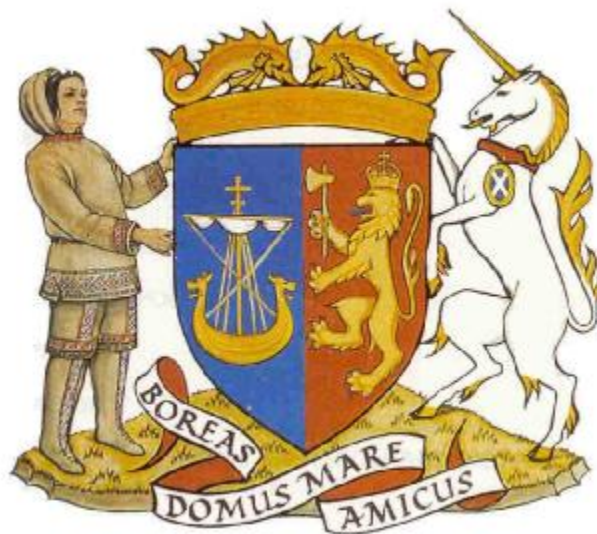


ORKNEY ISLANDS COUNCIL



STATEMENT OF ACCOUNTS

2006 / 2007

Orkney Islands Council
Statement of Accounts - 2006/2007

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Introduction

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

This foreword provides an explanation of the Statement of Accounts and of the most significant matters reported in the Accounts, together with a summary of the financial outturn for the year ended 31 March 2007.

Core Financial Statements

The core financial statements for the financial year 2006/07 represent a significant change from the statements produced in previous years. Previously the financial statements were based on a Consolidated Revenue Account, which served the dual role of setting out the financial performance of the Council, as measured in accordance with proper accounting practice, as well as identifying the net expenditure to be charged against council tax for the year.

The revised presentation is intended to improve the readers understanding of the financial accounts, by disaggregating the Consolidated Revenue Account to provide a set of core financial statements each with a single clear objective.

Income and Expenditure Account

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

Statement of Movement on the General Fund Balance

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

Statement of Total Recognised Gains and Losses

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

Balance Sheet

This statement brings together all the assets and liabilities in the Council's account as at 31 March 2007, with the exception of the Pension Fund, Charity, Trust and Common Good Funds, which are disclosed separately.

Cash flow Statement

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

Notes to the Core Financial Statements

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

Supplementary Single Entity Financial Statements

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

Harbour Authority Account

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

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

Orkney College

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

Housing Revenue Account

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

Council Tax and Non Domestic Rates Income Accounts

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

Pension Fund

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

Charity, Trust and Common Good Funds

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

Group Accounts

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

Group Income and Expenditure Account

This statement provides a summary of the expenditure and income for the year ending 31 March 2007 on the services which the group provides and demonstrates how the net costs has been financed.

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

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

Group Statement of Total Recognised Gains and Losses

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

Group Balance Sheet

This statement brings together all the assets and liabilities for the group as at 31 March 2007.

Group Cash Flow Statement

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

Group Notes to the Accounts

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

Statement on the System of Internal Financial Control

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

REVIEW OF THE YEAR

Local Taxation

The Islands Council on 9 February 2006 agreed a General Fund budget of £64.3M and under the Local Government Finance Act 1992 set Council Tax for Band D properties at £1,007. This was the second lowest Council Tax figure in Scotland being some £122 below the Scottish average.

During the year, it was necessary to revise the original budget upwards to £65.1M, to take account of additional resources being provided by the Scottish Executive.

On a comparable basis, the actual net cost of General Fund services amounted to some £65.0M, while sources of finance were realised at £65.3M, including a contribution of £1.9M from reserves. Overall, this represents a surplus against budget for General Fund Services of £0.3M for the financial year ended 31 March 2007.

Council tax income contributed to this position, with the Islands Council maintaining its position as the top local authority for the collection of council tax in Scotland, with a collection rate of 97.8% in year (97.6% for 2005/06). At the same time it should be noted that the Council's policy is to provide in full for all prior year arrears, while on an ongoing basis expects to collect in excess of 99% of all prior year council tax income.

Income and Expenditure Account

The net cost of services provided by the Council for last year amounted to £66.5M, which after taking into account corporate activities resulted in a Net Operating Expenditure of £58.1M being realised for the Council as a whole.

Principal sources of finance were realised at £63.4M for the year, being Revenue Support Grant of £49.0M, Non Domestic Rate Income of £7.2M and Council Tax Income of £7.2M.

After taking into account the sources of finance, overall the activities of the Council returned a net surplus of £5.3M for the year.

The main source of this surplus can be attributed to the corporate investment income of £9.0M which was generated through the Harbour Authority's Strategic Reserve Fund.

The main spending pressures for the Council remain, as in previous years, as the provision of care for the elderly together with transportation services.

Included in the Non Distributed Costs is a credit of £1,250K in respect of past service costs. This reflects an allowance for the commutation of retirement benefits of £1,383K recognising the ability of members to convert pension entitlements into lump sum payments on retirement with effect from 6 October 2006. Against this a cost of £133K has been charged in respect of the award of discretionary benefits for early retirements on efficiency grounds in the year.

Movement in General Fund Balances

During the year, General Fund Balances increased from £1.7M to £15.9M, being an increase of £14.2M.

This increase is represented by a surplus on general fund services of £0.3M and other movements of £0.2M, which together have been supplemented by the transfer of the £13.7M Relevant Services Contingency Fund from the Council's Harbour Authority Account.

Existing policy is to use approximately £2M of reserves each year to maintain the level of local authority services currently provided within the county, while keeping the council tax on or below the national average for all Scottish local authorities. The transfer of these funds forms part of a medium term financial strategy, and is intended to clarify the level of balances that are available to support General Fund Services and the Council Tax setting process, over the next five year period.

After taking into account funds earmarked for specific projects and other purposes, a balance of £14.9M remains available for general fund purposes. At the same time, it is however considered prudent for the Council to maintain a general fund balance at a level not less than £8M, as a contingency for unforeseen events.

Net Worth of the Orkney Islands Council

The Islands Council is debt free and currently holds a significant level of reserves.

In financial terms, the Council remains in good health, with its net worth increasing from £276.2M to £289.1M for the financial year to 31 March 2007, being an increase of £12.9M or 4.7%.

Harbour Authority Account

The Harbour Authority generated a trading loss of £1366k from its various harbour operations for the year. This was mainly as a result of a downturn in the activity of the Scapa Flow Oil Port during the year.

In addition to this, the Harbour Authority Account was able to generate a surplus on investment activities of £8,989k for the year, after netting off grants and other investment expenditure.

After taking into account the use of reserves during the year, which included a contribution of £3,228k to support general fund services, £76k in respect of capital financing, and £13,666k transferred to General Fund balances, the net effect of this has been a decrease of £9,347k on the Harbour Authority Account Reserves for the year.

Orkney College

The range of higher and further educational activities provided by the College has resulted in a deficit of £57k being realised for last financial year (£214k for 2005/06), resulting in a further increase in the accumulated deficit position on the College from £866k to £923k as at 31 March 2007.

During the year an action plan has been implemented to improve the financial position of the College in the future.

Housing Revenue Account (HRA)

The HRA approved budget for the financial year 2006/07 included expenditure of £1,760k to be met from income generated on the year of £1,760k.

The HRA account achieved a break-even position for the year.

Capital Expenditure

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

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

Education

Papdale Primary School Extension
Rousay Primary School Extension

Transportation

Kirkwall Travel Centre

Harbours

Finstown Slipway
Eday Pier Slipway

Capital Expenditure for 2006/07 amounted to £13.2M, financed by internal borrowing £5.7M, capital and grant receipts £6.1M and revenue contributions £1.4M. Unapplied capital receipts increased by £0.6M, from £2.5M to £3.1M.

To meet capital expenditure, the Islands Council as at 31 March 2007 now has a total internal borrowing requirement of £37.0M through the Loans Fund, borrowed against reserves and balances. The capital loan debt outstanding on the service accounts as at 31 March 2007 is: Harbours - £1.8M and other General Fund Services - £35.2M.

Pension Liability

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

In accordance with the FRS 17, the net pension fund liability as at 31 March 2007 is £22.1M. This represents a decrease of £7.3M on the previous year, and is largely due to a change in the financial assumptions underlying the Present Value of the Scheme Liabilities.

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

Changes in Accounting Policies

The Statement of Accounts for the financial year 2006/07 includes three significant changes to accounting policies that impact on the accounts as follows:

Capital financing charges for the use of fixed assets are no longer made to service revenue accounts, support services and trading accounts;

Credits for government grants deferred are now posted to service revenue accounts, support services and trading accounts rather than credited as a corporate income item;

Gains and losses on the disposal of fixed assets are recognised in the Income and Expenditure Account.

The revised presentation is intended to improve the readers understanding of the financial accounts, by disaggregating the Consolidated Revenue Account to provide a set of core financial statements each with a single clear objective.

To comply with proper accounting practices, the comparative figures for the financial year 2005/06 have also been restated accordingly.

Euro

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

Acknowledgements

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

A Tait, C.P.F.A., F.C.C.A.
Director of Finance
28 September 2007

General

The Statement of Accounts summarise the Council's transactions for the financial year 2006/07 and its position at the year end as at 31 March 2007. The Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom, using the historic cost convention modified by the revaluation of certain categories of tangible fixed assets. The Code of Practice has been developed by the CIPFA/LASAAC Joint Committee. Any exceptions to the Code of Practice are disclosed in the notes to the Accounts.

Corporate and Democratic Core

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

Overheads

The costs of Central Support Services have been fully allocated using a time or unit based method of apportionment over the various accounts of the Authority after separately identifying the cost of Corporate and Democratic Core and Unapportioned Central Overheads in accordance with BVACOP. In 2006/07, £7.6M of Central Support Services were apportioned on this basis.

Accruals of Income and Expenditure

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

Pension Costs

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

Teachers

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

Other Employees

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

attributable assets of the scheme have been measured at fair value

attributable liabilities have been measured on an actuarial basis using the projected unit method which assesses the future liabilities discounted to their present value

scheme liabilities have been discounted at 2.2% in excess of inflation

the deficit in the scheme is the shortfall of the value of the assets below the present value of the scheme liabilities

the current service cost is deducted based on normal contributions paid by the Council, allowing for any changes in assumptions used for FRS 17 purposes. It is based on assumptions appropriate at the start of the year

the interest cost is based on the discount rate and the present value of the scheme liabilities at the beginning of the period

the expected return on assets is based on long term expectations at the beginning of the period and is expected to be reasonably stable

actuarial gains and losses arising from new valuations and from updating the latest actuarial valuation have been taken into account to reflect conditions at the balance sheet date

past service costs have been disclosed on a straight line basis over the period in which the increases in benefit vest.

The liabilities for retirement benefits as at 31 March 2007 have been assessed using a discount rate of 2.2% in excess of inflation, based on the current rate of return for high quality corporate bonds of equivalent currency and term to the scheme liabilities. When compared to a rate of 1.7% for the previous year. The increase in yield has had a positive impact on funding levels, reducing the liabilities by between 5% and 10%. Asset returns have been around 4.0% for the year to 31 March 2007. Since the FRS17 basis allowed for 4.9% p.a. interest on the liabilities, the actual asset returns have led to a slight deterioration in the position. The overall position is a decrease in the FRS deficit on the Pension Fund of £7.292M for the year.

Grants

All Revenue Grants are matched with the expenditure to which they relate. Accruals have been made for balances known to be received for the period to 31 March 2007.

Capital Receipts

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

Stocks and Work in Progress

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

Fixed Assets

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

Fixed assets have been valued on the following basis:

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

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

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

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

Depreciation

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

Buildings - each building has been individually assessed to derive outstanding useful life, up to a maximum of 100 years

Infrastructure - the majority of infrastructure assets are depreciated over 40 years

Vehicles - varies between 3 and 15 years according to class of vehicles

Equipment - 5 years

Charges to Revenue for Fixed Assets

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

depreciation attributable to the assets used by the relevant service;

impairment losses attributable to the clear consumption of economic benefits on tangible fixed assets used by the service;

amortisation of intangible fixed assets attributable to the service.

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

Loan Debt

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

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

The average rate of interest charged by the fund in 2006/07 based on returns generated by the Treasury Management function on cash flow balances were as follows:

Revenue Balances	4.74% (2005/06 4.45%)
Capital Balances	4.67% (2005/06 4.38%)

Reserves and Provisions

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

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

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

Debt Outstanding 2-3 month	– 10%
Debt Outstanding 3+ month	– 25%
Debt Outstanding 1 year+	- 100%

Harbour Authority Revenue Account Balances

Surplus or deficits on the harbour operations are transferred to the Harbour Account Strategic Reserve Fund. The Harbour Authority Account Reserve Fund encompasses all the Harbour Authority Account Balances which can be used for purposes specified in the Orkney County Council Act 1974. The Relevant Services Contingency Fund which is used to support General Fund expenditure, was transferred to General Fund Balances during the year.

