



ORKNEY
ISLANDS COUNCIL

Annual Accounts

2017/2018

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Management Commentary

Introduction

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

This management commentary provides an overview to the Annual 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 2018 and an overview of the Council's financial position going forward.

Review of the Year

Local Taxation

Orkney Islands Council on 09 February 2017 agreed an estimated General Fund budget of £81.976M and under the Local Government Finance Act 1992 set Council Tax for Band D properties at £1,068, being an increase of 3% on financial year 2016-17. This was the second lowest Council Tax figure in Scotland being some £105 below the Scottish average.

Following confirmation of Scottish Government funding, a revised General Fund Revenue Budget for 2017/18 of £82.441M was approved at the Policy and Resources Committee on 20 June 2017. Since that date, additional revenue grant of £0.660M has been received from the Scottish Government and £1.840M transferred from reserves to give a final budget for the year of £84.941M.

On a comparable basis, the actual net cost of General Fund services amounted to some £84.619M, while sources of finance were realised at £84.864M, including a contribution of £9.292M from reserves. Overall, this represents an increase on General Fund non-earmarked balances by £0.245M to £5.032M for the financial year ended 31 March 2018.

Council tax income contributed to this position, with Orkney Islands Council being the top local authority for collection of council tax in Scotland, with a collection rate of 97.9% in year (98.0% for 2016/17).

Financial Performance

In reviewing the financial performance of the Council, as a whole, the trading activities including the Housing Revenue Account, Harbour Authority including Strategic Reserve Fund, and Orkney College all need to be recognised in addition to that of General Fund Services. As a whole, the Council planned to generate a surplus of £9.548M, its activities for financial year 2017-2018. During the year, the budget surplus was revised downwards to £5.456M.

2017-2018	Budget £000	Virements £000	Revised Budget £000	Net Expenditure £000	Variance £000
Education	30,242	772	31,014	31,264	250
Cultural and Recreation	4,120	117	4,237	4,370	133
Community Social Services	17,723	547	18,270	18,270	0
Roads and Transportation	12,877	35	12,912	12,924	12
Planning and Development	2,908	321	3,229	3,100	(129)
Environmental Services	3,135	173	3,308	3,405	97
Other Services	10,018	220	10,238	9,943	(295)
Housing Services	1,418	70	1,488	1,343	(145)
Housing Revenue Account	0	0	0	(66)	(66)
Harbour Authority	(2,127)	3,363	1,236	(80)	(1,316)
Net Cost of Service	80,314	5,618	85,932	84,473	(1,459)
Other Income and Expenditure	(89,862)	(1,526)	(91,388)	(84,142)	7,246
Deficit/(Surplus) For Year	(9,548)	4,092	(5,456)	331	5,787

The following section provides a more detailed explanation of the year end outturns.

Education delivered an overspend of £250K. The main reasons for this are:

- School transport £97K in respect of increase in fuel prices.
- Staff Costs £174K in respect of support for learning assistants.

Cultural and Recreation delivered an overspend of £133K. The main reason for this is:

- Shortfall in income.

Planning and Development delivered an underspend of £129K. The main reason for this is:

- Increased income in respect of planning fees.

Environmental Services delivered an overspend of £97K. The main reason for this is:

- An increase in waste disposal costs.

Other Services delivered an underspend of £295K. The main reason for this is:

- Staff vacancies.

Housing Services delivered an underspend of £145K. The main reasons for this are:

- A reduction of £45K in respect of the cost of leased properties.
- Additional grant in respect of accommodation £62K.
- Reduced spend on housing repair grants £23K.

Housing Revenue Account delivered an underspend of £66K. The main reason for this is:

- Reduced costs on re-active repairs and maintenance.

Harbour Authority delivered an underspend of £1,316K. The main reasons for this are:

- Reduced spend on repairs and maintenance costs £964K.
- Increased harbour dues income £340K.

Financing and Investment Income and Expenditure delivered a deficit of £7,246K. The main reason for this is:

- Reduced income from investment activities.

Comprehensive Income and Expenditure Statement

The Comprehensive Income and Expenditure Statement summarises the total costs of providing Council services and the income available to fund those services. This includes all activities associated with General Fund Services, the Housing Revenue Account and Harbour Authority.

General Fund Services are funded by government grant and council tax revenues and the Movement in Reserves Statement shows the movement on General Fund Services in 2017/18 financial year.

The net cost of services provided by the Council for the year amounted to £90.824M, which after taking into account corporate financing and investment activities resulted in a deficit on the provision of services of £6.735M being realised for the Council as a whole.

Against a revised budget to generate a surplus of £5.456M during the year, the Council realised a deficit of £0.331M being an adverse variance of £5.787M, mainly attributable to a shortfall in income on the Council's investment activities.

Principal sources of finance were realised at £83.974M for the year, being Revenue Support Grant of £57.643M, Non-Domestic Rate Income of £9.688M, Council Tax Income of £8.573M and Capital Grants and Contributions of £8.070M.

Other Operating Expenditure for the year totalled £2.629M which is attributable to the loss on disposal of fixed assets.

After taking into account other comprehensive income of £72.040M, overall the activities of the Council returned a surplus of £65.305M to both useable and unusable reserves for the year.

The main source of this surplus can be attributed to a corporate financing and investment gain of £2.744M being principally attributable to the Strategic Reserve Fund, £4.216M revaluation gains on fixed assets and actuarial gains of £67.649M on the Pension Fund. The main spending pressures for the Council remain, as in previous years, as the provision of care for the elderly, transportation and housing.

Movement in Reserves

During the year, Usable Reserves increased from £260.852M to £263.300M, being an increase of £2.448M.

Within this, General Fund Reserves amount to £15.091M, including earmarked balances.

Usable reserves include the Harbour Authority fund balance which increased from £236.459M to £236.751M, being an increase of £0.292M for the year.

Net Worth of the Orkney Islands Council

In financial terms, the Council remains in good health, with its net worth increasing from £547.249M to £612.554M for the financial year to 31 March 2018, being an increase of £65.305M or 11.9%. This movement was largely the result of investment gains on the Strategic Reserve Fund, gains on the revaluation of non-current assets and actuarial gains on the Pension Fund.

As at 31 March 2018, Orkney Islands Council carried a debt of £30.2M, as part of its capital financing requirement.

General Fund Reserves

The Movement in Reserves statement shows an overall net decrease of £0.730M in usable reserves including General Fund Balances for the year, which can be analysed as follows:

	Uncommitted Balances £000	Earmarked Balances £000	Total Balances £000
Balances brought forward 1 April 2018	(4,787)	(10,926)	(15,713)
Increase in Balances 2017-2018	(245)	(1,064)	(1,309)
Use of Balances 2017-2018	0	2,039	2,039
Balances carried forward 31 March 2018	(5,032)	(9,951)	(14,983)

Existing policy is to make a substantial contribution from reserves each year to maintain the level of local authority services currently provided within the county, while keeping the council tax on or below the national average for all Scottish local authorities. The transfer of these funds forms part of a medium term financial strategy and is intended to stabilise the level of balances that are available to support General Fund Services and the Council Tax setting process.

After taking into account funds earmarked for specific projects and other purposes, a balance of £5.032M remains available for general fund purposes, equivalent to 5.9% of the General Fund budget for 2017-18. It is considered prudent for the Council to maintain a general fund balance at this level as a contingency for unforeseen events.

Harbour Authority Account

The Harbour Authority generated a gain of £2.020M from its various harbour operations for the year, including the Scapa Flow Oil Port and Miscellaneous Piers and Harbours Account. Investment activities through the Strategic Reserve Fund generated a gain of £5.294M for the year, after netting off grants and other investment expenditure.

Investment activities include externally managed fund investments plus a range of local investments in the form of property, direct investment and loans to businesses.

Financial assets stated at fair value, adjusted through the profit or loss account, include the following investments held as part of the Strategic Reserve Fund on the Harbour Authority Account:

Investments	Market Value £000	Fair Value %
Managed Funds	215,403	96.78
Private Companies	4,704	2.11
Fishing Quota	2,455	1.10
Other	13	0.01
Total	222,575	100.00

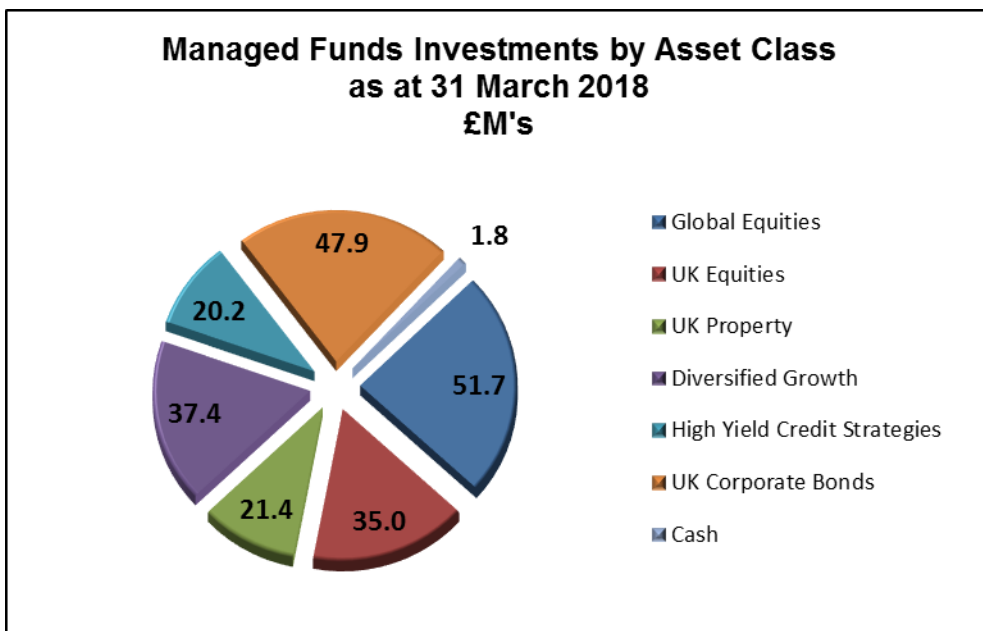
Investments managed by external fund managers are collectively referred to as managed fund investments.

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

the Fund's long-term commitments in terms of the decline and decommissioning of the Flotta Oil Terminal in the future.

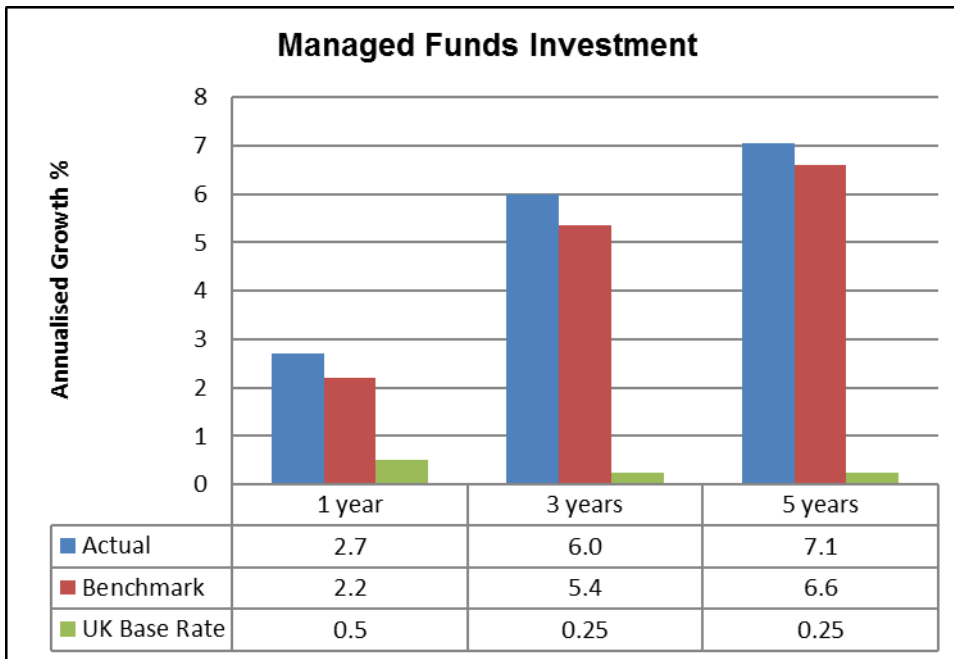
The prime objective for the managed fund investments is to maintain or increase their real value over time, while at the same time generating an annual return which meets the targets set by the Council. These objectives normally require to be measured over a number of years while acknowledging that abnormal fluctuations in the short term do create a cause for concern.

The undernoted pie chart shows the managed fund investments by asset class as at 31 March 2018:



The performance of the managed funds investments for the Strategic Reserve Fund is measured over a rolling 3 year period with the target to outperform the aggregate benchmark.

The performance of the Strategic Reserve Fund managed investment funds is measured against a range of indices reflecting the weighting or concentration of individual asset classes within the approved investment strategy. The following table indicates how managed fund investments have collectively performed relative to benchmark as at 31 March 2018:



The Strategic Reserve Fund managed funds investments increased to a total of £215.4M, representing a gain of 2.7% on the year, with further analysis provided at Note 17.

After allowing for amounts required by statute and non-statutory proper accounting practice, including the use of reserves during the year, which included net contributions of £7.030M to support general fund services, and £0.333M to support the Community Development Fund, the net effect has been an increase of £0.292M on the Harbour Authority Account Reserves for the year.

Orkney College

The range of higher and further educational activities provided by the College returned a deficit of £0.241M for the year (deficit of £0.238M for 2016/17). A large proportion of this accounting deficit can be attributed directly to the requirement to account for employee benefits.

After allowing for amounts required by statute and non-statutory proper accounting practice, the net effect of the Orkney College activities resulted in an increase on reserves of £0.040M from an opening reserve balance of £0.067M at the start of the financial year. It is notable that the college has now returned to a position where it has been able to generate sufficient income to be able to cover its operating costs and as a result has operated within approved budgetary controls for the past two years.

Housing Revenue Account (HRA)

The HRA returned a deficit on its operations of £0.098M for 2017/18 (gain £2.133M for 2016/17). Against a budgeted deficit of £0.930M, and after allowing for amounts required by statute and non-statutory proper accounting practice, and transfers to/from Reserves, the HRA achieved a profit of £0.066M for the year which increased the balance to £0.243M as at 31 March 2018 (£0.177M as at 31 March 2017).

Capital

The Council is able to regulate its own capital spending limits within a prudential framework recommended by the Chartered Institute of Public Finance and Accountancy and endorsed by the Scottish Government. Our performance confirms that actual capital spending of £14.760M, against an original planned capital investment of £19.708M, was managed within the overall “Prudential Framework” expenditure limits approved by Council. The Prudential Framework indicators, which are outlined below, are important financial measures which support prudent decision making and assists in securing affordable and financially sustainable investment and borrowing activities undertaken by the Council.

A significant programme of capital investment most notably in relation to the £58.881M Schools Investment programme has come to an end, with a final retention payment of £2.401M being made in 2017/18.

In addition to that programme the Council also invested a further £1.550M on schools, £0.125M in the house build programme, £1.586M in harbour infrastructure, £3.717M in roads and transport, £0.272M in leisure and cultural services, £0.290M in other housing, £1.440M in community social services, £0.506M in environmental services, £1.573M in other services, £1.267M in investment properties and £0.033K on plant and equipment at Orkney College.

Funding of capital expenditure included £1.609M from revenue, £8.070M from government grants, £0.734M from the sale of assets and other receipts, and £1.463M from use of reserves.

It is however recognised that in setting an ambitious capital programme for financial year 2017/18, that this was not deliverable due to weaknesses in the forward planning process and has resulted in a significant amount of programme slippage.

Property, Plant and Equipment Assets

During 2017/18, the overall valuation of Property, Plant and Equipment assets owned by the Council decreased by £0.479M. Expenditure of £14.760M on new assets was partially offset by an annual depreciation charge of £9.463M.

Group Accounts

In accordance with the Code of Practice on Local Authority Accounting in the United Kingdom the Council has prepared Group Accounts to reflect its interests in subsidiaries, associates and joint ventures. To comply with the Code, the Council has identified 3 “subsidiary” companies where the Council has a “controlling interest”, as follows:

- Orkney Towage Company Limited
- Orkney Ferries Limited
- Pickaquoy Centre Trust

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

The Orkney Integrated Joint Board has been included as a “joint venture”.

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

The effect of recognising the Council's interests in subsidiaries and associates on a group basis is an increase in net worth of £2.702M to £615.256M.

Performance against Prudential Framework Indicators

The Prudential Code for Capital Finance in Local Authorities allows greater local flexibility for investment decisions that are informed and supported by a suite of performance indicators. The indicators for 2017-2018 were approved by Council on 28 February 2017. The Council's overall performance against these indicators provides a firm basis for the monitoring and control of capital investment and borrowing and for determining that it is prudent, affordable and financially sustainable. Certain headline indicators are sub-divided per recommended best practice into two programmes – housing and non-housing.

The key performance indicators are:

1. An "approved limit" for capital expenditure (the maximum that the Council may spend on capital investment during the year).
2. A capital financing requirement (the estimated amount of the Council's aggregate capital expenditure on its balance sheet)
3. An "operational boundary" for the Council's external borrowing (the upper limit for the aggregate external borrowing needed) plus an "authorised limit" for the Council's external borrowing (the upper limit of aggregate external borrowing that is affordable and prudent).

1. Approved Limit.

The original "approved limit" for capital expenditure during 2017/18 was £19.708M with slippage from the previous financial year, increasing the budget to £21.251M. During the year further projects were added and removed from the Council's Capital Programme, resulting in a revised limit of £25.992M. Since then, further delays have been identified in the delivery of the approved programme of capital works for financial year 2017/18, including for example late revisions to project specification and design together with unrealistic timescales resulting in projects being referred back to the relevant Service Committee for further consideration in some cases. As a result of this £10.050M has already been re-profiled into 2018/19 reducing the approved limit for 2017/18 to £15.942M.

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

	Original Limit £000	Revised Limit £000	Actual £000
Non-HRA	16,698	15,316	14,635
HRA	3,010	626	125
Total	19,708	15,942	14,760

2. Capital Financing Requirement.

The actual capital financing requirement for 2017-18 is well within the overall approved limit as a result of the under-spending outlined above. The capital financing requirement at the year-end compared to the approved limit is as follows:

	Approved Limit £000	Actual £000
Non-HRA	11,650	2,884
HRA	1,835	0
Total	13,485	2,884

3. External Debt at the Year-end.

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

	Borrowing Limits £000	Actual £000
Aggregate external debt of the Council at 31 March 2018		30,000
Operational Boundary	60,000	
Authorised Limit	75,000	

Long-term Borrowing

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

The borrowing strategy is prepared in accordance with the Code of Practice on Treasury Management in Local Authorities and with the Council utilising a borrowing facility from the Public Works Loan Board. Further details are provided at Note 17.

Provisions, Contingencies and Write-offs

The Council has provided for eventualities which may have a material effect on the financial position of the Council. The reasons for the provisions made are outlined in Note 24.

As outlined at Note 9, the Council has also earmarked £10.059M for specific purposes.

The Council revalued non-current assets and recognised a net gain of £4.216M.

Net Pension Position

The Council is required to comply with the accounting principles as required by International Accounting Standard 19 (IAS19). This requires the cost of retirement benefits to be recognised in the Financial Statements when employees earn them, rather than when the benefits are actually paid as pensions.

The disclosure requirements for pension benefits under IAS19 are detailed in Notes 38 and 39. The appointed actuaries have confirmed an increase of £60.551M in their assessment of the funding level for the pension fund. This increase is due to revisions in the financial assumptions as at 31 March 2018 compared to 31 March 2017, while the Fund investments

continue to perform strongly. The effect of this has been to reduce the assessed pension liability of £45.386M to a surplus of £15.165M.

The assessment provides only a snapshot as at 31 March 2018 and necessarily changes on a day-to-day basis to reflect stock market movements in particular. The appointed actuaries remain of the view that the asset holdings of the Orkney Islands Council Pension Scheme and the contributions from employees and employers should provide sufficient security and income to meet future pension liabilities. This view has been confirmed in the revised Financial Strategy Statement which includes a reduction in both the outperformance target for the Funds investment strategy, together with a phased reduction in the employer contribution rate.

Events after the Balance Sheet Date

The draft annual accounts were signed by the Head of Finance on 29 June 2018. Events taking place after this date have not been reflected in the financial statements. Material events between the balance sheet date and the date of signing have been considered and where necessary reflected in the financial statements.

Charitable Funds including Non-Charitable and Common Good Funds

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

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

Overall, the Funds achieved a combined gain of £0.167M for the year.

The total net value of the funds increased from £1.607M to £1.774M.

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

[Annual Accounts of the Charitable Funds](#)

Impact of Economic Climate

Management of Treasury Risk

The past year has proved to be another volatile year for investors in general, with global financial markets benefitting from positive economic data and renewed investor optimism, offset by geo-political uncertainty.

