tax Income Account</i>	20 - 21
<i>Non Domestic Rates Income Account</i>	22
<i>Consolidated Balance Sheet</i>	23 - 32
<i>Statement of Total Movements in Reserves</i>	33 - 35
<i>Cash Flow Statement</i>	36 - 37
<i>Pension Fund Account</i>	38 - 41
<i>Charity, Trust and Common Good Funds</i>	42
<i>Group Accounts</i>	43 - 55
<i>Statement on the System of Internal Financial Control</i>	56 - 57
<i>Statement of Responsibilities for the Statement of Accounts</i>	58
<i>Independent Auditor's Report</i>	59 - 60

EXPLANATORY FOREWORD BY THE DIRECTOR OF FINANCE

INTRODUCTION

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

This foreword provides an explanation of the Statement of Accounts and of the most significant matters reported in the Accounts, together with a summary of the financial outturn for the year ended 31 March 2006.

FINANCIAL STATEMENTS

Consolidated Revenue Account

The Consolidated Revenue Account provides a summary of expenditure and income for the year ended 31 March 2006 on the services which the Council provides and demonstrates how the net cost has been financed from central government grants and from local taxpayers. The Consolidated Revenue Account excludes the Pension Fund, Charity, Trust and Common Good Funds which are disclosed elsewhere in the Statement of Accounts. Notes to the Account provides supplementary information on the various financial transactions.

Harbour Authority Account

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

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

Orkney College

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

Housing Revenue Account (HRA)

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

Council Tax and Non Domestic Rate Income Accounts

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

Consolidated Balance Sheet

This statement brings together all the assets and liabilities in the Council's account as at 31 March 2006, with the exception of the Pension Fund, Charity, Trust and Common Good Funds, which are disclosed separately.

Statement of Total Movements in Reserves

This statement brings together all the recognised gains and losses of the Authority during the period and defines those which have and have not been recognised in the Consolidated Revenue Account.

Cash Flow Statement

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

Pension Fund

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

Charity, Trust and Common Good Funds

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

Group Accounts

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

Group Income and Expenditure Account

This statement provides a summary of the expenditure and income for the year ending 31 March 2006 on the services which the group provides and demonstrates how the net costs has been financed.

Group Balance Sheet

This statement brings together all the assets and liabilities for the group as at 31 March 2006.

Group Statement of Total Movements in Reserves

This statement brings together all the recognised gains and losses of the group during the period and defines those which have and have not been recognised in the Consolidated Revenue Account.

Group Cash Flow Statement

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

Group Notes to the Accounts

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

Statement on the System of Internal Financial Control

This statement provides an assessment of the adequacy and effectiveness of the system of internal financial control that has operated and been maintained within the Islands Council over the past financial year in relation to the Orkney Islands Council single entity accounts, and do not cover the Group accounting arrangements. If appropriate, it also includes an assessment of identified weaknesses and remedial actions taken or planned.

REVIEW OF THE YEAR

Local Taxation

The Islands Council on 10 February 2005 agreed a General Fund budget of £61.7M and under the Local Government Finance Act 1992 set Council Tax for Band D properties at £973. This was the second lowest Council Tax figure in Scotland being some £121 below the Scottish average.

For the financial year 2005/06 the Islands Council was able to maintain its position as the top local authority for the collection of council tax in Scotland, with a collection rate of 97.6% in year (97.3% for 2004/05). At the same time the Council's policy is to provide in full for all prior year arrears, while on an ongoing basis expects to collect in excess of 99% of all prior year council tax income.

Consolidated Revenue Account

The net cost of the various functions for which the Council is responsible for providing is a deficit of £0.6M for the year, after taking into account income from government grants and local taxpayers.

Revenue Services were financed by Revenue Support Grant of £45.5M, Non Domestic Rate Income of £7.2M and Council Tax Income of £7.0M.

The net overspend position has arisen as a result of a number of spending pressures within the Service Committee budgets during the year, including childcare placements outwith Orkney, the impact of transport costs on contract provision during the year and ferry refit costs.

Under the existing scheme for year end flexibility Service Committee's will carry forward the net overspends into the following financial year and consider how this position can be managed effectively during 2006/07.

Harbour Authority Account

The Harbour Authority generated a trading loss of £953k from its various harbour operations for the year. This was mainly as a result of a capital contribution to the Scapa Pier development during the year.

In addition to this, the Harbour Authority was able to generate a surplus on investment activities of £7,816k for the year, after netting off grants and other investment expenditure.

After taking into account the use of reserves during the year, which included a contribution of £5,201k to support general fund services and £920k in respect of capital financing, the net effect of this has been an increase of £742k on the Harbour Authority Reserves for the year.

Orkney College

During the financial year 2004/05 the Council settled a capital financing loan arrangement with the Scottish Further Education Funding Council, as the first phase of a review of the financial position of the Orkney College within the Islands Council.

During the financial year 2005/06 the College generated a deficit of £214k for the year, resulting in a further increase in the accumulated deficit position on the College to £866k as at 31 March 2006.

A member/officer working group has been established with a view to preparing an action plan to address the cumulative deficit position in the future.

Housing Revenue Account (HRA)

The HRA approved budget for the financial year 2005/06 included expenditure of £1,699k to be met from income generated on the year of £1,699k.

The HRA account achieved a break-even position for the year with actual figures realised for operational expenditure of £1792k. This was principally as a result of a higher than planned contribution to the Capital Financing Account.

Capital Expenditure

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

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

Education	New Burray Primary School Glaitness Primary Extension
Recreation and Cultural	North Walls Healthy Living Centre Westray Healthy Living Centre
Community social Services	CCTV Kirkwall Town Centre
Other Housing	Burray Housing Development

Capital Expenditure for 2005/06 amounted to £14.3M, financed by borrowing £4.9M, capital and grant receipts £7.5M and revenue contributions £1.9M. Unapplied capital receipts increased by £1.2M, from £1.3M to £2.5M.

To meet capital expenditure, the Islands Council as at 31 March 2006 has a total internal borrowing requirement of £36.6M through the Loans Fund, borrowed against reserves and balances. The capital loan debt outstanding on the service accounts as at 31 March 2006 is: Harbours - £1.1M and other General Fund Services - £35.5M.

Trading Organisations

The Local Government in Scotland Act 2003 sets out a statutory duty for Councils to achieve Best Value. It provides a strong link between the duty of Best Value, the delivery of services and the reporting of financial performance.

Councils are required to maintain statutory trading accounts for “significant trading operations”, and these operations should breakeven over a three year rolling period.

A review of the existing trading operations carried out by the Islands Council identified Quarries and Waste Disposal as the only “significant” trading operations requiring the maintenance of Trading Accounts for these Services. All other service functions have therefore reverted back to the client Service Committee during the financial year 2005/06.

A surplus has been achieved in respect of the Waste Disposal and Quarries statutory trading accounts.

Pension Liability

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

In accordance with the FRS 17, the net pension fund liability as at 31 March 2006 is £29.4M. This represents an increase of £4.2M on the previous year, and is largely due to a change in the financial assumptions underlying the Present Value of the Scheme Liabilities. This is explained more fully in the Accounting Policies on pages 6 and 7.

The actuarial losses on the fund are regularly considered as part of a triennial revaluation process, with the last carried out for the Pension Fund as at 31 March 2005. At this time the actuarial valuation considered the appropriate level of employers contributions necessary for the three year period 2006/09, taking into account estimated revenues generated from investments in the future, to meet the fund’s projected commitments in the long term. As a result of this review, it has not been necessary to increase the employers contribution rates.

Exceptional Items

It has been necessary to account for an exceptional item in the Statement of Accounts in respect of additional staff costs amounting to £1,267k which were previously not included, but were due as at the 31 March 2006. In addition, a provision of £2,350k has also been set aside in respect of the Equal Pay negotiations which remain ongoing. These items are explained more fully in the notes to the Consolidated Revenue Account.

Euro

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

Acknowledgements

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

A TAIT, CPFA, FCCA
Director of Finance
30 June 2006

STATEMENT OF ACCOUNTING POLICIES

General

The Accounts have been prepared using the historic cost convention modified by the revaluation of fixed assets and in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom. The Code of Practice has been developed by the CIPFA/LASAAC Joint Committee. Any exceptions to the Code of Practice are disclosed in the notes to the Accounts.

Corporate and Democratic Core

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

Overheads

The costs of Central Support Services have been fully allocated using a time or unit based method of apportionment over the various accounts of the Authority after separately identifying the cost of Corporate and Democratic Core and Unappropriate Central Overheads in accordance with BVACOP. In 2005/06, £7.2M of Central Support Services were apportioned on this basis.

Debtors and Creditors

The Accounts are prepared on an accruals basis in accordance with the Code of Practice and FRS 18. Accordingly, best estimates of amounts due or payable which relate to activities during the year are included whether or not cash has actually been received or paid in the year.

Pension Costs

In 2003/04, the full implementation of Financial Reporting Standard 17 – Retirement Benefits (FRS 17) resulted in a material effect on substantial parts of the statement of accounts.

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

Teachers

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

Other Employees

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

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

- the interest cost is based on the discount rate and the present value of the scheme liabilities at the beginning of the period
- the expected return on assets is based on long term expectations at the beginning of the period and is expected to be reasonably stable
- actuarial gains and losses arising from new valuations and from updating the latest actuarial valuation have been taken into account to reflect conditions at the balance sheet date
- past service costs have been disclosed on a straight line basis over the period in which the increases in benefit vest.

The liabilities for retirement benefits as at 31 March 2006 have been assessed using a discount rate of 1.7% in excess of inflation, based on the current rate of return for high quality corporate bonds of equivalent currency and term to the scheme liabilities. When compared to a rate of 2.4% for the previous year, this represents a significant change adding some 10-15% to projected scheme liabilities. While asset returns of 29.1% for the year to 31 March 2006 were well in excess of expected returns, against a funding level of around 80-85%, the overall position remains that of an increase in the FRS deficit on the Pension Fund of £4.194M for the year.

Grants

All Revenue Grants are matched with the expenditure to which they relate. Accruals have been made for balances known to be received for the period to 31 March 2006.

Stocks and Work in Progress

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

Fixed Assets

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

Fixed assets have been valued on the following basis:

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

Operational land and buildings and other operational assets are valued at the lower of Net Current Replacement Cost (NCRC) and Net Realisable Value (NRV) in existing use.

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

The fixed assets are to be revalued not less than every five years. The difference between the current value of the fixed assets and the amount of debt outstanding on these assets in the balance sheet is reflected in the value of the Fixed Asset Restatement Account.

Capital Receipts

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

Depreciation

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

- Buildings - each property has been individually assessed to derive outstanding useful life, up to a maximum of 100 years
- Infrastructure - the majority of infrastructure assets are depreciated over 40 years
- Vehicles - varies between 3 and 15 years according to class of vehicle
- Equipment - 5 years

Capital Charges

Capital charges are levied on all service revenue accounts under the Capital Accounting arrangements to reflect the true cost or value of fixed assets used in the delivery of local authority services. The capital charges include amounts for notional interest and depreciation based on the fixed asset values. The notional interest charge reflects the opportunity cost to the Islands Council of holding the fixed assets, while the depreciation charge reflects the loss in value of the assets over time. These capital charges are then reversed out below the line and replaced with actual capital finance charges using the Capital Financing Account, so that these notional charges do not impact on the Local Taxpayer.

Deferred Charges

Deferred Charges represent capital expenditure for which no tangible asset exists. As the Deferred Charges do not reflect continuing benefit to the Islands Council they have been amortised to the service revenue accounts.

Loan Debt

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

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

The average rate of interest charged by the fund in 2005/06 were as follows:

Revenue Balances	4.45% (2004/05)	4.32%
Capital Balances	4.38% (2004/05)	4.21%

Reserves and Provisions

Reserves represent amounts set aside for specific policy purposes, contingencies or earmarked balances. Expenditure is not charged directly to any Reserve, but all movements on the Reserves are disclosed on the Consolidated Revenue Account.

The capital accounting guidelines require the establishment of capital reserve accounts in the Consolidated Balance Sheet, the Fixed Asset Restatement Account and the Capital Financing Account. The Fixed Asset Restatement Account relates to the valuation of assets. The Capital Financing Account reflects the amounts set aside from revenue and capital receipts applied to finance capital expenditure together with amounts repaid to the loans fund. Both reserves do not, therefore, represent funds available for use.

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

Debt Outstanding 2-3 month – 10%

Debt Outstanding 3+ month – 25%

Debt Outstanding 1 year+ - 100%

Harbour Authority Revenue Account Balances

Surplus income from the Council's harbour operations is credited to the Harbour Reserve Fund. The Harbour Reserve Fund encompasses all the Harbour Authority Revenue Account Balances which can be used for purposes specified in the Orkney County Council Act 1974. The Relevant Services Contingency Fund is used to support General Fund expenditure.

Pension Reserve

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

Valuation of Investments

Investments are shown at cost less related provision for loss in value. Property investments and Fishing Vessel Track Record investments are valued at open market value.