Pension Reserve

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

Valuation of Investments

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

Pension Fund Accounting Policies

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

Investments held by the Pension Fund are included at their closing prices on 31 March 2007 and adjusted, where applicable, for accrued interest to the valuation date. Overseas currencies are translated at the WM/Reuters London closing spot rates on the last business day of the reporting period, being 31 March 2007.

Foreign Currency Translation

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

Financial Relationship with Companies

Full disclosure is made of all material relationships with related companies by way of note 8 to the core financial statements. All investments in companies are valued at historic cost.

Group Accounts

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

**THE STATEMENT OF RESPONSIBILITIES FOR THE
STATEMENT OF ACCOUNTS**

THE AUTHORITY'S RESPONSIBILITIES

The authority is required :

1. To make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority that officer is the Director of Finance.
2. To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

THE DIRECTOR OF FINANCE'S RESPONSIBILITIES

The Director of Finance is responsible for the preparation of the authority's statement of accounts which, in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code of Practice'), is required to present fairly the financial position of the authority at the accounting date and its income and expenditure for the year ended 31 March 2007

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

1. selected suitable accounting policies and then applied them consistently
2. made judgements and estimates that were reasonable and prudent
3. complied with the local authority SORP

The Director of Finance has also :

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

I confirm that this Statement of Accounts presents fairly the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2007.

A Tait, C.P.F.A., F.C.C.A.
Director of Finance
28 September 2007

Orkney Islands Council
Statement of Accounts - 2006/2007

Income and Expenditure Account - Statement 3

PURPOSE

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

Income and Expenditure Account for year ended 31 March 2007

Restated 2005/06 Net Expenditure £'000		2006/07 Gross Expenditure £'000	2006/07 Gross Income £'000	2006/07 Net Expenditure £'000
25,390	Education	27,750	2,850	24,900
3,802	Cultural & Recreation	5,384	1,445	3,939
11,785	Community Social Services	17,628	3,753	13,875
1,483	Police Services	1,625	0	1,625
1,491	Fire Services	1,608	0	1,608
12,335	Roads and Transportation	13,590	1,090	12,500
1,180	Planning and Development	2,054	857	1,197
3,544	Environmental Services	4,608	1,162	3,446
1,109	Central Services	7,300	5,784	1,516
1,999	Corporate & Democratic Costs	2,045	0	2,045
238	Housing Services	4,557	4,104	453
(3)	Housing Revenue Account	1,691	1,786	(95)
(188)	Harbour Authority	10,333	9,588	745
323	Non Distributed Costs	0	1,250	(1,250)
2,440	Exceptional Items	0	0	0
66,928	Net Cost of Services	100,173	33,669	66,504
(238)	(Gain)/Loss on disposal of fixed assets			(39)
(2,712)	Grants and contributions received to finance capital expenditure			(459)
(7,816)	Net (Surplus)/Deficit on Harbour Investment Income			(8,989)
205	Net (Surplus)/Deficit on Orkney College			65
(158)	Interest on Balances			(366)
227	Pensions Interest Cost & Expected Return on Pension Assets			(325)
1,647	Interest Payable and Similar Charges			1,719
58,083	Net Operating Expenditure			58,110
(45,534)	Revenue Support Grant			(48,956)
(7,243)	Distribution of Non-Domestic Rate Pool			(7,233)
(6,966)	Council Tax			(7,231)
(1,660)	(Surplus)/Deficit for Year			(5,310)

Orkney Islands Council
Statement of Accounts - 2006/2007

Statement of Movement on General Fund Balance - Statement 4

PURPOSE

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

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

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

During the year the £13.7M Harbour Authority Account Relevant Services Contingency Fund was transferred in full to General Fund Balances.

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

Statement of Movement on General Fund Balance as at 31 March 2007

	2006/07	2005/06
	£'000	£'000
Surplus for the Year on the Income and Expenditure Account	(5,310)	(1,660)
Net additional Amount required by statute and non-statutory proper practices to be debited or credited to the General Fund	(8,912)	2,261
(Increase)/Decrease in General Fund Balance for the year	(14,222)	601
General Fund Balance brought forward	(1,662)	(2,263)
GENERAL FUND BALANCE CARRIED FORWARD	(15,884)	(1,662)

Orkney Islands Council
Statement of Accounts - 2006/2007

Statement of Total Recognised Gains and Losses - Statement 5

PURPOSE

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

Statement of Total Recognised Gains and Losses as at 31 March 2007

	2006/07	2005/06
	£'000	£'000
(Surplus)/Deficit for the year on the Income and Expenditure Account	(5,310)	(1,660)
(Surplus)/Deficit arising on revaluation of fixed assets	(603)	3,286
Actuarial (gains)/losses on pension fund assets and liabilities	(6,517)	3,909
Any other (gains) and losses required to be included in the STRGL		
- Gain on Repairs and Renewals Funds for year	(373)	(361)
- Gain on Capital Fund for year	(96)	(87)
TOTAL RECOGNISED (GAINS) AND LOSSES FOR THE YEAR	(12,899)	5,087

Orkney Islands Council
Statement of Accounts - 2006/2007

Balance Sheet - Statement 6

PURPOSE

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

Balance Sheet as at 31 March 2007

		31/03/07	31/03/06
		£'000	£'000
Fixed Assets			
Operational Assets			
Council Dwellings		15,837	16,613
Other Land and Buildings		93,147	89,074
Vehicles, Plant and Equipment		3,927	4,214
Infrastructure Assets		73,637	74,762
Community Assets		3,444	3,420
Non-Operational Assets			
Investment Properties		5,660	4,119
Assets Under Construction		2,085	861
Surplus Assets		931	783
TOTAL FIXED ASSETS	Note 10	198,668	193,846
Long-term Investments	Note 20	154,878	156,786
Long-term Debtors	Note 12	3,670	4,027
TOTAL LONG-TERM ASSETS		357,216	354,659
Stocks and Work in Progress	Note 13	721	826
Debtors	Note 14	6,900	7,323
Investments	Note 20	9,363	7,222
Cash and Bank	Note 15	8	207
CURRENT ASSETS		16,992	15,578
Creditors		7,202	7,469
Provisions	Note 16	0	2,350
Bank Overdraft	Note 15	395	0
Advances from Other Accounts	Note 15	1,408	5,288
CURRENT LIABILITIES		9,005	15,107
TOTAL ASSETS LESS CURRENT LIABILITIES		365,203	355,130
Net Pension Liability	Note 23	22,132	29,424
Government Grants Deferred	Note 21	53,985	49,519
LONG TERM LIABILITIES		76,117	78,943
TOTAL NET ASSETS		289,086	276,187
Represented by:			
Capital Reserves			
Fixed Asset Restatement Account		95,040	95,722
Capital Financing Account		12,854	12,276
Usable Capital Receipts		3,113	2,524
Capital Fund		2,288	2,101
		113,295	112,623
Revenue Reserves			
General Fund Balances		15,884	1,662
Harbour Authority Account Fund		174,090	183,437
Pension Reserve		(22,132)	(29,424)
Repairs and Renewals Fund		7,949	7,889
		175,791	163,564
TOTAL NET WORTH	Note 22	289,086	276,187

A Tait, C.P.F.A., F.C.C.A.
 Director of Finance
 28 September 2007

**Orkney Islands Council
Statement of Accounts - 2006/2007**

Cash Flow Statement - Statement 7

PURPOSE

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

Cash Flow Statement as at 31 March 2007

		2006/07		2005/06	
		£'000	£'000	£'000	£'000
Revenue	Cash Outflows				
Activities	Cash paid to and on behalf of employees	56,207		51,457	
	Other Operating Cash Payments	21,267		20,002	
	Non Domestic Rates Payments - to pool	6,832		6,596	
	Precepts Paid	1,692		1,627	
	Housing Benefit paid out	1,190	87,188	1,154	80,836
	Cash Inflows				
	Housing Rents (net of rebates)	723		799	
	Council Tax	9,265		9,162	
	Community Charge Income	0		2	
	Non Domestic Rate Income - from national pool	7,233		7,243	
	Non Domestic Rate Income - rate receipts	7,009		6,904	
	Revenue Support Grant	48,956		45,534	
	DWP Grants for Housing & Council Tax Benefit	3,019		2,934	
	Other Government Grants (Note 28)	6,614		5,640	
	Cash Received for Goods and Services	3,170		451	
	Other Operating Cash Receipts	0	85,989	0	78,669
	NET REVENUE ACTIVITIES (Note 24)		(1,199)		(2,167)
Returns on Investment and Servicing of Capital	Cash Outflows				
	Interest Paid	222			202
	Cash Inflows				
	Interest Received	394			288
	NET SERVICING OF CAPITAL		172		86
Capital Activities	Cash Outflows				
	Purchase of Fixed Assets	13,457		13,675	
	Purchase of Long Term Investments	3,644		1,141	
	Other Capital Cash Payments	239	17,340	782	15,598
	Cash Inflows				
	Sale of Fixed Assets	1,316		1,688	
	Sale of Long Term Investments	15,057		6,530	
	Other Capital Receipts	651		2,760	
	Capital Grants Received	6,770	23,794	4,197	15,175
	NET CASH INFLOW/(OUTFLOW) BEFORE FINANCING		6,454		(423)
Management of Liquid Resources	Net (Increase)/Decrease in Short Term Deposits (Note 26)		(2,141)		1,842
Financing	Cash Outflows				
	Repayment of Amounts Borrowed (Note 27)	3,880		(1,823)	
	Cash Inflows				
	New Loans Raised	0		0	
	New Short Term Loans	0	(3,880)	0	1,823
	INCREASE /(DECREASE) IN CASH (Note 25)		(594)		1,161

Orkney Islands Council Statement of Accounts - 2006/2007 Notes to Core Financial Statements - Statement 8
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1. Reconciling Items for the Statement of Movement in General Fund Balances

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

	2006/07	2005/06
	£'000	£'000
Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the year		
Depreciation and impairment of fixed assets	(7,700)	(8,719)
Government Grants Deferred amortisation	1,747	1,714
Net gain on sale of fixed assets	39	238
Grants and contributions applied to finance capital expenditure	459	2,712
Net charges made for retirement benefits in accordance with FRS 17	<u>(3,991)</u>	<u>(4,862)</u>
	(9,446)	(8,917)
Amounts not included in the Income and Expenditure Account but required by statute to be included when determining the Movement on the General Fund Balance for the year		
Loans fund principal repayments	2,657	2,265
Capital expenditure charged in-year to the General Fund Balance	1,485	2,848
Employers contributions payable to the Orkney Islands Council Pension Fund and retirement benefits direct to pensioners	<u>4,766</u>	<u>4,577</u>
	8,908	9,690
Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year		
Transfers to/(from) the Capital Fund	91	76
Transfers to/(from) the Repairs and Renewals Fund	882	670
Transfers to/(from) the Harbour Fund	<u>(9,347)</u>	<u>742</u>
	(8,374)	1,488
Net additional amount required to be credited to the General Fund balance for the year	(8,912)	2,261

2. Publicity Expenditure

Section 5(1) of the Local Government Act 1986 requires certain expenditure on publicity to be separately accounted for.

Publicity expenditure was incurred as follows :-

	2006/07	2005/06
	£'000	£'000
Staff Recruitment Advertising	320	297
Other Advertising	83	101
Corporate Information Services	<u>88</u>	<u>43</u>
	<u>491</u>	<u>441</u>

Orkney Islands Council
Statement of Accounts - 2006/2007
Notes to Core Financial Statements - Statement 8 (continued)

3. Local Authorities (Goods and Services) Act 1970

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

	2006/07	2006/07	2005/06	2005/06
	Receipts	Payments	Receipts	Payments
	£'000	£'000	£'000	£'000
Orkney Housing Association	0	2	1	2
Northern Police Joint Board	2	3	2	4
Highlands and Islands Fire Joint Board	4	2	2	1
Highlands and Islands Strategic Transport Partnership	0	0	15	7
Historic Scotland	1	0	0	0
Orkney Islands Property Development	0	3	0	0
	<u>7</u>	<u>10</u>	<u>20</u>	<u>14</u>

4. Audit Fee

The fee payable to Audit Scotland in respect of external audit services undertaken in accordance with the Code of Practice is £201K (2005/06 £198K). No fees were paid in respect of other services provided by the appointed auditor.

5. Pensions (Teachers)

In 2006/07 the Islands Council paid an employer's contribution of £1.361M to the Scottish Executive in respect of teachers' pension costs, which represented 12.50% of teachers' pensionable pay.

In addition, the Islands Council is responsible for all pension payments relating to added years it has awarded, together with mandatory compensation and related increases. In 2006/07 these amounted to £246K representing 2.26% of pensionable pay.