The UK markets remained more subdued as attention focussed on pedestrian economic growth forecasts along with the effects of inflation on interest rates.

Much uncertainty still surrounds the UK economy as plans for Brexit have yet to be finalised.

Key Financial Risks

For a number of years, the Council has used the Strategic Reserve Fund to supplement General Fund services on a restricted basis as part of an agreed strategy, whereby the Council presses the Scottish Government for equality of treatment in the finance settlement across the Island unitary authorities.

It is against this background that the increasingly stringent financial circumstances facing councils as a result of cuts in Government grant allocations coupled with increased demand for services and heightened regulatory requirements are placing correspondingly higher levels of risk upon councils and, for the financial year 2017-2018, this has become acute.

While those services which have been “protected” by the settlement carry high levels of risk there are also risks associated with many “non-protected” services and in relation to the corporate responsibilities and compliance duties which apply to all of the Council’s activities.

Due to diseconomies of scale it is likely that the capacity of the Council to meet such responsibilities is limited by comparison with larger councils and as a consequence the level of exposure to risk is greater in the local context.

Despite considerable restraint having been exercised by the Senior Management Team, the service pressures facing the Council for 2017/18 have been calculated at an annual cost of £8.357M of which £2.8M of service pressures was approved as base and one-off additions to the budget.

It is clear however that, with a £1.1M reduction in Government General Revenue grant and baseline and one-off service pressures of £2.8M countered by a Council Tax income increase of £0.4M, there is a significant problem to address in the short term. The mismatch between demand and provision builds upon an increasing gap from previous years and is a problem that must be addressed.

For financial year 2017-2018 this resulted in £7.030M of the Strategic Reserve Fund being used as a funding source to supplement the General Fund Revenue budget.

It is likely, with regard to many areas of the Council’s activities, that it will be very difficult to assure Members with confidence that sufficient resources, in terms of staffing, expertise and systems, are in place to meet all legal and compliance obligations let alone the many standards of good practice which apply to services. This may lead to an increased likelihood of failures or perceived failures within services and clear challenges in terms of meeting performance expectations of the Council and its many stakeholders.

However, after a period of considerable engagement, primarily between the Council Leader and the Finance Secretary, and positive support from the Rural Economy and Connectivity Committee in their report on the draft Scottish Budget in which the Committee called on the Government to treat the matter of fair funding as a priority and to satisfactorily resolve it by the conclusion of the current consideration of the draft budget, the Scottish Government announced in stage one of the debate on the budget its intent to provide supplemental grant funding of £5.5M to cover the deficit funding gap in relation to the revenue funding for Orkney Ferry Services for 2018 to 2019.

As Head of the Paid Service, the Chief Executive has a statutory responsibility to report to the Council on the adequacy of the staff resources necessary to carry out the functions of the Council. As a consequence it is likely that reports regarding this will require to be submitted to the Council in the times to come.

Progress on Council Plan Targets

Orkney Islands Council’s Delivery Plan 2015 to 2018 was published in December 2015, and acts to guide the work of services responsible for the delivery of the Council’s ambitions over the remaining year of the current Council Plan. The Delivery Plan includes a total of 59 individual action points supporting the 26 targets and 7 priorities. Overall progress has been

positive, with 71% of the plan either complete, or likely to meet or exceed target. The following are an example of some of the main action points:

- **Supporting Our Children** – we have worked with partners to deliver the Children’s Services Plan, to improve the life chances of children and young people in Orkney.
- **Impact of Welfare Reform on members of our community** – We have provided advice services to help people affected by Welfare Reform.
- **Communities and schools** – criteria and viability of schools in rural and island communities has been completed, and the prioritisation of actions to ensure improvement in both attainment and achievement for Orkney’s children and young people. We have also worked with our partners to introduce the Orkney Offer for learners in the senior phase to maintain and improve on the number of young people who continue to engage with learning, training and employment opportunities.
- **Regenerating Kirkwall Town Centre** – We have continued to provide support to the Business Improvement District including the refresh of their business plan.
- **Managing Development** – the New Local Development plan was formally adopted on 18 April 2017.
- **A Low Carbon Orkney** – a revised Carbon Management Programme has been approved with a target to reduce CO2 emissions by 42% between 2005 and 2025. The programme includes a five year rolling action plan and emission levels are reported annually.
- **Welfare Reform** – we have put into effect the administration of the Scottish Welfare Fund i.e. Crisis Grants and Community Care Grants.
- **Local community participation** – the Council undertook to develop a feasibility study and business plan associated with the opportunities for Community Councils to play a greater role in providing some Council Services in their area. A range of opportunities were identified and following a successful allocation of resource a proposal for an expansion of the project is awaiting approval.
- **A skilled workforce** – the Council continues to provide a number of work experience placements, modern apprenticeships and graduate traineeships, and appropriate places are being identified on an ongoing basis. Foundation apprenticeships are now a formal option with the Orkney Offer for pupils studying within the senior phase years. The Council is a Disability Confident Committed Employer which is a nationally recognised accreditation scheme that encourages organisations to recruit and retain people with disabilities for their skills and talent.
- **Integrated transport networks** – the new Scapa link road to enable hospital development has been completed. The Scottish Government have committed to providing Road Equivalent Tariff on external Orkney routes.
- **Infrastructure to Support Business Growth** – we have delivered bespoke marketing material, positioning Orkney as a place to invest, and together with Historic Environment Scotland and Highlands and Islands Enterprise, we have commissioned a study to fund sustainable solutions to the challenges presented with Orkney’s high volume of tourism, from both cruise ships and coaches.
- **Mitigating risk from flood and coastal erosion** - the Flood Risk Plan is approved and will form the basis for all future funding applications and construction. The Kirkwall Flood Scheme is significantly complete.
- **Preparing ourselves for new legislation** – procedures and systems are now in place for community asset transfer requests and participation requests.

Some actions have not progressed as originally planned and are summarised below:

- **Digital Communications Equality** – further actions towards 100% coverage of broadband in the community and increased 4G coverage are dependent on progress of The Scottish Government and Highland and Islands Enterprise.
- **Local community participation** – prioritisation of a strategic scale wind project has delayed consultation on community benefit from renewables, and new timings are under review. The scoping of whether services can be delivered from locations other than the council offices has been delayed but a new timescale for this action will be agreed later this year.
- **A low carbon Orkney** – significant work has been undertaken on the development of strategic projects, in particular private wire and scale wind opportunities and grid connection. Funding has been secured and a Limited Liability Partnership set up to own and manage the Orkney Research Campus, with work already underway.
- **Attracting Investment, Investors and Companies** – work on an Orkney Energy Strategy Action Plan is underway.
- **Business Improvement District** – with the end of the first term of the Kirkwall BID a renewal ballot process took place, and the second term has commenced.
- **Benefitting from our Renewables Resources** – the Crown Estate Scotland has now committed to launch a new scheme to allow Local Authorities and other bodies to apply to manage assets in their local area and details of this are awaited.
- **European Union financial support** – work is continuing on maximising the access to funding from the EU for Orkney projects.

The most recent monitoring report on the Council's Council Delivery Plan for 2015 to 2018 for the three months ending 31 March 2018 is available at the following link:

[Monitoring Report on the Council Delivery Plan for 2015 to 2018](#)

Local Government Benchmarking Framework (LGBF)

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

The most recent LGBF data for the Council is available at the following link:

[LGBF Data](#)

Other Sources of Reference

Orkney Islands Council also produces Annual Performance Reports. The report is in two parts, the first part showing the Council's current progress towards meeting the targets set out within the Council Plan 2013-2018 and the second part shows how well the Council performed against national LGBF indicators. The most recent Annual Performance report 2017/18 together with more detailed performance information can be found at the Performance Section of the Council's website, which can be found at:

[Annual Performance Report](#)

Conclusion

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

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



Councillor James Stockan
Leader
27 September 2018



Alistair Buchan
Chief Executive
27 September 2018



Gareth Waterson
Head of Finance
27 September 2018

Statement of Responsibilities for the Annual Accounts

The Authority's Responsibilities

The authority is required to:

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



Councillor James Stockan

Leader

27 September 2018

The Head of Finance's Responsibilities

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

In preparing the Annual Accounts, the Head of Finance, has:

- Selected suitable accounting policies and then applied them consistently
- Made judgements and estimates that were reasonable and prudent
- Complied with legislation
- Complied with the local authority Accounting Code (in so far as it is compatible with legislation).

The Head of Finance has also:

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

I certify that the financial statements give a true and fair view of the financial position of the local authority and its group at the reporting date and the transactions of the local authority and its group for the year ended 31 March 2018.



Gareth Waterson, BAcc., CA
Head of Finance
27 September 2018

Annual Governance Statement

Scope of Responsibility

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

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

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

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

The Governance Framework

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

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

The foundation of the Council's integrity is its culture. The Council's culture is demonstrated through the leadership, behaviour, openness and mutual respect of its elected members and chief officers.

The Council's commitment to high standards of conduct, and respect for the rule of law, is evidenced by its adoption of a range of robust structures, systems and procedures, including standing orders, scheme of delegation, scheme of administration, equality impact assessments and a corporate anti-fraud policy all of which can be found at the following links:

[Scheme of Delegation to Officers](#)

[Councillors and Committees Standing Orders Accessible](#)

[Equality and Diversity](#)

[Anti-fraud Policy](#)

Codes of conduct are in place for Councillors and senior officers, which require them to exercise leadership in establishing specific standard operating principles and values for the organisation and its staff, ensuring that they are communicated and understood throughout the organisation.

Chief Officers demonstrate their commitment to ethical values by ensuring that their advice to elected members is objective, politically neutral and given in good faith, that information is accurate, and that formal recommendations to the Council are based on sound analysis and professional judgement.

Elected members demonstrate their commitment to ethical values in many ways including robust preparation for meetings, regular attendance at meetings, active participation in decision making, and registering and declaring their interests.

Governance Principle B - Ensuring openness and comprehensive stakeholder engagement.

Community consultation provides service users with the opportunities to give their views about their needs and the needs of their communities, and the ways that they believe services should be provided and developed. The Council has in place a number of services, processes and resources to enable the public to influence planning, provision and development of Council services. They include:

- The Council's Communication and Community Engagement Strategy.
- The Orkney Partnership's Consultation and Engagement Guide (adopted by the Council).
- The Community Council network and liaison service.
- The Council's Communications service.
- Orkney Opinions (the Council's public consultation group).
- Smart Survey (the Council's online consultation system).
- Multiple channels for public engagement, whether in person, by phone or online (detailed on the Council's website and relevant publications).
- Participation requests made under Community Empowerment legislation.
- The Council's complaints procedure.

The Community Consultation and Engagement Officers Group have developed a new training programme which was delivered for the first time in June 2018, with plans to repeat the session in November 2018 and as required thereafter.

To communicate the Council's activities, achievements, financial position and performance, the Council publishes each year an Annual Performance report, its Annual Accounts and, on behalf of The Orkney Partnership, an annual report on the Local Outcomes Improvement Plan.

Elected members participate in a monthly live question and answer session on BBC Radio Orkney's "Around the Chamber" as part of BBC Radio Orkney's Around Orkney morning programme. This was introduced during 2017 to help enhance community engagement.

In ensuring transparency in decision making, Council committee and sub-committee meetings are held in public and only where there is a legal requirement to do so will a particular agenda be considered in private. Audio casting of meetings has been implemented to improve access to the Council decision making process. Council agendas, reports and minutes are available on the Council website at the following link:-

[Council Committees, Agendas, Minutes and Reports](#)

A comprehensive staff survey was conducted during March 2018, with an analysis presented to SMT in June 2018 for consideration. Briefings have taken place with the Trade Unions on the results and key issues and the intention is to communicate the draft action plan to staff in September 2018.

In October 2017, the Council adopted a new Communications Strategy which provides an overall strategic direction for managing the Council's communications activities. A member/officer consultative working group has been established to assist with reviewing the Strategy and will report to Council in due course.

In June 2018, as part of the Council's on-going public communications on budget challenge, five "Community Conversation" public events were held across the mainland of Orkney and re-run in an amended workshop format as part of the Community Council conference.

A communications plan was developed around this and central to this plan was "Community Conversations" events designed to update the public on the financial pressures and how these are being addressed, as well as giving the public the opportunity to actively engage with this process by identifying areas where communities could take more ownership of services or where income could be generated.

Protocols are in place to meet requests made under the Freedom of Information Act, and to publicise the nature of those requests.

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

Orkney Islands Council shares its missions and values with The Orkney Partnership, which maintains Orkney's Community Plan. The Council is a leading member of the Orkney Partnership, and the new Council Plan 2018 to 2023 is our branch of the Orkney's Community Plan, with the Council's five priorities complementing the Partnership's three strategic priorities. All members of the Partnership are committed to working together for a better Orkney and share the following values:

- Resilience
- Enterprise
- Equality
- Fairness
- Innovation
- Leadership
- Sustainability

The new Council plan priorities were approved at Policy and Resources Committee in February 2018 and ratified the full Council on 6 March. The new Council Plan can be found at the following link:

[The Council Plan 2018-23](#)

The Council's new set of priorities was inspired by the public engagement exercise which took place in the run-up to the local government elections of 2017. Every day in the weeks leading up to 4 May, candidates knocked on doors and listened to residents' views on the issues which meant the most to them. Once elected, the Councillors lost no time in getting together to share all the information they had gathered. It is clear that residents want their communities to be well connected, both digitally and by public transport, and to be thriving and entrepreneurial, but also to be compassionate and caring communities.

The Strategic Priorities have been carefully considered in relation to their intended outcomes and impact on the community, and are grouped under the following five themes:

- Connected Communities
- Caring Communities
- Thriving Communities
- Enterprising Communities
- Quality of Life

The Council delivery plan was presented and approved by the Policy and Resources Committee in June 2018. The Council Delivery Plan projects and actions focus on the areas of work to be undertaken by the Council and which are within its control to do so.

In addition, there are important obligations arising from the Council's response to the recommendations of the Accounts Commission contained in the Best Value Assurance Report published in December 2017. The actions arising are included in the Council Delivery Plan 2018 to 2023 which can be found at the following link:

[Council Delivery Plan](#)

Progress with the actions contained within the Delivery Plan will be reported to the Council every six months, in accordance with the Council's performance management framework.

The Orkney Community Plan is available on the Council website:

[Orkney Community Plan](#)

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

The Council recognises the financial challenges it faces, and the budget setting process continues to play a pivotal role in ensuring that all officers and Elected Members are fully aware of the on-going issues that remain as government funding continues to reduce in real terms.

A medium-term resource strategy has been developed to establish the framework for budget setting over the period 2017 to 2022 with the general recognition that further spending reductions need to be considered in a strategic manner over the medium-to-long term, given the requirement for continued and significant budget reductions and that use of reserves to balance the budget can only be a short-term solution. In addition to this a long-term financial strategy is currently being developed.

The Change Programme was also set up to deliver savings and in 2017/18 there was progress with delivery of Modernising IT and Orkney's Learning Landscape reviews.

As of 1 April 2018, the Change Programme baseline approved savings were £1.5 million.

The Improvement Service has produced a special benchmarking report for Orkney with key comparative performance information which is used in the planning process for delivery of Council services.

Established committee structures, Members Seminars and briefings from CMT furnish elected members with an extensive volume of information on both the availability of resources and options for future service delivery, enabling informed decisions to be made.

The Council maintains a suite of operational Service plans which detail the projects and activities through which the Council Plan key strategic priorities are to be actioned. All of these

plans are kept on the Council's online performance management system, Aspireview, with progress reported twice a year to elected members.

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

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

Due to the complex and demanding nature of their roles and responsibilities, and the constantly changing policy environment, elected members and senior officers are provided with a range of support services to ensure that they have the necessary knowledge and skills to be fully effective. They are also encouraged to access complementary support services provided by the Improvement Service, the Scottish Government and other agencies. All elected members are issued with Improvement Service notebooks to guide them on the support available and how to navigate the website.

Members were provided with an extensive induction programme following the Local Government Elections which were attended by both new and returning Elected Members. Attendance at induction programme events was high and the effectiveness of the delivery was assessed using evaluation feedback forms.

In addition, a range of seminars and training events are organised on an on-going basis for Elected Members to attend. Briefing notes are routinely prepared and distributed to provide the Members with up-to-date information on key strategic and operational issues. The Chief Executive's Service Plan has identified actions to ensure Elected Members have the skills, knowledge, experience and resources they need to perform their roles well, both as individuals and as a group. These actions include the induction programme, expansion of the audio casting of meetings, a governance review and work relating to empowering communities and the communication strategy.

Orkney Islands Council manages the performance of staff in a consistent way across all Services by the use of an Employee Review and Development Framework which builds a culture where everyone should know what is expected of them and are aware of the competencies and the behaviours required.

Staff Personal Development Plans are included as part of the Employee Review and Development Scheme, with the aim to get the best from the Council's staff and help them achieve their full potential by identifying training needs and addressing ways of meeting them.

For employees, access to training is available in various forms, through professional bodies to which employees belong and through external training opportunities coordinated by the Human Resources Learning and Development Manager. The Council has also seen the development and implementation of an online modular training facility called iLearn, which staff can access both at work or home.

The recent Best Value Assurance Report recognised the stable, effective leadership strongly focussed on doing what is right for Orkney's communities. In addition to this a Political Engagement Strategy will be presented to Policy and Resources Committee in September 2018.

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

The Council, through its Scheme of Administration and Scheme of Delegation to Officers, has arrangements in place covering risk, performance management, internal control and financial management. The oversight of risk and financial monitoring is the responsibility of the Chief Executive, the Executive Directors and the Heads of Service, as chief officers. The Council has appointed officers to the statutory roles of Chief Finance officer, Monitoring Officer; Chief Social Work Officer, Chief Education Officer and Data Protection Officer.

The Chief Finance Officer role is held by the Head of Finance, reporting directly to the Chief Executive. Strong financial management procedures are secured through the work of the Chief Finance Officer appointed in terms of section 95 of the Local Government (Scotland) Act 1973. The officer provides advice to the Council on all financial matters and the effective system of internal financial control under the terms of the Financial Regulations and ensures the timely production and reporting of budget estimates, budget monitoring and annual accounts.

The remit of the Monitoring and Audit Committee within the Scheme of Administration and Delegation set out the membership qualification for the Committee. To ensure the independence of the Committee, the following members are ineligible for membership:

- Convenor
- Council Leader
- Depute Leader
- Chair of Service committees

The Internal Audit Annual Strategy and Plan 2018-19 was presented to the Monitoring and Audit Committee on 29 March 2018 by the Chief Internal Auditor. This takes account of a list of considerations including the Corporate Risk Register which can be found at the following link:

[Council Risk Register](#)

The Council has a risk management policy and strategy, which is reviewed biennially, and designed to support the identification, evaluation and mitigation of risks which may impact on its ability to meet its objectives. The Corporate Risk register is reviewed and updated every six months, following evaluation by the Senior Management Team of the principle risks facing the Council and consideration of the means by which those risks can be controlled.

The Council system of internal control is based on a framework of financial regulations, regular management information, administrative procedures, management supervision and a scheme of delegation and accountability. Establishing and maintaining an effective system of internal control is a management function. The Monitoring and Audit committee, through its consideration of reports by internal and external auditors, monitors the effectiveness of internal control procedures.

The Council has a policy to combat fraud, theft, bribery and corruption as an integral part of protecting public finances. It also participates in the National Fraud Initiative, a data matching programme involving other public bodies, to provide assurances on the robustness of information held by the Council as well as highlighting data anomalies that require to be addressed. The security of personal data held for this and other purposes is recognised as key importance and the Corporate Services Information Governance Officer guides and monitors best practice in this area.

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

Council business is conducted through an established cycle of committee meetings held in public, unless exempt under statutory provision, with principle committee meetings audio-cast live, with recordings available thereafter for download from the Council's public website. One week prior to a committee or sub-committee meeting, the agenda and associated reports are issued to the relevant elected members and chief officers, and to the public via the Council's website. Committee reports follow a corporate style and include: the purpose of the report, information relevant to the matter under consideration, a conclusion and recommendations proposed. Minutes of meeting are prepared, and once approved are also publicised on the Council website.

Information is disseminated in many forms targeted at different audiences for different purposes, ranging from statutory returns that follow prescribed layouts, through newsletters which target specific groups, to consultation documents which contain basic information designed to prompt initial interest in particular services and projects.