Pension Fund Accounting Policies

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

Investments held by the Pension Fund are included at their closing prices on 31 March 2006 and adjusted, where applicable, for accrued interest to the valuation date. Overseas currencies are translated at the WM/Reuters London closing spot rates on the last business day of the reporting period, being 31 March 2006.

Foreign Currency Translation

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

Financial Relationship with Companies

Full disclosure is made of all material relationships with related companies by way of note 6 to the Consolidated Balance Sheet. All investments in companies are valued at historic cost.

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.

CONSOLIDATED REVENUE ACCOUNT

Purpose

This Statement sets out the details of the costs of the functions for which the Council is responsible for providing. It also shows how the net cost of these services has been financed from General Government Grants and from Local Taxpayers.

31-Mar-05		Gross		31-Mar-06
Net		Expenditure	Income	Net
Expenditure		£000	£000	Expenditure
£000		£000	£000	£000
Continuing Operations				
26,566	Education	29,856	(2,656)	27,200
4,365	Cultural and Recreation	5,667	(1,319)	4,348
10,907	Community Social Services	17,081	(4,931)	12,150
1,499	Police Services	1,483	-	1,483
1,326	Fire Services	1,491	-	1,491
13,477	Roads and Transportation	15,040	(1,095)	13,945
1,155	Planning and Development	1,916	(736)	1,180
3,807	Environmental Services	4,599	(969)	3,630
928	Central Services	5,185	(3,647)	1,538
1,847	Corporate and Democratic Costs	1,999	-	1,999
445	Housing Services	4,168	(3,847)	321
(86)	Housing Revenue Account	1,101	(1,792)	(691)
3,159	Harbour Authority	13,126	(9,823)	3,303
802	Non Distributed Cost	323	-	323
1,177	Exceptional Items	2,440	-	2,440
71,374	Net Cost of Services	105,475	(30,815)	74,660
(7,398)	Net (Surplus)/Deficit on Harbour Investment Income			(7,816)
426	Net (Surplus)/Deficit on Orkney College			611
(240)	Interest on Balances			(158)
	Pensions Interest cost and expected			
(267)	return on Pension Assets			227
	Net(Income)/Expenditure on			
(7,211)	Asset Management Revenue Account			(6,491)
56,684	Net Operating Expenditure			61,033
1,777	Transfer to/(from) Harbour Authority Fund			742
(33)	Transfer to/(from) Reserves			(34)
1,136	Transfer to/(from) Capital / Repairs and Renewals Funds			780
(492)	Movement on Pensions Reserve			(285)
(787)	Transfer to/(from) Capital Financing Account			(1,892)
58,285	Amounts to be met from Government Grants/Local Taxpayers			60,344
(43,320)	Revenue Support Grant			(45,534)
(7,205)	Distribution of Non-Domestic Rate Pool			(7,243)
(6,586)	Council Tax			(6,966)
1,174	(Surplus)/Deficit for Year			601
3,437	Balance at 1 April 2005			2,263
1,174	(Surplus)/Deficit for year			601
2,263	Balance at 31 March 2006			1,662

Notes on Consolidated Revenue Account

1. Publicity Expenditure

Under Section 5(1) of the Local Government Act 1986, the Council is required to separately account for expenditure on publicity, as follows:

2004/05		2005/06
£000		£000
271	Staff Recruitment Advertising	297
104	Other Advertising	101
39	Corporate Information Services	43
414		441

2. Trading Organisations

Financial year 2005/06 is the third year in which the Council has been required to maintain statutory Trading accounts for 'significant trading operations' in accordance with the Local Government in (Scotland) Act 2003 (Section 10). The Council must demonstrate that each of its "significant trading operations" has achieved, at least, a cumulative breakeven position by 31 March 2006.

A review of the existing trading operations carried out by the Islands Council identified Quarries and Waste Disposal as the only 'significant' trading operations requiring the maintenance of Trading Accounts for these Services. All other service functions have therefore reverted back to the client Service Committee during the financial year 2005/06, on the basis that the turnover of each activity is not considered to be significant or material in terms of the scale of the operations of the Islands Council.

The following significant trading operations require to break even over a three year rolling period on the basis that the activities are exposed to external competition:-

- Orkney Direct Quarries supplies most of the raw materials for work on the highways and roads in Orkney.
- Orkney Direct Waste Disposal arranges for the destruction of all domestic and industrial waste generated in Orkney.

The actual financial performance for the year is detailed below:

2003/04	2004/05		2005/06	2005/06	Cumulative
£000	£000		£000	£000	£000
Surplus/ (Deficit)	Surplus/ (Deficit)	Statutory	Turnover	Surplus/ (Deficit)	Surplus/ (Deficit)
20	(10)	Quarries	1,219	16	26
83	23	Waste Disposal	3,505	244	350
103	13		4,724	260	376

Over a rolling 3-year basis, both the Quarries and Waste Disposal have exceeded the break-even requirement and returned surpluses of £26K and £350K for their activities respectively.

3. Local Authority (Goods and Services) Act 1970

The Council is empowered by this act to provide Goods and Services to other public bodies. During the year the Council has provided building services for the following bodies on the basis that the services provided are ancillary to the Council's functions.

2003/04 Receipts £000	2003/04 Payments £000		2005/06 Receipts £000	2005/06 Payments £000
2	1	Orkney Housing Association	1	2
4	4	Northern Police Joint Board	2	4
1	1	Highlands and Islands Fire Joint Board	2	1
11	17	Highlands and Islands Strategic Transport Partnership	15	7
49	35	Firth Community Association	-	-
2	50	Orkney Islands Property Development	-	-
69	108		20	14

4. Asset Management Revenue Account

The Asset Management Revenue Account (AMRA) is used to reconcile the capital charges applied for the use of fixed assets in service revenue accounts, with the cost of financing those assets on the Consolidated Revenue Account.

Capital charges are levied on all service revenue accounts under the Capital Accounting arrangements to reflect the true cost or value of fixed assets used in the delivery of local authority services. The capital charges include amounts for notional interest and depreciation based on the fixed asset values. The notional interest charge reflects the opportunity cost to the Islands Council of holding the fixed assets, while the depreciation charge reflects the loss in the value of the assets over time. These capital charges are then reversed out below the line and replaced with actual capital finance charges using the Asset Management Revenue Account, so that these notional charges do not impact on the Local Taxpayer.

2003/04 £000	Expenditure	2005/06 £000
1,504	Interest	1,622
22	Debt Management	25
9,052	Provision for Depreciation	8,719
10,578	TOTAL	10,366
	Income	
16,298	Capital Charges	15,143
1,491	Government Grants Deferred	1,714
17,789	TOTAL	16,857
	(Surplus) / Deficit to Consolidated Revenue Account	
(7,211)		(6,491)

5. External Audit Fees

The fee payable to Audit Scotland in respect of external audit services undertaken in accordance with the Code of Practice is £198K (2004/05 £187K). No fees were paid in respect of other services provided by the appointed auditor.

6. Pension Costs

Local Government Pension Scheme

The Consolidated Revenue Account reflects the ACOP accounting requirements as they relate to FRS 17 - Retirement Benefits.

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

2004/05		2005/06	
£000	% of Payroll	£000	% of Payroll
3,917	18.6	4,312	18.5
802	3.8	323	1.4
0	0.0	0	0.0
0	0.0	0	0.0
4,719	22.4	4,635	19.9
Total Operating Charge			

In arriving at the net operating expenditure further provision has been made in respect of:

4,198	19.9	4,931	21.2
(3,931)	(18.6)	(5,158)	(22.2)
267	1.3	(227)	(1.0)
4,452	21.1	4,862	20.9
Net Revenue Account Cost			

Included in the appropriation section of the consolidated revenue account is a transfer of £285K from the pension reserve. The net effect of these accounting entries is that expenditure met from government grants and local taxation equals the actual employers contributions made to the Scheme of £4,064K, representing 16.94% of pensionable pay.

The employer's contribution rate is determined by the Fund's Actuary based on triennial actuarial valuations, the last review being 31 March 2005. Under Pension Fund Regulations contributions rates are set to meet the overall liabilities of the Fund. The employer's rates are set to meet the overall liabilities of the Fund. The employer's contribution was 295% of the employee's contribution for 2005/06.

In addition the Islands Council is responsible for all pension payments relating to added years benefits it has awarded, together with the related increases. In 2005/06 these amounted to £239,076 representing 1.01% of pensionable pay.

For further information see the Pension Fund Statement on pages 38-41.

Teachers

In 2005/06 the Islands Council paid an employer's contribution of £1.329M to the Scottish Executive in respect of teachers' pension costs, which represented 12.51% of teachers' pensionable pay.

In addition, the Islands Council is responsible for all pension payments relating to added years it has awarded, together with mandatory compensation and related increases. In 2005/06 these amounted to £242K representing 2.28% of pensionable pay.

7. Members' Allowances and Officers' Emoluments

The total of Members' Allowances paid in the year amounted to £426K (2004/05 £419K).

An analysis of employees' remuneration (excluding pension costs) above £40,000, in bands of £10,000 is as follows:

2004/05		2005/06	
Number of Employees	Remuneration Band	Number of Employees	
49	£40,000 - £49,999	43	
11	£50,000 - £59,999	18	
2	£60,000 - £69,999	7	
10	£70,000 - £79,999	5	
1	£80,000 - £89,999	1	

8. Related Party Transactions

During the year transactions with related parties arose as follows:

2004/05	2004/05		2005/06	2005/06
Receipts	Payments		Receipts	Payments
£000	£000		£000	£000
		Central Government		
43,682	-	Revenue Grants Being payments made in support of Revenue Expenditure	45,534	-
1,125	-	Capital Grants Being payments made in support of Capital Expenditure	1,497	-
		Orkney Towage Company Limited		
-	2,570	Being payments for the provision of Towage Services	-	2,720
		Orkney Ferries Limited		
-	5,585	Being subsidy payments made in support of Ferry Services	-	5,799
		Northern Police Joint Board		
-	1,499		-	1,483
		Highlands and Islands Fire Joint Board		
-	1,326		-	1,491
		Orkney and Shetland Valuation Joint Board		
-	274	Being payment of annual requisition to Joint Boards	-	264
		Chief Officials		
24	21	Being advances and repayments of Car Loans	24	13
		Orkney Islands Pension Fund		
-	3,380	Being payment of employers contributions in respect of employees	-	4,064

9. Exceptional Items

It has been necessary to recognise the impact of additional staff costs which were due to 31 March 2006 on the Consolidated Revenue Account, including a provision for Equal Pay negotiations which remain ongoing, as follows:-

2004/05		2005/06
£000		£000
1,177	Staff Costs	90
-	Equal Pay Provision	2,350
1,177		2,440

Custom and practice has in the past resulted in staff costs not being accounted for beyond the 15 March each year. This practice is no longer considered appropriate, and has necessitated a restatement of staff costs for the financial years 2004/05 and 2005/06 respectively.

Furthermore, on the basis that the Islands Council has agreed to submit an offer to all staff affected by the equal pay negotiations, based on an estimated cost of £2,350k, it is prudent to provide in full for the impact of equal pay to the Islands Council at this time, on the basis that this sum will be due to be paid if staff accept the offer.

HARBOUR AUTHORITY SUMMARY ACCOUNT

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

This statement shows:

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

2004/05		Gross		2005/06
Net		Expenditure	Income	Net
Expenditure		£000	£000	Expenditure
£000		£000	£000	£000
714	Scapa Flow Oil Port	7,415	6,616	799
2,316	Miscellaneous Piers and Harbours	5,559	3,048	2,511
129	Oil Pollution Account	152	159	(7)
3,159	(Profit)/Loss for year	13,126	9,823	3,303
(2,635)	Adjustments for Capital Financing Costs			(2,367)
	Pensions Interest Cost and Expected			
(21)	Return on Pension Assets			16
(8)	Transfer to Pension Reserve			1
495	Transfer from/(to) Harbour Reserve Fund			953
	Harbour Authority Fund		£000	£000
	Income Receivable			
7,192	Investment Income		8,662	
659	Rents		789	
976	Interest on Revenue Balances		1,178	
76	Other		3	
8,903				10,632
	Expenditure			
1,166	Payment of grants		2,432	
339	Other		384	
1,505				2,816
7,398	Net Return on Investment Activities			7,816
	Appropriations:			
(495)	Deficit on harbour authority activities			(953)
(1,870)	Transfer to General Fund			(5,201)
(3,256)	Transfer to Capital Financing Account			(920)
1,777	Net Increase in Fund during the year			742

Represented by :	Balance at 31/03/05 £000	Net Movement £000	Balance at 31/03/06 £000
Strategic Reserve Fund	121,997	2,414	124,411
Flotta Terminal Decline & Decommissioning Fund	42,000	2,650	44,650
Relevant Services Contingency	18,358	(4,331)	14,027
Conservation Fund	167	8	175
Talented Performers Fund	50	2	52
Travel Fund	81	3	84
Talented Young Persons Fund	42	(4)	38
TOTAL	182,695	742	183,437

Notes

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

Fund Manager	Type	Value £(M)	Performance (%)	Benchmark (%)
Prudential	Cash and Bonds	54.5	5.95	6.04
Schroders	Cash and Bonds	45.9	6.10	6.00
Schroders	Equities	52.5	25.70	28.00
Total Funds		152.9		

During the year, the Harbour Reserve managed funds returned a gain of £16.7M through investment activities.