6. Local Government Pension Scheme

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

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

Revenue Costs for Year to 31 March 2007	2006/07	2006/07	2005/06	2005/06
	£'000	% of	£'000	% of
Amount charged to Operating Profit -		Payroll		Payroll
Service Cost	5,566	22.6	4,312	18.5
Past Service Costs	<u>(1,250)</u>	<u>(5)</u>	323	1
Curtailment and Settlements	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Operating Charge	<u>4,316</u>	<u>17.5</u>	<u>4,635</u>	<u>19.9</u>
Amount credited to Other Finance Income -				
Expected Return on Corporate Assets	6,143	25.0	4,931	21.2
Interest on Pension Scheme Liabilities	<u>(5,818)</u>	<u>(23.6)</u>	<u>(5,158)</u>	<u>(22.2)</u>
Net Return on Assets	<u>325</u>	<u>1.30</u>	<u>(227)</u>	<u>(1.0)</u>
Net Revenue Account Cost	<u>3,991</u>	<u>16.2</u>	<u>4,862</u>	<u>20.9</u>

Included in the Statement of Movement on General Fund Balance is a transfer of £775K to the pension reserve. The net effect of these accounting entries is that expenditure met from government grants and local taxation equals the actual employers contributions made to the Scheme of £4,280K, representing 17.33% of pensionable pay.

The employer's contribution rate is determined by the Fund's Actuary based on triennial actuarial valuations, the last review being 31 March 2005. Under Pension Fund Regulations contributions rates are set to meet the overall liabilities of the Fund. The employer's rates are set to meet the overall liabilities of the Fund. The employer's contribution was 295% of the employee's contribution for 2006/07.

In addition the Islands Council is responsible for all pension payments relating to added years benefits it has awarded, together with the related increases. In 2006/07 these amounted to £240,215 representing 0.97% pensionable pay.

Orkney Islands Council
Statement of Accounts - 2006/2007

Notes to Core Financial Statements - Statement 8 (continued)

7. Members' Allowances and Officers' Emoluments

The total of Members' Allowances paid in the year amounted to £403K (2005/06 £426K).

The number of employees whose remuneration was £40,000 or more in bands of £10,000 were:

Remuneration Band	2006/2007	2005/2006
	Number of Employees	Number of Employees
£50,000 - £59,999	21	18
£60,000 - £69,999	7	7
£70,000 - £79,999	6	5
£80,000 - £89,999	0	1
£90,000 - £99,999	1	0
£100,000 - £109,999	0	0

8. Related Parties

	Receipts	Payments	Receipts	Payments
	2006/07	2006/07	2005/06	2005/06
	£'000	£'000	£'000	£'000
Central Government				
Revenue Grants	48,956		45,534	
Being payments made in support of Revenue Expenditure				
Capital Grants	3,113		1,497	
Being payments made in support of Capital Expenditure				
Orkney Towing Company Limited				
Being payments made for the provision of Towing Services		3,023		2,720
Orkney Ferries Limited				
Being subsidy payments made in support of Ferry Services		5,013		5,799
Northern Police Joint Board		1,626		1,483
Highlands and Islands Fire Joint Board		1,608		1,491
Orkney and Shetland Valuation Joint Board		288		264
Being payments of annual requisition to Joint Boards				
Chief Officials				
Being advances and repayments of Car Loans	14	13	24	13
Orkney Islands Pension Fund				
Being payments of employers contributions in respect of employees		4,280		4,064

9. Exceptional Items

It was necessary to recognise the impact of additional staff costs which were due to 31 March 2006 on the Income and Expenditure Account, including a provision for Equal Pay negotiations which was ongoing at that time.

	2006/07	2005/06
	£'000	£'000
Staff Costs	0	90
Equal Pay Provision	0	2,350
	<u>0</u>	<u>2,440</u>

Past custom and practice resulted in staff costs not being accounted for beyond 15 March each year. This practice is no longer considered appropriate, and necessitated a restatement of staff costs for the financial year 2005/06.

Furthermore, on the basis that the formal offer has largely been accepted by all staff affected by the equal pay negotiations, the impact of equal pay to the Islands Council has been fully reflected in the financial year 2005/06.

Orkney Islands Council
Statement of Accounts - 2006/2007

Notes to Core Financial Statements - Statement 8 (continued)

10. Fixed Assets

The following represents an analysis of fixed assets owned by the Islands Council at 31 March 2007

	Number of Items		Number of Items	
	31/03/07	31/03/07 £000	31/03/06	31/03/06 £000
Council Dwellings				
Council Dwellings	775	15,837	790	16,613
	775	15,837	790	16,613
Operational Buildings				
Concert Halls and Theatres	1	362	1	378
Other Housing Properties	48	1,108	48	1,181
Depots and Workshops	85	5,421	85	5,139
Museums	2	811	2	843
Community/Day Centres	13	12,704	13	13,042
Sports Centres and Pools	2	1,623	2	1,698
Libraries	2	3,452	2	3,524
Schools	29	56,406	30	52,878
Office Buildings	15	8,941	13	8,095
Park and Amenity Properties	3	424	3	359
Miscellaneous :				
Public Conveniences	37	1,170	37	1,159
Refuse Sites	10	518	10	555
Quarries	2	207	2	223
	249	93,147	248	89,074
Infrastructure				
Sea Defences	16	256	16	285
Roads (Kilometres)	979	18,154	979	19,018
Piers and Harbours	56	53,221	56	53,334
Airfields	9	891	9	943
Car Parks	24	1,115	24	1,182
	1,084	73,637	1,084	74,762
Community Assets				
Cemeteries	41	234	41	255
Historic Buildings/Monuments	22	2,882	22	2,872
Parks	12	328	12	293
	75	3,444	75	3,420
Operational Equipment				
Computers	8	90	6	0
Mechanical Plant	193	693	193	815
Vehicles	265	2,262	253	1,931
Other Equipment	152	424	150	549
Ferries	12	458	13	919
	630	3,927	615	4,214
Non Operational Property				
Surplus Assets	23	931	21	783
Commercial Property	76	2,594	84	3,121
Land Awaiting Development	9	3,066	8	998
Assets Under Construction	3	2,085	3	861
	111	8,676	116	5,763
TOTAL	2,924	198,668	2,928	193,846

10. Fixed Assets (continued)

Fixed Asset Transactions

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

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

	Council	Land &		Community	Plant &	Non	
	Dwellings	Buildings	Infrastructure	Assets	Vehicles	Operational	Total
	£'000	£'000	£'000	£'000	£'000	£000	£'000
Gross Book Value	17,271	108,391	102,783	4,596	24,951	6,852	264,844
Aggregate Depreciation	658	19,317	28,021	1,176	20,737	1,089	70,998
Net Book Value at 1 April 2006	16,613	89,074	74,762	3,420	4,214	5,763	193,846
Additions	852	4,995	1,568	95	2,277	3,409	13,196
Disposals	(347)	(133)	0	0	0	(797)	(1,277)
Revaluation and restatements	(712)	880	(110)	0	(1,054)	1,598	602
Reclassifications	0	1,154	0	0	0	(1,154)	0
Depreciation	(569)	(2,823)	(2,583)	(71)	(1,510)	(143)	(7,699)
Impairments	0	0	0	0	0	0	0
Net Book Value at 31 March 2007	15,837	93,147	73,637	3,444	3,927	8,676	198,668

Valuation of Fixed assets carried at current value

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

	Council	Land &		Community	Plant &	Non	
	Dwellings	Buildings	Infrastructure	Assets	Vehicles	Operational	Total
	£'000	£'000	£'000	£'000	£'000	£000	£'000
Valued at historic cost	0	0	73,637	3,444	3,927	0	81,008
Valued at Current Value in:							
31 March 2007						8,676	8,676
31 March 2006	15,837						15,837
31 March 2005		93,147					93,147
Total	15,837	93,147	73,637	3,444	3,927	8,676	198,668

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

Assets Employed

The net book value of assets employed as at 31 March 2007 can be broken down as follows:

	2006/07	2005/06
	£'000	£'000
Assets employed by the General Fund	114,242	109,985
Assets employed by the Housing Revenue Account	16,155	17,055
Assets employed by Harbour Fund	60,837	59,370
Assets employed by Orkney College	7,434	7,436
TOTAL ASSETS EMPLOYED	198,668	193,846

Sources of Finance for Fixed Assets Acquired

The following statement shows how capital expenditure in the year has been financed. The total of fixed asset expenditure in the year excluding Community

Council assets should match the sum of the individual sources of finance.

	2006/07	2005/06
	£'000	£'000
Loans	5,616	4,959
Capital Receipts	1,962	4,607
Grant Receipts	4,133	2,867
CFCR	1,485	1,928
Other Income	0	0
	13,196	14,361

Orkney Islands Council
Statement of Accounts - 2006/2007

Notes to Core Financial Statements - Statement 8 (continued)

10. Fixed Assets (continued)

Commitments Under Capital Contracts

The following significant contacts for capital investment have been entered into by the Islands Council and extend beyond 31 March 2007 :

Project Name	Purpose	Approx. Value £'000	Anticipated Completion
Rousay Primary	School Extension	516	Sep - 2007
Papdale Primary	School Extension	2,846	Nov - 2008
Kirkwall Travel Centre	Travel Centre	823	Jul - 2007
Eday Pier Slipway	Recreational Slipway	152	Jun - 2007
Finstown Slipway	Recreational Slipway	26	April - 2007

11. Leases

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

	2006/07 £'000	2005/06 £'000
Asset Value	13,492	11,794
Rental Income	967	789
	14,459	12,583

During the year £2,262K of properties were constructed or acquired for this purpose.

The value of rental income generated from these activities amounted to £967K for the year.

Rent levels are determined by the District Valuer for these operating leases, with no properties being the subject of finance lease arrangements.

12. Long Term Debtors

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

	2006/07 £'000	2005/06 £'000
Housing Loans	256	275
Car Loans	101	150
Harbours	3,370	3,657
Others	(57)	(55)
	3,670	4,027

13. Stocks and Works In Progress

	2006/07 £'000	2005/06 £'000
Stocks		
General Fund	540	643
Harbours	181	183
	721	826
Work in Progress		
General Fund	0	0

14. Debtors and Creditors

Debtors are shown net of bad debt provision, and represents the net amount due to the Council as at 31 March 2007.

The Islands Council provides for any bad or doubtful debts at the end of each financial year, based on the age of debtors outstanding. At 31 March 2007 the Bad Debt Provision has increased from £1,046,000 to £1,341,000 being an increase of £295,000 on the year.

Creditors represent amounts due by the Council as at 31 March 2007.

15. Loan Debt

	2006/07 £'000	2005/06 £'000
Long Term : The Islands Council has no long term debt as at 31 March 2007		
	395	(199)
Short Term : Bank Overdraft		
Cash In Hand	(8)	(8)
Advances from Other Accounts	1,408	5,288
	1,795	5,081

Orkney Islands Council
Statement of Accounts - 2006/2007

Notes to Core Financial Statements - Statement 8 (continued)

16. Provisions

A provision of £2,350k was set aside within the Statement of Accounts in recognition of the Equal Pay negotiations which were ongoing at that time.

As the formal offer has largely been accepted by all staff, this provision is no longer required.

17. Net Assets Employed

The value of net assets employed as at 31 March 2007 are analysed as follows :

	2006/07	2005/06
	£'000	£'000
General Fund	39,897	18,813
Harbour Fund	233,264	240,640
Housing Revenue Account	15,925	16,734
	289,086	276,187

18. European Single Currency

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

As at 31 March 2007 no commitments in respect of costs associated with the Euro had been made, no exceptional expenditure had been incurred and it was not possible to forecast the total costs likely to be incurred.

19. Single Status

The Islands Council is in the process of submitting a formal offer to staff in respect of Single Status. In recognition of a future liability being identified for the Islands Council in respect of Single Status, an amount has been earmarked within General Reserves in advance of the actual cost being quantified.

20. Investments

The investments shown in the Consolidated Balance Sheet consist of a number of individual funds, each valued at lower of cost or market value. The following is a summary of the investments held by the Islands Council as at 31 March 2007:

	Lower of		Lower of	
	Cost & Market Value	Market Value	Cost & Market Value	Market Value
Investments	2006/07	2006/07	2005/06	2005/06
Long Term	£'000	£'000	£'000	£'000
Bonds and Equities	122,425	133,891	126,430	138,848
Land and Buildings	16,598	16,598	13,922	13,922
Private Companies	1,172	1,172	1,172	1,172
Fishing Quota	927	927	804	804
Deposits	12,210	12,210	13,172	13,172
Miscellaneous	1,546	1,546	1,286	1,286
	154,878	166,344	156,786	169,204
Short Term				
Cash Deposits	9,362	9,362	7,222	7,222

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

	Orkney			
	Towage Company Ltd	Weyland Farms Ltd	Orkney Ferries Ltd	Orkney Meat Ltd
2006/07	Tug Operation	Mixed Farming	Sea Transport	Meat Processing
Principal Activity				
Shares Held	100%	100%	100%	38%
	£'000	£'000	£'000	£'000
Investments Less Provision	501	510	0	61
Net Assets	(1,184)	29	(1,042)	953
Profit/(Loss) After Tax	(147)	(26)	(25)	(135)
Profit/(Loss) Before Tax	(147)	(26)	0	(150)
2005/06				
Net Assets	(1,302)	48	(1,354)	1,089
Profit/(Loss) After Tax	(308)	(17)	(19)	(20)
Profit/(Loss) Before Tax	(308)	(17)	0	(23)

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

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

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

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

**Orkney Islands Council
Statement of Accounts - 2006/2007**

Notes to Core Financial Statements - Statement 8 (continued)

20. Investments (continued)

At the 31 March 2007 the Islands Council's Reserve Fund loan to Weyland Farms Limited stood at £132,260, no increase on the year. The Loan Balance has been provided for in full. The Islands Council is committed to ensure an orderly winding up of the Company should it cease trading and will ensure that all bona fide creditors are paid in full.