The Council has adopted both the Scottish Public Services Ombudsman - Model Complaints Handling Procedure, with complaints reported to SMT on a quarterly basis, Service Committees on a 6-monthly basis and an annual report submitted to Monitoring and Audit Committee. as part of the Planning, Performance and Risk Management Framework. The Council handled 72 complaints in financial year 2017-18. The complaints procedure can be found at the following link:

[Council Compliments and Complaints](#)

The Council has also adopted the Consultation and Engagement Guidelines issued by the Orkney Partnership, which includes recommendations on feedback in accordance with national guidelines which can be found at the following link:

[Communications and Engagement Strategy](#)

Review of Effectiveness of Governance Arrangements

Both councillors and senior officers recognise the contribution effective governance makes to the stewardship of council resources and on an ongoing basis, endeavour to ensure that governance arrangements are fit for purpose. The review of effectiveness of the governance framework, including the system of internal control, is supported by an annual process of self-assessment against the Local Code of Corporate Governance, and is informed by various means involving:

- **The Council and its committees.**

In practice, governance arrangements are monitored throughout the year in various ways: by the Council, through the service committee processes and by the Monitoring and Audit committee. The Council is also represented on the Integration Joint Board of Orkney Health and Care and the Orkney and Shetland Joint Valuation Board, which as separate bodies have developed their own governance arrangements.

- **The Senior Management Team.**

The Senior Management Team, which has overall responsibility for the development and maintenance of the governance environment, comprises the Chief Executive, three Executive Directors with portfolio responsibilities for Education, Leisure and Housing, Corporate Services,

Development and Infrastructure, and the Head of Finance and Head of Executive Support. The Chief Officer (Orkney Health and Care) is also a member of the Senior Management Team.

- **The Corporate Management Team.**

This is an extended management team comprising the Senior Management Team and thirteen Heads of Service. The role and remit of this group is to support the formulation and implementation of policies, strategies and plans to achieve local and national outcomes, share and promote good practice from an inter-service perspective, to act with the wider objectives of the Council in mind to ensure the resources are effectively deployed and assist the Senior Management Team in keeping the governance of the Council under review.

- **Head of Finance.**

The Council's financial management arrangements were amended in January 2016 to comply with the governance requirements of The Chartered Institute of Public Finance and Accountancy 'Statement on the Role of the Chief Financial Officer in Local Government', with the Head of Finance as Chief Financial Officer for the Council reporting directly to the Chief Executive. The Head of Finance is a member of the Senior Management Team, and as the Council's most senior adviser on all financial matters is involved in the development of strategic and financial policy matters.

- **The Chief Social Work Officer.**

The Chief Social Work Officer is required, in the discharge of the local authorities' statutory social work duties, to ensure the provision of professional governance, leadership and accountability for the delivery of social work and social care services, whether they are provided directly by the local authority or purchased from the private or voluntary sectors. The Chief Social Work Officer is also required to produce an annual report on all of the statutory, governance and leadership functions of the role, which is shared with the Scottish Government and will inform a national overview report prepared by the Chief Social Work Adviser to the Scottish Government.

- **Internal Audit and Monitoring and Audit Committee**

The Council operates a professional and objective internal auditing service in accordance with the Local Authority Accounts (Scotland) Regulations 2014. The Chief Internal Auditor reports to the Monitoring and Audit Committee.

The internal audit plan for the financial year 2017/18 included core financial systems testing, other systems operating within services, annual audits, corporate reviews, computer audit and follow up on a six-monthly basis of all recommended improvement actions.

The Chief Internal Auditor provides an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control. It is the opinion of the Chief Internal Auditor that there were adequate and effective controls operating in respect of the areas which were subject to audit review in 2017/18, subject to exclusions, which were identified as high priority improvement actions. These actions were specific to Services' procedures and practices and do not impact on the overall governance arrangements of the Council.

The Chief Internal Auditor also refers within the annual opinion to three high priority improvement actions which arose from internal audit work completed in earlier years and which remained outstanding as at the end of March 2018. These actions are again service specific and have no effect on the overall governance arrangements. Furthermore, the Chief Internal

Auditor confirmed that there were no fraud issues to report to the Council's external auditors for the financial year.

Orkney Integration Joint Board.

Orkney Islands Council Chief Internal Auditor was appointed as the internal auditor for The Orkney Integration Joint Board for two financial years, 2017/18 and 2018/19, with the audit requirements accommodated within the contingency resources of the internal audit plan.

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

External Agencies.

In addition to the various internal review processes and the financial audit referred to above, aspects of the Council's governance arrangements are considered in various inspection reports produced by the external auditor and by service inspectorates.

The main local audit and inspection agencies also come together as a Local Area Network, with a shared risk assessment process drawing from a range of evidence with the aim of determining any scrutiny activity required and focusing this in the most proportionate way to develop the Local Scrutiny Plan.

Significant Governance Issues.

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

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

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

1. Public Service Network – the Council does not have current accreditation for its public service network. An action plan has been prepared and the actions identified should be completed within three months following which re-accreditation is anticipated. The risk to the Council is partially mitigated by our Cyber Security Basic Accreditation which has been in place since February 2018.
2. Executive Directors have highlighted many areas where service delivery is under considerable budgetary constraint and there is a risk that services will overspend or cannot be delivered within available resources. There are not any specific governance issues around these concerns it is simply that demand is in excess of the available budget to deliver the service and officers are highlighting that they may not be able to manage within the means made available to them to deliver their service.

Update on significant governance issues previously reported.


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

1. Environmental Services – a recurring overspend against the baseline budget, particularly for refuse collection had arisen partly as a result of the build of new housing in Orkney which has increased demand on the service. This issue was addressed in 2017/18 through provision of additional revenue budget. The progress on rolling out more commercial waste contracts and impact of change projects targeting poorer performing areas, abuse at recycling centres and introduction of a commercial waste recycling collection service continues to have a positive impact on the overall financial position.
2. Apportioned Costs Fee Management – there has been considerable development of the methodology for allocation of ‘overhead’ costs of the Property and Engineering Services teams. There will however continue to be pressure on service budgets as Capital Programmes and service budgets are squeezed.
3. Information Governance and Data Protection Training – action has been taken to ensure a greater level of uptake of training on Information Governance and Data Protection whilst a managed process of destruction of old paper records is ongoing.
4. Staff Turnover – higher than normal level of staff turnover within the Payroll Team was identified. Recruitment exercises were carried out and new team members recruited, and a more settled period had persisted during the financial year, however since the year end there have been further changes and the recruitment of new members to the Team.

Concluding Remarks

In our respective roles as Leader of the Council and Chief Executive, we are committed to good governance and recognise the contribution it makes to securing delivery of service outcomes in an effective manner. This annual governance statement summarises the Council's current governance arrangements and affirms our commitment to ensuring they are regularly reviewed and remain fit for purpose.

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



Councillor James Stockan
Leader
27 September 2018



Alistair Buchan
Chief Executive
27 September 2018

Independent Auditor's Report

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

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice approved by the Accounts Commission, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Report on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the annual accounts of Orkney Islands Council and its group for the year ended 31 March 2018 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the council-only and group Movement in Reserves Statements, Comprehensive Income and Expenditure Statements, Balance Sheets, Cash-Flow Statements, the local authority-only Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Council Tax Income Account, and the Non Domestic Rates Account, the Harbour Authority Revenue Account Income and Expenditure Statement, the movement on the Harbour Authority Revenue Account Statement, the Orkney College Revenue Account Income and Expenditure Statement, the movement on the Orkney College Revenue Account Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (the 2017/18 Code).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2017/18 Code of the state of affairs of the council and its group as at 31 March 2018 and of the income and expenditure of the council and its group for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2017/18 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)). My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I am independent of the council and its group in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern basis of accounting

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Head of Finance has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Responsibilities of the Head of Finance and Orkney Islands Council Monitoring and Audit Committee for the financial statements

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

In preparing the financial statements, the Head of Finance is responsible for assessing the council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate. The Orkney Islands Council Monitoring and Audit Committee is responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

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

Other information in the annual accounts

The Head of Finance is responsible for the other information in the annual accounts. The other information comprises the information other than the financial statements, the audited part of the Remuneration Report, and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission to the extent explicitly stated later in this report. In connection with my audit of the financial statements, my responsibility is to read all the other information in the annual accounts and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Report on other requirements

Opinions on matters prescribed by the Accounts Commission

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

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

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

Matters on which I am required to report by exception

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

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

I have nothing to report in respect of these matters.



Gillian Woolman MA FCA CPFA

Audit Director
Audit Scotland
4th Floor
102 West Port
Edinburgh
EH3 9DN
28 September 2018

Remuneration Report

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

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

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

The remuneration of councillors is regulated by the Local Governance (Scotland) Act 2004 (Remuneration) Regulations 2007 (SSI No. 2007/183). The Regulations provide for the grading of councillors for the purposes of remuneration arrangements, as either the Leader of the Council, the Civic Head, Senior Councillors or Councillors. The Leader of the Council and the Civic Head cannot be the same person for the purposes of payment of remuneration. A senior councillor is a councillor who holds a significant position of responsibility in the Council's political management structure. A revised Elected Members structure was approved during 2016/17 and the posts of Civic Head and Leader of the Council were created. Prior to this the post of Leader was held by the Convener of the Council whilst the Vice-convener fulfilled the role of Civic Head.

The salary that is to be paid to the Leader of the Council is set out in the Regulations. For 2017-18 the salary for the Leader of Orkney Islands Council is £27,048 which is £1,165 less than the maximum. This was agreed to enable the Depute Leader to be paid the same as a Committee Chair. The Regulations permit the council to remunerate one Civic Head. The regulations set out the maximum salary that may be paid to that Civic Head. Council policy is to pay at the national maximum.

The Regulations also set out the remuneration that may be paid to senior councillors and the total number of senior councillors the Council may have. The maximum yearly amount that may be paid to a Senior Councillor is 75 per cent of the total yearly amount payable to the Leader of the Council. The total yearly amount payable by the council for remuneration of all of its Senior Councillors shall not exceed £172,552. The Council is able to exercise local flexibility in the determination of the precise number of Senior Councillors and their salary within these maximum limits. The Council policy in 2017-18 was to pay five Committee Chairs £19,890 each and three Committee Chairs £18,725 each.

In 2017-18 Orkney Islands Council had 8 senior councillors excluding the Leader and Civic Head and the remuneration paid to these 8 councillors totalled £155,625. The Regulations also permit the Council to pay contributions or other payments as required to the Local Government Pension Scheme in respect of those councillors who elect to become councillor members of the pension scheme.

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

In addition to the Senior Councillors of the Council the Regulations also set out the remuneration payable to councillors with the responsibility of a Leader or a Civic Head of a Joint Board such as a Valuation Joint Board. The Regulations require the remuneration to be paid by the Council of which the Leader or Civic Head (as the case may be) is a member. The

Council is also required to pay any pension contributions arising from the Leader or Civic Head being a member of the Local Government Pension Scheme.

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

2. Remuneration Policy for Senior Employees

The salary of senior employees is set by reference to national arrangements. The Scottish Joint Negotiating Committee (SJNC) for Local Authority Services sets the salaries for the Chief Executives of Scottish local authorities. Circular CO/149 sets the amount of salary for the Chief Executive of Orkney Islands Council for the period 2017 to 2018. Salaries of the Corporate Directors and Heads of Service are also based on Circular CO/149.

Other benefits received by senior employees include car mileage allowance.

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

3. Remuneration of Senior Employees

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

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

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

The term “remuneration” means gross salary, fees and bonuses, allowances and expenses and compensation for loss of employment. The table below outlines the remuneration details for senior employees, including prior year figures. The table shows the relevant amounts, before tax and other deductions, due to, or receivable by, each of the persons named for the year to 31 March 2018, whether or not those amounts were actually paid to, or received by, those persons within that period.

2016-2017		Senior Employees				2017-2018
Total	Name	Post held	Salary, Fees and Allowances	Expenses Allowance Chargeable to UK Income Tax	Election Payments	Total
£			£	£	£	£
110,016	Alistair Buchan	Chief Executive	104,602	47	3,600	108,249
88,067	Wilfred Weir	Executive Director of Education, Leisure & Housing Services	88,995	0	0	88,995
88,067	Gavin Barr	Executive Director Development & Infrastructure	88,995	0	0	88,995
88,067	Gillian Morrison	Executive Director of Corporate Services	88,995	0	0	88,995
78,614	Gareth Waterson	Head of Finance/Section 95 Officer	78,443	0	3,000	81,443
66,881	Gavin Mitchell	Head of Legal Services	67,602	0	0	67,602
70,432	Karen Greaves	Head of Executive Support	66,118	0	3,000	69,118
590,144	Total		583,750	47	9,600	593,397

Note 1: The Chief Social Worker Officer is included in the Orkney Integration Joint Board Annual Accounts remuneration report for 2017/18.

4. Remuneration of Senior Councillors

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

The table below shows the relevant amounts, before tax and other deductions, due to, or receivable by, each of the persons named for the year to 31 March 2017, whether or not those amounts were actually paid to, or received by, those persons within that period.

2016-2017	Leader, Civic Head and Senior Councillors					2017-2018
Total	Name	Position held	Salary, Fees and Allowances	Expenses Allowance Chargeable to UK	Benefits Other Than Cash	Total
£			£	£	£	£
19,842	Rob Crichton	Chair (Education, Leisure & Housing)	19,794	0	0	19,794
21,109	James Foubister	Vice Convener*	2,874	0	0	2,874
28,145	Steven Heddle	Convener*	18,456	0	0	18,456
19,842	Harvey Johnston	Civic Head	20,852	0	0	20,852
0	Rachael King	Chair (Orkney Health & Care)**	19,392	0	0	19,392
19,842	Russ Madge	Chair (Orkney Health & Care)*	2,702	0	0	2,702
0	Leslie Manson	Depute Leader of the Council**	19,392	0	0	19,392
17,941	John Richards	Chair (Monitoring & Audit)	18,564	0	0	18,564
17,941	Graham Sinclair	Chair (Development & Infrastructure)	19,535	0	0	19,535
19,842	James Stockan	Leader of the Council	25,759	0	0	25,759
0	Owen Tierney	Chair (Planning)	19,392	0	0	19,392
19,842	David Tullock	Chair (Monitoring & Audit)*	2,702	0	0	2,702
0	Duncan Tullock	Chair (Licensing)	15,872	0	0	15,872
0	Kevin Woodbridge	Chair (Orkney Ferries)	15,976	0	0	15,976
184,346	Total		221,262	0	0	221,262

Note 1: A revised Elected Members structure was approved during 2016/17 and the posts of Civic Head and Leader of the Council were created. Councillors Harvey Johnston and James Stockan were respectively appointed to these roles following the local elections on 5 May 2017.

Note 2: * until 4 May 2017

Note 3: ** Senior Councillors with effect from 2017/18 only

5. Pension Entitlement

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

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

The scheme's normal pension age for both councillors and employees is State Pension Age (but with a minimum of age 65). If the State Pension Age changes in the future then this

change will also apply to a member's normal pension age in the Local Government Pension Scheme.

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

The value of the accrued benefits has been calculated on the basis of the age at which the person will first become entitled to receive a pension on retirement without reduction on account of its payment at that age.

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

The pension entitlements for Senior Employees and Senior Councillors for the year to 31 March 2018 are shown in the following table, together with the contribution made by the Council to each individual's pension during the year.

Senior Employees							
Pension contributions made by Orkney Islands Council during 2016-2017 £	Name	Post held	Accrued pension benefits as at 31 March 2018		Change in accrued pension benefits since 31 March 2017		Pension contributions made by Orkney Islands Council during 2017-2018 £
			Pension £	Lump Sum £	Pension £	Lump Sum £	
21,264	Alistair Buchan	Chief Executive	44,453	81,211	2,713	1,040	20,775
17,437	Wilfred Weir	Executive Director of Education, Leisure & Housing Services	6,389	0	1,816	0	17,087
16,805	Gavin Barr	Executive Director Development & Infrastructure	17,742	10,252	1,945	108	17,087
17,437	Gillian Morrison	Executive Director of Corporate Services	41,952	82,881	2,199	870	17,087
14,596	Gareth Waterson	Head of Finance/Section 95 Officer	31,931	51,930	3,182	1,922	15,061
13,243	Gavin Mitchell	Head of Legal Services	3,282	0	1,380	0	12,980
12,952	Karen Greaves	Head of Executive Support	21,846	33,615	1,540	360	12,693
113,734	Total		167,595	259,889	14,775	4,300	112,770

Leader, Civic Head and Senior Councillors							
Pension contributions made by Orkney Islands Council during 2016-2017 £	Name	Post held	Accrued pension benefits as at 31 March 2018 or date of cessation		Change in accrued pension benefits since 31 March 2017		Pension contributions made by Orkney Islands Council during 2017-2018 £
			Pension £	Lump Sum £	Pension £	Lump Sum £	
3,343	Janice Annal	Chair (Education Leisure and Housing)*	4,353	1,394	133	18	441
3,929	Rob Crichton	Chair (Education Leisure and Housing)	3,896	1,297	467	26	3,800
3,929	Russ Madge	Chair (Orkney Health and Care)*	3,535	2,397	98	28	519
0	Rachael A King	Chair (Orkney Health and Care)	4,801	0	439	0	3,723
5,573	Steven Heddle	Convener*	4,513	1,726	417	17	3,543
3,929	Harvey Johnston	Civic Head	2,445	0	535	0	4,004
4,180	James Foubister	Vice Convener*	4,866	1,755	161	26	552
0	Leslie Manson	Depute Leader of the Council	1,190	0	409	0	3,723
3,929	David Tullock	Chair (Monitoring and Audit)*	3,547	1,189	121	19	519
3,552	John Richards	Chair (Monitoring and Audit)	2,023	0	414	0	3,564
3,552	Graham Sinclair	Chair (Development and Infrastructure)	3,528	1,386	486	47	3,751
3,929	James Stockan	Leader of the Council	25,680	66,111	1,163	1,587	4,946
0	Owen Tierney	Chair (Planning)	2,463	0	479	0	3,723
0	Duncan Tullock	Chair (Licensing)	3,651	0	3,651	0	3,047
0	Kevin Woodbridge	Chair (Orkney)	388	0	388	0	3,067
39,845	Total		70,879	77,255	9,361	1,768	42,922

Note 1: * until 4 May 2017

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

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

6. Councillors' remuneration

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

	2016-2017 £000	2017-2018 £000
Salaries	387	392
Mileage	18	20
Conferences and Courses	1	2
Travel Costs	34	40
Subsistence	12	9
Other Allowances and Expenses	4	4
Reimbursed Costs	(14)	(17)
Total	442	450

The annual return of Councillors' salaries and expenses for 2017/18 is available for any member of the public to view at all Council libraries and public offices during normal working hours and is also available on the Council's website at www.orkney.gov.uk. Please follow the links on the Council's website as follows:

[Councillors Record of Claims](#)

7. Remuneration of Employees

The following table gives a statement of the number of employees whose remuneration, excluding pension contributions, was in excess of £50,000 during 2017-2018, in bands of £5,000. This information includes those senior employees who are subject to the fuller disclosure requirements in the tables above.

