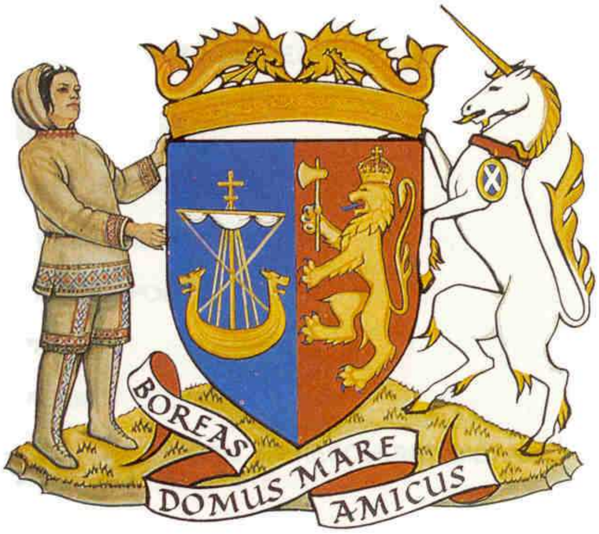
ORKNEY ISLANDS COUNCIL



STATEMENT OF ACCOUNTS

2010 / 2011

Annual Accounts 2010-2011

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Introduction

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

This foreword provides an explanation of the Statement of Accounts and of the most significant matters reported in the Accounts, together with a summary of the financial outturn for the year ended 31 March 2011.

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

The 2010-11 Code for the first time is fully based on International Financial Reporting Standards and this has significantly altered both the presentation and content of the annual accounts. The changes introduced this year are explained in more detail on page 77.

Statement of Responsibilities for the Annual Accounts
This statement sets out the respective responsibilities of the Council and the Director of Finance and Housing Services for the financial statements.

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

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

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

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

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

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

The Notes to the Core Financial Statements
Provide further information on the Council's core financial statements.

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

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

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

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

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

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

The Non-domestic Rates Income Account
Shows the gross and net income from non-domestic rates and details the amount payable to the national non-domestic pool, and the resulting net income for the financial year to the Council that is shown in the Income and Expenditure 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 include managing the safe movement of oil tankers through the Scapa Flow Oil Port, the operation of miscellaneous piers and harbours as well as its responsibilities for Oil Pollution.

The Orkney College of Further Education Account
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).

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

First-time adoption of IFRS
In accordance with the Code which requires that for the first time, Local Authority accounts in 2010/11 should be prepared in accordance with International Financial Reporting Standards (except in instances where the Code allows departures).

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 11 February 2010 agreed a General Fund budget of £85.648M and under the Local Government Finance Act 1992 set Council Tax for Band D properties at £1,037. This was the second lowest Council Tax figure in Scotland being some £112 below the Scottish average.

During the year, it was necessary to revise the original budget upwards to £86.044M, to take account of additional resources being provided by the Scottish Government.

On a comparable basis, the actual net cost of General Fund services amounted to some £85.480M, while sources of finance were realised at £85.969M, including a contribution of £4.450M from reserves. Overall, this represents a surplus of £0.489M for General Fund Services and an increase on earmarked balances of £2.371M for the financial year ended 31 March 2011.

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 97.6% in year (97.7% for 2009/10). 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.

Comprehensive Income and Expenditure Statement
The Comprehensive Income and Expenditure Account on page 21 summarises the total costs of providing Council services and the income available to fund those services. The General Fund is funded by government grant and council tax revenues and the Movement in Reserves Statement on page 20 shows a surplus of £0.586 million.

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

The net cost of services provided by the Council for last year amounted to £73.193M, which after taking into account corporate activities resulted in a surplus on the provision of services of £28.470M being realised for the Council as a whole.

Principal sources of finance were realised at £94.720M for the year, being Revenue Support Grant of £65.518M, Non Domestic Rate Income of £7.905M, Council Tax Income of £7.881M and Capital Grants and Contributions of £13.416M.

After taking into account other comprehensive income of £23.623M, overall the activities of the Council returned a net surplus of £52.093M for the year.

The main source of this surplus can be attributed to actuarial gains of £23.494M and £15.768M past service gains on the Pension Fund for the year, with corporate financing and investment income of £7.873M being generated principally through the Harbour Authority's Strategic Reserve Fund.

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

Movement in Reserves
During the year, Usable Reserves increased from £217.671M to £225.871M, being an increase of £8.200M.

Within this General Fund reserves amount to £22.569M, including earmarked balances.

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

After taking into account funds earmarked for specific projects and other purposes, a balance of £8.544M remains available for general fund purposes. It is considered prudent for the Council to maintain a general fund balance at this level as a contingency for unforeseen events.