ORKNEY COLLEGE OF FURTHER EDUCATION

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

2004/05		2005/06
£000		£000
	Expenditure	
1,904	Staff Costs	2,097
234	Property Costs	259
463	Supplies & Services	474
84	Transport Costs	77
57	Administration Costs	72
28	Apportioned Costs	31
471	Capital Charges	470
3,241	Total Expenditure	3,480
	Income	
2,119	Grants	2,212
579	Fees & Charges	595
117	Other Income	62
426	Deficit/(Surplus) for Year	611
3,241	Total Income	3,480

Notes

1. Reconciliation to Consolidated Revenue Account

The reconciliation of the Orkney College to the Consolidated Revenue Account is as follows:-

2004/05	2005/06	2005/06
£000	£000	£000
(591) Orkney College Reserve 1 April 2005		(652)
(426) (Deficit)/Surplus for Year	(611)	
403 Adjust for Capital Financing Costs	397	
	Pensions Interest Cost and Expected	
12 Return on Pension Assets	11	
(50) Transfer to Pension Reserve	(11)	
(61) Transfer to Reserves		(214)
(652) Orkney College Reserve 31 March 2006		(866)

HOUSING REVENUE ACCOUNT

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

2004/05		2005/06
£000		£000
1,688	Dwelling Rents(gross)	1,686
25	Non-Dwelling Rents(gross)	28
63	Other Income	78
1,776	Total Income	1,792
395	Repairs and Maintenance	460
607	Supervision and Management	626
725	Capital Finance Costs	666
21	Bad or Doubtful Costs	25
30	Other Expenditure	11
	Pensions Interest Cost and Expected	
(3)	Return on Pension Assets	2
1	Transfer to Pension Reserve	2
1,776	Total Expenditure	1,792
-	(Surplus)/Deficit for Year	-
-	(Surplus)/Deficit from Previous Years	-
-	Accumulated (Surplus)/Deficit	-

Housing Revenue Account Notes

1. Housing Stock

The numbers and types of dwellings included in the Council's Housing Stock as at 31 March 2006 are as follows:

2004/05		2005/06
Number of		Number of
Dwellings		Dwellings
51	1 Apartment	46
284	2 Apartment	281
245	3 Apartment	242
216	4 Apartment	207
14	5 Apartment	14
810		790

2. Rent Arrears

2004/05		2005/06
£68,980	Dwelling Arrears	£60,925
£21,299	Non Dwelling & Other Arrears	£31,244
£90,279		£92,169
188	Number of Tenants in Arrears	171

3. Provision for Bad Debts

2004/05		2005/06
£29,967	Dwelling Arrears	£31,352
£16,874	Non Dwelling & Other Arrears	£20,701
£46,841		£52,053

4. Reconciliation to Consolidated Revenue Account

The reconciliation of the HRA to the Consolidated Revenue Account is as follows:-

2004/05		2005/06
£000		£000
-	Net Expenditure	-
	Less:	
636	Loan Charges	(20)
88	CFCR	687
45	Pension Contributions	51
	Add:	
636	Capital Charges	(20)
47	Current Service Costs	47
(86)	Net Cost of Service	(691)
	Add:	
88	Adjust for Capital Financing Costs	687
(3)	Return on Pension Assets	2
1	Transfer to Pension Reserve	2
-	Transferred to HRA Balances	-

COUNCIL TAX INCOME ACCOUNT

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

2004/05		2005/06
£000		£000
7,808	Gross Council Tax Levied	8,087
1,173	Less Relieved, Remitted and Written Off	948
6,635	Net Council Tax Due for Year	7,139
42	Provision for Bad Debts	(22)
17	Less Council Tax Benefit (Net of Government Grants)	-
-	Income from Reduced Discount on Second Homes	(158)
	Adjustment for previous years:	
15	Council Tax	8
(5)	Community Charge	1
-	Reduction Previous Years Council Tax Liability	(46)
6,586	Transfers to General Fund	6,966

Notes

1. Calculation of Council Tax Base

	@	Bands								Total
		A	B	C	D	E	F	G	H	
Number of Dwellings	-	2,594	2,638	1,901	1,421	889	172	17	2	9,634
Exemption	-	(128)	(64)	(38)	(12)	(10)	-	-	-	(252)
Disabled Relief	12	8	3	(4)	(5)	(12)	(2)	-	-	-
Discounts (25%)	(2)	(301)	(246)	(139)	(76)	(28)	(5)	(1)	-	(798)
Discounts (50%)	-	(162)	(86)	(49)	(23)	(10)	(3)	(1)	-	(334)
Equivalent Dwellings	10	2,011	2,245	1,671	1,305	829	162	15	2	8,250
Ratio	5/9	6/9	7/9	8/9	9/9	11/9	13/9	15/9	18/9	
Band D Equivalents	6	1,341	1,746	1,485	1,305	1,013	234	25	4	7,159
Less provision for non-collection										(333)
Council Tax Base										6,826

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

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

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

2. Details of Charges Levied

2004/05	2005/06
£	£
940.00 Council Tax - Band D - General Rate	973.00

Council Tax Charges for 2005/2006

Band	Property Value	Proportion of Band D	Council Tax £
A	Up to £27,000	6/9	648.67
B	£27,000 to £35,000	7/9	756.78
C	£35,000 to £45,000	8/9	864.89
D	£45,000 to £58,000	9/9	973.00
E	£58,000 to £80,000	11/9	1,189.22
F	£80,000 to £106,000	13/9	1,405.44
G	£106,000 to £212,000	15/9	1,621.67
H	Above £212,000	18/9	1,946.00

The above table shows the Council Tax Charges due for 2005/06 on a domestic dwelling with an unmetered public water supply, based on two or more people aged 18 years or over resident in the property before any exemption, discounts or relief is applied.

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

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

3. Residual Community Charge Income

During the year Community Charge arrears were collected as follows:

2004/05	2005/06
£000	£000
- Reduction in Provision for Bad Debts	1
- Less Written Off	-
- Less Cost of Collection	-
- Net Community Charge Income	1

4. Arrears of Council Tax and Community Charge

31-Mar-05	31-Mar-06
£	£
595,535 Council Tax Arrears	642,951
5,857 Community Charge Arrears	5,326

NON DOMESTIC RATES INCOME ACCOUNT

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

2004/05		2005/06
£000		£000
7,838	Gross Rates Levied and Contributions in Lieu	8,093
1,007	Less Reliefs and Other Deductions	1,166
1	Payment of Interest	-
(13)	Provision for Bad and Doubtful Debts	36
-	Reduction in Rates Liability for previous years	10
6,843	Net Non Domestic Rates Income	6,881
362	Contribution from national non-domestic rate pool	362
7,205	Transfer to Consolidated Revenue Account	7,243

Notes

1. Rateable Values and Number of Premises as at 1 April 2005

Number of Subjects	Rateable Value 01-Apr-04 £000		Number of Subjects	Rateable Value 01-Apr-05 £000
268	1,303	Shops	266	1,488
53	645	Public Houses/Hotels	56	711
149	1,072	Offices	149	1,413
478	2,224	Industrial Subjects	477	2,493
183	584	Leisure/Entertainment	203	694
97	287	Garages & Petrol Stations	94	329
79	1,461	Cultural/Sporting/Education	79	1,706
198	1,210	Public Services Subjects	168	1,537
325	7,167	Miscellaneous	304	6,603
1,830	15,953		1,796	16,974

2. Non Domestic Rate Poundage

2004/05	2005/06
£0.488 Property Rate	£0.461

Non Domestic Rates are levied by the Islands Council on local Commercial and Industrial properties. The rate is, however, set by Central Government. An additional supplement of £0.0045 is applied to properties with a rateable value exceeding £29,000, while small business relief is available for properties with a rateable value of less than £11,500 (and not in transition).

3. Non Domestic Rates Arrears

31-Mar-05	31-Mar-06
£	£
101,392 Arrears of Non Domestic Rates	109,678

4. Contribution to National NDR Pool

2004/05	2005/06	
£000	£000	
6,719	Provisional Contributable Amount	6,596
124	Difference from Notified Amount	285
6,843	Contribution to National NDR Pool	6,881

**CONSOLIDATED BALANCE SHEET
AS AT 31st MARCH 2006**

31-Mar-05		Notes	31-Mar-06
£000	Fixed Assets	1	£000
	Operational Assets		
15,345	Council Dwellings		16,613
90,647	Other Land and Buildings		89,074
3,900	Vehicles and Plant		4,214
74,200	Infrastructure		74,762
3,420	Community Assets		3,420
5,452	Non Operational Assets		5,763
192,964	Total Fixed Assets		193,846
153,702	Long Term Investments	6	156,786
4,148	Long Term Debtors	2	4,027
350,814	Total Long Term Assets		354,659
	Current Assets		
760	Stocks and Work in Progress	3	826
6,937	Debtors		7,323
9,064	Investments	6	7,222
7	Cash and Bank		207
16,768	Total Current Assets		15,578
	Less Current Liabilities		
7,490	Creditors		7,469
-	Provisions	7	2,350
961	Bank Overdraft		-
3,465	Advances from Pension, Charity and Trust Funds		5,288
11,916	Total Current Liabilities		15,107
355,666	Total Assets Less Current Liabilities		355,130
49,162	Government Grants Deferred	12	49,519
25,230	Net Pension Liability	14	29,424
281,274	Total Assets Less Liabilities	8	276,187
	Represented By:		
	Capital Reserves		
100,458	Fixed Asset Restatement Account		95,722
9,712	Capital Financing Account		12,276
1,277	Usable Capital Receipts		2,524
1,952	Capital Fund		2,101
113,399			112,623
	Revenue Reserves		
2,263	General Fund Balances		1,662
182,695	Harbour Authority Fund		183,437
(25,230)	Pension Reserve		(29,424)
8,147	Repairs and Renewals Fund		7,889
167,875			163,564
281,274	Total Equity		276,187

A TAIT, C.P.F.A., F.C.C.A.
Director of Finance
30 June 2006

Notes on the Consolidated Balance Sheet

1. Fixed Assets

The following represents an analysis of fixed assets owned by the Islands Council as at 31 March 2006.

2004/05 Number of Items	2004/05 £000		2005/06 Number of Items	2005/06 £000
Council Dwellings				
810	15,345	Council Dwellings	790	16,613
810	15,345		790	16,613
Operational Buildings				
1	394	Concert Halls & Theatres	1	378
47	1,256	Other Housing Properties	48	1,181
82	5,543	Depots & Workshops	85	5,139
4	881	Museums	2	843
11	13,493	Community/Day Centres	13	13,042
2	1,787	Sports Centres & Pools	2	1,698
2	3,598	Libraries	2	3,524
29	52,969	Schools	30	52,878
9	8,465	Office Buildings	13	8,095
3	363	Parks & Amenity Properties	3	359
Miscellaneous :				
37	1,068	Public Conveniences	37	1,159
10	592	Refuse Sites	10	555
2	238	Quarries	2	223
239	90,647		248	89,074
Infrastructure				
16	314	Sea Defences	16	285
978	19,551	Roads (Kilometres)	979	19,018
56	52,092	Piers & Harbours	56	53,334
9	995	Airfields	9	943
24	1,248	Car Parks	24	1,182
1,083	74,200		1,084	74,762
Community Assets				
41	277	Cemeteries	41	255
19	2,848	Historic Buildings/Monuments	22	2,872
12	295	Parks	12	293
72	3,420		75	3,420
Operational Equipment				
6	18	Computers	6	-
198	700	Mechanical Plant	193	815
242	1,517	Vehicles	253	1,931
123	344	Other Equipment	150	549
13	1,321	Ferries	13	919
582	3,900		615	4,214
Non Operational Property				
23	830	Surplus Assets	21	783
95	3,366	Commercial Property	84	3,121
10	1,099	Land Awaiting Development	8	998
5	157	Assets Under Construction	3	861
133	5,452		116	5,763
2,919	192,964	TOTAL	2,928	193,846

Fixed Asset Transactions

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

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

	Council Dwellings £000	Other Land & Buildings £000	Plant and Vehicles £000	Infrastructure £000	Community £000	Non Operational £000	Total £000
Net book value of assets at 01/04/05	15,345	90,647	3,900	74,200	3,420	5,452	192,964
Movement in 2005/06							
Additions	795	6,287	2,878	3,198	73	1,130	14,361
Disposals	(363)	(133)	-	-	-	(859)	(1,355)
Revaluations and restatements	1,508	(3,895)	(1,182)	(48)	(2)	214	(3,405)
Reclassifications	(14)	46	-	(32)	-	-	-
Depreciation	(658)	(3,878)	(1,382)	(2,556)	(71)	(174)	(8,719)
Impairments	-	-	-	-	-	-	-
Net book value of assets at 31/03/06	16,613	89,074	4,214	74,762	3,420	5,763	193,846

Assets held on behalf of the Community Councils increased by £1k to £36k during the year.