Remuneration band	2016-2017 Number of employees	2017-2018 Number of employees
£105,000 to £109,999	1	1
£100,000 to £104,999	1	0
£95,000 to £99,999	1	1
£90,000 to £94,999	0	0
£85,000 to £89,999	5	5
£80,000 to £84,999	1	3
£75,000 to £79,999	1	0
£70,000 to £74,999	3	3
£65,000 to £69,999	6	11
£60,000 to £64,999	7	9
£55,000 to £59,999	13	8
£50,000 to £54,999	17	18
	56	59

8. Exit Packages

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

Exit Package Cost Band	Number of Compulsory Redundancies		Number of Other Departures Agreed		Total Number of Exit Packages by Cost Band		Total Cost of Exit Packages in each Band	
	2016-2017	2017-2018	2016-2017	2017-2018	2016-2017	2017-2018	2016-2017	2017-2018
							£000	£000
£0 - £19,999	0	0	1	2	1	2	10	16
£20,000 - £39,999	0	0	0	1	0	1	0	28
£40,000 - £79,999	0	0	0	0	0	0	0	0
£80,000 - £99,999	0	0	0	0	0	0	0	0
£100,000 - £149,999	0	0	0	0	0	0	0	0
£200,000 - £299,999	0	0	0	0	0	0	0	0
Total	0	0	1	3	1	3	10	44



Councillor James Stockan
 Leader
 27 September 2018



Alistair Buchan
 Chief Executive
 27 September 2018

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the council, analysed into usable reserves (those reserves that can be applied to fund expenditure or to reduce local taxation) and unusable reserves. The surplus or deficit on the provision of services line shows the true economic cost of providing the council's services, more details of which are shown in the comprehensive income and expenditure statement. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax-setting and dwellings rent-setting purposes. The net increase or (decrease) before transfers to other statutory reserves line shows the statutory General Fund Balance and the Housing Revenue Account Balance before any discretionary transfers to or from the other statutory reserves of the council. Additional information to support these movements can be found in Notes 25 and 26 to these accounts:

	General Fund Balance £000	HRA Balance £000	Harbour Reserves £000	Capital Fund £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Renewals and Repairs Fund £000	Total Usable Reserves £000	Total Unusable Reserves £000	Total Reserves of the Authority £000
Balance as at 1 April 2016	(21,185)	(476)	(207,841)	(508)	0	(20)	(4,785)	(234,815)	(301,497)	(536,312)
Movement in reserves during the year										
(Surplus) or deficit on the provision of services	92,487	(2,133)	(3,974)	0	0	0	0	86,380	0	86,380
Other Comprehensive Income and Expenditure	(81,869)	154	(28,661)	0	0	0	0	(110,376)	13,059	(97,317)
Total Comprehensive Income and Expenditure	10,618	(1,979)	(32,635)	0	0	0	0	(23,996)	13,059	(10,937)
Adjustments between accounting basis & funding basis under regulations (Note 8)	(3,911)	2,116	284	0	(530)	0	0	(2,041)	2,041	0
Net (Increase)/Decrease before Transfers to Earmarked Reserves Statutory and Other Reserves	6,707	137	(32,351)	0	(530)	0	0	(26,037)	15,100	(10,937)
Transfers (to) or from earmarked reserves Statutory and Other Reserves	(1,303)	162	3,733	0	0	0	(2,592)	0	0	0
(Increase)/Decrease in Year	5,404	299	(28,618)	0	(530)	0	(2,592)	(26,037)	15,100	(10,937)
Balance as at 31 March 2017	(15,781)	(177)	(236,459)	(508)	(530)	(20)	(7,377)	(260,852)	(286,397)	(547,249)
Movement in reserves during the year										
(Surplus) or deficit on provision of services	92,746	98	(2,020)	0	0	0	0	90,824	0	90,824
Other Comprehensive Income and Expenditure	(79,094)	637	(5,632)	0	0	0	0	(84,089)	(72,040)	(156,129)
Total Comprehensive Income and Expenditure	13,652	735	(7,652)	0	0	0	0	6,735	(72,040)	(65,305)
Adjustments between accounting basis & funding basis under regulations (Note 8)	(6,091)	(558)	(454)	0	(2,080)	0	0	(9,183)	9,183	0
Net (Increase)/Decrease before Transfers to Earmarked Reserves Statutory and Other Reserves	7,561	177	(8,106)	0	(2,080)	0	0	(2,448)	(62,857)	(65,305)
Transfers (to) or from earmarked reserves Statutory and Other Reserves	(6,871)	(243)	7,814	0	0	0	(700)	0	0	0
(Increase)/Decrease in Year	690	(66)	(292)	0	(2,080)	0	(700)	(2,448)	(62,857)	(65,305)
Balance as at 31 March 2018	(15,091)	(243)	(236,751)	(508)	(2,610)	(20)	(8,077)	(263,300)	(349,254)	(612,554)

Comprehensive Income and Expenditure Statement

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

	Notes	2016-2017			2017-2018		
		£000	£000	£000	£000	£000	£000
		Expenditure	Income	Net	Expenditure	Income	Net
Cultural and Recreation		6,524	(1,037)	5,487	5,754	(1,089)	4,665
Education		35,685	(1,177)	34,508	34,684	(1,486)	33,198
Roads and Transportation		17,115	(294)	16,821	17,351	(384)	16,967
Housing Revenue Account		1,427	(3,560)	(2,133)	3,715	(3,617)	98
Harbour Authority		10,956	(14,929)	(3,973)	13,750	(15,770)	(2,020)
Housing Services		6,552	(4,745)	1,807	7,474	(5,443)	2,031
Social Care		43,374	(24,200)	19,174	45,755	(25,393)	20,362
Planning and Development		4,136	(1,188)	2,948	5,186	(2,144)	3,042
Environmental Services		4,872	(1,089)	3,783	5,208	(1,208)	4,000
Other Services		8,379	(421)	7,958	10,796	(2,315)	8,481
(Surplus)/Deficit on Continuing Operations		139,020	(52,640)	86,380	149,673	(58,849)	90,824
Other Operating Expenditure	10			(40)			2,629
Financing and Investment Income and Expenditure	11			(26,932)			(2,744)
Taxation and Non-Specific Grant Income: Other	12			(83,404)			(83,974)
(Surplus)/Deficit on Provision of Services				(23,996)			6,735
Surplus on revaluation of non current assets	13			(11,701)			(4,216)
(Surplus)/Deficit on revaluation of available for sale financial assets	26			(196)			(175)
Remeasurement of the net Pension Fund Liability/(Assets)	40			24,956			(67,649)
Other Comprehensive Income and Expenditure				13,059			(72,040)
Total Comprehensive Income and Expenditure (Surplus)/Deficit				(10,937)			(65,305)

Balance Sheet as at 31 March 2018

The balance sheet shows the value as at 31 March 2018 of the assets and liabilities recognised by the council. The net assets of the council are matched by the reserves held by the council. Reserves are reported in two categories. The first category comprises usable reserves, which are those reserves that the council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve, which may only be used to fund capital expenditure or to repay debt). The second category of reserves comprises those that the council is not able to use to provide services. This category includes reserves that hold unrealised gains and losses in the value of assets (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold, and reserves that hold timing differences shown as 'adjustments between accounting basis and funding basis under regulations' in the movement in reserves statement.

	Note	31 March 2017 £000	31 March 2018 £000
Property, Plant & Equipment	13	356,694	357,218
Heritage Assets	16	912	912
Investment Property	14	22,251	21,500
Intangible Assets	15	6	0
Long Term Investments	17	5,327	7,171
Long Term Debtors	17	2,272	2,249
Long Term Assets		387,462	389,050
Short Term Investments	17	207,299	215,403
Inventories	18	1,126	934
Short Term Debtors	20	6,528	8,916
Cash and Cash Equivalents	21	39,908	28,878
Assets held for sale	22	2,333	2,088
Current Assets		257,194	256,219
Short Term Borrowing	17	5,490	434
Short Term Creditors	23	13,501	13,944
Grants receipts in advance	33	0	500
Current Liabilities		18,991	14,878
Provisions	24	2,802	2,802
Long Term Borrowing	17	30,228	30,200
Other Long Term Liabilities	40	45,386	(15,165)
Long Term Liabilities		78,416	17,837
Net Assets		547,249	612,554
Usable reserves	25	260,852	263,300
Unusable Reserves	26	286,397	349,254
Total Reserves		547,249	612,554

The unaudited accounts were issued on 28 June 2018.

Gareth Waterson

The audited accounts were authorised for issue on 27 September 2018.

Gareth Waterson, BAcc., CA

Head of Finance

27 September 2018

Cash Flow Statement

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

	Notes	2016-2017 £000	2017-2018 £000
Net surplus or (deficit) on the provision of services		23,996	(6,735)
Adjustment to surplus or deficit on the provision of services for noncash movements	27	(16,375)	1,295
Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	27	1,341	1,624
Net Cash flows from Operating activities		8,962	(3,816)
Net Cash flows from Investing Activities	28	(3,326)	(943)
Net Cash flows from Financing Activities	29	(5,785)	(6,271)
Net increase or decrease in cash and cash equivalents		(149)	(11,030)
Cash and cash equivalents at the beginning of the reporting period		40,057	39,908
Cash and cash equivalents at the end of the reporting period	21	39,908	28,878

Notes to the Core Financial Statements

Note 1 Summary of Significant Accounting Policies

The Financial Statements for the year ended 31 March 2018 have been prepared in accordance with proper accounting practice as per section 12 of the Local Government in Scotland Act 2003. Proper accounting practice comprises the Code of Practice on Local Authority Accounting in the United Kingdom (the Accounting Code), supported by International Financial Reporting Standards and recommendations made by the Local Authority (Scotland) Accounts Advisory Committee (LASAAC). They are designed to give a true and fair view of the financial performance and position of the Council and comparative figures for the previous financial year are provided. There are no significant departures from these recommendations.

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

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

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

Best Value Reporting

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

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

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

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

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

Accruals of Expenditure and Income

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

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

Cash and Cash Equivalents

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

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

Charges for the Use of Assets

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

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

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

Charities

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

Contingent Assets and Liabilities

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

Employee Benefits

Benefits payable during employment

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

reversed out of the General Fund Balance by a credit to the Accumulating Compensated Absences Adjustment Account in the Movement in Reserves Statement.

Termination benefits

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

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

Post-employment benefits

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

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

- The liabilities of the Orkney Islands Council pension fund attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 3.2% based on the indicative rate of return on high quality corporate bonds.

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

The Notes to the Core Financial Statements provide further information.

Events after the Balance Sheet date

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

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

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

Prior Period Adjustments

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

Financial Instruments

Financial Assets

Financial assets are classified into two types:

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

Loans and Receivables

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

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

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

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

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

For Profit or Loss Assets

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

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

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

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

Financial Liabilities

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

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

Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

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

Loans Fund

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

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

Foreign Currency Translation

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

Government Grants and other Contributions

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

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

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

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

the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Account. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Account are transferred to the Capital Adjustment Account once they have been applied.

Intangible Assets

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

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and restricted to that incurred during the development phase (research expenditure is not capitalised). Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

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

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

Interests in Companies and Other Entities

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

Inventories

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

Investment Property

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

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

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

Leases

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

Operating Leases (Council as lessor)

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

Operating Leases (Council as lessee)

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

Overheads and Central Support Costs

The costs of overheads and support services are charged to service segments in accordance with the Council's arrangements for accountability and financial performance. The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

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

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

Property, Plant and Equipment

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

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

- infrastructure, community assets and assets under construction – depreciated historical cost;

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

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

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

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

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

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

Fair Value Measurement

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

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

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

When measuring the fair value of a non-financial asset, the authority takes into account the market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The authority uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of observable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Council's Annual Accounts are categorised within the fair value hierarchy as follows:

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

Impairment

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

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

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

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

Disposals

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

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

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

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

Depreciation

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

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

Depreciation is calculated on the following bases:

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

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

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

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

Heritage Assets

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

There is no depreciation charged on the Heritage Assets because it has been estimated that the assets have a useful life of such length that any depreciation charge on the asset will be negligible and can be ignored on the basis of materiality. The Council considers that the Heritage Assets held by the Council will have indeterminate lives and a high residual value;

hence the Council does not consider it appropriate to charge depreciation for the assets. There will therefore be no change to the depreciation charged in the financial statements in relation to the Council's Heritage Assets.

Provisions, Contingent Liabilities & Contingent Assets

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

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

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

Contingent Liabilities

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

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

Contingent Assets

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

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

Reserves

Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure

Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure. The level of reserves held are subject to an annual review as part of the budget setting process.

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

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

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

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

Revenue Expenditure Funded from Capital under Statute

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

VAT

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

Note 2 Accounting Standards Issued but not yet adopted

The Code requires the disclosure of information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the following new or amended standards within the 2018/19 Code:

- IFR 9 (Financial Instruments).
- IFRS 15 (Revenue from contracts with customers).
- IFRS 16 (Leases).
- IAS 12 (Recognition of deferred taxes for unrealised losses) (Amendment).
- IAS 7 (Statement of Cashflows: disclosure initiative) (Amendment).

The Code requires implementation from 1 April 2018 and there is therefore no impact on the 2017/18 financial statements.

For 2017/18, there have also been changes to the disclosure requirements for Pension Fund accounting and reporting, however the changes do not impact upon the Annual Accounts of the Council.

Note 3 Critical Judgements in Applying Accounting Policies

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

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

Note 4 Assumptions made about the Future

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

The items in the Council's Balance Sheet as at 31 March 2018 for which there is significant risks of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Results differ from Assumption
Property, Plant & Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Authority will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for Property, Plant and Equipment would increase by £2.713M for every year that useful lives had to be reduced.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £32.821M. The impact of the change of various assumptions is shown in note 39.
Debt Impairment	At 31 March 2018, the Council had a balance for trade debtors of £8.916M. A review of significant balances suggested that an impairment of doubtful debts of 16.7% (£1.493M) was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient.	If collection rates were to deteriorate, an increase of 10% of the amount of the impairment of doubtful debts would require an additional £0.891M to be set aside as an allowance.
Fair Value Measurement	When the fair value of financial assets and liabilities cannot be measured based on quoted prices in active markets (i.e. Level 1 inputs), their fair value is measured using valuation techniques. Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible judgement is required in establishing fair values. These judgements typically include consideration such as uncertainty and risk. However, changes in the assumptions used could affect the fair value of the council's assets and liabilities.	

Note 5 Material Items of Income and Expenditure

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

Note 6 Events after the Balance Sheet Date

The Head of Finance, being the officer responsible for the Council's financial affairs, signed the Draft Annual Accounts on 29 June 2018. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2018, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

Note 7 Expenditure and Funding Analysis

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

2017-2018	Net Expenditure to Fund Balances £000	Adjustment Between Funding & Accounting Basis £000	Net Expenditure in CIES £000
Education	31,264	1,934	33,198
Cultural and Recreation	4,371	295	4,666
Community Social Services	18,270	2,091	20,361
Roads and Transportation	12,924	4,043	16,967
Environmental Services	3,405	595	4,000
Other Services	14,385	(831)	13,554
Housing Revenue Account	(66)	164	98
Harbour Authority	(80)	(1,940)	(2,020)
Cost of Service	84,473	6,351	90,824
Other Income and Expenditure	(84,142)	53	(84,089)
Deficit/(Surplus) For Year	331	6,404	6,735

	General Fund £000	Housing Revenue Account £000	Harbour Authority £000	Total £000
Balance as at 1 April 2017	(15,781)	(177)	(236,459)	(252,417)
Deficit/(Surplus) For Year	690	(66)	(292)	332
Balance as at 31 March 2018	(15,091)	(243)	(236,751)	(252,085)

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

The adjustments between funding and accounting basis totalling £6.404M includes transfers to/(from) the repairs and renewals fund of £0.700M as detailed in Note 9 to the Accounts.

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

2016-2017	Net Expenditure to Fund Balances £000	Adjustment Between Funding & Accounting Basis £000	Net Expenditure in CIES £000
Education	31,098	3,410	34,508
Cultural and Recreation	4,422	1,065	5,487
Community Social Services	17,836	1,338	19,174
Roads and Transportation	13,022	3,799	16,821
Environmental Services	3,303	481	3,784
Other Services	13,191	(478)	12,713
Housing Revenue Account	299	(2,432)	(2,133)
Harbour Authority	380	(4,354)	(3,974)
Cost of Service	83,551	2,829	86,380
Other Income and Expenditure	(106,465)	(3,910)	(110,375)
Deficit/(Surplus) For Year	(22,914)	(1,081)	(23,995)

	General Fund £000	Housing Revenue Account £000	Harbour Authority £000	Total £000
Balance as at 1 April 2016	(21,185)	(476)	(207,841)	(229,502)
Deficit/(Surplus) For Year	5,404	299	(28,618)	(22,915)
Balance as at 31 March 2017	(15,781)	(177)	(236,459)	(252,417)

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

2017-2018	Accounting for Capital Note 1 £000	Accounting for Pensions Note 2 £000	Other Adjustments Note 3 £000	Transfer To/From Reserves £000	Total Adjustments £000
Education	1,084	796	54	0	1,934
Cultural and Recreation	109	203	3	(20)	295
Community Social Services	281	1,806	4	0	2,091
Roads and Transportation	3,855	385	7	(204)	4,043
Environmental Services	397	198	0	0	595
Other Services	(6,221)	2,846	3,434	(890)	(831)
Housing Revenue Account	507	51	(637)	243	164
Harbour Authority	1,183	552	407	(4,082)	(1,940)
Cost of Service	1,195	6,837	3,272	(4,953)	6,351
Other Income and Expenditure	(1,245)	261	(3,216)	4,253	53
Deficit/(Surplus) For Year	(50)	7,098	56	(700)	6,404

2016-2017	Accounting for Capital Note 1 £000	Accounting for Pensions Note 2 £000	Other Adjustments Note 3 £000	Transfer To/From Reserves £000	Total Adjustments £000
Education	3,218	253	(24)	(37)	3,410
Cultural and Recreation	997	68	1	0	1,066
Community Social Services	758	571	9	0	1,338
Roads and Transportation	4,014	127	1	(343)	3,799
Environmental Services	415	64	2	0	481
Other Services	(8,035)	1,163	6,065	328	(479)
Housing Revenue Account	(2,137)	20	(154)	(161)	(2,432)
Harbour Authority	(191)	157	(293)	(4,027)	(4,354)
Cost of Service	(961)	2,423	5,607	(4,240)	2,829
Other Income and Expenditure	(34)	95	(5,619)	1,648	(3,910)
Deficit/(Surplus) For Year	(995)	2,518	(12)	(2,592)	(1,081)

Adjustments for Capital Purposes

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

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

Net Change for the Pensions Adjustment

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

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

Other Differences

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

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

Note 8 Adjustment between Accounting Basis and Funding Basis

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

Usable Reserves					
2017-2018	General Fund Balance £000	Housing Revenue Account £000	Harbour Reserves £000	Capital Receipts Reserve £000	Movement in Unusable Reserves £000
Adjustments involving the Capital Adjustment Account:					
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:					
Charges for depreciation and impairment of non current assets	4,814	1,650	2,956	0	(9,420)
Amortisation of Intangible Assets	6	0	0	0	(6)
Revaluation losses on Property Plant and Equipment	3,262	39	465	0	(3,766)
Movements in the Market Value of Investment Properties	0	0	(552)	0	552
Capital grants and contributions	(7,201)	0	(869)	0	8,070
Carrying amount of non current assets sold	3,108	606	1,730	0	(5,444)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:					
Statutory Provision for the Financing of Capital Investment	(2,434)	(1,252)	(491)	0	4,177
Capital expenditure charged against the General Fund and HRA balances	(1,436)	0	(1,636)	0	3,072
Adjustments involving the Capital Receipts Reserve:					
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	0	(735)	735
Proceeds From Sale of Non Current Assets	(609)	(536)	(1,670)	2,815	0
Adjustments involving the Financial Instruments Adjustment Account:					
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements.	0	0	(40)	0	40
Adjustments involving the Pensions Reserve:					
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 40)	13,126	104	1,115	0	(14,345)
Employer's pensions contributions and direct payments to pensioners payable in the year	(6,631)	(53)	(563)	0	7,247
Adjustment involving the Accumulating Compensated Absences Adjustment Account					
Adjustments in relation to Short-term compensated absences	86	0	9	0	(95)
Total Adjustments	6,091	558	454	2,080	(9,183)

Usable Reserves					
2016-2017	General Fund Balance £000	Housing Revenue Account £000	Harbour Reserves £000	Capital Receipts Reserve £000	Movement in Unusable Reserves £000
Adjustments involving the Capital Adjustment Account:					
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:					
Charges for depreciation and impairment of non current assets	10,362	2	1,751	0	(12,115)
Amortisation of Intangible Assets	6	0	0	0	(6)
Revaluation losses on Property Plant and Equipment	1,741	(1,237)	0	0	(504)
Movements in the Market Value of Investment Properties	0	0	(633)	0	633
Capital grants and contributions	(6,762)	(452)	(144)	0	7,358
Carrying amount of non current assets sold	352	689	16	0	(1,057)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:					
Statutory Provision for the Financing of Capital Investment	(1,277)	(448)	(504)	0	2,229
Capital expenditure charged against the General Fund and HRA balances	(2,430)	0	(929)	0	3,359
Adjustments involving the Capital Receipts Reserve:					
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	0	(567)	567
Proceeds From Sale of Non Current Assets	(406)	(691)	0	1,097	0
Adjustments involving the Financial Instruments Adjustment Account:					
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	0	0	1	0	(1)
Adjustments involving the Pensions Reserve:					
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 40)	9,093	78	610	0	(9,781)
Employer's pensions contributions and direct payments to pensioners payable in the year	(6,753)	(57)	(453)	0	7,263
Adjustment involving the Accumulating Compensated Absences Adjustment Account					
Adjustments in relation to Short-term compensated absences	(15)	0	1	0	14
Total Adjustments	3,911	(2,116)	(284)	530	(2,041)

Note 9 Transfer to or from Earmarked and Other Statutory Reserves

This note sets out the amounts set aside from the General Fund Balance in statutory reserves established under Schedule 3 of the Local Government (Scotland) Act 1975 to provide financing for specific areas of expenditure, and the amounts transferred back from these funds to meet General Fund expenditure in 2017-2018

	2016-2017			Balance at 31 March 2017 £000	2017-2018		
	Balance at 31 March 2016 £000	Transfers out 2016-2017 £000	Transfers in 2016-2017 £000		Transfers out 2017-2018 £000	Transfers in 2017-2018 £000	Balance at 31 March 2018 £000
Repairs & Renewals Fund	4,785	(2,213)	4,805	7,377	(262)	962	8,077
Revenue statutory funds	4,785	(2,213)	4,805	7,377	(262)	962	8,077
Capital Fund	508	0	0	508	0	0	508
Capital statutory funds	508	0	0	508	0	0	508
Total	5,293	(2,213)	4,805	7,885	(262)	962	8,585

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

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

Ring-fenced elements of the General Fund Balance

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

	2016-2017 Restated			Balance at 31 March 2017 £000	2017-2018		
	Balance at 31 March 2016 £000	Transfers in 2016-2017 £000	Transfers out 2016-2017 £000		Transfers in 2017-2018 £000	Transfers out 2017-2018 £000	Balance at 31 March 2018 £000
General Fund:							
Devolved School Management Fund	98	37	0	135	0	(100)	35
Orkney College	0	67	0	67	41	0	108
SIP Life Cycle Fund	1,989	486	(2,475)	0	0	0	0
Training Fund	354	10	(33)	331	0	(33)	298
Care Facility Fund	421	0	(421)	0	0	0	0
Energy Efficiency Fund	91	0	(91)	0	0	0	0
Innovation Fund	2,567	250	(698)	2,119	0	(934)	1,185
Renewable Energy Fund	3,598	0	(301)	3,297	0	(314)	2,983
Recreation & Cultural Services Project Fund	229	0	(102)	127	20	(34)	113
Development Grants Fund	1,536	392	(330)	1,598	263	(100)	1,761
Sustainable Communities Fund	20	26	0	46	50	0	96
Roads Project Fund	213	0	(213)	0	0	0	0
Pathfinder Project Fund	1,298	0	(1,298)	0	0	0	0
Outwith Orkney Placements Fund	1,038	751	(750)	1,039	731	(514)	1,256
Welfare Fund	4	0	0	4	0	0	4
Local Works & Services Contingency Fund	178	0	(30)	148	0	(10)	138
Insurance Fund	1,021	0	0	1,021	0	0	1,021
Bellwin Scheme Fund	160	0	(160)	0	0	0	0
Workforce Management Fund	1,000	0	0	1,000	0	0	1,000
Office 365/EDRM Fund	103	0	(42)	61	0	0	61
Total General Fund	15,918	2,019	(6,944)	10,993	1,105	(2,039)	10,059
Total Earmarked Reserves	15,918	2,019	(6,944)	10,993	1,105	(2,039)	10,059

The unallocated balance of £5.032M is approximately 5.9% of the Council's annual running costs.