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

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

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

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

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

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

21. Government Grants - Deferred Account

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

	Gross Receipts £000	Grants Applied £000	Net Balance £000
Balance at 1 April 2006	65,953	16,434	49,519
Add Grant Receipts	6,213	0	6,213
Add Grants Deferred Adjustment	0	0	0
Less Grant Applied	0	1,747	1,747
Balance at 31 March 2007	72,166	18,181	53,985

22. Summary of Statement of Reserves

The following table provides a detailed analysis of the Reserves held by the Islands Council as at 31 March 2007 :

	Balance at 31/3/07 £'000	Gain/(Loss) £'000	Transfers £'000	Balance at 31/3/06 £'000
Capital Reserves				
Fixed Asset Restatement Account	95,040	(682)		95,722
Capital Financing Account	12,854	578		12,276
Usable Capital Receipts	3,113	589		2,524
Capital Fund	2,288	187		2,101
	113,295	672	0	112,623
Revenue Reserves				
General Fund Balances :				
General Fund	14,912	298	13,952	662
Modernising Government Fund	67	(18)		85
Corporate Development Fund	152	31		121
Modernising Teachers Fund	68		(286)	354
Community Council	192	15		177
Devolved School Management Fund	71	(2)		73
Orkney College	(923)	(57)		(866)
Single Status Fund	1,056			1,056
ALCO Development Fund	250	250		0
Training Fund	39	39		0
	15,884	556	13,666	1,662
Repairs and Renewals Funds :				
Replacement Ferries Fund	2,779	184		2,595
Plant & Vehicle Replacement Fund	4,334	(47)		4,381
Repairs & Renewals Fund	836	(77)		913
	7,949	60	0	7,889
Harbour Authority Account	174,090	4,319	(13,666)	183,437
Pension Reserve	(22,132)	7,292		(29,424)
	175,791	12,227	0	163,564
TOTAL RESERVES	289,086	12,899	0	276,187

DESCRIPTION OF RESERVES

Capital

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

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

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

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

Revenue

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

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

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

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

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

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

The Orkney College deficit represents the balance of College losses.

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

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

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

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

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

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

23. Pension Reserve Etc.

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

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

Asset Value of the Pension Fund and Expected Returns attributable to Orkney Islands Council

	As at 31 March 2007			As at 31 March 2006		
	Expected	OIC	Total	Expected	OIC	Total
	Return	Pension	Pension	Return	Pension	Pension
	% p.a.	Assets	Fund Assets	% p.a.	Assets	Fund Assets
		£'000	£'000		£'000	£'000
Equities	7.8	77,039	83,800	7.4	70,756	77,600
Bonds	4.9	12,262	13,300	4.6	12,593	13,800
Property	5.8	0	0	5.5	0	0
Cash	4.9	6,029	6,600	4.6	4,263	4,700
Total	7.2	95,330	103,700	7.0	87,612	96,100

Net Pension Asset/(Liability) attributable to Orkney Islands Council

	31/3/2007	31/03/2006	Movement
	£'000	£'000	£'000
Estimated Assets	95,330	87,612	7,718
Present Value of Scheme Liabilities	109,738	109,102	636
Present Value of Unfunded Liabilities	7,724	7,934	(210)
Total Value of Liabilities	117,462	117,036	426
Net Pension Asset/(Liability)	(22,132)	(29,424)	7,292

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

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

	2007	2006
Financial Assumptions at 31 March	%	%
Price Increases	3.2	3.1
Salary Increases	4.7	4.6
Pension Increases	3.2	3.1
Rate used to discount scheme liabilities	5.4	4.9

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

The liabilities for retirement benefits as at 31 March 2007 have been assessed using a discount rate of 2.2% in excess of inflation, based on the current rate of return for high quality corporate bonds of equivalent currency and term to the scheme of liabilities. When compared to a rate of 1.7% for the previous year, this represents a significant change reducing some 5-10% to projected scheme liabilities. While asset returns for the whole fund have been around 4.4% for the year to 31 March 2007. Since the FRS17 basis allowed for 4.9% p.a. Interest on the liabilities, the actual asset returns have led to a slight deterioration in the position. The overall position has decreased the FRS deficit on the Pension Fund by £7.292M for the year.

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

	2006/07	2005/06
	£'000	£'000
Surplus/(Deficit) at beginning of year	(29,424)	(25,230)
Current Service Cost	(5,566)	(4,312)
Employer Contributions	4,280	4,064
Contributions in respect of Unfunded Benefits	486	513
Other Income	0	0
Other Outgoings (e.g. Expenses etc.)	0	0
Past Service Costs	1,250	(323)
Impact of settlement and curtailments	0	0
Net return on assets	325	(227)
Actuarial gains/(losses)	6,517	(3,909)
Surplus/(deficit) at end of year	(22,132)	(29,424)

The following is a history of the gains and losses:

	2006/07	2005/06
	£'000	£'000
Difference between the expected and actual return on assets	(2,339)	14,646
Value of assets	95,330	87,612
Percentage of assets	(2.5%)	16.7%
Experience gains/(losses) on liabilities	74	(4,843)
Present value of liabilities	117,462	117,036
Percentage of the present value of liabilities	0.1%	(4.1%)
Actuarial gains/(losses)	6,517	(3,909)
Present value of liabilities	117,462	117,036
Percentage of the present value of liabilities	5.5%	(3.3%)

Additional disclosures in respect of Pensions are included in note 6 to the Core Financial Statements.

24. Date of Accounts Authorised for Issue

The Director of Finance and Housing, being the proper officer for the financial administration of the Islands Council, signed the Annual Accounts on 28 September 2007. Events after the 31 March 2007, being the date of the Balance Sheet, and up until the date of signing have been considered.

Orkney Islands Council
Statement of Accounts - 2006/2007

Notes to Core Financial Statements - Statement 8 (continued)

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

	2006/07	2005/06
	Total	Total
	£'000	£'000
Operating Surplus/(Deficit) for Year	14,222	(601)
Non Cash Transactions		
Contributions to Reserves	(7,828)	1,678
Adjustments not Involving the Movement of Funds	(9,684)	(8,486)
Contributions to Capital	4,066	4,193
Increase/(Decrease) in Bad Debt Provision	295	73
	<u>1,071</u>	<u>(3,143)</u>
Items on an Accruals Basis		
(Increase)/Decrease in Stock and Work in Progress	105	(66)
(Increase)/Decrease in Debtors	(18)	(1,777)
Increase/(Decrease) in Creditors	(2,357)	2,819
	<u>(2,270)</u>	<u>976</u>
Cash Outflow from Revenue Activities	(1,199)	(2,167)

26. Movement in Cash	2006/07			2005/06
	31/03/07	31/03/06	Movement	Movement
	£'000	£'000	£'000	£'000
Bank Overdraft	(395)	199	(594)	1,160
Cash	8	8	0	1
Increase/(Decrease) in Cash	(387)	207	(594)	1,161

27. Reconciliation of Liquid Reserves	2006/07			2005/06
	31/03/07	31/03/06	Movement	Movement
	£'000	£'000	£'000	£'000
Temporary Lending	9,363	7,222	2,141	(1,842)

28. Reconciliation of Financing	2006/07			2005/06
	31/03/07	31/03/06	Movement	Movement
	£'000	£'000	£'000	£'000
Revenue Advances from Common Good, Charities and Trusts	(1,408)	(5,288)	3,880	(1,823)

29. Analysis of Government Grants	2006/07	2005/06
	£'000	£'000
Teacher Training	0	16
Other Education Grants	1,020	665
National Priorities Action Fund	1,100	970
Other Miscellaneous Grants	113	279
Community Social Services - Specific Training	412	522
Supporting People	422	357
Mental Illness Specific Grant	133	133
Offender Services	382	357
Strategic Waste Fund	369	256
Scottish Funding Council for Further Education	1,569	1,216
Transport - Rural Initiative	1,094	869
Total Government Grants Per Cash Flow Statement	<u>6,614</u>	<u>5,640</u>

Orkney Islands Council
Statement of Accounts - 2006/2007

Notes to Core Financial Statements - Statement 8 (continued)

30. Explanation of Prior Year Adjustments

The Statement of Accounts for the financial year 2006/07 includes three significant new accounting policies that impact on the comparative figures for the financial year 2005/06 in the Income and Expenditure Account:

Capital financing charges for the use of fixed assets are no longer made to service revenue accounts, support services and trading accounts;

Credits for government grants deferred are now posted to service revenue accounts, support services and trading accounts rather than credited as a corporate income item;

Gains and losses on the disposal of fixed assets are recognised in the Income and Expenditure Account.

In addition to this, capital grants and contributions that cannot be matched to individual fixed assets are recognised in the Income and Expenditure Account.

These changes have had the following impact on the comparative figures for the financial year 2005/06 compared with those published in the 2005/06 Statement of Accounts:

	2005/06 Net Expenditure	Removal of Capital Financing Charges	Relocation of Government Grants Deferred Credits	Recognition of Gains/Loss on disposal of fixed assets	Relocation of Capital Grants & Contributions	Restated 2005/06 Net Expenditure
	£'000	£'000	£'000	£'000	£000	£'000
Education	27,200	(1,711)	(99)			25,390
Cultural and Recreation	4,348	(517)	(29)			3,802
Community Social Services	12,150	(363)	(2)			11,785
Police Services	1,483					1,483
Fire Services	1,491					1,491
Roads and Transportation	13,945	(1,048)	(562)			12,335
Planning and Development	1,180					1,180
Environmental Services	3,630	(85)	(1)			3,544
Central Services	1,538	(384)	(45)			1,109
Corporate and Democratic Costs	1,999					1,999
Housing Services	321	(71)	(12)			238
Housing Revenue Account	(691)	691	(3)			(3)
Harbour Authority	3,303	(2,673)	(818)			(188)
Exceptional Items	2,440					2,440
Non Distributed Cost	323					323
IMPACT ON NET COSTS OF SERVICES	74,660	(6,161)	(1,571)	0	0	66,928
(Profit)/Loss on disposal of fixed assets				(238)		(238)
Grants and contributions received to finance capital expenditure					(2,712)	(2,712)
Net (Surplus)/Deficit on Orkney College	611	(263)	(143)			205
Interest on Balances	(158)					(158)
Net (Surplus)/Deficit on Harbour Investment Income	(7,816)					(7,816)
Pensions Interest cost and expected return on Pension Assets	227					227
Asset management revenue account (Interest payable and similar charges in 2006/07)	(6,491)	6,424	1,714			1,647
IMPACT ON NET OPERATING EXPENDITURE	61,033	0	0	(238)	(2,712)	58,083

Orkney Islands Council
Statement of Accounts - 2006/2007
Harbour Authority Account - Statement 9

PURPOSE

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

This statement shows:

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

Income and Expenditure Account for year ended 31 March 2007

	2006/07 Expenditure	2006/07 Income	2006/07 Net Expenditure	2005/06 Net Expenditure
	£'000	£'000	£'000	£
Scapa Flow Oil Port	7,752	6,142	1,610	768
Miscellaneous Piers and Harbours	2,438	3,280	(842)	(949)
Oil Pollution Account	143	166	(23)	(7)
NET COST OF HARBOUR SERVICES	10,333	9,588	745	(188)
(Gain) or Loss on sale of Harbour fixed assets	56	0	56	0
Interest payable and similar charges	84	0	84	159
Pensions interest cost and expected return on pension assets	(24)	0	(24)	16
(SURPLUS)/DEFICIT FOR THE YEAR ON HARBOUR SERVICES	10,449	9,588	861	(13)

Statement of Movement on Harbour Authority Account Fund Balance as at 31 March 2007

	2006/07 £'000	2005/06 £'000
(Surplus)/Deficit for the Year on the Income and Expenditure Account	861	(13)
Net additional Amount required by statute and non-statutory proper practices to be debited or credited to the Harbour Authority Account Fund	505	966
(INCREASE)/DECREASE IN HARBOUR AUTHORITY ACCOUNT FUND BALANCE	1,366	953

HARBOUR AUTHORITY ACCOUNT INVESTMENT SUMMARY

Income Receivable

Investment Income	10,067	8,662
Rents	974	789
Interest on Revenue Balances	1,702	1,178
Other	588	3
	13,331	10,632

Expenditure

Payments of Grants	3,891	2,432
Other	451	384
	4,342	2,816

NET RETURN ON INVESTMENT ACTIVITIES	8,989	7,816
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Appropriations :