1(a) Valuation of Fixed assets carried at current value

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

	Council Dwellings £000	Other Land & Buildings £000	Plant and Vehicles £000	Infrastructure £000	Community £000	Non Operational £000	Total £000
Valued at historic cost	-	-	4,214	74,762	3,420	-	82,396
Valued at Current Value in:							
31 March 2006	16,613	-	-	-	-	-	16,613
31 March 2005	-	89,074	-	-	-	5,763	94,837
Total	16,613	89,074	4,214	74,762	3,420	5,763	193,846

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

The value of assets employed as at 31 March 2006 are analysed as follows:

2004/05		2005/06
£000		£000
111,373	General Fund	109,985
58,397	Harbour Fund	59,370
15,587	Housing Revenue Account	17,055
7,607	Orkney College	7,436
192,964	Total Assets Employed	193,846

1(b) Sources of Finance for Fixed Assets acquired

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

2004/05		2005/06
£000		£000
6,468	Loans	4,959
4,425	Capital Receipts	4,607
3,247	Grant Receipts	2,867
440	CFCR	1,928
-	Other Income	-
14,580		14,361

1(c) Commitments under Capital Contracts

The following significant contracts for capital investment have been entered into by the Islands Council and extend beyond the 31 March 2006:

Project Name	Purpose	Approximate Value	Anticipated Completion
		£000	
Glaitness Primary	School Extension	332	Aug-2006
Burray Primary	New School	779	Nov-2006
Westray School	Healthy Living Centre	572	Oct-2006
North Walls School	Healthy Living Centre	73	May-2006
Westermill, Burray	Housing Development	63	Aug-2006

2. Long Term Debtors

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

2004/05		2005/06
£000		£000
332	Housing Loans	275
234	Car Loans	150
3,537	Harbours	3,657
45	Others	(55)
4,148		4,027

3. Stocks and Work in Progress

2004/05		2005/06
£000		£000
510	Stocks General Fund	643
189	Harbours	183
699		826
	Work in Progress	
61	General Fund	-

4. Debtors

Debtors are shown net of bad debt provision, and represents the net amount due to the Council as at 31 March 2006.

The Islands Council provides for any bad or doubtful debts at the end of each financial year, based on the age of debtors outstanding. At 31 March 2006 the Bad Debt Provision has increased from £972,000 to £1,046,000 being an increase of £74,000 on the year.

5. Loan Debt

Long Term : The Islands Council has no long term debt as at 31 March 2006.

Short Term:	2004/05		2005/06
	£000		£000
	961	Bank Overdraft	(199)

6. Investments

The investments shown in the Consolidated Balance Sheet consist of a number of individual funds, each valued at the lower of cost or market value. The following is a summary of the investments held by the Islands Council as at 31 March 2006:

Lower of Cost & Market Value 2004/05 £000	Market Value 2004/05 £000	Investments	Lower of Cost & Market Value 2005/06 £000	Market Value 2005/06 £000
120,237	124,461	Long Term Bonds and Equities	126,430	138,848
14,116	14,116	Land and Buildings	13,922	13,922
1,172	1,172	Private Companies	1,172	1,172
447	447	Fishing Quota	804	804
16,817	16,817	Deposits	13,172	13,172
913	913	Miscellaneous	1,286	1,286
153,702	157,926		156,786	169,204
		Short Term		
9,064	9,064	Cash Deposits	7,222	7,222

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

2005/06	Orkney Towage Company Ltd	Weyland Farms Ltd	Orkney Ferries Ltd	Orkney Meat Ltd
Principal Activity	Tug Operation	Mixed Farming	Sea Transport	Meat Processing
Shares Held	100%	100%	100%	38%
	£000	£000	£000	£000
Investments Less Provision	501	510	-	61
Net Assets	(1,302)	48	(1,354)	1,089
Profit / (Loss) After Tax	(308)	(17)	(19)	(20)
Profit / (Loss) Before Tax	(308)	(17)	-	(23)
2004/05				
Net Assets	(893)	77	(738)	1,109
Profit / (Loss) After Tax	(370)	(47)	(12)	56
Profit / (Loss) Before Tax	(376)	(47)	-	65

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

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

No dividends were received from any of the above companies during the year.

The Islands Council has provided in full against a diminution in the value of its £7,498,999 investment in Orkney Ferries Limited.

At the 31 March 2006 the Islands Council's Reserve Fund loan to Weyland Farms Limited stood at £132,260, a increase of £20,000 on the year. The Loan Balance has been provided for in full. The Islands Council is committed to ensure an orderly winding up of the Company should it cease trading and will ensure that all bona fide creditors are paid in full.

The Council acquired 25% of the share capital in Orkney Towage Company Limited on 3rd November 2004, increasing its shareholding from 75% to 100%.

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

Orkney Towage Company Limited, School Place, Kirkwall, Orkney, KW15 1NY

Weyland Farms Limited, School Place, Kirkwall, Orkney, KW15 1NY

Orkney Ferries Limited, Shore Street, Kirkwall, Orkney, KW15 1LG

Orkney Meat Limited, Grainshore Road, Hatston Industrial Estate, Kirkwall, Orkney, KW15 1FL

7. Provisions

A provision of £2,350k has been set aside within the Statement of Accounts in recognition of the Equal Pay negotiations which are ongoing.

The Islands Council is due to submit a formal offer to staff affected by these negotiations in the near future, and this forms the basis of the provision.

8. Net Assets Employed

The value of net assets employed as at 31 March 2006 are analysed as follows:

2004/05		2005/06
£000		£000
26,893	General Fund	18,813
240,271	Harbour Fund	244,257
15,287	Housing Revenue Account	16,734
282,451		279,804

9. European Single Currency

The Council is required to disclose certain information in connection with the possible entry to the European Single Currency.

As at 31 March 2006 no commitments in respect of costs associated with the Euro had been made, no exceptional expenditure had been incurred and it was not possible to forecast the total costs likely to be incurred.

10. Single Status

The Islands Council is in the process of carrying out a job evaluation exercise as part of Single Status. In recognition of a future liability being identified for the Islands Council in respect of Single Status, an amount has been earmarked within General Reserves in advance of the actual cost being quantified.

11. Contingent Liability

Due to the uncertainty surrounding Equal Pay negotiations at this time, no additional provision has been made within the Statement of Accounts beyond the estimated £2,350k set aside for this purpose.

The Islands Council is due to submit a formal offer to staff affected by these negotiations in the near future.

In the event that a settlement is reached with staff which exceeds this provision, any additional costs would be met from the Relevant Services Contingency Fund.

12. Government Grants - Deferred Account

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

	Gross Receipts £000	Grants Applied £000	Net Balance £000
Balance at 1 April 2005	59,354	14,425	44,929
Grants Deferred Adjustment	4,540	307	4,233
Restated Balance 1 April 2005	63,894	14,732	49,162
Add Grant Receipts	2,098	-	2,098
Add Grants Deferred Adjustment	(27)	-	(27)
Less Grant Applied	-	1,714	1,714
Balance at 31 March 2006	65,965	16,446	49,519

13. Reserves

The following table provides a detailed analysis of the Reserves held by the Islands Council as at 31 March 2006:

	31/03/05 £000	Movement £000	31/03/06 £000
Capital Reserves			
Fixed Asset Restatement Account	100,458	(4,736)	95,722
Capital Financing Account	9,712	2,564	12,276
Usable Capital Receipts	1,277	1,247	2,524
Capital Fund	1,952	149	2,101
	113,399	(776)	112,623
Revenue Reserves			
General Fund Balances:			
General Fund	1,884	(1,222)	662
Modernising Government Fund	83	2	85
Corporate Development Fund	244	(123)	121
Modernising Teachers Fund	480	(126)	354
Community Council	176	1	177
Devolved School Management Fund	48	25	73
Orkney College	(652)	(214)	(866)
Single Status Earmarked Balance	-	1,056	1,056
	2,263	(601)	1,662
Repairs and Renewals Funds:			
Replacement Ferries Fund	2,639	(44)	2,595
Plant & Vehicle Replacement Fund	4,802	(421)	4,381
Repairs & Renewals Fund	706	207	913
	8,147	(258)	7,889
Harbour Authority	182,695	742	183,437
Pension Reserve	(25,230)	(4,194)	(29,424)
	167,875	(4,311)	163,564
Total Reserves	281,274	(5,087)	276,187

Description of Reserves

Capital

The Fixed Asset Restatement Account records any surpluses or deficits arising from the revaluation or disposal of fixed assets.

The Capital Financing Account records all the transactions relating to the financing of capital expenditure, such as Capital Receipts Applied, Capital Receipts Set Aside and Capital Financed from Current Revenue. It also records the difference between loans fund principal charges and the amount of depreciation provided for in the Consolidated Revenue Account.

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

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

Revenue

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

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

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

Modernising Teachers Fund represents general balances earmarked for the education service.

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

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

The Orkney College deficit represents the balance of College losses.

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

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

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

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

14. Retirement Benefits

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

The Pension Fund assets attributable to the Orkney Islands Council are valued at fair value, principally market value for investments, and are analysed as follows:

As at 31 March 2005			As at 31 March 2006		
Total Pension Fund Assets	OIC Pension Assets	Expected Return	Total Pension Fund Assets	OIC Pension Assets	Expected Return
£000	£000	% p.a.	£000	£000	% p.a.
54,243	52,395	7.7	77,600	70,756	7.4
11,764	11,363	4.8	13,800	12,593	4.6
-	0	5.7	-	0	5.5
4,862	4,696	4.8	4,700	4,263	4.6
70,869	68,454	7.0	96,100	87,612	6.9

The net pension liability attributable to the Orkney Islands Council are as follows:

As at 31 March 2005	As at 31 March 2006
£000	£000
68,454 Estimated Assets	87,612
86,586 Present Value of Scheme Liabilities	109,102
7,098 Present Value of Unfunded Liabilities	7,934
93,684 Total Value of Liabilities	117,036
(25,230) Net Pension Asset / (Liability)	(29,424)

Local government legislation provides that local authorities have an obligation to meet the expenditure of the Joint Boards where they are constituent members. As a consequence Orkney Islands Council has additional liabilities arising from the pension deficits of the following bodies:

Highlands and Islands Fire Joint Board
Northern Police Joint Board
Orkney and Shetland Valuation Joint Board

Further information regarding these deficits can be found in the annual report and accounts of the relevant bodies.

Liabilities are valued on an actuarial basis using the projected unit method which assesses the future liabilities of the fund discounted at their present value. The valuations are based on a valuation as of 31 March 2005 and updated for the following three years by Hyman's Robertson the independent actuaries to the Orkney Islands Council Pension Fund. The main assumptions used in the calculation are as follows:

2004/05	2005/06
%	%
2.9 Price Increases	3.1
4.4 Salary Increases	4.6
2.9 Pension Increases	3.1
5.4 Rate used to discount scheme liabilities	4.9

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

The liabilities for retirement benefits as at 31 March 2006 have been assessed using a discount rate of 1.7% in excess of inflation, based on the current rate of return for high quality corporate bonds of equivalent currency and term to the scheme liabilities. When compared to a rate of 2.4% for the previous year, this represents a significant change adding some 10-15% to projected scheme liabilities. While asset returns of 29.1% for the year to 31 March 2006 were well in excess of expected returns, against a funding level of around 80-85%, the overall position remains that of an increase in the FRS deficit on the Pension Fund of £4.194M for the year.

The movement in the Councils pension fund liability during the year is as follows:

2004/05	2004/05
£000	£000
(10,674) Surplus/(Deficit) at beginning of year	(25,230)
(3,917) Current Service Cost	(4,312)
3,388 Employer Contributions	4,064
572 Contribution in respect of Unfunded Benefits	513
0 Other Income	0
0 Other Outgoings (e.g. expenses etc.)	0
(802) Past service costs	(323)
0 Impact of settlements and curtailments	0
267 Net return on assets	(227)
(14,064) Actuarial gains/(losses)	(3,909)
(25,230) Surplus/(deficit) at end of year	(29,424)

The following is a history of the gains and losses:

2004/05	2005/06
£000	£000
2,628 Difference between the expected and actual return on assets	14,646
68,454 Value of assets	87,612
3.8% Percentage of assets	16.7%
(182) Experience gains/(losses) on liabilities	(4,843)
93,684 Present value of liabilities	117,036
(0.2%) Percentage of the present value of liabilities	(4.1%)
(14,064) Actuarial gains/(losses)	(3,909)
93,684 Present value of liabilities	117,036
(15.0%) Percentage of the present value of liabilities	(3.3%)

Additional disclosures in respect of Pensions are included in the notes to the Consolidated Revenue Account and the Statement of Total Movements in Reserves

For further information on the Orkney Islands Council Pension Fund see pages 38-41.