Note 10 Other Operating Expenditure

	2016-2017 £000	2017-2018 £000
(Gains)/losses on the disposal of non current assets	(40)	2,629
	(40)	2,629

Note 11 Financing and Investment Income and Expenditure

	2016-2017 £000	2017-2018 £000
Interest payable and similar charges	1,422	1,326
Pensions net interest cost	659	1,255
Interest receivable and similar income	(27,981)	(5,957)
Income and expenditure in relation to investment properties and changes in their fair value	(1,283)	404
Other investment income	251	228
Total	(26,932)	(2,744)

Note 12 Taxation and Non-specific Grant Income

The council credited the following taxation and non-specific grant income to the comprehensive income and expenditure statement during 2017-2018.

	2016-2017 £000	2017-2018 £000
Council Tax Income	7,998	8,573
NDR Redistribution	9,869	9,688
Non-ringfenced government grants	58,179	57,643
Capital Grants	7,358	8,070
Total Taxation and Non-Specific Grant Income	83,404	83,974

Note 13 Property, Plant and Equipment

Property, Plant & Equipment (PP&E)								
	Council Dwellings £000	Buildings £000	Infra-structure Assets £000	Vehicles, Plant & Equipment £000	Community Assets £000	PP&E Under Construction £000	Surplus Assets £000	Total PP&E £000
Cost or Valuation								
Balance as at 1 April 2017	57,795	207,123	146,899	44,460	4,864	7,527	2,199	470,867
Adjustments between cost/value & depreciation/impairment	0	0	(1)	0	0	0	0	(1)
Adjusted opening balance	57,795	207,123	146,898	44,460	4,864	7,527	2,199	470,866
Additions (Note 35)	97	3,620	2,828	1,642	207	4,543	0	12,937
Revaluation increases/(decreases) to Revaluation Reserve	10	4,294	15	(168)	0	0	(26)	4,125
Revaluation increases/(decreases) to Surplus or Deficit on the Provision of Services	(39)	(17,917)	(738)	(14,920)	(10)	0	(509)	(34,133)
Derecognition - Disposals	(491)	(2,849)	0	(910)	(110)	0	(280)	(4,640)
Reclassifications & Transfers	0	4,104	(924)	3,074	0	(6,573)	(140)	(459)
Balance as at 31 March 2018	57,372	198,375	148,079	33,178	4,951	5,497	1,244	448,696
Depreciation and Impairment								
Balance as at 1 April 2017	0	16,227	63,721	33,349	788	0	88	114,173
Depreciation Charge	1,656	293	5,334	2,135	0	0	39	9,457
Depreciation written out on Revaluation taken to Surplus or Deficit on the Provision of Services	0	(15,630)	(734)	(14,623)	(7)	0	(1)	(30,995)
Derecognition - Disposals	0	(265)	0	(827)	(27)	0	0	(1,119)
Reclassifications & Transfers	0	280	(304)	0	0	(3)	(11)	(38)
Balance as at 31 March 2018	1,656	905	68,017	20,034	754	(3)	115	91,478
Net Book Value								
Balance as at 31 March 2018	55,716	197,470	80,062	13,144	4,197	5,500	1,129	357,218
Balance as at 31 March 2017	57,795	190,896	83,178	11,111	4,076	7,527	2,111	356,694

Property, Plant & Equipment (PP&E)								
	Council Dwellings £000	Buildings £000	Infra-structure Assets £000	Vehicles, Plant & Equipment £000	Community Assets £000	PP&E Under Construction £000	Surplus Assets £000	Total PP&E £000
Cost or Valuation								
Balance as at 1 April 2016	47,443	211,504	143,408	42,178	4,950	7,479	569	457,531
Additions (Note 35)	188	742	2,107	3,018	69	5,559	31	11,714
Revaluation increases/(decreases) to Revaluation Reserve	12,773	636	0	0	0	0	(1,708)	11,701
Revaluation increases/(decreases) to Surplus or Deficit on the Provision of Services	(4,895)	(66)	0	0	0	0	(2,169)	(7,130)
Derecognition - Disposals	(533)	(115)	0	(736)	0	0	0	(1,384)
Reclassifications & Transfers	2,819	(5,578)	1,384		(155)	(5,511)	5,476	(1,565)
Balance at 31 March 2017	57,795	207,123	146,899	44,460	4,864	7,527	2,199	470,867
Depreciation and Impairment								
Balance as at 1 April 2016	5,663	11,432	59,772	31,601	941	0	77	109,486
Depreciation Charge		5,687	3,949	2,466	0	0	13	12,115
Depreciation written out on Revaluation taken to Surplus or Deficit on the Provision of Services	(5,738)	(66)	0	0	0	0	(822)	(6,626)
Derecognition - Disposals	(79)	(5)	0	(718)	0	0	0	(802)
Reclassifications & Transfers	154	(821)	0	0	(153)	0	820	0
Balance at 31 March 2017	0	16,227	63,721	33,349	788	0	88	114,173
Net Book Value								
Balance at 31 March 2017	57,795	190,896	83,178	11,111	4,076	7,527	2,111	356,694
Balance at 31 March 2016	41,780	200,072	83,636	10,577	4,009	7,479	492	348,045

Revaluations

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

2017-2018	Council Dwellings £000	Investment Properties £000	Buildings £000	Infra-structure Assets £000	Vehicles, Plant & Equipment £000	Community Assets £000	PP&E Under Construction £000	Surplus Assets £000	Total Assets £000
Historic Cost	0	0	0	80,062	13,144	4,197	5,500	1,129	104,032
NBV of assets valued at:									
31 March 2012	37,576	0	0	0	0	0	0	0	37,576
31 March 2013	2,696	23,090	0	0	0	0	0	0	25,786
31 March 2014	236	7,026	172,603	0	0	0	0	0	179,865
31 March 2015	355	(6,731)	25,535	0	0	0	0	0	19,159
31 March 2016	917	(1,398)	1,934	0	0	0	0	0	1,453
31 March 2017	16,015	264	(9,176)	0	0	0	0	0	7,103
31 March 2018	(2,079)	(751)	6,574	0	0	0	0	0	3,744
Total	55,716	21,500	197,470	80,062	13,144	4,197	5,500	1,129	378,718

Note 14 Investment Properties

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

	2016-2017 £000	2017-2018 £000
Rental income from investment property	(1,260)	(1,321)
Direct operating expenses arising from investment property	610	817
'Net Gain/Loss included in Financing & Investment Income in the CIES'	(650)	(504)
Carrying amount of investment properties sold	0	1,460
(Surplus)/deficit on sale of Investment Properties:	0	1,460
Changes in Fair Value of Investment Properties	633	(552)
	(17)	404

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

	2016-2017 £000	2017-2018 £000
Balance at start of the year	21,987	22,251
Additions:		
- Purchases	14	452
Disposals	0	(1,460)
Net gains/losses from fair value adjustments	633	552
Transfers:		
-to/from Property, Plant and Equipment	(383)	(295)
Balance at end of the year	22,251	21,500

Note 15 Intangible Assets

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

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

	2016-2017		2017-2018	
	Other Assets £000	Total £000	Other Assets £000	Total £000
Balance at start of year:				
Gross carrying amounts	2,157	2,157	2,157	2,157
Accumulated amortisation	(2,145)	(2,145)	(2,151)	(2,151)
Net carrying amount at start of year	12	12	6	6
Amortisation for the period	(6)	(6)	(6)	(6)
Net carrying amount at end of year	6	6	0	0
Comprising:				
Gross carrying amounts	2,157	2,157	2,157	2,157
Accumulated amortisation	(2,151)	(2,151)	(2,157)	(2,157)
	6	6	0	0

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

Note 16 Heritage Assets

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

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

2016-2017 £000		2017-2018 £000
912	Cost or valuation at start of year	912
0	Revaluation gains (losses) other	0
912	Cost or Valuation at year-end	912

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

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

The Museum recognises its responsibility, in acquiring additions to its collections, to ensure the care of collections, documentation arrangements and use of collections will meet the requirements of the Accreditation Standard. Full details can be seen in the Arts, Museums and Heritage Service Collection Management policy 2015-2020, including Acquisition and Disposal Procedures.

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

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

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

The following collections are held:

Archaeology

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

Social History

The social history collection is categorised as follows:

Commerce and Industry – contains items relating to Agriculture, Weaving and Knitting, Kelp and Straw, Brewing and Distilling, Modern Crafts, Traditional and Commercial Food Production, Shops, Restaurants and Hotels, Trades and Tourism.

Domestic and Community Life – contains items of furniture and household effects, garments, the Baikie Family Collection, soft furnishings and items relating to Education, Health, Law, Order and Local Government, Religion, Clubs, Societies and Institutions and Transport.

Fine Art – contains a large collection of art including works by famous local artists and reputable artists from out-with Orkney.

Wartime Orkney – contains collections that reflect Orkney's major role in two World Wars as a naval base.

Orkney Archives Collection

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

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

The Council has recognised 166 Heritage Assets that are considered to have a significant value in the Asset Register for 2017 to 2018.

Note 17 Financial Instruments

Categories of financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The term 'financial instrument' covers both financial assets and financial liabilities and includes trade payables, borrowings (for example Public Works Loan Board debt and market debt), financial guarantees, bank overdraft, trade receivables, loans receivable, cash deposits with financial institutions (some on a fixed term basis and some which are immediately available) and longer-term investments. The following categories of financial instrument are carried in the balance sheet. (Those financial instruments that are classified as cash and cash equivalents are not included in this table – please see Note 21 for details of these).

	Long-term			Current		
	2015-2016 £000	2016-2017 £000	2017-2018 £000	2015-2016 £000	2016-2017 £000	2017-2018 £000
Investments						
Available-for-sale financial assets	5,131	5,327	5,501	0	0	0
Financial assets at fair value through profit	0	0	0	183,682	207,299	217,073
Total investments	5,131	5,327	5,501	183,682	207,299	217,073
Debtors						
Loans and receivables	1,981	2,272	2,249	0	0	0
Financial assets carried at contract amounts	0	0	0	6,717	6,528	8,916
Total Debtors	1,981	2,272	2,249	6,717	6,528	8,916
Borrowings						
Financial liabilities at amortised cost	35,000	30,228	30,200	5,542	5,490	434
Total borrowings	35,000	30,228	30,200	5,542	5,490	434
Creditors						
Financial liabilities carried at contract amount	0	0	0	12,503	13,501	14,444
Total creditors	0	0	0	12,503	13,501	14,444

Fair value of financial instruments

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

- Subsequent to initial recognition, available-for-sale financial assets continue to be carried in the balance sheet at fair value.
- Subsequent to initial recognition, loans and receivables and financial liabilities at amortised cost are carried in the balance sheet at amortised cost, using the effective interest rate method. The effective interest rate is the rate that exactly discount estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability.
- Financial assets stated at fair value, adjusted through the profit or loss account, include the following investments held as part of the Strategic Reserve Fund on the Harbour Authority Account:

Investments	Market Value £000	Fair Value %
Managed Funds	215,403	96.78
Private Companies	4,704	2.11
Fishing Quota	2,455	1.10
Other	13	0.01
Total	222,575	100.00

Loans and receivables include loans to local developers, including a loan to Orkney Islands Property Development Limited of £1.172 million, loans to fishing boats and housing loans to individuals where a specific entitlement criteria has been met.

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

Financial liabilities carried at contract amount are short term creditors (see Note 23).

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

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

	2017-2018				
	Financial liabilities measured at amortised cost £000	Financial Assets: loans and receivables £000	Available for-sale assets £000	At Fair Value through Profit and Loss £000	Total £000
Interest expense (including finance lease interest)	1,177	0	0	0	1,177
Losses on derecognition	0	0	0	1,073	1,073
Impairment losses	0	(15)	0	0	(15)
Fee expense	86	11	0	529	626
Total expense in (surplus) or deficit on the Provision of Services	1,263	(4)	0	1,602	2,861
Interest income	(191)	(62)	0	0	(253)
Interest income accrued on impaired financial assets	0	2	0	0	2
Dividend Income	0	0	(285)	(4,788)	(5,073)
Other income	0	(40)	0	(225)	(265)
Gains on derecognition	0	0	0	(7,850)	(7,850)
Total income in (Surplus) or Deficit on the Provision of Services	(191)	(100)	(285)	(12,863)	(13,439)
Gains on revaluation	0	0	0	(236)	(236)
Losses on revaluation	0	0	0	7,094	7,094
(Surplus) or deficit arising on revaluation of available-for-sale financial assets (in other comprehensive income and	0	0	0	6,858	6,858
Net (gain)/loss for the year (in the total comprehensive income and expenditure)	1,072	(104)	(285)	(4,403)	(3,720)

	2016-2017				
	Financial liabilities measured at amortised cost £000	Financial Assets: loans and receivables £000	Available for-sale assets £000	At Fair Value through Profit and Loss £000	Total £000
Interest expense (including finance lease interest)	1,318	0	0	0	1,318
Losses on derecognition	0	0	0	1,908	1,908
Impairment losses	0	(27)	0	0	(27)
Fee expense	81	10	0	513	604
Total expense in (surplus) or deficit on the Provision of Services	1,399	(17)	0	2,421	3,803
Interest income	(298)	(56)	0	0	(354)
Interest income accrued on impaired financial assets	0	2	0	0	2
Dividend Income	0	0	(196)	(5,145)	(5,341)
Other income	0	(2)	0	(1)	(3)
Gains on derecognition	0	0	0	(4,639)	(4,639)
Total income in (Surplus) or Deficit on the Provision of Services	(298)	(56)	(196)	(9,785)	(10,335)
Gains on revaluation	0	0	0	(20,048)	(20,048)
(Surplus) or deficit arising on revaluation of available-for-sale financial assets (in other comprehensive income and	0	0	0	(20,048)	(20,048)
Net (gain)/loss for the year (in the total comprehensive income and expenditure)	1,101	(73)	(196)	(27,412)	(26,580)

Fair Values of Assets and Liabilities

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

- Estimated ranges of interest rates at 31 March 2018 of 3.51% to 4.28% for loans from the PWLB and 5.6% for other loans receivable and payable, based on new lending rates for equivalent loans at that date
- No early repayment or impairment is recognised
- Where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated by our treasury advisors are based on a new loan discount rate, as follows:

	2016-2017		2017-2018	
	Carrying amount £000	Fair value £000	Carrying amount £000	Fair value £000
Financial liabilities	35,228	45,288	30,200	39,936

The fair value of the liabilities is higher than the carrying amount because the Authority's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the prevailing rates at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31 March 2018) arising from a commitment to pay interest to lenders above current market rates.

	2016-2017		2017-2018	
	Carrying amount £000	Fair value £000	Carrying amount £000	Fair value £000
Long-term debtors less provision	2,272	2,272	2,249	2,249

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

The nature and extent of risks arising from Financial Instruments are detailed in Note 42.

Note 18 Inventories

	2016-2017 £000	2017-2018 £000
Stocks and Stores	1,126	934
Total	1,126	934

Note 19 Construction Contracts

The following significant contracts for capital investment have been entered into by Orkney Islands Council and extend beyond 31 March 2018:

Project Name	Purpose	Approx Value £000	Anticipated Completion
Kirkwall Flood Prevention Scheme	Construction of flood defence	474	Apr-19
Pierowall Harbour Upgrade	Improvements to harbour	1,553	Sep-19
Stromness Care Facility	Construction of new care facility	6,419	Aug-20
Burial Ground Extension and Improvements	Improvements to burial grounds	1,318	Mar-22
Overall Total		9,764	

Similar commitments at 31 March 2017 were £5.664M.

Note 20 Short-term Debtors

	2016-2017 £000	2017-2018 £000
Central Government Bodies	0	1,239
NHS Bodies	0	15
NDR & Council Tax	595	915
Rents	564	415
Value Added Tax	513	587
Bodies External to General Government	4,856	5,745
Total	6,528	8,916

Note 21 Cash and Cash Equivalents

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

	2016-2017 £000	2017-2018 £000
Cash and Bank balances	301	179
Short Term Investments (considered to be Cash Equivalents)	32,500	25,000
Short Term Deposits (considered to be Cash Equivalents)	7,107	3,699
Total	39,908	28,878

Note 22 Assets Held for Sale

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

	Current	
	2016-2017 £000	2017-2018 £000
Balance outstanding at start of year	860	2,333
Assets newly classified as held for sale:	0	1
Transferred from /(to) Non-Current Assets during year	1,948	754
Revaluation Gains/(losses) taken to Surplus or deficit on the provision of services	0	(628)
Revaluation gains/(losses) other	0	91
Assets sold cost	(475)	(463)
Balance outstanding at year-end	2,333	2,088

Note 23 Short-term Creditors

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

	2016-2017 £000	2017-2018 £000
Central Government Bodies	0	1,888
Other Local Authorities	0	44
NHS Bodies	177	5
Public Corporations and Trading Funds	0	3
Council Tax	137	12
HRA	133	36
Accumulated Absences	2,501	2,596
Receipts in Advance	548	857
Other	1,717	2,059
Bodies External to General Government	8,288	6,444
Total Short Term Creditors	13,501	13,944

Note 24 Provisions

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

	Balance as at 1 April 2017 £000	Increase in provision during year £000	Utilised during year £000	Unused Amounts Reversed £000	Interest earned £000	Balance as at 31 March 2018 £000
Other	2,802	0	0	0	0	2,802
	2,802	0	0	0	0	2,802
Current Provisions	0	0	0	0	0	0
Long Term Provisions	2,802	0	0	0	0	2,802
	2,802	0	0	0	0	2,802

Other

A provision of £2.802M has been identified as the Council's Section 75 debt in respect of the Merchant Navy Officers Pension Fund (MNOFF) - Post 78 Section. A Section 75 debt was triggered when the last active member retired and no active members of the Pension Fund were directly employed by the Council. As at 31 March 2018 a formal request for this amount has yet to be received from the MNOFF. The Council has been negotiating a withdrawal from the MNOFF which would require the Council to guarantee the future liabilities of both Orkney Towage Company Limited and Orkney Ferries Limited to the MNOFF but this would avoid payment of the Section 75 debt.

The Policy and Resources Committee recommended that the integration of the Orkney Towage Company Ltd into the Council be implemented, post April 2016, subject to the closure of the MNOFF to future accrual. The MNOFF closed to future accrual on 31 March 2016 and the integration of Orkney Towage Company Ltd into the Council is progressing with all employees formally transferred to OIC by 1 April 2018.

Note 25 Usable Reserves

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

2016-2017 £000		2017-2018 £000
15,781	General Fund Balance	15,091
177	Housing Revenue Account Balance	243
550	Capital Receipts Reserve	2,630
508	Other Statutory Funds	508
236,459	Harbours	236,751
7,377	Repairs and Renewals Fund	8,077
260,852	Total usable reserves	263,300

Note 26 Unusable Reserves

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

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

Revenue Account Balance to give the council more or less spending power in the short term than proper accounting practices would allow. The adjustment accounts comprise the Capital Adjustment Account, the Financial Instruments Adjustment Account, the Pension Reserve and the Employee Statutory Adjustment Account.