Deficit on Harbour Authority activities	(1,366)	(953)
Transfer to General Fund	(16,894)	(5,201)
Transfer to Capital Financing Account	(76)	(920)

NET INCREASE IN FUND DURING THE YEAR	(9,347)	742
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**Orkney Islands Council
Statement of Accounts - 2006/2007**

Harbour Authority Account - Statement 9 (continued)

Represented by :	Balance at 31/03/2006 £'000	Net Movement £'000	Balance at 31/03/2007 £'000
Strategic Reserve Fund	124,411	(215)	124,196
Flotta Terminal Decline and Decommissioning Fund	44,650	(455)	44,195
Relevant Services Contingency	14,027	(14,027)	0
Conservation Fund	175	8	183
Talented Performers Fund	52	1	53
Travel Fund	84	4	88
Fisheries Fund	0	4,724	4,724
Orkney Memorial Fund	0	616	616
Talented Young Persons Fund	38	(3)	35
TOTAL	183,437	(9,347)	174,090

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

	2006/07 £'000	2005/06 £'000
Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the Harbour Authority Account Fund Balance for the year		
Depreciation and impairment of fixed assets	(1,654)	(1,661)
Government Grants Deferred amortisation	817	818
Net gain on sale of fixed assets	(56)	0
Net charges made for retirement benefits in accordance with FRS 17	(395)	(334)
	(1,288)	(1,177)
Amounts not included in the Income and Expenditure Account but required by statute to be included when determining the Movement on the Harbour Authority Fund Account Balance for the year		
Loans fund principal repayments	1,087	574
Capital expenditure funded by the Harbour Authority	356	1,234
Employers contributions payable to the Orkney Islands Council Pension Fund and retirement benefits direct to pensioners	350	335
	1,793	2,143
Net additional amount required to be credited to the Harbour Authority Account Fund balance for the year	505	966

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

Fund Manager	Type	Value £(M)	Performance (%)	Benchmark (%)
Prudential	Cash and Bonds	50.00	3.22	2.77
Schroders	Cash and Bonds	41.50	3.10	2.70
Schroders	Equities	55.40	12.30	11.10
TOTAL FUNDS		146.90		

During the year, the Harbour Authority Account managed funds returned a gain of £9.0M through investment activities.

Orkney Islands Council
Statement of Accounts - 2006/2007

Orkney College of Further Education - Statement 10

PURPOSE

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

Income and Expenditure Account for year ended 31 March 2007

	2006/07 £'000	2005/06 £'000
EXPENDITURE		
Staff Costs	2,415	2,097
Property Costs	269	259
Supplies and Services	531	474
Transport Costs	91	77
Administration Costs	91	72
Apportioned Costs	38	31
Depreciation and impairment of fixed assets	61	64
TOTAL EXPENDITURE	3,496	3,074
INCOME		
Grants	2,640	2,212
Fees and Charges	754	595
Other Income	37	62
TOTAL INCOME	3,431	2,869
NET COST OF ORKNEY COLLEGE PER AUTHORITY INCOME AND EXPENDITURE ACCOUNT	65	205
Interest payable and similar charges	5	5
Pensions interest cost and expected return on pension assets	(16)	11
(SURPLUS)/DEFICIT FOR THE YEAR ON ORKNEY COLLEGE SERVICES	54	221

Statement of Movement on Orkney College Balance as at 31 March 2007

	2006/07 £'000	2005/06 £'000
(Surplus)/Deficit for the Year on the Income and Expenditure Account	54	221
Net additional Amount required by statute and non-statutory proper practices to be debited or credited to the Orkney College Balance	3	(7)
(Increase)/Decrease in the Orkney College Balance	57	214
Orkney College deficit brought forward	866	652
ORKNEY COLLEGE DEFICIT CARRIED FORWARD	923	866

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

	2006/07	2005/06
	£'000	£'000
Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the Orkney College Balance for the year		
Depreciation and impairment of fixed assets	(182)	(207)
Government Grants Deferred amortisation	121	143
Net charges made for retirement benefits in accordance with FRS 17	(253)	(221)
	(314)	(285)
Amounts not included in the Income and Expenditure Account but required by statute to be included when determining the Movement on the Orkney College Balance for the year		
Loans fund principal repayments	32	59
Capital expenditure funded by the Orkney College	64	9
Employers contributions payable to the Orkney Islands Council Pension Fund and retirement benefits direct to pensioners	221	210
	317	278
Net additional amount required to be (credited) or debited to the Orkney College Balance for the year	3	(7)

Orkney Islands Council
Statement of Accounts-2006/2007

Housing Revenue Account - Statement 11

PURPOSE

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

Income and Expenditure Account for year ended 31 March 2007

	2006/07	2005/06
	£'000	£'000
EXPENDITURE		
Repairs and maintenance	441	460
Supervision and management	621	626
Depreciation and impairment of fixed assets	579	668
Increase in bad debt provision	36	25
Other expenditure	14	11
TOTAL EXPENDITURE	1,691	1,790
INCOME		
Dwelling rents (gross)	1,705	1,686
Non-dwelling rents (gross)	16	28
Other Income	65	78
TOTAL INCOME	1,786	1,792
NET COST OF HRA SERVICES PER AUTHORITY INCOME AND EXPENDITURE ACCOUNT		
	(95)	(2)
(Gain) or Loss on sale of HRA fixed assets	(240)	(122)
Interest receivable and similar credits	(42)	(20)
Pensions interest cost and expected return on pension assets	(3)	2
(SURPLUS)/DEFICIT FOR THE YEAR ON HRA SERVICES	(380)	(142)

Statement of Movement on HRA Balance as at 31 March 2007

	2006/07	2005/06
	£'000	£'000
(Surplus)/Deficit for the Year on the Income and Expenditure Account	(380)	(142)
Net additional Amount required by statute and non-statutory proper practices to be debited or credited to the HRA Balance	380	142
HRA BALANCE CARRIED FORWARD	0	0

Orkney Islands Council
Statement of Accounts - 2006/2007

Housing Revenue Account - Statement 11 (continued)

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

	2006/07	2005/06
	£'000	£'000
Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the HRA Balance for the year		
Depreciation and impairment of fixed assets	(582)	(671)
Government Grants Deferred amortisation	3	3
Gain/(Loss) on sale of HRA fixed assets	240	122
Net charges made for retirement benefits in accordance with FRS 17	(55)	(49)
	(394)	(595)
Amounts not included in the Income and Expenditure Account but required by statute to be included when determining the Movement on the HRA Balance for the year		
Capital expenditure funded by the HRA	724	686
Employers contributions payable to the Orkney Islands Council Pension Fund and retirement benefits direct to pensioners	50	51
	774	737
Net additional amount required to be (credited) or debited to the HRA Balance for the year	380	142

2. Housing Stock

The numbers and types of dwellings included in the Council's Housing Stock as at 31 March 2007 are as follows:

	2006/07	2005/06
	Number of Dwellings	Number of Dwellings
1 Apartment	42	46
2 Apartment	282	281
3 Apartment	230	242
4 Apartment	207	207
5 Apartment	14	14
	775	790

3. Rent Arrears

	2006/07	2005/06
	£	£
Dwelling Arrears	73,352	60,925
Non Dwelling & Other Arrears	48,727	31,244
	122,079	92,169
Number of Tenants in Arrears	89	171

4. Provision for Bad Debts

	2006/07	2005/06
	£	£
Dwelling Arrears	30,066	31,352
Non Dwelling & Other Arrears	30,183	20,701
	60,249	52,053

**Orkney Islands Council
Statement of Accounts - 2006/2007**

Council Tax Income Account - Statement 12

PURPOSE

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

	2006/07 £'000	2005/06 £'000
Gross Council Tax Levied	8,504	8,087
Less Relieved, Remitted and Written Off	(1,038)	(948)
NET COUNCIL TAX DUE FOR YEAR	7,466	7,139
Reduced Discount on Second Homes	(163)	(158)
Provision for Bad Debts	(15)	22
Council Tax Benefit (Net of Government Grants)	0	0
NET CURRENT YEAR COUNCIL TAX INCOME	7,288	7,003
PRIOR YEARS' COUNCIL TAX		
Adjustments to Charges	7	8
Reduction Previous Years Council Tax Liability	(64)	(46)
COMMUNITY CHARGE		
Adjustments to Charges	0	1
TRANSFER TO INCOME AND EXPENDITURE ACCOUNT	7,231	6,966

1. Details of Charges Levied

	2006/07 £	2005/06 £
Council Tax - Band D - General Rate	1007.00	973.00

Council Tax Charges for 2006/07

Valuation Band	Property Valuation Range	Fraction of Band D	Council Tax £
A	£0 - £27,000	6/9	671.33
B	£27,001 - £35,000	7/9	783.22
C	£35,001 - £45,000	8/9	895.11
D	£45,001 - £58,000	9/9	1007.00
E	£58,001 - £80,000	11/9	1230.78
F	£80,001 - £106,000	13/9	1454.56
G	£106,001 - £212,000	15/9	1678.33
H	Over £212,000	18/9	2014.00

The above table shows the Council Tax Charges due for 2006/07 on a domestic dwelling with an unmetered public water supply, based on two or more people aged 18 years or over resident in the property before any exemption, discounts or relief is applied.

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

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

Orkney Islands Council
Statement of Accounts - 2006/2007

Council Tax Income Account - Statement 12 (continued)

2. Calculation of the Council Tax Base 2006/07

	@	Valuation Band								TOTAL
		A	B	C	D	E	F	G	H	
Total Number of Properties	0	2,574	2,641	1,915	1,443	925	176	16	2	9,692
Less Exemptions/Deductions	0	165	69	48	20	13	1	0	0	316
Less Disabled Relief	-10	-9	-7	3	8	13	2	0	0	0
Less Adjustment for Single Discounts	1	301	243	136	76	29	4	1	0	791
Less Adjustment for Double Discounts	0	136	77	46	19	9	3	1	0	291
Effective Number of Properties	9	1981	2259	1682	1320	861	166	14	2	8294
Band D Equivalent Factor (Ratio)	(5/9)	(6/9)	(7/9)	(8/9)	(9/9)	(11/9)	(13/9)	(15/9)	(18/9)	
Band D Equivalent Number of Properties	5	1321	1757	1495	1320	1052	240	23	4	7,217
Less Provision for Non-Collection %										279
										6,938

COUNCIL TAX BASE 2006/07

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

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

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

3. Residual Community Charge Income

During the year Community Charge arrears were collected as follows:

	2006/07	2005/06
	£000	£000
Reduction in Provision for Bad Debts	5	1
Written Off	5	0
Cost of Collection	0	0
Net Community Charge Income	0	1

4. Arrears of Council Tax and Community Charge

	31/03/2007	31/03/2006
	£	£
Council Tax Arrears	656,955	642,951
Community Charge Arrears	0	5,326

Orkney Islands Council Statement of Accounts - 2006/2007 Non-Domestic Rate Income Account - Statement 13

PURPOSE

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

	2006/07	2005/06
	£'000	£'000
Gross Rates Levied and Contributions in Lieu	8,261	8,093
Adjust for :		
Reliefs and Other Deductions	(1,213)	(1,166)
Interest on Overpaid Rates	0	0
Provision for Bad Debts	7	(36)
Reduction in Rates Liability for previous years	102	(10)
NET NON DOMESTIC RATES INCOME	7,157	6,881
Contribution from National Non-Domestic Rate Pool (See Note 4)	76	362
TRANSFER TO INCOME AND EXPENDITURE ACCOUNT	7,233	7,243

1. Rateable Values and Number of Subjects (1 April 2006)

Non-Domestic Rateable Subjects	Number of subjects	RV 01/04/06 £000	Number of subjects	RV 01/04/05 £000
Shops	266	1,517	266	1,488
Public Houses/Hotels	59	674	56	711
Offices	156	1,442	149	1,413
Industrial Subjects	493	2,581	477	2,493
Leisure/Entertainment	245	736	203	694
Garages & Petrol Stations	91	323	94	329
Cultural/Sporting/Education	81	1,705	79	1,706
Public Services Subjects	170	1,770	168	1,537
Miscellaneous	326	7,647	304	6,603
	1,887	18,395	1,796	16,974

	2006/07	2005/06
2. Non-Domestic Rate Poundage		
Property Rate	£0.449	£0.461

Non Domestic Rates are levied by the Islands Council on local Commercial and Industrial properties. The rate is, however, set by Central Government. An additional supplement of £0.004 is applied to properties with a rateable value exceeding £29,000, while small business relief is available for properties with a rateable value of less than £11,500 (and not in transition).