15. Authorisation of Accounts

The Director of Finance and Housing, being the proper officer for the financial administration of the Islands Council, signed the Annual Accounts on 30th June 2006. Events after the 31 March 2006, being the date of the Balance Sheet, and up until the date of signing have been considered.

STATEMENT OF TOTAL MOVEMENTS IN RESERVES

This statement represents a summary of all gains and losses for the Authority during the financial year, and identifies those which have been recognised in the Consolidated Revenue Account. The statement further separates the movements between revenue and capital reserves.

2004/05 £000		2005/06 £000
	Surplus/(Deficit) for year	
(1,174)	General Fund	(601)
-	Housing Revenue Account	
1,755	Add back Movements on specific revenue reserves	484
(492)	Deduct Appropriation from pensions reserve	(285)
(14,064)	Actuarial gains and (losses) relating to pensions	(3,909)
(13,975)	Total Increase / (Decrease) in revenue resources	(4,311)
412	Increase / (Decrease) in useable capital receipts	1,247
	Increase / (Decrease) in unapplied capital grants	
-	and contributions	-
412	Total Increase/(Decrease) in realised capital resources (note 1)	1,247
(3,699)	Gains / (Losses) on revaluation of fixed assets	(3,408)
(5,262)	Restatement of Grants Deferred	27
-	Impairment losses on fixed assets due to general changes in prices	-
(8,961)	Total Increase / (Decrease) in unrealised value of fixed assets (note 2)	(3,381)
(4,368)	Value of assets sold, disposed of or decommissioned (note 3)	(1,355)
5,548	Capital receipt set aside	5,376
(1,788)	Revenue resources set aside	(2,812)
3,760	Total Increase / (Decrease) in amounts set aside to finance capital investment (note 4)	2,564
	Specific Capital Reserves	
401	Capital Fund - Movement	149
(22,731)	Total recognised gains and losses	(5,087)

Notes to the Statement of Total Movements in Reserves

1. Movements in realised capital resources

Usable Capital		Usable Capital
Receipts		Receipts
2004/05		2005/06
£000		£000
1,236	Amounts receivable in 2005/06	1,688
	Amounts applied to finance new capital	
(824)	investments in 2005/06	(441)
	Total increase / (Decrease) in realised capital	
412	resources in 2005/06	1,247
865	Balance brought forward at 1 April 2005	1,277
1,277	Balance carried forward at 31 March 2006	2,524

2. Movements in unrealised value of fixed assets

Fixed asset		Fixed asset
restatement		restatement
account		account
2004/05		2005/06
£000		£000
(3,699)	Gains / (losses) on revaluation of fixed assets in 2004/05	(3,408)
(5,262)	Restatement of Grants Deferred	27
	Impairment losses on fixed assets due to general changes	
-	in prices 2004/05	-
(8,961)	Total increase / (decrease) in unrealised value of fixed assets	(3,381)

3. Value of assets sold, disposed of or decommissioned

2004/05		2005/06
£000		£000
	Amounts written off fixed asset balances for	
(4,368)	disposals in 2005/06	(1,355)
(13,329)	Total movement on reserve in 2005/06	(4,736)
113,787	Balance brought forward at 1 April 2005	100,458
100,458	Balance carried forward at 31 March 2006	95,722

4. Movements in amounts set aside to finance capital investment

2004/05 £000		Capital Financing Account 2005/06 £000
	Capital receipts set aside in 2005/06	
5,548	- reserved receipts	5,376
-	- useable receipts applied	-
5,548	Total capital receipts set aside in 2005/06	5,376
	Revenue resources set aside in 2005/06	
440	- capital expenditure financed from revenue	1,928
(3,257)	- reconciling amount for provisions for loan repayment	(4,740)
1,029	- Restatement of Capital Grants Deferred	-
(1,788)	Total revenue resources set aside in 2005/06	(2,812)
3,760	Total movement on reserve in 2005/06	2,564
5,952	Balance brought forward at 1 April 2005	9,712
9,712	Balance carried forward at 31 March 2006	12,276

5. Pension Reserve

The actuarial gain/(loss) on the pension reserve is analysed into the following categories, measured as actual amounts as a percentage of pension fund assets or liabilities at the year end.

	2005/06		2004/05		2003/04	
	£000	%	£000	%	£000	%
Actual Return less expected return on pension scheme assets	14,646	16.7	2,628	3.8	10,385	17.5
Experience gains and losses arising on scheme liabilities	(4,843)	(4.1)	(182)	(0.2)	(35)	(0.1)
Changes in financial assumptions underlying the present value of scheme liabilities	(13,712)	(3.3)	(16,510)	(15)	-	14.8
Actuarial gain/(loss) in pension plan	(3,909)		(14,064)		10,350	

**CASH FLOW STATEMENT FOR THE
YEAR ENDED 31 MARCH 2006**

2004/05		2005/06	2005/06
£000		£000	£000
	Revenue Activities		
	Cash Outflows		
47,960	Cash paid to and on behalf of Employees	51,457	
14,449	Other Operating Payments	20,002	
1,109	Housing Benefit Payments	1,154	
6,719	NDR Payments to Pool	6,596	
1,581	Precepts Paid	1,627	
71,818		80,836	
	Cash Inflows		
782	Rents (after Rebate)	799	
8,232	Council Tax Income	9,162	
-	Community Charge Income	2	
7,205	NDR Receipts from Pool	7,243	
6,692	Non Domestic Rates receipts	6,904	
43,682	Revenue Support Grant	45,534	
2,819	DWP Grant for Benefits	2,934	
6,051	Other Government Grants	5,640	
456	Cash received for Goods and Services	451	
75,919		78,669	
4,101	Net Cash Inflows from Revenue Activities		(2,167)
	Returns on Investments and Servicing of Finance		
	Cash Outflows		
218	Interest Paid	202	
218		202	
	Cash Inflows		
253	Interest Received	288	
253		288	
35	Net Cash Inflow from Investments and Servicing of Finance		86
	Capital Activities		
	Cash Outflows		
14,109	Purchase of Fixed Assets	13,675	
2,175	Purchase of Long Term Investments	1,141	
1,522	Other Capital Payments	782	
17,806		15,598	
	Cash Inflows		
1,236	Sale of Fixed Assets	1,688	
5,494	Capital Grants received	4,197	
12,057	Sale of Long Term Investments	6,530	
2,221	Other Capital Receipts	2,760	
21,008		15,175	
3,202	Net Cash Outflow from Capital Activities		(423)
7,338	Net Cash Outflow before Financing		(2,504)
	Management of Liquid Resources		
(3,614)	Net (Increase)/Decrease in Short Term Deposits		1,842
	Management of Financing		
	Cash Outflows		
2,633	Repayments of Amounts Borrowed	(1,823)	
2,633		(1,823)	
	Cash Inflows		
-	New Loans raised	-	
(2,633)	Net Cash Outflow from Financing		1,823
1,091	Increase / (Decrease) in Cash		1,161

Notes to the Cashflow Statement

1. Reconciliation of Operating Surplus to net cash inflow from Revenue Activities

2004/05		2005/06
£000		£000
1,780	Operating Surplus	(601)
	Non Cash Transactions	
2,601	Contributions to Reserves	1,678
(8,942)	Adjustments not Involving the Movement of Funds	(8,486)
4,744	Contributions to Capital	4,193
20	Increase/(Decrease) in Bad Debt Provision	73
203		(3,143)
	Items on an Accruals Basis	
(8)	(Increase)/Decrease in Stock and Work in Progress	(66)
369	(Increase)/Decrease in Debtors	(1,777)
3,537	Increase/(Decrease) in Creditors	2,819
3,898		976
4,101	Cash Inflow from Revenue Activities	(2,167)

2. Movement in Cash

2004/05		31-Mar-06	31-Mar-05	Movement
£000		£000	£000	£000
1,091	Bank Overdraft	199	(961)	1,160
-	Cash	8	7	1
1,091	Increase / (Decrease) in Cash	207	(954)	1,161

3. Reconciliation of Liquid Resources

2004/05		31-Mar-06	31-Mar-05	Movement
£000		£000	£000	£000
3,614	Temporary Lending	7,222	9,064	(1,842)

4. Reconciliation of Financing

2004/05		31-Mar-06	31-Mar-05	Movement
£000		£000	£000	£000
2,633	Revenue Advances from Common Good, Charities & Pension Fund	(5,288)	(3,465)	(1,823)

5. Analysis of Government Grants

2004/05		2005/06
£000	Grants Received	£000
106	Teacher Training	16
480	Other Education Grants	665
732	National Priorities Action Fund	970
136	Other Miscellaneous Grants	279
654	Community Social Services - Specific Training	522
357	Supporting People	357
133	Mental Illness Specific Grant	133
331	Offender Services	357
-	Strategic Waste Fund	256
2,552	Scottish Funding Council for Further Education	1,216
570	Transportation - Rural Initiative	869
6,051	Total	5,640

PENSION FUND ACCOUNT

The Orkney Islands Council Pension Fund is constituted under the various Local Government Pension Fund Acts and related regulations and provides pension benefits to all local government employees, excluding principally teachers, of Orkney Islands Council, together with 12 other organisations of a statutory and voluntary nature which have been accepted into the fund as admitted bodies. The members of the fund increased from 1,586 employees at 31 March 2005 to 1,702 employees at 31 March 2006 and the number of pension payments increased from 414 at 31 March 2005 to 436 at 31 March 2006.

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

The monies belonging to the Pension Fund are entirely managed by external investment managers Baillie Gifford & Co, and are held separately from any of the employing bodies which participate in the Pension Fund. During the financial year 2005/06 the Fund's return on investments was 29.1%, which comfortably exceeded its benchmark of 23.8%.

As an administering authority, the Island Council has delegated the management of the Pension Fund administration and investments to an Investment Sub Committee comprising of 5 elected members. The committee meets 3 times a year.

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

Employees contributions are fixed by statute, with employers contributions being assessed every three years by an independent Actuary to determine the level of contribution necessary by employing bodies to ensure that the fund is able to meet all future benefits. The standard employee contribution rate is 6% with some manual workers retaining the right to pay 5%. Following completion of the 2005 Actuarial valuation, the employers rate will remain at 29.5% for the 3 years commencing in 2006.

The funds have been invested in accordance with the investment controls laid down in the Local Government Pension (Scotland) Regulations 1989 and quoted investments of the fund have been revalued to market value at 31 March 2006 with the gain on revaluation being credited to the fund.

PENSION FUND ACCOUNT

2004/05	FUND ACCOUNT	2005/06
£000		£000
1,495	Employees Contributions	1,645
3,951	Employer Contributions	4,680
969	Transfer Values	1,599
22	Contributions from Services (Pension Increases)	15
6,437	Total Contributions Receivable	7,939
	Benefits Payable	
	Pension Benefits:	
1,884	Retirement Pensions	2,058
535	Retirement Allowances	454
61	Death Gratuities	89
19	Refund of Contributions	23
407	Transfer Values	277
7	Equivalent Payment Contributions	10
133	Fund Administration	134
3,046	Total Benefits Payable	3,045
3,391	Net Additions from Dealings with Members	4,894
	Returns on Investments	
1,969	Investment Income	2,291
	Gain in Market Value of Investments:	
108	Realised	2,812
4,874	Unrealised	15,600
(187)	Investment Management Expenses	(344)
6,764	Net Return on Investments	20,359
10,155	Net Increase in Fund during year	25,253
60,714	Opening Net Assets of Fund	70,869
70,869	Closing Net Assets of Fund	96,122
	Net Assets Statement (as at 31 March)	
	Investment Assets	
2,659	Bonds - Corporate	5,418
2,049	Bonds - Overseas	1,426
7,056	Bonds - Gilts	6,972
33,416	Equities - UK	44,038
20,827	Equities - Overseas	33,591
3,407	Funds held by Investment Managers - Other (Cash)	1,531
69,414	Total Investment Assets	92,976
	Current Assets	
-	Sundry Debtors	-
1,513	Loans Fund Deposit	3,331
	Less Current Liabilities	
58	Sundry Creditors	185
1,455	Net Current Assets	3,146
70,869	Net Assets	96,122
	Financed by:	
70,869	Accumulated Fund	96,122

A TAIT, C.P.F.A., F.C.C.A.
 Director of Finance
 30 June 2006

Notes to the Pension Fund Account

Statement of Recommended Practice (SORP)

The Pension Fund Accounts have been prepared, as far as practicable, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2005: A Statement of Recommended Practice (the SORP). The Accounts have been prepared on an accruals basis and do not take account of liabilities to pay pensions and other benefits after the year end. However, the actuarial position does account for such obligations. This is disclosed in the Accounts and should be read in conjunction with the actuary's report.