Summary of Unusable Reserves

	2016-2017 £000	2017-2018 £000
Capital Adjustment Account	239,361	240,814
Financial Instruments Adjustment Account	(111)	(71)
Revaluation Reserve	92,466	93,200
Pensions Reserve	(45,386)	15,165
Available for Sale Financial Instruments Reserve	2,568	2,743
Employee Statutory Adjustment Account	(2,501)	(2,596)
Total Unusable Reserves	286,397	349,255

1. Movement in the year: Revaluation Reserve

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

	2016-2017 £000	2017-2018 £000
Balance at 1 April	83,397	92,466
Upward revaluation of assets	11,701	4,216
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	11,701	4,216
Difference between fair value and historical cost depreciation	(2,124)	(3,482)
Revaluation balances on assets scrapped or disposed of	(508)	0
Balance at 31 March	92,466	93,200

2. Movement in the year: Capital Adjustment Account

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

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

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

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

	2016-2017		2017-2018	
	£000	£000	£000	£000
Balance at 1 April		236,265		239,361
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:				
Charges for depreciation and impairment of non-current assets	(12,121)		(9,426)	
Revaluation losses on Property, Plant and Equipment	(504)		(3,766)	
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(549)		(5,444)	
		(13,174)		(18,636)
Adjusting amounts written out of the Revaluation Reserve		2,124		3,483
Net written out amount of the cost of non-current assets consumed in the year		(11,050)		(15,153)
Capital financing applied in the year:				
Use of the Capital Receipts Reserve to finance new capital expenditure	567		735	
Loans Lease principal repayments	2,229		4,177	
Application of grants to capital financing from the Capital Grants Unapplied Account	7,358		8,070	
Capital expenditure charged against the General Fund and HRA balances	3,359		3,072	
		13,513		16,054
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		633		552
Balance at 31 March		239,361		240,814

3. Movement in the year: Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments, and for bearing losses or benefiting from gains in accordance with statutory provisions. The council uses the Financial Instruments Adjustment Account to manage “soft loans” that were on the council’s balance sheet at 31 March 2007. Soft loans are loans advanced by the council at nil or below prevailing interest rates. Generally accepted accounting practices require that the discounted interest rate is recognised as a reduction in the fair value of the loan, with the difference being debited to the comprehensive income and expenditure statement as service expenditure. However, statutory arrangements [or regulations] require that, for soft loans on the council’s balance sheet at 31 March 2018, the reduction in value and corresponding charge to be reversed, so that there is no impact on the General Fund Balance.

	2016-2017 £000	2017-2018 £000
Balance at 1 April	(110)	(111)
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(1)	40
Balance at 31 March	(111)	(71)

4. Movement in the year: Pension Reserve

The Pension Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions or regulations. The council accounts for post-employment benefits in the comprehensive income and expenditure statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the council makes employer's contributions to pension funds. The debit balance on the Pension Reserve shows a significant shortfall in the benefits earned by past and current employees.

	2016-2017 £000	2017-2018 £000
Balance at 1 April	(17,912)	(45,386)
Remeasurement of the net Pension Fund liability/(asset)	(24,956)	67,649
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(9,781)	(14,345)
Employers Pensions contributions and direct payments to pensioners payable in the year	7,263	7,247
Balance at 31 March	(45,386)	15,165

5. Movement in the year: Employee Statutory Adjustment Account

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

	2016-2017 £000	2017-2018 £000
Balance at 1 April	(2,515)	(2,501)
Amounts accrued at the end of the current year	14	(95)
Balance at 31 March	(2,501)	(2,596)

6. Movement in the year: Available for Sale Financial Instruments Reserve

The Available for Sale Financial Reserve contains the gains made by the Authority arising from increases in the value of its investments that have quoted market prices or otherwise do not

have fixed or determinable payments. The balance is reduced when investments with accumulated gains are:

- Revalued downwards or impaired and the gains are lost
- Disposed of and the gains are realised

	2016-2017 £000	2017-2018 £000
Balance at 1 April	2,372	2,568
Upward revaluation of investments	417	175
Downward revaluation of investments not charged to the Surplus/Deficit on the Provision of Services	(221)	0
Balance at 31 March	2,568	2,743

Note 27 Cash Flow Statement: Operating Activities

	2016-2017 £000	2017-2018 £000
Adjustment to surplus or deficit on the provision of services for noncash movements		
Depreciation and Impairment losses	12,115	9,420
Revaluation Gains	504	3,766
Amortisation (included with depreciation above)	6	6
(Increase)/Decrease in Stock	(439)	192
(Increase)/Decrease in Debtors	(142)	(2,059)
Increase/(Decrease) in Creditors	1,235	(385)
Movements in the Pension Reserve not relating to actuarial changes	2,518	7,098
Carrying amount of non-current assets sold	1,057	5,444
Investment Income not involving movement of cash	(28,956)	(5,625)
Contributions to Other Reserves/Provisions	(3,640)	(16,010)
Movement in value of investment properties-included above in impairment & downward revaluations (& non-sale de-recognitions)	(633)	(552)
	(16,375)	1,295
Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities		
Purchase of short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)	19,640	30,128
Proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)	(18,299)	(28,504)
	1,341	1,624

Note 28 Cash Flow Statement: Investing Activities

	2016-2017 £000	2017-2018 £000
Purchase of PP&E, investment property and intangible assets	11,580	14,319
Purchase of Short Term Investments (not considered to be cash equivalents)	(26)	(10,908)
Purchase of Long Term Investments	0	5,470
Other Payments for Investing Activities	615	318
Proceeds from the sale of PP&E, investment property and intangible assets	(1,097)	(1,145)
Capital Grants and Contributions Received	(7,398)	(8,376)
Other Receipts from Investing Activities	(348)	1,265
Net Cash flows from Investing Activities	3,326	943

Note 29 Cash Flow Statement: Financing Activities

	2016-2017 £000	2017-2018 £000
Other Receipts form Financing Activities	(526)	(191)
Other payments for Financing Activities	6,311	6,462
Net Cash flows from Financing Activities	5,785	6,271

Note 30 Trading Operations

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

Note 31 Agency Services

The Council is required by legislation to provide a collection service for Scottish Water whereby it collects water and waste charges in conjunction with collection of Council Tax. The legislation stipulates the minimum amount Scottish Water must pay by way of commission for this service. For 2017/18 the value of this service amounted to £0.062M (2016/17 £0.062M).

The Council collects Non-Domestic Rates on behalf of the Scottish Government. For 2017/18 £9.688M was collected (2016/17 £9.869M).

Note 32 External Audit Costs

Fees payable to Audit Scotland in respect of external audit services undertaken in accordance with Audit Scotland's Code of Audit Practice in 2017/18 were as follows:

	2016-2017 £000	2017-2018 £000
Orkney Islands Council	182	182
Charities	1	1
	183	183

Note 33 Capital Grant Receipts in Advance

The Council has received a capital grant that has yet to be recognised as income. This is because this grant has conditions attached to it that remain outstanding and would require the monies to be returned to the grantor. The balance at 31 March 2018 is as follows:

31 March 2017 £000		31 March 2018 £000
<i>Capital Grants Receipts in Advance</i>		
0	Scottish Government - Regeneration Capital Grant Fund	500
0	Total Capital Grants Receipts in Advance	500

Note 34 Related Parties

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

Scottish Government

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

Companies and Joint Boards

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

Councillors' and Officers

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

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

Pension fund

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

	2016-2017			2017-2018		
	Receipts £000	Payments £000	Debtor / (Creditor) £000	Receipts £000	Payments £000	Debtor / (Creditor) £000
Scottish Government						
Revenue Grants Being payments made in support of Revenue Expenditure	58,179	0	0	57,643	0	0
Capital Grants Being payments made in support of Capital Expenditure	7,358	0	0	8,070	0	0
Companies and Joint Boards						
Orkney Towage Company Limited Being payments made for the provision of Towage Services	1,203	1,156	3,120	0	0	3,120
Orkney Ferries Limited Being payments made in support of the Ferry Services	0	7,623	542	0	7,881	543
Pickaquoy Centre Trust	158	829	19	188	802	35
Orkney and Shetland Valuation Joint Board Being payments of annual requisition to Joint Boards	0	328	33	0	333	0
Orkney Islands Pension Fund						
Being payments of employers contributions in respect of employees	0	6,716	0	0	6,730	0

Note 35 Capital Expenditure and Capital Financing

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

Capital Expenditure and Capital Financing	2016-2017 £000	2017-2018 £000
Opening Capital Financing Requirement	36,725	34,940
Property, Plant and Equipment	11,714	12,937
Investment Properties	14	452
	11,728	13,389
Sources of finance		
Capital receipts	(567)	(734)
Government grants and other contributions	(7,358)	(8,070)
Sums set aside from revenue:		
Direct revenue contributions:		
General	(2,430)	(1,161)
Harbours	(929)	(821)
Loans fund principal	(2,229)	(4,177)
	(13,513)	(14,963)
Closing Capital Finance Requirement	34,940	33,366
Explanation of movements in year		
Increase in underlying need to borrow (unsupported by government financial assistance)	(1,785)	(1,574)
Increase/(decrease) in Capital Financing Requirement	(1,785)	(1,574)

At 31 March 2018 the Council had commitments on capital contracts for projects of £9.764M. This expenditure will be funded from a combination of government grants, external borrowing, and income from selling assets and contributions from revenue budgets.

Note 36 Leases

Orkney Islands Council as Lessee

Operating Leases

The Council has acquired properties by entering into operating leases.

The expenditure charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was £0.115m (2016/17 £0.116m).

Future minimum payments are set out below:

	2016-2017 Land and buildings £000	2017-2018 Land and buildings £000
Minimum lease rentals payable:		
No later than 1 year	116	115
Later than 1 year and no later than 5 years	375	364
Later than 5 years	2,322	2,237
	2,813	2,716

Orkney Islands Council as Lessor

Operating Leases

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

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

The total value of rental income recognised during the period was £1.436m (2016/17 £1.434m). No contingent rents were recognised.

Future minimum lease income is set out below:

	2016-2017 Land and buildings £000	2017-2018 Land and buildings £000
Minimum lease rentals receivable:		
No later than 1 year	1,434	1,436
Later than 1 year and no later than 5 years	3,799	3,300
Later than 5 years	14,322	13,404
	19,555	18,140

Note 37 Impairment Losses

The Code requires disclosure by class of assets of the amounts for impairment losses and impairment reversals charged to the Surplus or Deficit on the Provision of Services and to Other Comprehensive Income and Expenditure. These disclosures are consolidated in Notes 13, 15, 16 and 22 reconciling the movement over the year in the Property, Plant and Equipment, Intangible, Heritage and Assets Held for Sale balances.

Note 38 Capitalisation of Borrowing Costs

The Council does not capitalise its borrowing costs.

Note 39 Pension Schemes Accounted as Defined Contribution Schemes

The Scottish Teachers' Superannuation Scheme is a scheme administered and regulated by the Scottish Public Pensions Agency (an executive agency of the Scottish Government) on behalf of the Scottish Ministers. The Scottish Teachers' Superannuation Scheme is a defined benefit scheme but, as it is not possible to identify each participating council's share of the underlying liabilities on a consistent and reasonable basis, the Scottish Teachers' Superannuation Scheme is accounted for as if it were a defined contribution scheme. Employer contributions are set on the basis of periodic reviews by the Government Actuary. The Council's rate of contribution as employer increased from 14.9% to 17.2% on 1 September 2015. The rate of contribution did not change during 2017-2018 (17.2% in 2016-2017). The employee rate is tiered and ranges from 7.2% to 11.9% (6.4% to 11.6% in 2016-2017). The council paid £2.095M (£2.070M in 2016-2017) for employer's contributions to the Scottish Public Pensions Agency. £0.305M of expenditure (£0.310M in 2016-2017) was charged to

service revenue accounts in respect of “added years” pension enhancement termination benefits, representing 2.50% of employees’ pensionable pay (2.57% in 2016-2017).

Note 40 Defined Benefit Pension Schemes

Participation in pension schemes

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

The council participates in two pension schemes:

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

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

Transactions relating to post-employment benefits

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

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

2016-2017 £000		2017-2018 £000
Comprehensive Income and Expenditure Statement		
<i>Cost of Services:</i>		
9,122	Current service cost	13,090
<i>Included within financing and investment income and expenditure:</i>		
659	Net Interest Expense	1,255
9,781	Total of LGPS post-employment benefits charged to the surplus or deficit on the provision of services	14,345
<i>Included within other comprehensive income and expenditure:</i>		
0	Changes in demographic assumptions	(2,616)
73,745	Changes in financial assumptions	(27,918)
423	Other experience	(21,377)
(49,212)	Return on assets excluding amounts included in net interest	(15,738)
24,956	Remeasurement of the net Pension Fund Liability/(Assets)	(67,649)
Movement in reserves statement:		
<i>Adjustments between accounting and funding basis under regulations:</i>		
(9,781)	Reversal of net charges made to surplus or deficit on the provision of services for post-employment benefits in accordance with the code	(14,345)
(24,956)	Reversal of re-measurement of net defined benefit liability	67,649
Actual amount charged against the General Fund balance for pensions in the year:		
7,263	Employer contributions and direct payments payable in the year	7,247
(27,474)	Net charge to the General Fund Summary	60,551

Pension Assets and Liabilities recognised in the Balance Sheet

	2016-2017 £000	2017-2018 £000
Fair value of scheme assets	(303,753)	(329,495)
Fair value of scheme liabilities	349,139	314,330
Council's share of deficit or (surplus) in the scheme	45,386	(15,165)

Asset and Liabilities in Relation to Post-Employment Benefits

Reconciliation of Movements in the Fair Value of Scheme Assets:

2016-2017 £000		2017-2018 £000
(242,389)	Opening balance at 1 April	(303,753)
(8,540)	Interest Income	(7,919)
	<i>Cashflows:-</i>	
(2,030)	Member contributions	(2,120)
(6,689)	Employer contributions	(6,702)
(574)	Contributions in respect of unfunded benefits	(545)
5,107	Benefits paid: other	6,737
574	Benefits paid: unfunded	545
	<i>Remeasurements:-</i>	
(49,212)	Return on Plan Assets, excl. net interest expense	(15,738)
(303,753)	Closing balance at 31 March	(329,495)

Reconciliation of Present Value of the Scheme Liabilities:

2016-2017 £000		2017-2018 £000
251,742	Present Value of Funded Liabilities	339,996
8,559	Present Value of Unfunded Liabilities	9,143
260,301	Opening balance at 1 April	349,139
9,122	Current service cost	13,090
	Past service cost including curtailments	
9,199	Interest cost	9,174
	<i>Cashflows:-</i>	
2,030	Member contributions	2,120
(5,107)	Estimated benefits paid: other	(6,737)
(574)	Estimated benefits paid: unfunded	(545)
	<i>Remeasurements:-</i>	
0	Changes in demographic assumptions	(2,616)
73,745	Changes in financial assumptions	(27,918)
423	Other experience	(21,377)
349,139		314,330
339,996	Present Value of Funded Liabilities	305,696
9,143	Present Value of Unfunded Liabilities	8,634
349,139	Closing balance at 31 March	314,330

Analysis of Pension Fund's Assets

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

2016-2017 £000			2017-2018 £000	
Equities:				
45,075	15%	Consumer	39,137	12%
50,725	17%	Manufacturing	38,747	12%
10,047	3%	Energy and Utilities	6,194	2%
54,880	18%	Financial Institutions	51,848	16%
14,643	5%	Health and Care	17,679	5%
39,060	13%	Information Technology	46,077	14%
Bonds:				
0	0%	UK Government	17,936	5%
Investment Funds and Unit Trusts:				
35,023	11%	Equities	85,446	26%
41,970	14%	Bonds	17,782	5%
12,330	4%	Cash and Cash Equivalents:	8,649	3%
303,753	100%	Total Assets	329,495	100%

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in the future years dependent on assumptions about mortality rates, salary levels, etc. The following table shows the principal assumptions used by Hymans Robertson LLP, the Fund's independent actuaries, to estimate the council's post-employment benefits transactions for 2017-2018, and the council's share of the Pension Fund's defined benefit obligation (scheme liabilities) and scheme assets as at 31 March 2018:

2016-2017			2017-2018
2.60%		Discount rate for defined benefit obligation	2.70%
4.40%		Rate of increase in salaries	2.80%
2.40%		Rate of increase in pensions	2.40%
Mortality assumptions:			
Longevity at age 65 for current pensioners:			
22.4 years		Men	21.7 years
23.8 years		Women	23.8 years
Longevity at age 65 for future pensioners:			
25 years		Men	23.3 years
27 years		Women	26.2 years
Commutation assumptions - percentage of the maximum additional tax-free cash (per HM Revenue & Customs limits) converted from annual pension into retirement lump sum:			
50%		for pre-April 2009 service	50%
75%		for post-April 2009 service	75%

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

Change in assumptions as at 31 March 2018:	Approximate increase to Employer %	Approximate Monetary Amount £000
0.5% decrease in Real Discount Rate	10%	32,821
0.5% increase in the Salary Increase Rate	2%	6,266
0.5% increase in the Pension Increase Rate	8%	26,029

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

Impact on the Authority's Cash Flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The Council has agreed a strategy with the scheme's actuary to maintain a funding level of 100% over the next 20 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed as at 31 March 2020.

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

The Authority anticipates paying £6.353m in contributions to the scheme in 2018/2019.

The weighted average duration of the defined benefit obligation for scheme members was 20.8 years in 2017/18.

Statutory Accounts

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

Note 41 Contingent Liabilities

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

The Council is responsible under environmental and planning legislation for the ongoing monitoring and if required maintenance and reinstatement of current and former landfill and quarry sites. As at 31 March 2018, no financial provision has been made in respect of the future reinstatement of these landfill or quarry sites however, work is on-going to address issues at the sites currently assessed as Amber following completion of remedial works at the sites marked as Red. The council recognises that a contingent liability in respect of current and former landfill and quarry sites operated by the council may arise as a result of this work however the timing of liabilities in respect of current and former landfill and quarry sites is uncertain and the associated costs cannot be reliably estimated at this time.

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

Note 42 Nature and Extent of Risks Arising from Financial Instruments

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

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

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

Credit Risk

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

Deposits are not made with banks and financial institutions unless they are rated independently with minimum score of A1/P1/F1 short term debt ratings with Moodys, Standard & Poors or Fitch. The authority has a policy of not lending more than £15M of its surplus balances to individual institutions at any one time.

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

2017-2018	Amount at 31 March 2018 £000	Historical experience of non-payment adjusted for market conditions at 31 March 2018 %	Adjustment for Market Conditions at 31 March 2018 %	Estimated maximum exposure to default and uncollectability at 31 March 2018 £000
Deposits with financial institutions and local authorities	28,699			
Customers (sundry income)	10,464	5.00	14.81	1,548
Total	39,163			1,548

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

The Authority does not generally allow credit for customers, such that £2.363M of the £4.815M balance is past its due date for payment. The past due but not impaired amount can be analysed by age as follows:

2016-2017 £000		2017-2018 £000
652	Less than three months	666
282	Three to six months	269
306	Six months to one year	234
1,225	More than one year	1,194
2,465	Sundry income debtors balance	2,363

Collateral

Orkney Islands Council acts as the lender of last resort for housing loans. In such cases the council takes a standard security over the property. As at 31 March 2018 the outstanding value of loans advanced by the council was £0.693M (£0.491M as at 31 March 2017).

Liquidity risk

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

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

	2016-2017 £000	2017-2018 £000
Between one and two years	5,000	5,000
Between two and five years	5,000	5,000
More Than 5 Years	25,000	20,000
	35,000	30,000

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

Market risk: interest rate risk

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

- borrowings at variable rates – the interest expense charged to the Surplus or Deficit on the Provision of Services will rise.
- borrowings at fixed rates – the fair value of the liabilities borrowings will fall.
- investments at variable rates – the interest income credited to the Surplus or Deficit on the Provision of Services will rise.
- investments at fixed rates – the fair value of the assets will fall.

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

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

To illustrate the notional impact of changes in interest rates upon the council, the following table shows the financial effect if rates had been 1% higher during 2017-2018, with all other variables held constant.

	2016-2017 £000	2017-2018 £000
Increase in interest receivable on variable rate investments	(396)	(287)
Impact on Surplus or Deficit on the Provision of Services	(396)	(287)
Decrease in fair value of fixed rate investment assets	2,090	2,170
Decrease in fair value of fixed rate borrowings liabilities (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure)	13	12

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

Market risk: price risk

The authority held £222.575M of investments as at 31 March 2018 in the form of equity shares and bonds, including £3.034M in a local wind energy company. The authority is consequently exposed to losses arising from movement in the price of the shares.