Usable reserves include the Harbour Authority fund balance which increased from £184.049M to £189.013M, being an increase of £4.964M for the year.

Net Worth of the Orkney Islands Council

In financial terms, the Council remains in good health, with its net worth increasing from £324.2M to £376.3M for the financial year to 31 March 2011, being an increase of £52.1M or 16.1%. This movement was largely the result of an increase in the long term financial assumptions underlying the Pension Fund, such that Pension Liabilities decreased significantly, while Strategic Reserves and Pension Fund assets also increased in value.

As at 31 March 2011, the Islands Council carried a debt of £40.0M, as part of its capital financing requirement.

Harbour Authority Account

The Harbour Authority generated a surplus of £3.612M from its various harbour operations for the year. After allowing for amounts required by statute and non statutory proper accounting practice, the underlying trading position was a loss of £0.570M.

In addition to this, the Harbour Authority Account generated a surplus on investment activities of £7.873M for the year, after netting off grants and other investment expenditure.

After taking into account the use of reserves during the year, which included contributions of £4.550M to support general fund services, the net effect has been an increase of £4.964M on the Harbour Authority Account Reserves for the year.

Orkney College

The range of higher and further educational activities provided by the College has resulted in a surplus of £1.432M being realised for last financial year (deficit of £1.290M for 2009/10). After allowing for amounts required by statute and non statutory proper accounting practice, including a gain of £1.733M on the pension fund, the College was able to clear in full the accumulated deficit position, which previously stood at £0.486M.

The above figures include financial contributions from the Education Service of £0.725M to offset accumulated deficits and £0.025M from the Strategic Reserve Fund.

Housing Revenue Account (HRA)

The HRA approved budget for the financial year 2010/11 included expenditure of £2.137M to be met from income generated on the year of £2.137M.

The HRA returned a surplus of £0.523M being realised for last financial year (deficit £8.984M for 2009/10). After allowing for amounts required by statute and non statutory proper accounting practice, including a gain of £0.333M on the Pension Fund, the accumulated position on the HRA has increased by £0.073M from £0.487M to £0.560M as at 31 March 2011.

Capital

The Council is able to regulate its own capital spending limits within a prudential framework recommended by the Chartered Institute of Public Finance and Accountancy and endorsed by the Scottish Government. Our performance confirms that actual capital spending of £20.660M was managed within the overall “Prudential Framework” expenditure limits approved by Council. The Prudential Framework indicators, which are outlined below, are important financial measures which support prudent decision making and assists in securing affordable and financially sustainable investment and borrowing activities undertaken by the Council.

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

In addition to these programmes the Council also invested £2.157M in roads and transport, £1.760M in community social services properties, £0.305M in vehicles, £0.357M in the upgrade of Council office buildings, and £0.392M in ICT equipment and infrastructure.

Funding of capital expenditure included £2.403M from revenue, £8.550M from government grants and £6.332M from the sale of assets in prior years and other receipts.

The council's approved capital programme includes a commitment to invest over £58M in a new build programme for school facilities by 2014.

Performance against Prudential Framework Indicators

The Prudential Code for Capital Finance in Local Authorities allows greater local flexibility for investment decisions that are informed and supported by a suite of performance indicators. The indicators for 2010-2011 were approved by Council on 4 May 2010. The Council's overall performance against these indicators provides a firm basis for the monitoring and control of capital investment and borrowing and for determining that it is prudent, affordable and financially sustainable. Certain headline indicators are sub-divided per recommended best practice into two programmes – housing and non-housing.

The key performance indicators are:

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

1. Approved Limit

Capital expenditure was contained within the "approved limit" reflecting a lower level of anticipated capital spend across the approved capital programme for 2010-11. This was mainly attributable to ambitious timescales being approved for projects such as the Schools Investment Programme, with the result that it was necessary to reprofile £67.336M of works into later years.

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

	Approved Limit £m	Actual £m
Housing	5.686	6.298
Non-Housing	72.484	14.362
Total	**78.170**	**20.660**

2. Capital Financing Requirement

The actual capital financing requirement for 2010-11 is well within the approved limit as a result of the under-spending outlined above. The out-turn capital financing requirement at the year-end compared to the approved limit is as follows:

	Approved Limit £m	Actual £m
Housing	21.0	2.9
Non-Housing	92.0	33.0
Total	**113.0**	**35.9**

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

	Borrowing Limits £m	Actual £m
Aggregate external debt of the Council at 31 March 2011		30.0
Operational Boundary	123.0	
Authorised Limit	133.0	

Long-term Borrowing
The Council undertook additional borrowing of £30.0M during the year based on the Council's planned capital commitments.

The borrowing strategy is prepared in accordance with the Code of Practice on Treasury Management in Local Authorities. The majority of the Council's borrowing comes from the Public Works Loan Board with the remainder from market and other loans. Further details are provided at Note 15.