3. Non-Domestic Rate Arrears	31/03/07	2005/06
	£	£
Arrears of Non Domestic Rates	92,895	109,678
4. Contribution due to National NDR Pool for year	2006/07	2005/06
	£000	£000
Provisional Contributable Amount	6,832	6,596
Difference from Notified Amount	325	285
Contribution due to National NDR Pool for year	7,157	6,881

Orkney Islands Council
Statement of Accounts - 2006/2007
Pension Fund Account - Statement 14

The Orkney Islands Council Pension Fund is constituted under the various Local Government Pension Fund Acts and related regulations and provides pension benefits to all local government employees, excluding principally teachers, of Orkney Islands Council, together with 12 other organisations of a statutory and voluntary nature which have been accepted into the fund as admitted bodies. The members of the scheme decreased from 1,702 employees at 31 March 2006 to 1,660 employees at 31 March 2007 and the number of pension payments increased from 436 at 31 March 2006 to 452 at 31 March 2007.

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

The monies belonging to the Pension Fund are entirely managed by external investment managers Baillie Gifford & Co, and are held separately from any of the employing bodies which participate in the Pension Fund. During the financial year 2006/07 the Fund's return on investments was 4.4% against a benchmark of 7.2%.

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

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

Employees contributions are fixed by statute, with employers contributions being assessed every three years by an independent Actuary to determine the level of contribution necessary by employing bodies to ensure that the fund is able to meet all future benefits. The standard employee contribution rate is 6% with some manual workers retaining the right to pay 5%. Following completion of the 2005 Actuarial valuation, the employers rate will remain at 295% for the 3 years commencing in 2006.

The funds have been invested in accordance with the investment controls laid down in the Local Government Pension (Scotland) Regulations 1989 and quoted investments of the fund have been revalued to market value at 31 March 2007 with the gain on revaluation being credited to the fund.

Orkney Islands Council Statement of Accounts - 2006/2007 Pension Fund Account - Statement 14 (continued)

FUND ACCOUNT	2006/07	2005/06
Contributions Receivable	£'000	£'000
Employer Contributions - Normal	4,975	4,680
Employer Contributions - Additional	3	15
Employees Contributions - Normal	1,745	1,645
Transfers In - Individual Transfers in from Other Schemes	814	1,599
TOTAL CONTRIBUTIONS RECEIVABLE	7,537	7,939
Benefits Payable		
Pensions	2,163	2,058
Commutation of Pensions and Lump Sum Retirement Benefits	464	454
Lump Sum Death Benefits	77	89
Refund of Contributions	24	23
State Scheme Premiums	10	10
Transfers Out - Group Transfers out to Other Schemes	158	0
Transfers Out - Individual Transfers out to Other Schemes	902	277
Fund Administration	176	134
TOTAL BENEFITS PAYABLE	3,974	3,045
NET ADDITIONS FROM DEALING WITH MEMBERS	3,563	4,894
Returns on Investments		
Investment Income		
Interest from Fixed Interest Securities	213	246
Dividend from Equities	1,700	1,484
Income from Index Linked Securities	70	71
Income from Pooled Investment Vehicles	411	392
Interest on Cash Deposits	302	206
Recoverable Tax	9	34
Gain in Market Value of Investments:		
Realised	4,948	2,812
Unrealised	(3,045)	15,600
Irrecoverable Withholding Tax	(165)	(142)
Investment Management Expenses	(249)	(344)
NET RETURN ON INVESTMENTS	4,194	20,359
NET INCREASE IN FUND DURING YEAR	7,757	25,253
Opening Net Assets of Fund	96,122	70,869
CLOSING NET ASSETS OF FUND	103,879	96,122
Net Assets Statement (as at 31 March)		
Investment Assets		
Bonds - Corporate	4,662	5,418
Bonds - Overseas	1,968	1,426
Bonds - Gilts	7,168	6,972
Equities - UK	44,885	44,038
Equities - Overseas	38,929	33,591
Funds held by Investment Managers - Other (Cash)	6,651	1,531
TOTAL INVESTMENT ASSETS	104,263	92,976
Current Assets		
Loans Fund Deposit	0	3,331
Less Current Liabilities		
Sundry Creditors	332	185
Loans Fund Advance	52	0
NET CURRENT ASSETS	(384)	3,146
NET ASSETS	103,879	96,122
Financed by :		
ACCUMULATED FUND	103,879	96,122

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Director of Finance
28 September 2007

Orkney Islands Council
Statement of Accounts - 2006/2007

Pension Fund Account - Statement 14 (continued)

NOTES

Accounting Policies

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

Investments held by the Pension Fund are included at their closing prices on 31 March 2007 and adjusted, where applicable, for accrued interest to the valuation date. Overseas currencies are translated at the WM/Reuters London closing spot rates on the last business day of the reporting period, being 31 March 2007.

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

1. Actuarial Valuation Reports

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

- (a) Market value of assets at valuation £70,869,000.
- (b) Members Contributions

Officers	6.00%
Manual Workers before 01/04/98	5.00%
Manual Workers after 01/04/98	6.00%
- (c) Employers contributions as a percentage of employees contributions

1 April 2006	295%
1 April 2007	295%
1 April 2008	295%
- (d) Valuation assumptions

Investment Return:	
Equities	6.70%
Bonds	5.00%
Pay Increases	4.40%
Price Inflation/Pension Increases	2.90%
Rate used to discount scheme liabilities	6.30%
- (e) The Projected Unit method was used for the valuation of the fund
- (f) The level of funding in terms of the percentage of assets available to meet liabilities was 87%

2. Investment Assets

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

	2006/07		2005/06	
	£'000	%	£'000	%
Baillie Gifford and Company	104,263	100.37	92,976	96.73
Loans Fund Deposit	0	0	3,331	3.47
Loans Fund Advance	(52)	(0.05)	0	0
Sundry Debtors Less Creditors	(332)	(0.32)	(185)	(0.20)

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

Orkney Islands Council Statement of Accounts - 2006/2007 Pension Fund Account - Statement 14 (continued)

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

	2006/07	2005/06
	£'000	£'000
UK Listed	56,715	56,428
UK Unlisted	0	0
Foreign Listed	40,897	35,017
Foreign Unlisted	0	0
	97,612	91,445

In the year to 31 March 2007 the Fund's return on investments was 4.4%, lagging its benchmark of 7.2%. Equities generally made progress over the period, helped by the continued strength of corporate earnings growth, a generally supportive economic backdrop and accelerating merger and acquisition activity. However, Japanese equities and US equities were disappointing in sterling terms, due in part to currency weakness and more mixed economic news. Bonds, particularly overseas bonds, failed to make progress. Whilst the fund underperformed in relative terms over the year, the operational performance of the companies held is broadly encouraging.

3. Purchases and Sales

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

	2006/07	2005/06
	£'000	£'000
Purchases	33,030	27,103
Sales	28,758	17,265

4. Contributions Receivable and Benefits Payable

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

	2006/07	2005/06
Administering Authority :	£'000	£'000
Contributions Receivable	5,818	5,471
Benefits Payable	2,542	2,463
Admitted Bodies		
Contributions Receivable	902	854
Benefits Payable	162	138

5. Investment Sub Committee

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

6. Admitted Bodies

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

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

7. Additional Voluntary Contributions

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

Members contributions are invested in "with profits" funds. During the year, the value of AVC investments increased by £95K from £790K to £885K as at 31 March 2007.

Orkney Islands Council
Statement of Accounts - 2006/2007

Charitable Trusts and Common Good Fund - Statement 15

PURPOSE

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

	Expenditure £'000	Income £'000	2006/07 £'000	2005/06 £'000
Educational Trust	3	3	0	(1)
Educational Bequests	11	29	(18)	(10)
Social Bequests	612	87	525	12
Miscellaneous	0	4	(4)	5
Sheriff Thom's Bequest	1	1	0	0
Common Good Fund	49	44	5	(3)
Cathedral Promotion Fund	2	5	(3)	(5)
Cathedral Fabric Fund	0	8	(8)	(2)
SURPLUS ON YEAR	678	181	497	(4)

BALANCE SHEET AS AT 31 MARCH 2007

	2006/07 £'000	2005/06 £'000
Investments		
Listed Securities	16	17
Property	29	29
Capital Deposits	149	149
TOTAL LONG TERM ASSETS	194	195
Current Assets		
Loans Fund Deposit	1312	1808
Less Current Liabilities	2	2
NET CURRENT ASSETS	1310	1806
NET ASSETS	1504	2001
Financed by :		
Educational Trusts	65	65
Educational Bequests	365	347
Social Bequests	279	804
Miscellaneous Trusts	91	87
Common Good Funds	448	453
Cathedral Promotion Fund	18	15
Cathedral Fabric Fund	67	59
Sheriff Thom's Bequest	22	22
Unapplied Capital Receipts	149	149
ACCUMULATED FUNDS	1,504	2,001

A Tait, C.P.F.A., F.C.C.A.
Director of Finance
28 September 2007

Orkney Islands Council
Statement of Accounts - 2006/2007

Group Accounting Policies - Statement 16

PURPOSE

The Code of Practice on Local Authority Accounting in the United Kingdom 2004: A Statement of Recommended Practice (the 2004 SORP) placed a requirement on authorities to consider all their interests in external organisations including limited companies and other statutory organisations. This includes other local authorities or similar bodies defined in section 106 of the Local Government (Scotland) Act 1973 e.g. statutory bodies such as Police, Fire and Valuation Boards. Authorities are required to prepare a full set of group accounts in addition to their own Council's accounts where they have a material interest in such entities. The group Financial Statements to 31 March 2007 represents the consolidation of the balances and transactions of the Council its subsidiaries and associates.

Combining Entities

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

Name of combining entity	Method of Accounting	Date of Consolidation
Orkney Towage Company Ltd	Subsidiary	
Orkney Ferries Ltd	Subsidiary	
Weyland Farms Ltd	Subsidiary	
Orkney Islands Property Development Ltd	Subsidiary	
Pickaquooy Centre Trust	Subsidiary	
Orkney Meat Ltd	Associate	
Northern Joint Police Board	Associate	
Highlands and Islands Fire Board	Associate	
Orkney and Shetland Valuation Joint Board	Joint Venture	
HITRANS	Associate	31 March 2007

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

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

	2006/07	2005/06
	%	%
Orkney Meat Ltd	38.00	38.00
Northern Joint Police Board	5.68	5.76
Highlands and Islands Fire Board	7.55	5.91
Orkney and Shetland Valuation Joint Board	50.55	48.50
HITRANS	13.50	N/A

Further details for each entity are provided in the notes to the Group Accounts on pages 47 - 53.

Materiality

A number of other organisations were also considered for consolidation

Name of considered entity

Orkney Homes Trust
Eday Co-op
Papay Co-op
Pickaquoy Centre Limited
Common Good Fund

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

Basis of Combination & Going Concern

In line with the principles contained within the 2004 SORP, the Group Financial Statement for the year ended 31 March 2007 has been prepared on the basis of a full consolidation of the financial transactions and balances of the Council and its subsidiaries.

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

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

The effect of inclusion of the above bodies on the Group Balance Sheet is to reduce both Reserves and Net Assets by £23.706 million net liabilities in these entities. As above, this reflect the combined pension liability of these organisations, particularly those recorded for the Police and Firemen's Pension Schemes.

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

Disclosure of Differences with Main Statement of Accounting Policies

The financial statements in the Group Accounts of Orkney Islands Council are prepared in accordance with the accounting policies set out set out on pages 5 to 7 with the additions and exceptions shown in the following section.

GROUP INCOME AND EXPENDITURE ACCOUNT

Retirement Benefits

In common with Orkney Islands Council, the subsidiaries participate in the Council's Pension Scheme. This is explained on page 22 - 23. The subsidiaries have accounting policies for pensions accounting that are consistent with those of the Council.

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

Grants and Contributions

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

Value Added Tax

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

Proceeds from Disposals of Fixed Assets

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

GROUP BALANCE SHEET

Valuation of Fixed Assets

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

Depreciation

The periods and categories of assets for the Group are:

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

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

Stock

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

Goodwill

Goodwill is written off in full against profits on acquisition. The 2004 SORP requires group accounts for accounting periods ending on or after 31 March 2007, as such no goodwill was written off (£536K in 2006: £500K of goodwill on the purchase of Orkney Towage shares, and £36K of goodwill on the purchase of Orkney Meat shares has been written off the Group accounts in this period).