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

These clearly defined shares are all classified as 'for profit or sale', meaning that all movements in price will impact directly on the income and expenditure statement. A general shift of 5% in the general price of shares (positive or negative) would have resulted in a £11.129M gain or loss being recognised in the income and expenditure statement.

Market risk: foreign exchange risk

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

Note 43 Charitable and Non Charitable Trust Funds

This section of the Annual Accounts shows the summary of transactions relating to the Charitable and Non Charitable Trust Funds administered by Orkney Islands Council as sole trustee. A summary of the balances held at 31 March 2018 and how these balances were invested is also detailed. Orkney Islands Council administers these Funds and separately accounts for them. They do not form part of the Council's single entity balance sheet, although under s222 of the Local Government (Scotland) Act 1973, the property of the Trust Funds "vest[s] in" the relevant local authority. However, they are included in the annual accounts of the Council as a note to the core financial statements.

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

Summary Income and Expenditure Statement

2016-2017		2017-2018		
		Registered Charitable Trusts	Non Registered Trusts	Total
£000		£000	£000	£000
Income				
(54)	Interest on Investments etc.	0	(103)	(103)
Expenditure				
99	General Expenditure	6	91	97
45	(Surplus)/Deficit for the Year	6	(12)	(6)

Balance Sheet as at 31 March 2018

31 March 2017		31 March 2018			
		Note	Registered Charitable Trusts £000	Non Registered Trusts £000	Total £000
719	Short-term Deposits with Orkney Islands Council		79	648	727
(3)	Current Liabilities		(3)	(2)	(5)
716	Total Assets less Liabilities		76	646	722
Represented by					
716	Trust Fund Balances		76	646	722
716	Total Net Worth	2	76	646	722

1. Registered as Charities

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

Orkney Educational Trust (OET)	SC044607	St Peter's House Comforts Fund	SC044607
Sheriff Thoms Bequest	SC044607	Lord Lieutenants Orkney Relief Fund	SC044607
Frances Taylor's Bequest	SC044607	Mrs Flett's Bequest	SC044607
William Orkney Reid's Bursary Fund	SC044607		

2. Trust Fund Balances

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

	£000
Orkney Educational Trust	
Various bursary awards made to individuals for further education opportunities, and in the promotion of sport, visual arts, music and drama.	45
Sheriff Thoms Bequest	
The restoration of St Magnus Cathedral.	19
William Orkney Reid's Bursary Fund	
To assist the education of any promising pupils of Kirkwall Grammar School.	10
Others	
For various purposes including the upkeep of lairs, financial assistance to poor and infirm persons, the provision of prizes to school pupils, and other charitable activities.	2
Total	76

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

[General Charitable Trust Accounts](#)

Note 44 Common Good Fund

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

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

During financial year 2017-18 the heritage assets of the Common Good Fund, comprising the Provost's Badge and Chain of Office and the Convenor's Medallion and Chain, were revalued resulting in a revaluation gain of £158K.

2016-2017 £000		2017-2018 £000
Income		
(34)	Interest on Investments etc.	(35)
0	Transfer to revaluation reserve	(158)
Expenditure		
32	General Expenditure	32
(2)	(Surplus)/Deficit for the Year	(161)

31 March 2017 £000	Balance Sheet	31 March 2018		
		£000	£000	£000
Total	Investments	Stromness	Kirkwall	Total
231	Property	35	194	229
10	Heritage Assets	0	169	169
224	Capital Deposits	50	174	224
465	Total Long Term Assets	85	537	622
426	Loans Fund Deposit	90	340	430
426	Current Assets	90	340	430
0	Less Current Liabilities	0	0	0
426	Net Current Assets	90	340	430
891	Net Assets	175	877	1,052
Represented by:				
224	Capital Reserve	50	174	224
452	Revenue Reserve	91	365	456
215	Revaluation Reserve	34	338	372
891	Accumulated Funds	175	877	1,052

Accounting Policies

The accounts have been prepared in accordance with "the Code". Asset valuations were carried out by the Orkney and Shetland Valuation Joint Board on properties held as Common Good property in line with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority in the United Kingdom (The Code), otherwise known as the Statement of Recommended Practice (SORP). All valuations undertaken having regard to IFRS as applied to the Public Sector and in accordance with the Royal Institution of Chartered Surveyors Valuation Standards (The Red Book).

The last revaluation of the Common Good Fund property took place in 2014-2015 and heritage assets were revalued in 2017-2018.

Housing Revenue Account

Housing Revenue Account income and expenditure statement

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

2016-2017 £000		2017-2018	
		£000	£000
	<i>Expenditure:</i>		
1,962	Repairs and maintenance	1,289	
688	Supervision and management	732	
(1,235)	Depreciation and impairment of non-current assets	1,689	
12	Increase or (decrease) in the allowance for bad debts	5	
1,427			3,715
	<i>Income:</i>		
(3,525)	Dwelling rents	(3,565)	
(7)	Non-dwelling rents	0	
(28)	Other income	(52)	
(3,560)			(3,617)
(2,133)	Net cost of HRA services as included in the comprehensive income and expenditure statement		98
	<i>HRA share of the operating income and expenditure included in the comprehensive income and expenditure statement:</i>		
(452)	Capital Grants	0	
(2)	(Gain) or loss on sale of HRA non-current assets	70	
603	Interest payable and similar charges	558	
5	Pensions interest cost and expected return on pensions assets	9	
154			637
(1,979)	(Surplus) or deficit for the year on HRA services		735

Movement on the Housing Revenue Account statement

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

2016-2017		2017-2018			
£000		£000	£000	£000	£000
(476)	Balance on the HRA at the end of the previous year				(177)
(1,979)	(Surplus) or deficit for the year on the HRA income and expenditure statement			735	
	<i>Adjustments between accounting basis and funding basis under regulations:</i>				
2	Reverse out gain or (loss) on sale of HRA non-current assets		(70)		
	<i>HRA share of contributions to or (from) the Pension Reserve:</i>				
(78)	Reverse out net charges made for post-employment benefits in accordance with IAS19	(104)			
57	Pensions cost chargeable for the year in accordance with statutory provisions: employer's contributions payable to Orkney Islands Council Pension Fund	53			
(21)	HRA share of contributions to or (from) the Pension Reserve		(51)		
	<i>Transfer to or (from) the Capital Adjustment Account:</i>				
1,235	Reverse out depreciation and impairment gains on non-current assets	(1,689)			
452	Reverse out credits made for capital grants	0			
448	Loans fund principal contribution from the HRA	1,252			
2,135	Transfer to or (from) the Capital Adjustment Account		(437)		
2,116	Total of adjustments between accounting basis and funding basis under regulations			(558)	
137	Net (increase) or decrease before transfers to or from reserves			177	
162	Transfers to or (from) reserves			(243)	
299	(Increase) or decrease in the year on the HRA				(66)
(177)	Balance on the HRA at the end of the current year				(243)

Notes to the Housing Revenue Account income and expenditure statement

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

The Council was responsible for managing 947 dwellings during 2017-2018 (955 in 2016-2017) after allowing for 1 purchase and 9 sales. The following shows an analysis of these dwellings by type.

Number at 31 March 2017	Type of dwelling	2017-2018 Number at 31 March 2018
31	One-apartment	32
347	Two-apartment	348
307	Three-apartment	307
247	Four-apartment	243
15	Five-apartment	14
3	Six-apartment	3
950	Total	947

2. The amount of rent arrears

At 31 March 2018 total rent arrears amounted to £0.271M (£0.294M at 31 March 2017). This is 7.60% of the total value of rents due at 31 March 2018.

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

In the financial year 2017-2018 the rental bad debt provision has decreased by £0.06M (£0.051M increase during 2016-2017). The provision to cover the potential loss of income stands at £0.098M at 31 March 2018. This is 2.76% of the total value of rents due at that date.

4. The total value of uncollectable void rents

The total value of uncollectable void rents for Council dwellings that were not let during the year was £0.062M (£0.070M during 2016-2017).

Council Tax Income Account

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

2016-2017		2017-2018
£000		£000
10,202	Gross council tax levied	10,868
(730)	Council Tax Reduction Scheme	(739)
(1,406)	Other discounts and reductions	(1,478)
(13)	Write-off of uncollectable debts and allowance for impairment	(17)
(55)	Adjustment to previous years’ council tax	(61)
7,998	Transfer to the General Fund	8,573

Calculation of the council tax

Dwellings are valued by the Assessor and placed within valuation bands ranging from the lowest “A” to the highest “H”. The council tax base is the number of chargeable dwellings across all valuation bands (adjusted for dwellings where discounts apply), after providing for non-payment, expressed as an equivalent number of band D dwellings. The band D council tax charge is calculated using the council tax base and this in turn fixes the charge for each of the other bands, which are based on pre-determined proportions relative to the band D charge. The band D charge for 2017-2018 was £1,068 (£1,037 in 2016-2017).

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

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

Annual council tax charges

2017-2018							
Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H
£712.00	£830.67	£949.33	£1,068.00	£1,403.23	£1,735.50	£2,091.50	£2,616.60

Calculation of the council tax base

2017-2018	Number of dwellings	Number of exemptions	Disabled relief	Discounts of 25%	Discounts of 50%	Council Tax Reduction	Total equivalent dwellings	Ratio to Band D	Band D equivalents
@	0	0	6	(1)	0	(3)	2	(200/360)	1
Band A	2,456	(279)	8	(272)	(144)	(333)	1,436	(240/360)	957
Band B	2,887	(149)	9	(280)	(95)	(307)	2,065	(280/360)	1,606
Band C	2,361	(78)	(2)	(181)	(76)	(166)	1,858	(320/360)	1,652
Band D	1,775	(37)	(8)	(110)	(33)	(64)	1,523	(360/360)	1,523
Band E	1,332	(18)	(8)	(53)	(21)	(11)	1,221	(473/360)	1,604
Band F	308	(5)	(5)	(8)	(4)	(2)	284	(585/360)	462
Band G	22	(2)	0	0	(1)	(1)	18	(705/360)	35
Band H	4	0	0	0	0	0	4	(882/360)	10
Total	11,145	(568)	0	(905)	(374)	(887)	8,411		7,850

Class 17 and 24 dwellings	0
Sub-total	7,850
Provision for non-payment and future award of discounts and reliefs	(29)
Council tax base	7,821

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

Non-Domestic Rates Account

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

2016-2017		2017-2018
£000		£000
12,978	Gross rates levied	13,931
(3,158)	Reliefs and other deductions	(3,809)
(39)	Write-offs of uncollectable debts and allowance for impairment	(38)
9,781	Net non-domestic rate income	10,084
(56)	Adjustment to previous years' non-domestic rates	(407)
144	Contribution (to) or from the national non-domestic rate pool	11
9,869	Transfer to comprehensive income and expenditure statement	9,688

The nature and amount of each rate fixed

The non-domestic rates charge for each subject is determined by the rateable value placed upon it by the Assessor, multiplied by the rate per pound (the "rate poundage"). The national non-domestic rates poundage is set each year by the Scottish Ministers. For 2017-2018 the charge was 46.6 pence in the pound. From 1 April 2017 the Scottish Government amended the existing Small Business Bonus Scheme (SBBS). Under the SBBS properties with a rateable value up to and including £15,000 are entitled to a 100% reduction in their business rates. Properties with a rateable value of between £15,001 and £18,000 receive a 25% reduction. Additionally, a business with two or more properties with a combined rateable value of £35,000 are eligible to qualify for relief of 25% on individual properties with a rateable value of £18,000 or less. For properties with a rateable value over £51,000 a supplement of 2.6 pence in the pound was added as per the Non-Domestic Rates (Levying) (Scotland) Regulations 2017.

Analysis of Orkney Islands Council's rateable values:

2017-2018		£000	£000
Rateable value at 1 April 2017:	commercial	8,606	
	industrial and freight transport	4,711	
	others	15,070	
			28,387
Running roll (full-year rateable value)			238
Rateable value at 31 March 2018			28,625
Wholly exempt subjects			430
Net rateable value at 31 March 2018			29,055

Harbour Authority Account

Harbour Authority Revenue Account income and expenditure statement

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

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

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

The objective of the Strategic Reserve Fund is to maintain or increase its value over time while generating an annual return which meets the targets set by the Council. These activities are recognised as investment income within the Council's Comprehensive Income and Expenditure Statement.

2016-2017		2017-2018		
		£000 Expenditure	£000 Income	£000 Net
(5,034)	Scapa Flow Oil Port	5,559	(9,336)	(3,777)
1,060	Miscellaneous Piers and Harbours	8,253	(6,496)	1,757
(3,974)		13,812	(15,832)	(2,020)
(3,974)	Net cost of Harbour Services as included in the comprehensive income and expenditure statement			(2,020)
	<i>Harbours share of the operating income and expenditure included in the comprehensive income and expenditure statement:</i>			
(144)	Capital Grants			(869)
16	(Gain) or loss on sale of Harbour Authority assets			60
380	Interest payable and similar charges			373
(28,954)	Harbours Investment Income			(5,294)
41	Pensions interest cost and expected return on pensions assets			98
(32,635)	(Surplus) or deficit for the year on Harbour Authority			(7,652)

Movement on the Harbour Authority Revenue Account Statement

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

2016-2017		2017-2018		
		£000	£000	£000
(207,841)	Balance on the Harbour Authority at the end of the previous year			(236,459)
(32,635)	(Surplus) or deficit for the year on the Harbour income and expenditure statement			(7,652)
	<i>Adjustments between accounting basis and funding basis under regulations:</i>			
(1)	Difference between any other item of income and expenditure determined in accordance with the Code and determined in accordance with statutory Harbour requirements		40	
(16)	Reverse out gain or (loss) on sale of Harbour non-current assets		(60)	
	Harbour share of contributions to or (from) the Pension Reserve:			
(610)	Reverse out net charges made for post-employment benefits in accordance with IAS19	(1,115)		
453	Pensions cost chargeable for the year in accordance with statutory provisions: employer's contributions payable to Orkney Islands Council Pension Fund	563		
(157)	Harbour share of contributions to or (from) the Pension Reserve		(552)	
(1)	Harbour share of contributions to or (from) the Employee Statutory Adjustment Account		(9)	
929	Capital expenditure funded by the Harbour Authority		1,636	
	Transfer to or (from) the Capital Adjustment Account:			
(1,118)	Reverse out depreciation and impairment losses on non-current assets	(2,869)		
144	Reverse out credits made for capital grants	869		
504	Loans fund principal contribution from the Harbour Authority	491		
(470)	Transfer to or (from) the Capital Adjustment Account		(1,509)	
284	Total of adjustments between accounting basis and funding basis under regulations			(454)
(32,351)	Net (increase) or decrease before transfers to or from reserves			(8,106)
4,128	Contributions to/(from) General Fund Services		7,814	
(395)	Contributions to/(from) Housing Revenue Account House Build Programme		0	
3,733	Transfers to or (from) reserves:			7,814
(28,618)	(Increase) or decrease in the year on the Harbour Authority			(292)
(236,459)	Balance on the Harbour authority at the end of the current year			(236,751)

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

	2016-2017			Balance as at 31 March 2017 £000	2017-2018		
	Balance as at 1 April 2016 £000	Transfers in 2016-2017 £000	Transfers out 2016-2017 £000		Transfers in 2017-2018 £000	Transfers out 2017-2018 £000	Balance as at 31 March 2018 £000
Harbour Balances							
Strategic Reserve Fund	151,620	32,705	(5,370)	178,955	15,709	(9,485)	185,179
Flotta Terminal Decline & Decommissioning Fund	33,404	1,241	0	34,645	1,004	0	35,649
Conservation Fund	187	1	0	188	1	0	189
Talented Performers Fund	61	0	0	61	0	0	61
Travel Fund	101	1	0	102	1	0	103
Fisheries Fund	7,128	150	0	7,278	0	(7,278)	0
Orkney Memorial Fund	565	0	(6)	559	0	(49)	510
Talented Young Persons Fund	17	0	(1)	16	0	0	16
Miscellaneous Piers Reserve Fund	6,804	0	(380)	6,424	80	0	6,504
Renewable Energy Fund	7,954	2,759	(2,482)	8,231	309	0	8,540
Capital Receipts Reserve	0	0	0	0	1,670	0	1,670
Harbour Fund Balances	207,841	36,857	(8,239)	236,459	18,774	(16,812)	238,421

Orkney College Account

Orkney College Revenue Account income and expenditure statement

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

2016-2017		2017-2018	
		£000	£000
	<i>Expenditure:</i>		
3,376	Staff Costs	3,656	
415	Property Costs	410	
577	Supplies & Services	423	
107	Transport Costs	120	
105	Administration Costs	113	
85	Apportioned Costs	74	
261	Depreciation and impairment of non-current assets	43	
2	Provision for Bad Debts	3	
4,928			4,842
	<i>Income:</i>		
(3,249)	Grants	(3,427)	
(1,265)	Fees & Charges	(1,007)	
(164)	Other income	(180)	
(4,678)			(4,614)
250	Net cost of Orkney College services as included in the comprehensive income and expenditure statement		228
	<i>Orkney College share of the operating income and expenditure included in the comprehensive income and expenditure statement:</i>		
(37)	Capital Grants		(33)
25	Pensions interest cost and expected return on pensions assets		46
238	(Surplus) or deficit for the year on Orkney College		241

Movement on the Orkney College Revenue Account Statement

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

2016-2017		2017-2018			
£000		£000	£000	£000	£000
0	Balance on the College at the end of the previous year				(67)
238	(Surplus) or deficit for the year on the College income and expenditure statement			241	
	<i>Adjustments between accounting basis and funding basis under regulations:</i>				
	College share of contributions to or (from) the Pension Reserve:				
(370)	Reverse out net charges made for post-employment benefits in accordance with IAS19	(527)			
275	Pensions cost chargeable for the year in accordance with statutory provisions: employer's contributions payable to Orkney Islands Council Pension Fund	266			
(95)	College share of contributions to or (from) the Pension Reserve		(261)		
8	College share of contributions to or (from) the Employee Statutory Adjustment Account		(15)		
6	Capital expenditure funded by the College		0		
	Transfer to or (from) the Capital Adjustment Account:				
37	Reverse out credits made for capital grants	33			
(261)	Reverse out depreciation and impairment losses on non-current assets	(38)			
(224)	Transfer to or (from) the Capital Adjustment Account		(5)		
(305)	Total of adjustments between accounting basis and funding basis under regulations			(281)	
(67)	Net (increase) or decrease before transfers to or from reserves			(40)	
0	Transfers to or (from) reserves			0	
(67)	(Increase) or decrease in the year on the College				(40)
(67)	Balance on the College at the end of the current year				(107)

Group Accounts

Statement of Group Accounting Policies

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

Authorities are required to prepare a full set of group accounts in addition to their own Council's accounts where they have a material interest in such entities. The group Financial Statements to 31 March 2018 represents the consolidation of the balances and transactions of the Council, its subsidiaries, associate and joint venture.

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

Combining Entities

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

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

To comply with the Code, the Council has identified a number of companies where the Council has a "controlling interest" - these are termed "subsidiaries". The Council holds 100% of the shares in 2 Companies (Orkney Towage Company Limited and Orkney Ferries Limited). Following the adoption of new Accounting Standards in 2014/15, and the new definition of 'control', the Council has included the results of the Pickaquoy Centre Trust as a "subsidiary" since 2014/15 on the basis that the Council has power over the investee; exposure, or rights, to variable returns from its involvement with the investee; and the ability to use its power over the investee to affect the amount of the investor's returns.

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

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

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

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

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

Name of Combining Entity	Method of Combining	2016-2017 %	2017-2018 %
Hammar Hill Energy Ltd	Equity Method	28	28
Orkney Integrated Joint Board	Equity Method	50	50
Orkney Research and Innovation Campus	Equity Method		50

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

Basis of Consolidation and Going Concern

In line with the principles contained within the Code, the Group Financial Statement for the year ended 31 March 2018 has been prepared on the basis of a full consolidation of the financial transactions and balances of the Council and its subsidiaries.

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

The effect of inclusion of the above bodies on the Group Balance Sheet is to increase both Reserves and Net Assets by £1.515 million representing the Council's share of the net assets in these entities.

The above subsidiaries, associate and joint venture consider it appropriate that their Annual Accounts should follow the “going concern” basis of accounting with the exception of Orkney Towage Company Ltd.

A meeting of the P&R Committee on 16 February 2016 approved the project plan and timeline for integration of Orkney Towage Company Limited into the Council. During 2016/2017 the Orkney Towage Company Ltd provided a bare-boat charter and staff services to the Council. Following the decision to transfer the company's trade and assets to the parent, the assets were transferred during 2016/2017, with the employees formally transferring to the Council by 1 April 2018.