1. Actuarial Valuation Reports

Actuarial report was provided in 2006 after undertaking valuations on the fund as at 31 March 2005. Information from this actuarial valuation is undernoted:

(a) Market value of assets at valuation £70,869,000.

(b) Members Contributions

Officers	6.0%
Manual Workers before 01/04/98	5.0%
Manual Workers after 01/04/98	6.0%

(c) Employers contributions as a percentage of employees contributions

1 April 2006	295%
1 April 2007	295%
1 April 2008	295%

(d) Valuation assumptions:

Investment Return:	
Equities	6.70%
Bonds	5.00%
Pay Increases	4.40%
Price Inflation / Pension Increases	2.90%
Rate used to discount scheme liabilities	6.30%

(e) The Projected Unit method was used for the valuation of the fund

(f) The level of funding in terms of the percentage of assets available to meet liabilities was 87%

2. Investment Assets

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

2004/05			2005/06	
£000	%		£000	%
69,414	97.95	Baillie Gifford and Company	92,976	96.73
1,513	2.13	Loans Fund Deposit	3,331	3.47
(58)	(0.08)	Sundry Debtors less Creditors	(185)	(0.20)
70,869	100.00		96,122	100.00

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

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

2004/05		2005/06
£000		£000
43,131	UK Listed	56,428
-	UK Unlisted	-
22,876	Foreign Listed	35,017
-	Foreign Unlisted	-
66,007		91,445

(c) Performance of the Fund

In the year to 31 March 2006 the Fund's return on investments was 29.1%, which comfortably exceeded its benchmark of 23.8%. Returns were dominated by the continued exceptional performance from equity markets which were supported by a combination of continuing economic growth, improved corporate earnings and increased merger and acquisition activity.

3. Purchases and Sales

The value for respective purchases and sales for the pension fund are as follows:

2004/05		2005/06
£000		£000
29,223	Purchases	27,103
23,419	Sales	17,265

4. Contributions Receivable and Payable

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

Contributions			Contributions	
Receivable	Payable		Receivable	Payable
2004/05	2004/05		2005/06	2005/06
£000	£000		£000	£000
4,670	2,345	Administering Authority	5,471	2,463
776	135	Admitted Bodies	854	138
5,446	2,480		6,325	2,601

5. Investment Sub Committee

The Orkney Islands Council carries out its administration functions through its Investment Sub Committee which comprises the Convener S Hagan, Vice Convener S Scott, Councillor A K Johnson, Councillor M Drever and Councillor R Sclater. The Committee meets 3 times a year.

6. Admitted Bodies

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

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

CHARITY, TRUST AND COMMON GOOD FUNDS

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

2004/05		2005/06
Net £000	Expenditure £000	Income £000
Net £000	£000	£000
- Educational Trust	2	3
(7) Education Bequests	10	20
(17) Social Bequests	55	43
(3) Miscellaneous	9	4
- Sheriff Thom's Bequest	1	1
(3) Common Good Fund	40	43
(4) Cathedral Promotion Fund	-	5
(5) Cathedral Fabric Fund	4	6
(39) Surplus on Year	121	125
31-Mar-05 Balance Sheet		31-Mar-06
£000		£000
Investments		
16 Listed Securities		17
29 Property		29
45		46
149 Capital Deposits		149
194 Total Long Term Assets		195
Current Assets		
1,803 Loan Fund Deposit		1,808
- Less Current Liabilities		2
1,803 Net Current Assets		1,806
1,997 Net Assets		2,001
Financed by:		
64 Educational Trusts		65
337 Education Bequests		347
816 Social Bequests		804
92 Miscellaneous Trusts		87
450 Common Good Funds		453
10 Cathedral Promotion Fund		15
57 Cathedral Fabric Fund		59
22 Sheriff Thom's Bequest		22
149 Unapplied Capital Receipts		149
1,997 Accumulated Funds		2,001

A TAIT, C.P.F.A., F.C.C.A.
Director of Finance
30 June 2006

Statement of Group Accounting Policies

Introduction

The Code of Practice on Local Authority Accounting in the United Kingdom 2004: A Statement of Recommended Practice (the 2004 SORP) placed a requirement on authorities to consider all their interests in external organisations including limited companies and other statutory organisations. This includes other local authorities or similar bodies defined in section 106 of the Local Government (Scotland) Act 1973 e.g. statutory bodies such as Police, Fire and Valuation Boards. Authorities are required to prepare a full set of group accounts in addition to their own Council's accounts where they have a material interest in such entities. The group Financial Statements to 31 March 2006 represents the first consolidation of the balances and transactions of the Council its subsidiaries and associates.

Combining Entities

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

Name of combining entity	Method of Accounting
Orkney Towage Company Ltd	Subsidiary
Orkney Ferries Ltd	Subsidiary
Weyland Farms Ltd	Subsidiary
Orkney Islands Property Development Ltd	Subsidiary
Pickaquoy Centre Trust	Subsidiary
Orkney Meat Ltd	Associate
Northern Joint Police Board	Joint Venture
Highland and Islands Fire Board	Joint Venture
Orkney and Shetland Valuation Joint Board	Joint Venture

To comply with the 2004 SORP, the Council has identified a number of companies where the Council has a "controlling interest" - these are termed "subsidiaries". The Council holds 100% of the shares in 3 Companies (Orkney Towage Company Limited, Orkney Ferries Limited and Weyland Farms Ltd) and has included the companies limited by Trust and Guarantee (The Pickaquoy Centre Trust and Orkney Islands Property Development Ltd) because it has a "controlling interest" over their financial and operating policies. Under accounting standards, the council is required to include the results of organisations termed as "associates," or "joint ventures" because it has a "significant influence" over financial and operating policies. The Council has no shares nor ownership of any of these organisations which are entirely independent of the Council under law and for taxation.

Two out of the three Joint Boards (Police, Fire, and Joint Valuation Board) are included within the Group Accounts under the definition of a "joint venture" although the Council holds less than 20% of voting rights that is normally presumed to confer significant influence.

Orkney Islands Council's share of each associate or joint venture's net assets or liabilities is calculated on the Council's contribution to revenue costs. "Associate" and "joint venture" organisations were consolidated on the following basis:-

	(%)
Orkney Meat Ltd	38.00
Northern Joint Police Board	5.76
Highland and Islands Fire Board	5.91
Orkney and Shetland Valuation Joint Board	48.50

Further details for each entity are provided in the notes to the Group Accounts on pages 48 to 52.

Materiality

A number of other organisations were also considered for consolidation

Name of considered entity

Orkney Homes Trust

Eday Coop

Papay Coop

Pickaquoy Centre Limited

Common Good Assets

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

Basis of Combination & Going Concern

In line with the principles contained within the 2004 SORP, the Group Financial Statement for the year ended 31 March 2006 has been prepared on the basis of a full consolidation of the financial transactions and balances of the Council and its subsidiaries.

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

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

The effect of inclusion of the above bodies on the Group Balance Sheet is to reduce both Reserves and Net Assets by £25.494 million representing the Council's share of the net liabilities in these entities. As above, this reflects the combined pension liability of these organisations, particularly those recorded for the Police and Firemen's Pension Schemes.

All consolidated organisations consider it appropriate that their Statement of Accounts should follow the "going concern" basis of accounting Arrangements with the constituent local authorities for the funding of the deficits of Police, Fire and Valuation Joint Boards means that the financial position of these Boards remains assured. The Council have procedures in place to ensure the funding of the deficits of the subsidiaries, and the Council's share in Orkney Meat is a net asset.

Disclosure of Differences with Main Statement of Accounting Policies

The financial statements in the Group Accounts of Orkney Islands Council are prepared in accordance with the accounting policies set out on pages 6 to 9 with the additions and exceptions shown in the following section.

Group Income & Expenditure Account

Capital Charges

Capital charges are not made to services in the "net cost of service" in the Group Income & Expenditure Account as described on page 8 of the Council's Accounting Policies. Depreciation is charged directly to services and there are no amounts for capital financing charges. These adjustments to the Council's financial results make the Asset Management Account redundant.

Retirement Benefits

In common with Orkney Islands Council, the subsidiaries participate in the Council's Pension Scheme. This is explained on page 30. The subsidiaries have accounting policies for pensions accounting that are consistent with those of the Council.

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

Grants & Contributions

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

Value Added Tax

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

Proceeds from Disposals of Fixed Assets

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

Group Balance Sheet

Valuation of Fixed Assets

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

Depreciation

The periods and categories of assets for the Group are:

	Useful Life
Buildings	10 – 100 years
Infrastructure	40 years
Plant & Equipment, Furniture & Fittings	3 – 15 years
Vehicles	3 – 15 years

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

Stock

Stock is valued at the lower of cost or net realisable value and in the case of Weyland Farms Ltd at 75% of market value or purchase price. The difference in valuation methods does not have a material effect on the results of the Group given the levels of stockholdings.

Goodwill

Goodwill is written off in full against profits on acquisition. The 2004 SORP requires group accounts for accounting periods ending on or after 31 March 2006, as such £500k of goodwill on the purchase of Orkney Towage shares, and £36k of goodwill on the purchase of Orkney Meat shares has been written off the Group accounts in this period.

Investments

Investments are valued at the lower of cost or market value.

GROUP INCOME AND EXPENDITURE ACCOUNT

31-Mar-05		Gross		31-Mar-06
Net		Expenditure	Income	Net
Expenditure		£000	£000	Expenditure
£000	Continuing Operations	£000	£000	£000
24,812	Education	28,052	(2,656)	25,396
3,704	Cultural and Recreation	5,429	(1,773)	3,656
10,537	Community Social Services	16,717	(4,931)	11,786
1,499	Police Services	1,483	-	1,483
1,326	Fire Services	1,491	-	1,491
6,224	Roads and Transportation	6,648	(581)	6,067
1,155	Planning and Development	1,916	(736)	1,180
3,739	Environmental Services	4,513	(969)	3,544
691	Central Services	4,820	(3,647)	1,173
1,847	Corporate and Democratic Costs	1,999	-	1,999
353	Housing Services	4,201	(3,847)	354
(123)	Housing Revenue Account	2,175	(2,120)	55
5,753	Harbour Authority	16,521	(10,117)	6,404
1,248	Exceptional Items	2,976	-	2,976
(99)	(Profit)/Loss on Disposal of Fixed Asset	(333)	(1)	(334)
619	Non Distributed Cost	323	-	323
63,285	Net Cost of Service	98,931	(31,378)	67,553
(7,394)	Net (Surplus)/Deficit on Harbour Investment Income			(7,816)
155	Net (Surplus)/Deficit on Orkney College			230
(21)	Net (Surplus)/Deficit on Associate			12
24	Net (Surplus)/Deficit on Joint Ventures			7
(250)	Interest on Balances			(175)
4	Share of Interest Receivable of Associate			(3)
(14)	Share of Interest Receivable of Joint Ventures			(16)
-	Pensions Interest cost and expected			-
(267)	return on Pension Assets			227
-	Net(Income)/Expenditure on			-
1,583	Interest Payable			1,703
57,105	Net Operating Expenditure			61,722
1,777	Transfer to/(from) Harbour Authority Fund			742
(9)	Transfer to/(from) Reserves			(10)
1,136	Transfer to/(from) Capital / Repairs and Renewals Funds			780
(492)	Movement on Pensions Reserve			(285)
(787)	Transfer to/(from) Capital Financing Reserve			(1,892)
13	Tax on profit on Ordinary Activities			19
3	Share of Tax of Associate			-
58,746	Amount to be Met from Government Grants/Local Taxpayers			61,076
(43,320)	Revenue Support Grant			(45,534)
(7,205)	Distribution of Non-Domestic Rate Pool			(7,243)
(6,586)	Council Tax			(6,966)
1,635	(Surplus)/Deficit for Year			1,333
3,194	Balance at 1 April 2005			1,559
1,635	(Surplus)/Deficit for year			1,333
1,559	Balance at 31 March 2006			226

**GROUP BALANCE SHEET
AS AT 31st MARCH 2006**

31-Mar-05		31-Mar-06
£000	Fixed Assets	£000
	Operational Assets	
15,345	Council Dwellings	16,613
92,920	Other Land and Buildings	90,557
5,336	Vehicles and Plant	5,367
74,200	Infrastructure	74,762
3,420	Community Assets	3,420
5,452	Non Operational Assets	5,763
196,673	Total Fixed Assets	196,482
152,631	Long Term Investments	155,715
536	Goodwill	-
421	Share of Net Assets of Associate	414
5,770	Share of Gross Assets of Joint Ventures	4,873
(943)	Share of Gross Liabilities of Joint Ventures	(409)
3,836	Long Term Debtors	3,545
358,924	Total Long Term Assets	360,620
	Current Assets	
1,089	Stocks and Work in Progress	1,180
4,700	Debtors	6,682
7	Cash in Hand	1,265
9,064	Investments	7,222
14,860	Total Current Assets	16,349
	Less Current Liabilities	
8,700	Creditors	9,372
-	Provisions	2,350
203	Bank Overdraft	-
3,465	Advances from Pension, Charity and Trust Funds	5,288
12,368	Total Current Liabilities	17,010
361,416	Total Assets Less Current Liabilities	359,959
49,162	Government Grants Deferred	49,519
26,769	Net Pension Liability	31,696
24,038	Liability in Associates	27,024
862	Long Term Creditors	1,027
260,585	Total Assets Less Liabilities	250,693
	Represented By:	
	Capital Reserves	
100,458	Fixed Asset Restatement Account	95,722
239	Revaluation Reserve	239
9,712	Capital Financing Account	12,276
1,277	Usable Capital Receipts	2,524
1,952	Capital Fund	2,101
113,638		112,862
	Revenue Reserves	
1,689	General Fund Balances	372
182,695	Harbour Authority Fund	183,437
(26,769)	Pension Reserve	(31,696)
8,147	Repairs and Renewals Fund	7,889
(18,815)	Reserves of Associates	(22,171)
146,947		137,831
260,585	Total Equity	250,693

A TAIT, C.P.F.A., F.C.C.A.
Director of Finance
30 June 2006

Notes to the Group Accounts

The notes required for the accounts of Orkney Islands Council itself are disclosed separately in the preceding pages. The following notes provide material additional amounts and details in relation to the other combining entities.