Provisions, Contingencies and Write-offs
The Council has provided for eventualities which may have a material effect on the financial position of the Council. The reasons for the provisions made are outlined in Note 22.

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

As outlined at Note 8, the Council has also earmarked £14.025M for specific purposes.

The Council revalued non-current assets by £0.129M and impaired non-current assets by £2.672M. Note 43 provides further information on impairment losses.

Net Pension Position
The disclosure requirements for pension benefits under IAS19 are detailed in Notes 46 and 47. The appointed actuaries have confirmed an improvement of £39.034M in their assessment of the funding level for the pension fund. This improvement is principally due to the fact that the financial assumptions as at 31 March 2011 are more favourable than they were at 31 March 2010, with pension increases being linked to (historically lower) CPI rather than RPI from June 2010 as announced by the Chancellor. The combined effect of these factors is to reduce the assessed pension liability from £54.703M to £15.669M. This position has also been helped by better investment returns during 2010-2011 increasing asset values. The combined impact of the investment returns, financial assumptions and the switch to CPI is to make significant reductions to the assessed deficit level.

The assessment provides only a snapshot as at 31 March 2011 and necessarily changes on a day-to-day basis to reflect stock market movements in particular. The appointed actuaries remain of the view that the asset holdings of the Orkney Islands Council Pension Scheme and the contributions from employees and employers based on existing employers' contributions rates should provide sufficient security and income to meet future pension liabilities.

Changes in Accounting Policy
In the 2007 Budget the Chancellor announced that there would be a requirement for local authorities to adopt International Financial Reporting Standards (IFRS) from 2010-2011. This is a significant departure from UK Generally Accepted Accounting Practice (UK GAAP) on which previous versions of the Code are based. The adoption of IFRS has required a complete revision of the accounting policies operated by the Council.

Under IFRS1 *First Time Adoption of International Financial Reporting Standards* accounting policy changes arising from the adoption of IFRS are applied retrospectively unless the Code requires an alternative treatment. This means that many figures in the financial statements require to be restated to ensure compliance with the Code. The balance sheet and supporting notes to the balance sheet detail restated balances for each period since transition to IFRS.

While many accounting policies are similar to those which existed under UK GAAP, there are a small number of areas where there is a material change, and these are outlined below:

Financial Statements	There are new financial statements and amended layouts under IFRS and these are explained at the start of this Foreword.
Leases	The Code requires property leases to be separated into their constituent land and buildings elements; and to class and account for those elements separately. This means that some leases previously classified as an operating lease may now be classed as a finance lease; and vice versa. Note 41 provides further detail.
Employee Benefits	Under IAS19 and the Code local authorities are now obliged to account for accumulated short term compensated absences such as annual leave and flexi-time accrued by employees. The Council has now calculated an accrual for these costs and included this accrual in the Comprehensive Income and Expenditure Statement.
Investment properties	The definition of investment properties under the Code has changed and therefore there has been some reclassification of properties whereby industrial units owned by the council have been reclassified as property, plant and equipment as opposed to investment properties. This more accurately reflects their main service purpose as generators of community economic development rather than investment income.
Government grants	Under the Code, grants and contributions for capital schemes are recognised as income when they become receivable. Previously, grants were held in a grants deferred account and recognised as income over the life of the assets they were used to fund. Further detail on the effect of this change is shown in Note 38.

Service changes and Future Developments
There have been no changes to the statutory functions undertaken by the Council.

Events after the Balance Sheet Date
The annual accounts were signed by the Director of Finance and Housing Services on 30 September 2011. Events taking place after this date have not been reflected in the financial statements. Material events between the balance sheet date and the date of signing have been considered and where necessary reflected in the financial statements.

Charitable Funds including Non Charitable and Common Good Funds
The 2010/11 Code prescribes that where a Common Good Fund (or other trust fund) is a registered charity, it should follow the financial reporting requirements of the Office of the Scottish Charity Regulator (OSCR). Where a fund is not a registered charity, then the requirements of the 2010-11 Code apply.

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

Overall, the Funds achieved a combined surplus of £0.010M for the year.

The total net value of the funds increased from £1.521M to £1.531M

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

Impact of Economic Climate

Management of Treasury Risk

2010-2011 saw a continuation of the recession which started with the banking crisis in 2008-2009, and increased pressure on public finances. The immediate risks of banking failures appear to have passed, but the Council continues to mitigate the risks associated with security of cash deposits through its portfolio of temporary loans where opportunities arise, reviewing and strengthening in consultation with our treasury advisors the criteria for placing deposits with financial institutions on the Council's approved counterparty list, while making increased use of immediately accessible deposit facilities.