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

Group Movement in Reserves

For the Year Ended 31 March 2018

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

	General Fund Balance £000	HRA Balance £000	Other Reserves £000	Harbour Reserves £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000	Authority's share of subsidiaries & associates £000	Total Reserves Attributable to Authority £000	Total Group Reserves £000
Balance as at 1 April 2017	(15,781)	(177)	(8,435)	(236,459)	(260,852)	(286,397)	(547,249)	5,763	(541,486)	(541,486)
(Surplus) or deficit on provision of services	13,652	735	0	(7,652)	6,735	0	6,735	483	7,218	7,218
Other Comprehensive Expenditure and Income	0	0	0	0	0	(72,040)	(72,040)	(7,278)	(79,318)	(79,318)
Total Comprehensive Expenditure and Income	13,652	735	0	(7,652)	6,735	(72,040)	(65,305)	(6,795)	(72,100)	(72,100)
Net (Increase) / Decrease before Transfers	13,652	735	0	(7,652)	6,735	(72,040)	(65,305)	(6,795)	(72,100)	(72,100)
Adjustments between accounting basis & funding basis under regulations	(6,091)	(558)	(2,080)	(454)	(9,183)	9,183	0	0	0	0
Net (Increase) / Decrease before Transfers to Earmarked Reserves	7,561	177	(2,080)	(8,106)	(2,448)	(62,857)	(65,305)	(6,795)	(72,100)	(72,100)
Transfers (to) / from Earmarked Reserves	(6,871)	(243)	(700)	7,814	0	0	0	0	0	0
(Increase) / Decrease in Year	690	(66)	(2,780)	(292)	(2,448)	(62,857)	(65,305)	(6,795)	(72,100)	(72,100)
Adjustment to include new addition of Joint Venture (ORIC)	0	0	0	0	0	0	0	(1,670)	(1,670)	(1,670)
Balance as at 31 March 2018	(15,091)	(243)	(11,215)	(236,751)	(263,300)	(349,254)	(612,554)	(2,702)	(615,256)	(615,256)

	General Fund Balance £000	HRA Balance £000	Other Reserves £000	Harbour Reserves £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000	Authority's share of subsidiaries & associates £000	Total Reserves Attributable to Authority £000	Total Group Reserves £000
Balance as at 1 April 2016	(21,185)	(476)	(5,313)	(207,841)	(234,815)	(301,497)	(536,312)	1,583	(534,729)	(534,729)
(Surplus) or deficit on provision of services	92,487	(2,133)	0	(3,974)	86,380	0	86,380	668	87,048	87,048
Other Comprehensive Expenditure and Income	(81,869)	154	0	(28,661)	(110,376)	13,059	(97,317)	3,512	(93,805)	(93,805)
Total Comprehensive Expenditure and Income	10,618	(1,979)	0	(32,635)	(23,996)	13,059	(10,937)	4,180	(6,757)	(6,757)
Net (Increase) / Decrease before Transfers	10,618	(1,979)	0	(32,635)	(23,996)	13,059	(10,937)	4,180	(6,757)	(6,757)
Adjustments between accounting basis & funding basis under regulations	(3,911)	2,116	(530)	284	(2,041)	2,041	0	0	0	0
Net (Increase) / Decrease before Transfers to Earmarked Reserves	6,707	137	(530)	(32,351)	(26,037)	15,100	(10,937)	4,180	(6,757)	(6,757)
Transfers (to) / from Earmarked Reserves	(6,295)	162	2,592	3,733	0	0	0	0	0	0
(Increase) / Decrease in Year	412	299	2,062	(28,618)	(26,037)	15,100	(10,937)	4,180	(6,757)	(6,757)
Balance as at 31 March 2017	(20,773)	(177)	(3,251)	(236,459)	(260,852)	(286,397)	(547,249)	5,763	(541,486)	(541,486)

Group Comprehensive Income and Expenditure Statement for the year ended 31 March 2018

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

	Notes	2016-2017			2017-2018		
		£000 Expenditure	£000 Income	£000 Net	£000 Expenditure	£000 Income	£000 Net
Cultural and Recreation		7,958	(2,397)	5,561	7,771	(2,795)	4,976
Education		35,685	(1,177)	34,508	34,684	(1,486)	33,198
Roads and Transportation		19,929	(3,106)	16,823	20,202	(3,235)	16,967
Housing Revenue Account		1,427	(3,560)	(2,133)	3,715	(3,617)	98
Harbour Authority		12,055	(14,931)	(2,876)	13,879	(15,770)	(1,891)
Housing services		6,552	(4,745)	1,807	7,474	(5,443)	2,031
Community Social Services		43,374	(24,200)	19,174	45,755	(25,393)	20,362
Planning and Development		4,136	(1,188)	2,948	5,186	(2,144)	3,042
Environmental Services		4,872	(1,089)	3,783	5,208	(1,208)	4,000
Other Services		8,379	(421)	7,958	10,796	(2,315)	8,481
(Surplus)/Deficit on Continuing Operations	5	144,367	(56,814)	87,553	154,670	(63,406)	91,264
(Surplus) or Deficit on Discontinued Operations				(431)			0
Other Operating Expenditure				(73)			2,589
Financing and Investment Income and Expenditure	7			(26,894)			(2,672)
Taxation and Non-Specific Grant Income				(83,404)			(83,974)
Associates and Joint Ventures accounted for on an equity basis	6			(80)			39
Tax Expense				1			(28)
Group (Surplus) or Deficit				(23,328)			7,218
(Surplus) or deficit on revaluation of non-current assets				(11,701)			(4,216)
(Surplus) or deficit on revaluation of available for sale financial assets				(196)			(175)
Actuarial gains / losses on pension assets / liabilities				28,468			(74,927)
Other Comprehensive Income and Expenditure				16,571			(79,318)
Total Comprehensive Income and Expenditure (Surplus)/Deficit	8			(6,757)			(72,100)

Group Balance Sheet as at 31 March 2018

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

	31 March 2017 £000	31 March 2018 £000
Property, Plant & Equipment	356,927	357,472
Heritage Assets	912	912
Investment Property	22,251	21,500
Intangible Assets	6	0
Long Term Debtors	2,272	2,249
Long Term Investments	5,327	7,171
Investments in associates and joint ventures	1,271	2,846
Long Term Assets	388,966	392,150
Short Term Investments	204,210	212,369
Inventories	1,262	1,068
Short Term Debtors	6,663	9,288
Cash and Cash Equivalents	41,370	30,770
Assets held for sale	2,333	2,088
Current Assets	255,838	255,583
Short Term Borrowing	5,490	434
Short Term Creditors	14,580	15,887
Provisions	30	2
Capital Grants Receipts in Advance	0	500
Current Liabilities	20,100	16,823
Long Term Creditors	8	
Provisions	2,802	2,802
Long Term Borrowing	30,228	30,200
Other Long Term Liabilities	50,180	(17,348)
Long Term Investments in Associates		
Long Term Liabilities	83,218	15,654
Net Assets	541,486	615,256
Group Reserves	541,486	615,256
Total Reserves	541,486	615,256

The unaudited accounts were issued on 28 June 2018.

The audited accounts were authorised for issue on 27 September 2018.

Gareth Waterson, BAcc., CA

Head of Finance

27 September 2018

Group Cash Flow Statement at 31 March 2018

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

	Notes	2016-2017 £000	2017-2018 £000
Net surplus or deficit on the provision of services		23,327	(8,888)
Adjustment to surplus or deficit on the provision of services for noncash movements	11	(17,360)	2,333
Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	11	1,341	1,624
Net Cash flows from Operating Activities		7,308	(4,931)
Net Cash flows from Investing Activities	12	(2,267)	652
Net Cash flows from Financing Activities	13	(5,809)	(6,293)
Net Cash flows from Taxation		1	(28)
Net increase or decrease in cash and cash equivalents		(767)	(10,600)
Cash and cash equivalents at the beginning of the reporting period		42,137	41,370
Cash and cash equivalents at the end of the reporting period		41,370	30,770

Notes to the Financial Statements

For the Year Ended 31 March 2018

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

1. Disclosure of Differences with Main Statement of Accounting Policies

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

Group Income and Expenditure Statement

Retirement Benefits

In common with Orkney Islands Council, the subsidiaries participate in the Council's Pension Scheme. This is explained within the Council's Financial Statements Notes 39 and 40. The subsidiaries have accounting policies for pensions accounting that are consistent with those of the Council.

Value Added Tax

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

Proceeds from Disposals of Fixed Assets

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

Group Balance Sheet

Valuation of Fixed Assets

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

For the year to 31 March 2018 the Orkney Towage Company Ltd had no fixed assets.

Stock

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

2. Combining Entities

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

subsidiary. The Council would ensure an orderly winding up of each subsidiary should the businesses cease.

Orkney Towage Company Limited

Orkney Towage Company Ltd is a company incorporated in 1976 under the terms of the Companies Acts to operate tugs within and around the Orkney Islands. The Council is the sole shareholder in the company holding all 501 £1 ordinary 'A' shares, and all 499 £1 ordinary 'B' shares representing 100% of the issued share capital. Under accounting standards, the Council has a controlling interest in this company, and it is therefore included in the group accounts as a subsidiary. Councillors and Council Officials hold all 5 seats on the board, with each director entitled to one vote.

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

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

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

The net liabilities of the company as at 31 March 2018 were £2.114M compared to £3.209M at 31 March 2017. The loss before taxation for the period to 31 March 2018 was (£0.119M) compared to a loss of (£0.672M) for the period to 31 March 2017. In 2017/2018, Orkney Islands Council contributed £1. No dividend payments were due to, or received by, the Council in respect of its investment.

No loan advances were made from the Council to the company during 2017/2018.

The latest set of audited accounts is for the year to 31 March 2018. Copies of these accounts can be obtained from Orkney Islands Council, School Place, Kirkwall, Orkney, KW15 1NY.

Orkney Ferries Limited

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

The net assets of the company at 31 March 2018 were £0.778M compared to a liability of £3.178M at 31 March 2017. There was no profit or loss before taxation for the period to 31 March 2018 and £0.000M to 31 March 2017. In 2017/2018, Orkney Islands Council contributed £7.881M or 73% of the company's income. Orkney Ferries is deficit funded, where by, any surpluses or deficits earned by the Company will be repaid to or recovered from the Council. No dividend payments were due to, or received by, the Council in respect of its investment.

The latest set of audited accounts is for the year to 31 March 2018. Copies of these accounts can be obtained from Orkney Islands Council, School Place, Kirkwall, Orkney, KW15 1NY.

Pickaquooy Centre Trust

The Pickaquooy Centre Trust is a charitable trust formed in 1999 and is registered in Scotland. Its principal place of business is The Pickaquooy Centre, Muddisdale Loan, Kirkwall KW15 1LR.

The Trust provides leisure facilities within Orkney Islands Council's area to the general public. The objectives of the Trust are to provide facilities for recreation, sport, cultural and other leisure activities for the benefit of the community in Orkney. Any surplus generated by the charity is applied solely to its continuation and development. Councillors hold 5 of the 12 seats on the board, with each trustee entitled to one vote.

In 2017/2018, Orkney Islands Council contributed £0.793M or 31.2% of the company's income and its share of the year-end net liabilities of £0.082M (2016/2017 net assets £0.679M) are included in the Group Balance Sheet.

The latest set of audited accounts is for the year to 31 March 2018. When available, copies of these accounts can be obtained from The Pickaquoy Centre, Muddisdale Loan, Kirkwall KW15 1LR.

Hammars Hill Energy Ltd

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

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

The latest set of audited accounts is for the year to 31 December 2017. Copies of these accounts can be obtained from Hammars Hill Energy Ltd, Savisgarth, Evie KW17 SPQ.

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

Council's Share of Hammars Hill Energy Ltd	2016-2017	2017-2018
	28.0%	28.0%
	£000	£000
Turnover	449	582
Profit/(Loss) before tax	163	272
Taxation	(33)	(49)
Profit/(Loss) after tax	130	223
Fixed Assets	1,211	1,124
Current Assets	264	314
Liabilities due within one year	(77)	(126)
Liabilities due after one year or more	(127)	(122)
Net Assets / Liabilities	1,271	1,190
Contingent Liabilities	None	None
Capital Commitments	None	None

Orkney Integration Joint Board

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

The OIJB Financial Statements have been prepared to show transactions occurring between 1 April 2017 to 31 March 2018. The expenditure was £54.0M and the income was £54.0M resulting in net expenditure of £0. The balance sheet consisted of short term debtors of £0.016M and short term creditors of £0.016M, with total reserves of £0.

The latest set of audited accounts is for the year to 31 March 2018. Copies of these accounts can be obtained from Orkney Islands Council, School Place, Kirkwall, Orkney, KW15 1NY.

Orkney Research and Innovation Campus

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

The latest set of audited accounts is for the year to 31 March 2018. Copies of these accounts can be obtained from Orkney Islands Council, School Place, Kirkwall, Orkney, KW15 1NY.

3. Financial Impact of Consolidation

The effect of inclusion of the above bodies on the Group Balance Sheet is to increase both Reserves and Net Assets by £1.515M representing the Council’s share of the net liabilities in these entities.

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

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

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

5. Surplus/Deficit on Continuing Operations of Subsidiaries

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

	2016-2017			2017-2018		
	£000 Expenditure	£000 Income	£000 Net	£000 Expenditure	£000 Income	£000 Net
Roads and Transportation	2,814	(2,812)	2	2,851	(2,851)	0
Harbour Authority	1,099	(2)	1,097	129	0	129
Cultural, environmental, regulatory and planning services	1,434	(1,360)	74	2,017	(1,706)	311
Total	5,347	(4,174)	1,173	4,997	(4,557)	440

6. Share of Operating Results of Associates & Joint Ventures

	2016-2017	2017-2018
	Net Income Expenditure £000	Net Income Expenditure £000
Associate and Joint Venture accounted for on an equity basis	(80)	39
Total	(80)	39

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

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

Subsidiaries	2016-2017 £000	2017-2018 £000
Interest Expense	23	23
Interest Income	(2)	(1)
Pension Interest	18	49
Total Group Entities	39	71

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

	2016-2017 £000	2017-2018 £000
Deficit/ (Surplus) for the year on the Authority Income and Expenditure Statement	(10,937)	(65,305)
Deficit/(Surplus) for the year attributable to group entities	4,180	(6,795)
Deficit/ (Surplus) for the year on the Group Income and Expenditure Statement	(6,757)	(72,100)

9. Pension Costs

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

	2016-2017 Total £000	Council £000	Group Entities £000	2017-2018 Total £000
Fair Value of Employer Assets	(334,091)	(329,495)	(33,236)	(362,731)
Present value of funded liabilities	384,125	305,696	30,922	336,618
Net (Under)/Overfunding in Funded Plans	50,034	(23,799)	(2,314)	(26,113)
Present Value of Unfunded Liabilities	146	8,634	131	8,765
Net (Asset)/Liability	50,180	(15,165)	(2,183)	(17,348)

10. Other Pension Costs

A number of employees of Orkney Islands Council, Orkney Towage and Orkney Ferries 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 (MNOPP)

Some employees from Orkney Towage contribute to this defined contribution pension plan. The employer contribution rate is 6%. Contributions payable in the year amounted to £5,265.

Ensign Retirement Plan

Some employees from Orkney Ferries, the Council and Orkney Towage contribute to this defined contribution pension plan. Contribution rates of 12.2% and 20% of pensionable salary are payable by employees and employers, respectively. Contributions payable in the year amounted to £63,057.

Merchant Navy Officers Pension Fund (MNOPF)

The MNOPF is closed to new members and closed to future accrual from 31 March 2016 when contributing members were transferred to the Ensign Retirement Plan (for the MNOPF). The MNOPF is a multiple employer scheme and the company is unable to identify its share of the underlying assets and liabilities. As at the last full valuation in 2015 the fund had a deficit of £329M. The Trustees of the Fund may in future request deficit contributions depending on the results of future actuarial valuations of the fund.

Merchant Navy Rating Pension Fund (MNRPF)

Some employees may qualify to contribute to the MNRPF, a defined benefit scheme, with a contribution rate of 2%. Orkney Ferries made company contributions to this fund of £1,228 in the year. It is a multiple employer scheme and the group is unable to identify its share of the underlying assets and liabilities. As at the last full valuation in March 2011, the MNRPF had a deficit of liabilities over assets of £212M. The trustees have requested deficit contributions from each employer, and the company has made additional contributions. The additional contributions are subject to change, dependent on the results of future actuarial valuations of the fund.

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

	2016-2017 £000	2017-2018 £000
Adjustment to surplus or deficit on the provision of services for noncash movements		
Depreciation	12,201	9,500
Impairment & downward revaluations (& non-sale de-recognition)	510	3,772
(Increase)/Decrease in Stock	(350)	194
(Increase)/Decrease in Debtors	(87)	(2,292)
Increase/(Decrease) in Creditors	366	490
Payments to Pension fund	2,605	7,381
Carrying amount of non-current assets sold	620	5,444
Investment Income not involving the movement of cash	(28,952)	(5,594)
Contributions to Other Reserves/Provisions	(3,640)	(16,010)
Movement in value of investment properties-included above in Impairment & downward revaluations (& non-sale de-recognition)	(633)	(552)
	(17,360)	2,333
Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities		
Purchase of short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)	19,640	30,128
Proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)	(18,299)	(28,504)
	1,341	1,624

12. Cash Flow from Investing Activities

	2016-2017 £000	2017-2018 £000
Purchase of PP&E, investment property and intangible assets	11,611	14,434
Purchase of Short Term Investments (not considered to be cash equivalents)	(26)	(10,908)
Purchase of Long Term Investments	0	5,470
Other Payments for Investing Activities	615	318
Proceeds from the sale of PP&E, investment property and intangible assets	(2,264)	(1,145)
Proceeds from Long Term Investments	79	(39)
Capital Grants and Contributions Received	(7,398)	(8,376)
Other Receipts from Investing Activities	(350)	(406)
Net Cash flows from Investing Activities	2,267	(652)

13. Cash Flow from Financing Activities

	2016-2017 £000	2017-2018 £000
Cash Receipts from Short and Long Term Borrowing	(228)	0
Other Receipts from Financing Activities	(298)	(191)
Repayment of Short and Long Term Borrowing	5,000	5,029
Other payments for Financing Activities	1,335	1,455
Net Cash flows from Financing Activities	5,809	6,293

Glossary of Terms

AAA Fitch Rating

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

AA Fitch Rating

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

A Fitch Rating

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

Accounting Period

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

Accruals

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

Actuarial Gains and Losses

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

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

Asset

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

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

Audit of Accounts

An independent examination of the Authority's financial affairs.

Balance Sheet

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

Borrowing

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

Budget

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

Capital Expenditure

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

Capital Financing

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

Capital Programme

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

Capital Receipt

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

Claw-Back

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

CIPFA

The Chartered Institute of Public Finance and Accountancy

Collection Fund

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

Community Assets

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

Comprehensive Income and Expenditure Statement

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

Consistency

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

Contingent Asset

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

Contingent Liability

A contingent liability is either:

- A possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Authority's control; or

- A present obligation arising from past events where it is not probable that a transfer of economic benefits will be required, or the amount of the obligation cannot be measured with sufficient reliability.

Corporate and Democratic Core

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

Creditor

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

Current Service Cost (Pensions)

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

Debtor

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

Defined Benefit Pension Scheme

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

Depreciation

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

Discretionary Benefits (Pensions)

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

Equity

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

Events after the Balance Sheet Date

Events after the Balance Sheet date are those events, favourable or unfavourable, that occur between the Balance Sheet date and the date when the Statement of

Accounts is authorised for issue.

Expected Return on Pension Assets

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

Fair Value

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

Finance Lease

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

Going Concern

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

Government Grants

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

Housing Benefits

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

Housing Revenue Account (HRA)

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

Impairment

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

Infrastructure Assets

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

Intangible Assets

An intangible (non-physical) item may be defined as an asset when access to the future economic benefits it represents is controlled by the reporting entity. This

Authority's intangible assets comprise computer software licences.

Interest Cost (Pensions)

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

Investments (Pension Fund)

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

Liability

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

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

Liquid Resources

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

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

Long-Term Contract

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

Materiality

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

Minimum Revenue Provision (MRP)

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

Net Book Value

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

Net Debt

The Authority's borrowings less cash and liquid resources.

Non-Distributed Costs

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

Non-Domestic Rates (NDR)

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

Non-Operational Assets

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

Operating Lease

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

Operational Assets

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

Past Service Cost (Pensions)

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

Pension Scheme Liabilities

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

Precept

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

Prior Year Adjustment

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

Provision

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

Public Works Loan Board (PWLB)

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

Rateable Value

The annual assumed rental of a hereditament, which is used for NNDR purposes.

Related Parties

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

Related Party Transactions

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

Remuneration

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

Reserves

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

Residual Value

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

Retirement Benefits

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

Revenue Expenditure

The day-to-day expenses of providing services.

Revenue Expenditure Capitalised Under Statute (REFCUS)

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

Revenue Support Grant

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

Stocks

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

Temporary Borrowing

Money borrowed for a period of less than one year.

Trust Funds

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

Useful Economic Life (UEL)

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



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