1. Details of Combining Entities

In addition to the information included in the consolidated Group Accounts on the preceding pages, the accounting regulations require specific disclosures about the combining entities and the nature of their business. The accounting period for the entities are the twelve months to 31 March 2006, apart from Orkney Meat Ltd which has an year end of 31 December 2005.

The Subsidiaries have been consolidated on a line by line basis. To permit consolidation, the Profit and Loss Accounts of the subsidiary entities have been presented in accordance with the CIPFA Best Value Accounting Code of Practice (BVACOP) Service Expenditure Analysis. The following section provides some additional information on the relationship between the Council and each subsidiary. The Council would ensure an orderly winding up any of each subsidiary should the businesses cease.

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

The latest set of audited accounts is for the year to 31 March 2006. Copies of these accounts can be obtained from Orkney Islands Council, School Place, Kirkwall, Orkney, KW15 1NY.

The net liability of the company at 31 March 2006 was £1.301m compared to £0.893m at 31 March 2005. The loss before taxation for the period to 31 March 2006 was £0.308m compared to £0.371m for the period to 31 March 2005. In 2005-06, Orkney Islands Council contributed £2.724m or 98% of the companies turnover. No dividend payments were due to, or received by, the Council in respect of its investment.

Orkney Ferries Ltd is a company incorporated in 1987 under the terms of the Companies Acts to provide sea transport to the North and South Isles of Orkney. The Council is the principle shareholder in the company holding all 7,500,000 £1 ordinary shares, representing 100% of the issued share capital. Under accounting standards, the Council has a controlling interest in this company, and it is therefore included in the group accounts as a subsidiary. Councillors and Council Officials hold all 7 seats on the board, with each director entitled to one vote.

The latest set of audited accounts is for the year to 31 March 2006. Copies of these accounts can be obtained from Orkney Ferries Ltd, Shore Street, Kirkwall, Orkney, KW15 1LG.

The net liability of the company at 31 March 2006 was £1.354m compared to £0.738m at 31 March 2005. There was no profit or loss before taxation for the period to 31 March 2006 or the period to 31 March 2005. In 2005-06, Orkney Islands Council contributed £6.785M or 91% of the companies turnover.

Orkney Ferries is deficit funded, whereby, any surpluses or deficits earned by the Company will be repaid to, or recovered from the Council.

No dividend payments were due to, or received by, the Council in respect of its investment.

Weyland Farms Limited is a company incorporated in 1983 under the terms of the Companies Acts to promote farming. The Council is the principle shareholder in the company holding all 510,000 £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 6 of the seats on the board, with each director entitled to one vote.

The latest set of audited accounts is for the year to 31 March 2006. Copies of these accounts can be obtained from Orkney Islands Council, School Place, Kirkwall, Orkney, KW15 1NY.

The net assets of the company at 31 March 2006 were £0.048m compared to £0.077m at 31 March 2005. The loss before taxation for the period to 31 March 2006 was £0.017m compared to £0.047m for the period to 31 March 2005. In 2005-06, Orkney Islands Council contributed £0.00m or nil% of the companies turnover. No dividend payments were due to, or received by, the Council in respect of its investment.

Orkney Islands Property Development Ltd is a company limited by guarantee formed in 1991 and is registered in Scotland. Its principal place of business is 15 Victoria Street, Kirkwall KW15 1DN. The Company provides housing and related management services to the general public. Any surplus generated by the company is applied solely towards its continuation, development and the provision of housing in Orkney.

Orkney Islands Property Development are included in the Council's Group Accounts, because the Council has ultimately been prepared to accept the risk of cash shortfalls in the entity, and as such it was ultimately exercising dominant influence over it. Councillors and Council Officials hold 3 of the 9 seats on the board, with each director entitled to one vote.

The latest set of unaudited accounts is for the year to 31 March 2006. When available, copies of these accounts can be obtained from the General Manager, 15 Victoria Street, Kirkwall, KW15 1DN.

The net assets of the company at 31 March 2006 were £0.341m compared to £0.324m at 31 March 2005. The loss before taxation for the period to 31 March 2006 was £0.002m compared to £0.017m for the period to 31 March 2005. In 2005-06, Orkney Islands Council contributed £0.150m or 43% of the companies turnover. No dividend payments were due to, or received by, the Council in respect of its investment.

The Pickaquoq Centre Trust is a company limited by trust formed in 1999 and is registered in Scotland. Its principal place of business is The Pickaquoq 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 Pickaquoq Centre Trust are included in the Council's Group Accounts, because the Council has ultimately been prepared to accept the risk of cash shortfalls in the entity, and as such it was ultimately exercising dominant influence over it. Councillors and Council Officials hold 5 of the 11 seats on the board, with each trustee entitled to one vote.

The latest set of unaudited accounts is for the year to 31 March 2006. When available, copies of these accounts can be obtained from The Pickaquoq Centre, Muddisdale Loan, Kirkwall KW15 1LR.

The net liabilities of the company at 31 March 2006 were £0.010m compared to £0.157m at 31 March 2005. The profit before taxation for the period to 31 March 2006 was £0.145m compared to a loss of £0.032m for the period to 31 March 2005. In 2005-06, Orkney Islands Council contributed £0.646m or 57% of the companies turnover. No dividend payments were due to, or received by, the Council in respect of its investment.

Orkney Meat Limited is a private limited company formed in 1986 and is registered in Scotland. Its registered office is at The Abattoir Grainshore Road, Hatston Industrial Estate, Kirkwall KW15 1FL. The Company's main business is that of meat producers and wholesalers.

Any surplus generated by the company is distributed by means of dividend or retained and applied solely to its contribution and development. The accounts of the Orkney Meat Limited are published separately and are made available to all members. The latest set of audited accounts for the year to 31 December 2005. Copies may be obtained from the General Manager, Orkney Meat Limited, Grainshore Road, Hatston Industrial Estate, Kirkwall, KW15 1FL.

In 2005-06, Orkney Island Council contributed £0.00m or nil% of the company's turnover and its share of the year-end net asset of £1.089m (2004-05 £1.109m) is included in the Group Balance Sheet. The following additional disclosures are required under accounting regulations for Orkney Meat Limited because the Council's share of the net liabilities of the Company exceeds 25%.

	2005-06	2004-05
Council's Share of Orkney Meat Limited:	38.0%	38.0%
	£m	£m
Turnover	2.238	2.123
Profit or (loss) before tax	(0.012)	0.021
Interest Payable / Receivable	0.003	0.004
Taxation	(0.001)	(0.003)
Profit or (loss) after tax	(0.008)	0.022
Fixed assets	0.137	0.162
Current assets	0.441	0.431
Liabilities due within one year	(0.108)	(0.155)
Liabilities due after one year or more	(0.056)	(0.017)
Net liabilities	0.414	0.421
Contingent liabilities	None	None
Capital commitments	None	None

Orkney and Shetland Valuation Joint Board was formed in 1996 at local government re-organisation by Act of Parliament. Its principal place of business is Shetland Islands Council. The Board provides the valuation function for Orkney and Shetland Islands. The Board's running costs are met by the two member Councils. Surpluses or deficits on the Board's operations are shared between the Councils. In 2005-06, Orkney Island Council contributed £0.286m or 51.6% of the Board's estimated running costs and its share of the year-end net liability of £0.479m (2004-05 £0.438m) is included in the Group Balance Sheet. Copies of its accounts may be obtained from the Shetland Islands Council.

The following additional disclosures are required under accounting regulations for Orkney and Shetland Valuation Joint Board because the Council's share of the net liabilities of the Valuation Joint Board exceeds 25%.

	2005-06	2004-05
Council's Share of Orkney and Shetland Valuation Joint Board	51.60%	48.40%
	£m	£m
Turnover	0.288	0.253
Profit or (loss) before tax	-	0.001
Interest Payable / Receivable	-	(0.001)
Taxation	-	-
Profit or (loss) after tax	-	-
Fixed assets	-	-
Current assets	0.005	0.117
Liabilities due within one year	(0.005)	(0.117)
Liabilities due after one year or more	(0.247)	(0.212)
Net liabilities	(0.247)	(0.212)
Contingent liabilities	None	None
Capital commitments	None	None

Northern Joint Police Board is the statutory body established under the Local Government Reorganisation in 1975, and provides a vast range of policing services on behalf of the 4 local authorities in the Highlands and Islands of Scotland. In 2005-06, Orkney Islands Council contributed £1.505m or 5.76% of the Board's estimated running costs and its share of the year-end net liability of £325.794m (2004-05 £274.993m) is included in the Group Balance Sheet. Copies of its accounts may be obtained from the Highland Council.

Highlands and Islands Fire Board is the statutory body established under the Local Government Reorganisation in 1975, and provides fire services on behalf of the 4 local authorities in the Highlands and Islands of Scotland. In 2005-06, Orkney Islands Council contributed £1.342m or 5.91% of the Board's estimated running costs and its share of the year-end net liability of £56.2294m (2004-05 £33.066m) is included in the Group Balance Sheet. Copies of its accounts may be obtained from the Highland Council.

The following additional disclosures are required under accounting regulations:

	Police Joint Board		Fire Joint Board	
	£m	£m	£m	£m
	2005-06	2004-05	2005-06	2004-05
Council's Share	5.76%	5.54%	5.91%	7.96%
Gross income	0.334	0.318	0.033	0.130
Surplus for the year	-	-	(0.007)	(0.010)
Fixed assets	2.154	2.065	2.097	2.657
Current assets	0.461	0.401	0.156	0.530
Liabilities due within one year	(0.227)	(0.244)	(0.177)	(0.582)
Liabilities due after one year or more	(21.145)	(17.449)	(5.400)	(6.377)
Net liabilities	(18.757)	(15.227)	(3.324)	(3.772)
Contingent liabilities	None	None	None	None
Capital commitments	None	None	None	None

2. Financial Impact of Consolidation

The effect of inclusion of the above bodies on the Group Balance Sheet is to reduce both Reserves and Net Assets by £25.494m representing the Council's share of the net liabilities in these entities. As above, this reflects the combined pension liability of these organisations, particularly those recorded for the Police and Firemen's Pension Schemes.

3. Adjustments to Council's Results to Align with UK GAAP (Generally Accepted Accounting Practice)

Various accounting adjustments to the financial information in Orkney Island Council's Consolidated Revenue Account are necessary to align it with the UK accounting standards (GAAP) requirements for Group Accounting. These are:

	£m
Notional interest reversed out	(6.424)
Profit/Losses on disposal of fixed assets	0.333
Capital Grants amortised to services	(1.709)
	(7.800)

These adjustments to the Council's financial results make the Asset Management Account redundant.

In accordance with UK accounting standards, no adjustments have been made for transactions carried out and balances held between the Council and its associates in the Group Accounts.

4. Council's Consideration for Acquisition of Associates' Net Assets or Liabilities

The assets, liabilities and reserves of the Council have been combined with its share of the net assets or liabilities of its associates and joint ventures under the accounting conventions of the "acquisition basis" using the equity method.

The accounting regulations require certain disclosures about the net assets or liabilities so acquired:-

The Council paid a market price for its consideration in Orkney Towage Company Ltd and Orkney Meat Ltd. There is no deferred or contingent purchase consideration.

All goodwill arising from these purchases has been written off in the current year.

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

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

5. Exceptional Items

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

2004/05		2005/06
£000		£000
1,177	Staff Costs	90
0	Equal Pay	2,350
71	Goodwill	536
1,248		2,976

6. Taxation

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

7. Other Pension Schemes

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

Merchant Navy Officers Pension Plan (MNOFF)

Some employees contribute to this defined contribution pension plan. The contribution rate is 5.1%. Contributions payable in the year amounted to £6,318.