Investments

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

Orkney Islands Council
Statement of Accounts - 2006/2007

The Group Income And Expenditure Accounts - Statement 17

PURPOSE

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

Group Income and Expenditure Account for year ended 31 March 2007

Restated 2005/06		2006/07 Gross Expenditure £'000	2006/07 Gross Income £'000	2006/07 Net Expenditure £'000
	Net Expenditure			
25,390	Education	27,750	2,850	24,900
3,655	Cultural and Recreation	5,671	1,863	3,808
11,785	Community Social Services	17,628	3,753	13,875
1,483	Police Services	1,625	0	1,625
1,491	Fire Services	1,608	0	1,608
6,064	Roads and Transportation	13,763	1,230	12,533
1,180	Planning and Development	2,054	857	1,197
3,544	Environmental Services	4,608	1,162	3,446
1,109	Central Services	7,300	5,784	1,516
1,999	Corporate & Democratic Costs	2,045	0	2,045
218	Housing Services	4,649	4,323	326
(67)	Housing Revenue Account	1,691	1,786	(95)
6,404	Harbour Authority	10,148	9,234	914
(1,054)	Net (Surplus)/Deficit on Associate			(1,056)
0	Net (Surplus)/Deficit on Joint Ventures			0
2,976	Exceptional Items	0	1,250	(1,250)
323	Non Distributed Cost			0
66,500	NET COST OF SERVICES	100,540	34,092	65,392
(239)	(Profit)/Loss on Disposal of Fixed Assets			(39)
(2,712)	Grants and contributions received to finance capital expenditure			(459)
(7,816)	Net (Surplus)/Deficit on Harbour Investment Income			(8,989)
225	Net (Surplus)/Deficit on Orkney College			45
(175)	Interest on Balances			(430)
(3)	Share of Interest Receivable of Associate			(5)
(16)	Share of Interest Receivable of Joint Ventures			(29)
227	Pensions Interest Cost & Expected Return on Pensions Assets			(325)
1,073	Pensions Interest Cost & Expected Return on Pensions Assets of Associates			1,180
1,708	Net (Income)/Expenditure on Interest Payable			1,784
58,772				58,125
24	Transfer to/(from) Reserves			24
19	Tax on profit on Ordinary Activities			26
0	Share of tax of Associate			(6)
58,815	NET EXPENDITURE			58,169
(45,534)	Revenue Support Grant			(48,956)
(7,243)	Distribution on Non-Domestic Rate Pool			(7,233)
(6,966)	Council Tax			(7,231)
(928)	(SURPLUS)/DEFICIT FOR YEAR			(5,251)
	Statement of Movement on General Fund Balance			
(1,559)	Balance at 1 April 2006			(226)
	Net additional amount required by statute and non-statutory proper practices to be debited or credited to General Fund Balance for the year			(8,912)
2,261				(8,912)
(928)	(Surplus)/Deficit for year			(5,251)
(226)	BALANCE AT 31 MARCH 2007			(14,389)

Orkney Islands Council
Annual Accounts - 2006/2007

Reconciliation of the Single Entity to the Group - Statement 18

PURPOSE

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

Reconciliation of the Single Entity Surplus or Deficit for the Year to the Group Surplus or Deficit as at 31 March 2007

	2006/07	2005/06
	£'000	£'000
(Surplus) or deficit on the authority's single Income and Expenditure Account for the year	(5,310)	(1,660)
Less Adjustments for transactions with group entities	(10,629)	(9,213)
SURPLUS IN GROUP INCOME AND EXPENDITURE ACCOUNT		
ATTRIBUTABLE TO THE AUTHORITY	(15,939)	(10,873)

Add (Surplus)/Deficit arising in the Group Income and Expenditure Account attributable to the Group entities (Adjusted for intra-group transactions)

Subsidiaries

Orkney Towage Company Limited	2,832	3,137	
Orkney Ferries Limited	6,992	6,291	
Weyland Farms Limited	2	(10)	
Orkney Islands Property Development Limited	165	17	
The Pickaquoy Centre Trust	613	474	9,909
	<u>10,604</u>	<u>9,929</u>	

Associates

Orkney Meat	51	45	
Northern Joint Police Board	55	(3)	
Highlands and Islands Fire Board	(22)	(6)	36
	<u>84</u>	<u>46</u>	

GROUP ACCOUNT (SURPLUS) OR DEFICIT FOR THE YEAR	(5,251)	(928)
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**Orkney Islands Council
Statement of Accounts - 2006/2007**

Group Statement of Total Recognised Gains and Losses - Statement 19

PURPOSE

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

Group Statement of Total Recognised Gains and Losses as at 31 March 2007

	2006/07	2005/06
	£'000	£'000
(Surplus)/Deficit for the year on the Income and Expenditure Account	(5,251)	(928)
(Surplus)/Deficit arising on revaluation of fixed assets	(1,644)	3,286
Actuarial (gains)/losses on pension fund assets and liabilities	(7,138)	4,581
Any other (gains) and losses required to be included in the STRGL		
- Gain on Associates Reserves for year	(141)	3,357
- Prior year movements on Group Balances	(44)	44
- Gain on Repairs and Renewals Funds for year	(373)	(361)
- Gain on Capital Fund for year	(96)	(87)
TOTAL RECOGNISED (GAINS) AND LOSSES FOR THE YEAR	(14,687)	9,892

Notes to Group Statement of Total Recognised Gains and Losses as at 31 March 2007

1. (Surplus)/Deficit arising on revaluation of fixed assets	£'000
Orkney Islands Council	(603)
Orkney Islands Property Developments	(1,041)
	<u>(1,644)</u>
2. Actuarial (gains)/losses on pension fund assets and liabilities	£'000
Orkney Island Council	(6,517)
Orkney Towage Company Limited	(264)
Weyland Farms Limited	(8)
Orkney Ferries Ltd	(429)
Pickaquooy Centre Trust	80
	<u>(7,138)</u>

Orkney Islands Council
Statement of Accounts - 2006/2007

The Group Balance Sheet - Statement 20

PURPOSE

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

Group Balance Sheet as at 31 March 2007

	2006/07 £'000	2005/06 £'000
Fixed Assets		
Operational Assets		
Council Dwellings	15,837	16,613
Other Land and Buildings	95,836	90,557
Vehicles, Plant and Equipment	4,709	5,367
Infrastructure Assets	73,637	74,762
Community Assets	3,444	3,420
Non-Operational Assets	8,676	5,763
TOTAL FIXED ASSETS	202,139	196,482
Long Term Investments	153,807	155,715
Share of Net Assets of Associate	363	414
Share of Gross Assets of Joint Ventures	6,543	4,873
Share of Gross Liabilities of Joint Ventures	(634)	(409)
Long-term Debtors	3,338	3,545
TOTAL LONG-TERM ASSETS	365,556	360,620
Current Assets		
Stocks and Work in Progress	1,122	1,180
Debtors	5,117	6,682
Investments	9,376	7,222
Cash in Hand	916	1,265
TOTAL CURRENT ASSETS	16,531	16,349
Less Current Liabilities		
Creditors	7,759	9,372
Provisions	0	2,350
Bank Overdraft	395	0
Advances from Pension, Charity and Trust Funds	1,408	5,288
TOTAL CURRENT LIABILITIES	9,562	17,010
TOTAL ASSETS LESS CURRENT LIABILITIES	372,525	359,959
Net Pension Liability	22,858	31,696
Government Grants Deferred	53,985	49,519
Liability in Associates	29,257	27,024
Long Term Creditors	1,045	1,027
TOTAL ASSETS LESS LIABILITIES	265,380	250,693
Represented by:		
Capital Reserves		
Fixed Asset Restatement Account	95,040	95,722
Revaluation Reserve	1,280	239
Capital Financing Account	12,854	12,276
Usable Capital Receipts	3,113	2,524
Capital Fund	2,288	2,101
	114,575	112,862
Revenue Reserves		
General Fund Balances	14,670	372
Harbour Authority Fund	174,090	183,437
Pension Reserve	(23,874)	(31,696)
Repairs and Renewals Fund	7,949	7,889
Reserves of Associates	(22,030)	(22,171)
	150,805	137,831
TOTAL EQUITY	265,380	250,693

A Tait, C.P.F.A., F.C.C.A.
Director of Finance
28 September 2007

Orkney Islands Council
Statement of Accounts - 2006/2007
The Group Cash Flow - Statement 21

PURPOSE

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

Group Cash Flow Statement as at 31 March 2007

		2006/07		2005/06
	£'000	£'000	£'000	£'000
Net Cash Inflows from Revenue Activities		(1,198)		(1,663)
Returns on Investment and Servicing of Finance	Cash Outflows			
	Interest Paid	287	202	
	Cash Inflows			
	Interest Received	456	305	
	NET CASH INFLOW FROM INVESTMENTS AND SERVICING OF FINANCE	169		103
Capital Activities	Cash Outflows			
	Purchase of Fixed Assets	(13,627)	(13,866)	
	Purchase of Long Term Investments	(3,644)	(1,141)	
	Other Capital Cash Payments	(239)	(782)	(15,789)
	Cash Inflows			
	Sale of Fixed Assets	1,338	1,658	
	Capital Grants Received	15,057	4,197	
	Sale of Long Term Investments	651	6,530	
	Other Capital Receipts	6,770	2,760	15,145
	NET CAPITAL ACTIVITIES	6,306		(644)
	NET CASH INFLOW/(OUTFLOW) BEFORE FINANCING	5,277		(2,204)
Management of Liquid Resources	Net Increase/(Decrease) in Short Term Deposits	(2,141)		1,842
Financing	Cash Outflows			
	Repayment of Amounts Borrowed	3,880	(1,823)	
	Cash Inflows			
	New Loans Raised	0	(3,880)	1,823
	(INCREASE) / DECREASE IN CASH	(744)		1,461

PURPOSE

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

1. Details of Combining Entities

In addition to the information included in the consolidated Group Accounts on the preceding pages, the accounting regulations require specific disclosures about the combining entities and the nature of their business. The accounting period for the entities are the twelve months to 31 March 2007, apart from Orkney Meat Ltd which has an year end of 29 December 2006.

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

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

The latest set of audited accounts is for the year to 31 March 2007. Copies of these accounts can be obtained from Orkney Islands Council, School Place, Kirkwall, Orkney, KW15 1NY.

The net liability of the company at 31 March 2007 was £1.184M compared to £1.301M at 31 March 2006. The loss before taxation for the period to 31 March 2007 was £0.147M compared to £0.308M for the period to 31 March 2006. In 2006-07, Orkney Islands Council contributed £3.086M or 98% of the companies turnover. No dividend payments were due to, or received by, the Council in respect of its investment.

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

The latest set of audited accounts is for the year to 31 March 2007. Copies of these accounts can be obtained from Orkney Ferries Ltd, Shore Street, Kirkwall, Orkney, KW15 1LG.

The net liability of the company at 31 March 2007 was £1.042M compared to £1.354M at 31 March 2006. There was no profit or loss before taxation for the period to 31 March 2007 or the period to 31 March 2006. In 2006-07, Orkney Islands Council contributed £7.447M or 92% of the companies turnover.

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

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

Weyland Farms Limited is a company incorporated in 1983 under the terms of the Companies Acts to promote farming. The Council is the principle shareholder in the company holding all 510,000 £1 ordinary shares representing 100% of the issued share capital. Under accounting standards, the Council has a controlling interest in this company, and it is therefore included in the group accounts as a subsidiary. Councillors and Council Officials hold all 6 of the seats on the board, with each director entitled to one vote.

The latest set of audited accounts is for the year to 31 March 2007. Copies of these accounts can be obtained from Orkney Islands Council, School Place, Kirkwall, Orkney, KW15 1NY.

The net assets of the company at 31 March 2007 were £0.029M compared to £0.048M at 31 March 2006. The loss before taxation for the period to 31 March 2007 was £0.026M compared to £0.017M for the period to 31 March 2006. In 2006-07, Orkney Islands Council contributed £0.00M or nil% of the companies turnover. No dividend payments were due to, or received by, the Council in respect of its investment.

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

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

The latest set of unaudited accounts is for the year to 31 March 2007. When available, copies of these accounts can be obtained from the General Manager, 15 Victoria Street, Kirkwall, KW15 1DN.

The net assets of the company at 31 March 2007 were £1.488M compared to £0.341M at 31 March 2006. The loss before taxation for the period 31 March 2007 was £0.067M compared to £0.026M for the period to 31 March 2006. In 2006-07, Orkney Islands Council contributed £0.208M or 48% of the companies turnover. No dividend payments were due to, or received by, the Council in respect of its investment.

The Pickaquooy Centre Trust is a company limited by 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.

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

The latest set of unaudited accounts is for the year to 31 March 2007. When available, copies of these accounts can be obtained from The Pickaquooy Centre, Muddisdale Loan, Kirkwall KW15 1LR.

The net assets of the company at 31 March 2007 were £0.045M compared to a liability of £0.010M at 31 March 2006. The profit before taxation for the period to 31 March 2007 was £0.129M compared to a loss of £0.145M for the period to 31 March 2006. In 2006-07, Orkney Islands Council contributed £0.769M or 63% of the companies turnover. No dividend payments were due to, or received by, the Council in respect of its investment.

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

Any surplus generated by the company is distributed by means of dividend or retained and applied solely to its contribution and development. The accounts of the Orkney Meat Limited are published separately and are made available to all members. The latest set of audited accounts is for the year to 29 December 2006. Copies may be obtained from the General Manager, Orkney Meat Limited, Grainshore Road, Hatston Industrial Estate, Kirkwall, KW15 1FL.

Orkney Islands Council
Statement of Accounts - 2006/2007

Notes to Core Group Financial Statements - Statement 22 (continued)

In 2006-07, Orkney Islands Council contributed £0.00m or nil% of the company's turnover and its share of the year-end net asset of £0.953M (2005-06 £1.089M) is included in the Group Balance Sheet. The following additional disclosures are required under accounting regulations for Orkney Meat Limited because the Council's share of the net liabilities of the Company exceeds 25%.