Merchant Navy Officers Pension Fund (MNOFF)

The MNOFF is closed to new members however some existing employees may qualify to contribute to the MNOFF, a defined benefit scheme, with a contribution rate of 11.9%. The group made contributions to this fund of £88,410 in the year. It is a multiple employer scheme and the company is unable to identify its share of the underlying assets and liabilities on a consistent and reasonable basis. The Group is therefore accounting for contributions and payments to the MNRPF as if it were a defined contribution scheme.

As at the last full valuation in March 2003, the pre-78 (Old) section of the MNOFF had a surplus of assets over liabilities, while the post-78 (New) section had a deficit of £194M.

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

	£000
Orkney Ferries Ltd	629
Orkney Towage Co Ltd	603
Orkney Islands Council	425
	1,657

Additional contributions by the group paid during the current year totaled £331,508, being the 2005 and 2006 installments. The additional contribution are subject to change, dependent on the results of future actuarial valuations of the fund.

Merchant Navy Ratings Pension Plan (MNRPP)

Some employees contribute to this defined contribution pension plan. The contribution rate is 5.1%.

Contributions payable in the year amounted to £831.

Merchant Navy Ratings Pension Fund (MNRPF)

Some employees may qualify to contribute to the MNRPF, an industry wide defined benefit scheme, with a contribution rate of 2.0%. The MNRPF is a closed scheme and the full triennial actuarial valuation at 31 March 2002 carried out by an independent actuary showed that the scheme had exceeded its minimum funding requirement at that date, but was still in deficit on an ongoing basis. The valuation showed that the market value of assets was 84 per cent of the value of benefits accruing to members allowing for future increases. As a result of this valuation a revised fixed schedule of payments has been drawn up under which Current Employers are required to pay a total of £13M each year remains in place until 31 March 2017. For FRS purposes the trustees of the MNRPF have not updated the actuarial valuation to 31 December 2002 and the Group cannot identify its share of the underlying assets and liabilities of the MNRPF on a consistent and reasonable basis. The Group is therefore accounting for contributions and payments to the MNRPF as if it were a defined contribution scheme.

As at the last full valuation in March 2002, the MNRPF had a deficit of £94M.

The group made contributions to this fund of £2,481 in the year. Additional contributions by the group paid in respect of the scheme deficit during the current year totaled £41,617.

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

The Group Statement of Total Movements in Reserves

	Fixed Asset Restatement Account £000's	Revaluation Reserve £000's	Capital Financing Account £000's	Usable Capital Receipts £000's	Capital Fund £000's	Total £000's
Capital Reserves						
Balance as at 1 April 2005	105,720	239	8,683	1,277	1,952	117,871
Net (Surplus)/Deficit for year	(5,235)	-	3,221	-	149	(1,865)
Unrealised (gains)/loss from Revaluation of Fixed Assets	(3,408)	-	-	-	-	(3,408)
Effect of disposals of Fixed Assets						
Cost or value of assets disposed	1,355	-	-	-	-	1,355
Proceeds from disposal	-	-	-	(1,688)	-	(1,688)
Net (Surplus) / Deficit	1,355	-	-	(1,688)	-	(333)
Financing of Fixed Assets	-	-	-	(441)	-	(441)
Balance as at 31 March 2006	95,722	239	11,904	2,524	2,101	112,490

	General Fund £000's	Harbour Authority £000's	Repairs and Renewals £000's	Pension Reserve £000's	Associates Reserves £000's	Total £000's
Revenue Reserves						
Balance as at 1 April 2005	1,662	183,872	8,147	(25,987)	(18,815)	148,879
Net Surplus/(Deficit)	(158)	3,182	(258)	(4,918)	(3,356)	(5,508)
Balance as at 31 March 2006	1,504	187,054	7,889	(30,905)	(22,171)	143,371

Notes to the Group Accounts

1. Associated Organisations

The following organisations were brought into the Group Accounts with the appropriate accounting treatment applied:

Name of combining entity	Method of Accounting
Orkney Towage Company Ltd	Subsidiary
Orkney Ferries Ltd	Subsidiary
Weyland Farms Ltd	Subsidiary
Orkney Islands Property Development Ltd	Subsidiary
Pickaquoy Centre Trust	Subsidiary
Orkney Meat Ltd	Associate
Northern Joint Police Board	Joint Venture
Highland and Islands Fire Board	Joint Venture
Orkney and Shetland Valuation Joint Board	Joint Venture

2. Materiality

A number of other organisations were also considered for consolidation, but after a full review it was deemed that for the purposes of this exercise they could not be considered to have a group relationship on the basis that Orkney Islands Council would be unable to derive future economic benefits and would have no exposure to financial risk.

3. Compliance with UK GAAP

The following adjustments were made to the Group Accounts Statements to comply with UK GAAP to prepare the Income and Expenditure Statement.

	2004/05 £000	2005/06 £000
Notional interest reversed out	(7,246)	(6,424)
Profit/Losses on disposal of fixed assets	93	333
Capital Grants amortised to services	(1,491)	(1,709)
	(8,644)	(7,800)

4. Associates

Associated organisations were consolidated on the following basis

	2004/05 (%)	2005/06 (%)
Orkney Meat Ltd	38.00	38.00
Northern Joint Police Board	5.54	5.76
Highland and Islands Fire Board	7.96	5.91
Orkney and Shetland Valuation Joint Board	48.40	48.50

GROUP CASH FLOW STATEMENT

	2005/06 £000	2005/06 £000
Net Cash Inflows from Revenue Activities	Note 1	(1,663)
Returns on Investments and Servicing of Finance		
Cash Outflows		
Interest Paid	202	
Finance Lease Interest	-	
	202	
Cash Inflows		
Interest Received	305	
	305	
Net Cash Inflow from Investments and Servicing of Finance		103
Capital Activities		
Cash Inflows		
Purchase of Fixed Assets	13,866	
Purchase of Long Term Investments	1,141	
Other Capital Payments	782	
	15,789	
Cash Inflows		
Sale of Fixed Assets	1,658	
Capital Grants received	4,197	
Sale of Long Term Investments	6,530	
Other Capital Receipts	2,760	
	15,145	
Net Cash Outflow before Financing		(644)
Management of Liquid Resources		
Net (Increase)/Decrease in Short Term Deposits	Note 3	1,842
Management of Financing Cash Outflows		
Repayments of Amounts Borrowed	Note 4	(1,823)
Capital Element of Finance Lease		-
		(1,823)
Cash Inflows		
New Loans raised		-
Net Cash Outflow from Financing		1,823
Increase / (Decrease) in Cash	Note 2	1,461

Notes to the Cashflow Statement

1. Reconciliation of Operating Surplus to net cash inflow from Revenue Activities

	2005/06 £000
Operating Deficit	(1,333)
Non Cash Transactions	
Contributions to Reserves	1,678
Adjustments not Involving the Movement of Funds	(7,236)
Contributions to Capital	4,193
Increase in Bad Debt Provision	73
	(2,625)
Items on an Accruals Basis	
Increase in Stock and Work in Progress	(91)
Decrease in Debtors	(1,982)
Increase in Creditors	3,035
	962
Cash Inflow from Revenue Activities	(1,663)

2. Movement in Cash

	31-Mar-06 £000	31-Mar-05 £000	Movement £000
Bank Overdraft	199	(961)	1,160
Cash	8	7	1
Increase / (Decrease) in Cash	207	(954)	1,161

3. Reconciliation of Liquid Resources

	31-Mar-06 £000	31-Mar-05 £000	Movement £000
Temporary Lending	7,222	9,064	(1,842)

4. Reconciliation of Financing

	31-Mar-06 £000	31-Mar-05 £000	Movement £000
Revenue Advances from Common Good, Charities & Trusts	(5,288)	(3,465)	(1,823)

STATEMENT ON THE SYSTEM OF INTERNAL FINANCIAL CONTROL

- 1 This statement is given in respect of the single entity Statement of Accounts for Orkney Islands Council only, and does not include the Group accounting arrangements. We acknowledge our responsibility for ensuring that an effective system of internal financial control is maintained and operated in connection with the resources concerned.
- 2 The system of internal financial control can provide only reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period.
- 3 The system of internal financial control is based on a framework of regular management information, financial regulations, administrative procedures (including segregation of duties) management supervision, and a system of delegation and accountability. Development and maintenance of the system is undertaken by managers within the Council. In particular, the system includes:
 - comprehensive budgeting systems;
 - regular reviews of periodic and annual financial reports which indicate financial performance against the forecasts;
 - setting targets to measure financial and other performance;
 - the preparation of regular financial reports which indicate actual expenditure against the forecasts;
 - clearly-defined capital expenditure guidelines;
 - as appropriate, formal project management disciplines; and
 - best value review processes incorporating the preparation and implementation of service improvement plans.

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

The internal audit section reports directly to the Director of Finance and Housing. The section operates in accordance with the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom.

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

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

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

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

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

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

6 During 2005/06, budgetary control procedures have been further developed, together with the provision of support and training to budget holders.

However a feature of the budget training has also been the recognition that in general budget holders are not familiar with the Financial and Contract Regulations. This issue will be addressed through further budget holder training and ongoing communications with the Service Departments during 2006/07.

In relation to the Council's Payroll System, the development of a Service Level Agreement with Highland Council for the provision of the Payroll System remains to be completed, as do the establishment of arrangements for service continuity in the event of a major Payroll systems failure.

The Council is still not fully compliant with "The Code of Guidance on Funding External Bodies and following the Public Pound". The Council needs to specify its expectations more clearly in terms of the services to be delivered for the agreed level of funding, and also to demonstrate that the monitoring arrangements are being undertaken and confirm that the Council's objectives are being delivered by the relevant arms length external organisations.

Whilst the Council has agreed a risk management policy, there are still actions that require to be completed in implementing a risk management framework, although a project team has been set up to progress this work.

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

During 2005/06 the Council took part in the National Fraud Initiative. During this exercise, no fraud or errors were identified that resulted in savings being made for the Council. This result provides assurance on our systems for preventing and detecting fraud and error.

I am satisfied, that the responsible officers are aware of, and are addressing the issues detailed above.

A TAIT, C.P.F.A., F.C.C.A.
Director of Finance
30 June 2006

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Authority's Responsibilities

The authority is required:

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

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

The Director of Finance's Responsibilities

The Director of Finance is responsible for the preparation of the authority's statement of accounts which, in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ("the Code of Practice"), is required to present fairly the financial position of the authority at the accounting date and its income and expenditure for the year ended 31 March 2006.

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

selected suitable accounting policies and then applied them consistently;

made judgements and estimates that were reasonable and prudent;

complied with the Code of Practice.

The Director of Finance has also:

kept proper accounting records which were up to date;

taken reasonable steps for the prevention and detection of fraud and other irregularities.

I confirm that this Statement of Accounts presents fairly the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2006.

A TAIT, C.P.F.A., F.C.C.A.
Director of Finance
30 June 2006

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 2006 under Part VII of the Local Government (Scotland) Act 1973. These comprise the Consolidated Revenue Account, the Harbour Authority Summary Account, the Orkney College of Further Education Account, the Housing Revenue Account, the Council Tax Income Account, the Non-Domestic Rates Income Account, the Consolidated Balance Sheet, the Statement of Total Movements in Reserves, the Cash Flow Statement, the Pension Fund Account, Charity, Trust and Common Good Funds and the Group Accounts and the related notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to the parties to whom it is addressed in accordance with the Local Government (Scotland) Act 1973 and the Code of Audit Practice approved by the Accounts Commission and for no other purpose as set out in paragraph 43 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by Audit Scotland, dated July 2001.

Respective responsibilities of the Director of Finance and Auditor

The Director of Finance's responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Code of Practice on Local Authority Accounting in the United Kingdom 2005 - A Statement of Recommended Practice ('the 2005 SORP') are set out in the Statement of Responsibilities.

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

I report my opinion as to whether the financial statements present fairly the financial position of the local authority in accordance with applicable laws and regulations and the 2005 SORP, and have been properly prepared in accordance with the Local Government (Scotland) Act 1973. I also report if, in my opinion, the Explanatory Foreword by the Director of Finance is not consistent with the financial statements, if the local authority has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the Statement on the System of Internal Financial Control reflects the authority's compliance with the SORP. I report if, in my opinion, it does not comply with the SORP or if it is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the statement covers all risk and controls. Neither am I required to form an opinion on the effectiveness of the local authority's corporate governance procedures or its risk and control procedures.

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

Basis of audit opinion

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

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

Opinion

In my opinion

the financial statements present fairly, in accordance with applicable laws and regulations and the 2005 SORP, the financial position of the local authority and its group as at 31 March 2006 and its income and expenditure for the year then ended; and

the financial statements have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

Fiona Kordiak CPFA, Assistant Director
Audit Scotland – Audit Services
Osborne House, 1/5 Osborne Terrace
Edinburgh EH12 5HG

25 September 2006