	2006/07	2005/06
Council's Share of Orkney Meat Limited	38.00%	38.00%
	£M	£M
Turnover	2.020	2.238
Profit/(Loss) before tax	(0.062)	(0.012)
Interest Payable/Receivable	0.005	0.003
Taxation	(0.006)	(0.001)
Profit/(Loss) after tax	(0.051)	(0.008)
Fixed Assets	0.106	0.137
Current Assets	0.465	0.441
Liabilities due within one year	(0.164)	(0.108)
Liabilities due after one year or more	(0.045)	(0.056)
Net Liabilities	0.362	0.414
Contingent Liabilities	None	None
Capital Commitments	None	None

Orkney and Shetland Valuation Joint Board was formed in 1996 at local government re-organisation by Act of Parliament. Its principal place of business is Shetland Islands Council. The Board provides the valuation function for Orkney and Shetland Islands. The Board's running costs are met by the two member Councils. Surpluses or deficits on the Board's operations are shared between the Councils. In 2006-07, Orkney Islands Council contributed £0.290M or 50.55% of the Board's estimated running costs and its share of the year-end net liability of £0.224M (2005-06 £0.479M) is included in the Group Balance Sheet. Copies of its accounts may be obtained from the Shetland Islands Council.

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

	2006/07	2005/06
Council's Share of Orkney and Shetland	50.55%	51.60%
Valuation Joint Board	£M	£M
Turnover	0.292	0.288
Profit/(Loss) before tax	0	0
Interest Payable/Receivable	0	0
Taxation	0	0
Profit/(Loss) after tax	0	0
Fixed Assets	0	0
Current Assets	0.007	0.005
Liabilities due within one year	(0.007)	(0.005)
Liabilities due after one year or more	(0.113)	(0.247)
Net Liabilities	(0.113)	(0.247)
Contingent Liabilities	None	None
Capital Commitments	None	None

Northern Joint Police Board is the statutory body established under the Local Government Reorganisation in 1975, and provides a vast range of policing services on behalf of the 4 local authorities in the Highlands and Islands of Scotland. In 2006-07, Orkney Islands Council contributed £1.592M or 5.68% of the Board's estimated running costs and its share of the year-end net liability of £316.153M (2005-06 £325.794M) is included in the Group Balance Sheet. Copies of its accounts may be obtained from the Highland Council.

The following additional disclosures are required under accounting regulations:

	2006/07	2005/06
Council's Share of Northern Joint Police Board	5.68%	5.76%
	£M	£M
Turnover	0.310	0.334
Fixed Assets	2.850	2.154
Current Assets	0.498	0.461
Liabilities due within one year	(0.253)	(0.227)
Liabilities due after one year or more	(21.075)	(21.145)
Net Liabilities	(17.972)	(18.757)
Contingent Liabilities	None	None
Capital Commitments	0.250	0.220

Highlands and Islands Fire Board is the statutory body established under the Local Government Reorganisation in 1975, and provides fire services on behalf of the 4 local authorities in the Highlands and Islands of Scotland. In 2006-07, Orkney Islands Council contributed £1.608M or 7.55% of the Board's estimated running costs and its share of the year-end net liability of £56.223M (2005-06 £56.2294M) is included in the Group Balance Sheet. Copies of its accounts may be obtained from the Highland Council.

The following additional disclosures are required under accounting regulations:

	2006/07	2005/06
Council's Share of Highlands and Islands	7.55%	5.91%
Fire Board	£M	£M
Turnover	0.083	0.033
Fixed Assets	2.806	2.097
Current Assets	0.294	0.156
Liabilities due within one year	(0.294)	(0.177)
Liabilities due after one year or more	(7.050)	(5.400)
Net Liabilities	(4.244)	(3.324)
Contingent Liabilities	None	None
Capital Commitments	1.774	0.133

HITRANS (the Highlands and Islands Transport Partnership) was established under the Regional Transport Partnership (Establishment and Constitution) (Scotland) Order 2005, effective 5 December 2005. Its remit was to prepare Transport Strategies for their regions which will enhance economic well being ; promote safety ; social inclusion and equal opportunity ; plan for sustainable transport system ; and integrate across boundaries with other partnership. In 2006-07, Orkney Islands Council contributed £0.027M or 13.5% of the partnership's estimated running costs and its share of the year-end net liability of £0.019M is included in the Group Balance Sheet. Copies of its accounts may be obtained from the Highland Council.

The following additional disclosures are required under accounting regulations:

	2006/07
Council's Share of HITRANS	13.50%
	£M
Turnover	0.000
Fixed Assets	0.000
Current Assets	0.088
Liabilities due within one year	(0.088)
Liabilities due after one year or more	(0.003)
Net Liabilities	(0.003)
Contingent Liabilities	None
Capital Commitments	None

2. Financial Impact of Consolidation

The effect of inclusion of the above bodies on the Group Balance Sheet is to reduce both Reserves and Net Assets by £23.706M representing the Council's share of the net liabilities in these entities. As above, this reflects the combined pension liability of these organisations, particularly those recorded for the Police and Firemen's Pension Schemes.

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

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

The Council paid a market price for its consideration in Orkney Towage Company Ltd and Orkney Meat Ltd. There is no deferred or contingent purchase consideration. All goodwill arising from these purchases has been written off in 2005-06. A "fair value" for its share of the net assets or liability of the three Joint Boards at the point of acquisition and the post-acquisition results are unable to be accurately determined in view of length of time since the transfer responsibilities at local government re-organisation in 1975 and 1996, and the change in accounting for pensions under FRS17 in 2003-04. No consideration was given for the interest in the remaining subsidiaries or associates, therefore no goodwill arose.

4. Exceptional Items

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

	2006/07	2005/06
	£'000	£'000
Staff Costs	0	90
Equal Pay	(1,250)	2,350
Goodwill	0	536
	(1,250)	2,976

5. Taxation

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

6. Other Pension Schemes

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

Merchant Navy Officers Pension Plan (MNOFF)

Some employees contribute to this defined contribution pension plan. The contribution rate is 5.1%. Contributions payable in the year amounted to £4,040.

Merchant Navy Officers Pension Fund (MNOFF)

The MNOFF is closed to new members however some existing employees may qualify to contribute to the MNOFF, a defined benefit scheme, with a contribution rate of 11.9%. The group made contributions to this fund of £599,377 in the year. It is a multiple employer scheme and the company is unable to identify its share of the underlying assets and liabilities. As at the last valuation in March 2006, the pre-78 (Old) section of the MNOFF had a surplus of assets over liabilities of £223M, while the post-78 (New) section had a deficit of £309M.

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

	£'000
Orkney Towing Company Ltd	60,329
Orkney Islands Council	42,496
	102,825

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

Merchant Navy Rating Pension Plan (MNRPP)

Some employees may qualify to contribute to the MNRPP, a defined benefit scheme, with a contribution rate of 11.9%. The group made contributions to this fund of £2,552 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 2006, the pre-78 (Old) section of the MNRPP has a surplus of assets over liabilities, while the post-78 (New) section has a deficit. The Trustees of the New section have requested deficit contributions from each employer and the group has made additional contributions totalling £79,189 during the current year. The additional contributions are subject to change, dependent on the results of the future actuarial valuations of the fund.

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

	2006/07	2005/06
	Total	Total
	£'000	£'000
Operating Surplus/(Deficit) for Year	5,251	(1,333)
Non Cash Transactions		
Contributions to Reserves	(8,869)	1,678
Adjustments not Involving the Movement of Funds	(8,591)	(7,236)
Contributions to Capital	4,066	4,193
Increase/(Decrease) in Bad Debt Provision	295	73
	(13,099)	(1,292)
Items on an Accruals Basis		
(Increase)/Decrease in Stock and Work in Progress	1,122	(91)
(Increase)/Decrease in Debtors	1,565	(1,982)
(Increase)/Decrease in Creditors	3,963	3,035
	6,650	962
Cash Inflow from Revenue Activities	(1,198)	(1,663)

8. Movement in Cash	2006/07			2005/06
	31/03/07 £'000	31/03/06 £'000	Movement £'000	Movement £'000
Bank Overdraft	(395)	0	(395)	203
Cash	916	1,265	(349)	1,258
Increase/(Decrease) in Cash	521	1,265	(744)	1,461

9. Reconciliation of Liquid Reserves	2006/07			2005/06
	31/03/07 £'000	31/03/06 £'000	Movement £'000	Movement £'000
Temporary Lending	9,363	7,222	2,141	(1,842)

10. Reconciliation of Financing	2006/07			2005/06
	31/03/07 £'000	31/03/06 £'000	Movement £'000	Movement £'000
Revenue Advances from Common Good, Charities and Trusts	(1,408)	(5,288)	3,880	(1,823)

1. This statement is given in respect of the group activities as set out in the Orkney Islands Council Group Accounts. We acknowledge our responsibility for ensuring that an effective system on internal financial control is maintained and operated in connection with the resources concerned.
2. The system of internal financial control can provide only reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded and that material errors or irregularities are either prevented or would be detected within a timely period.
3. The system of internal financial control is based on a framework of financial regulations, regular management information, administrative procedures (including segregation of duties), management supervision and a system of delegation and accountability. Development and maintenance of the system is undertaken by managers within the Group entity. In particular, the system includes :-

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

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

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

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

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

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

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

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

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

And, from the above, I am satisfied that the Group entity has in place a sound systems of internal financial controls but improvement actions have been identified incorporating the outcome of an investigation currently ongoing. I am also satisfied that mechanisms are in place which would identify, and address, any material areas of weaknesses on a timeous basis.

- 6 The 2006/07 financial year saw the effects of the first full year of the new budget monitoring arrangements. The associated budget holder training programme is an integral part of the success of the process and will continue.

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

As part of an audit of personnel policies and procedures within the Department of Community Social Services it is notable that we were unable to review copies of several letters of appointment or employment contracts. Although it is acknowledged that at the time of the audit, responsibility for personnel were being transferred to the Personnel Section, these records could not be located and therefore it was not possible to establish if these letters of appointment or employment contracts had been issued. The introduction of Single Status should address this issue, whereby all employees will be issued with new contracts of employment.

Although the Council does not borrow externally, and has no immediate plans to do so, the reporting requirements as set out in the Council's treasury management practices are not currently being followed and are therefore not compliant with the CIPFA Treasury Management Code. To address this issue, an annual report was submitted to the Policy and Resources Committee on 24 September 2007 outlining the past performance of the treasury function for the financial year 2006/07, together with a proposed strategy and plan for the financial year 2007/08 which was subsequently approved.

While work has progressed in terms of specifying the level of services that are expected to be delivered by external bodies for an agreed level of funding, progress has been slower in terms of demonstrating that monitoring arrangements are operating to confirm that the Council's objectives are being delivered by relevant arms length external organisations. As a result, the Council is now substantially compliant with "The Code of Guidance on Funding External Bodies and following the Public Pound", although further improvements to monitoring arrangements are required.

With regard to the Council's agreed a risk management policy, limited progress has been made in implementing risk management across the Council since this policy statement was agreed in 2004. An action plan has now been agreed to address this issue, and the Council has engaged our insurer's to commence the work of progressing the implementation of a risk management framework across the Council. It is anticipated that this work will be progressed during the summer of 2007.

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

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

A Tait, C.P.F.A., F.C.C.A.
Director of Finance
28 September 2007

To the members of Orkney Islands Council and the Accounts Commission for Scotland

We certify that we have audited the financial statements of Orkney Islands Council and its group for the year ended 31 March 2007 under Part VII of the Local Government (Scotland) Act 1973. These comprise the Income and Expenditure Account, Statement of Movement on the General Fund Balance, Statement of Total Recognised Gains and Losses, Balance Sheet and Cash-Flow Statement, the Housing Revenue Account Income and Expenditure Account, statement of movement on the HRA Balance, the Council Tax Income Account, the Non-Domestic Rate Income Accounts, the Fund Account and Net Asset Statement, Charity, Trust and Common Good Funds and the Group Accounts and the related notes. These financial statements have been prepared under the accounting policies set out within them.

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

Respective responsibilities of the Director of Finance and auditor

The Director of Finance's responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Code of Practice on Local Authority Accounting in the United Kingdom 2006 - A Statement of Recommended Practice (the 2006 SORP) are set out in the Statement of Responsibilities.

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

We report our opinion as to whether the financial statements present fairly the financial position of the local authority and its group in accordance with applicable laws and regulations and the 2006 SORP, and have been properly prepared in accordance with the Local Government (Scotland) Act 1973. We also report if, in our opinion, the Foreword is not consistent with the financial statements, if the local authority has not kept proper accounting records, or if we have not received all the information and explanations we require for my audit.

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

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

Basis of audit opinion

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

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

Opinion

In our opinion

the financial statements present fairly, in accordance with applicable laws and regulations and the 2006 SORP, the financial position of the local authority and its group as at 31 March 2007 and its income and expenditure for the year then ended; and

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

Scott-Moncrieff
Chartered Accountants
17 Melville Street
Edinburgh
EH3 7PH