Key Financial Risks

The local government grant settlement announced in December 2010 was for the 2011-12 financial year only, and it is not anticipated that detailed figures for 2012-13 to 2014-15 will be available until towards the end of 2011.

It is however expected that the level of funding available for the Council will continue to fall in real terms for the foreseeable future. As a result over the medium term the Council will continue to plan for a reducing level of resources being available to support its activities. Additionally, it is also anticipated that significant cost pressures will persist beyond 2011-12 resulting from local demographics, the service requirements of the local population and the potential impact of Welfare Benefit reforms. The combination of these anticipated cost pressures, coupled with reduced government grant income presents significant challenges and financial risks for the Council over the medium term.

The Council has been proactive in its preparation for the anticipated reductions in grant funding and demand pressures under its Tough Times Tough Choices agenda, with the result that a programme of measures are in the process of being implemented by the Council throughout 2010/11 which are aimed at securing savings in excess of £4 million moving into 2011/12. However, the Council recognises that this financial challenge is one which will persist over the medium term and is continuing to develop the Council's medium term financial plan which has identified a requirement to secure savings of a similar level for years 2011-12 – 2013-14. The Council is therefore continuing to progress a range of work streams in order to facilitate this process for future years. It is anticipated that the Councils spend to save initiative will promote the delivery of further efficiency savings, but it is recognised that the significance of the financial challenge will require further change in service provision in order that the Council maintains its financial stability moving forward and protects its ability to deliver the most important services in the future.

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

Conclusion

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

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

Gareth Waterson

Gareth Waterson, BAcc., CA
Director of Finance and Housing Services
30 September 2011

The Authority's Responsibilities
The Authority is required

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

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

In preparing this Statement of Accounts, the Director of Finance and Housing Services has

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

This statement of accounts gives a true and fair view of the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2011.

Gareth Waterson

Gareth Waterson, BAcc., CA
Director of Finance and Housing Services
30 September 2011

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

We certify that we have audited the financial statements of Orkney Islands Council and its group for the year ended 31 March 2011 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the group and authority-only Comprehensive Income and Expenditure Statements, Movement in Reserves Statements, Balance Sheets, and Cash-Flow Statements, the authority-only Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Council Tax Income Accounts, the Non-domestic Rate Account, the Harbour Authority Account and the Orkney College Account and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (the 2010/11 Code).

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

Respective responsibilities of the Director of Finance & Housing and auditor
As explained more fully in the Statement of Responsibilities as set out on page 11, the Director of Finance & Housing is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the body's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance & Housing; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Foreword by the Director of Finance & Housing Services to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements
In our opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2010/11 Code of the state of the affairs of the group and of the local government body as at 31 March 2011 and of the income and expenditure of the group and the local government body for the year then ended;
- have been properly prepared in accordance with IFRS as adopted by the European Union, as interpreted and adapted by the 2010/11 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003.

Opinion on other prescribed matters
In our opinion:

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

Matters on which we are required to report by exception

We are required to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- the Statement on the System of Internal Financial Control does not comply with the 2010/11 Code;

We have nothing to report in respect of these matters.

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

30 September 2011

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

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

1. Remuneration policy for the Convenor of the Council, the Civic Head and senior councillors

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

When determining the level of remuneration for councillors the Scottish Ministers consider the recommendations of the Scottish Local Authority Remuneration Committee (SLARC). SLARC is an advisory Non-Departmental Public Body set up in 2005 to advise Scottish Ministers on the remuneration, allowances and expenses incurred by local authority councillors.

The salary that is to be paid to the Convenor of the Council is set out in the Regulations. For 2010-11 the salary for the Leader of Orkney Islands Council is £27,058. The Regulations permit the council to remunerate one Civic Head. The regulations set out the maximum salary that may be paid to that Civic Head. Council policy is to pay at the national maximum.

The Regulations also set out the remuneration that may be paid to senior councillors and the total number of senior councillors the Council may have. The maximum yearly amount that may be paid to a Senior Councillor is 75 per cent of the total yearly amount payable to the Convenor of the Council. The total yearly amount payable by the council for remuneration of all of its Senior Councillors shall not exceed £164,376. The Council is able to exercise local flexibility in the determination of the precise number of Senior Councillors and their salary within these maximum limits. The Council policy is to pay six Committee Chairs @ £18,911, two Committee Chairs @ £17,338 and one Councillor @ £16,234.

In 2010-11 Orkney Islands Council had 8 senior councillors and the remuneration paid to these councillors totalled £148,142. The Regulations also permit the Council to pay contributions or other payments as required to the Local Government Pension Scheme in respect of those councillors who elect to become councillor members of the pension scheme.

The Members Remuneration Package which encompasses the salaries of all elected members including the Leader, Civic Head and Senior Councillors was agreed at a meeting of the full Council and took effect from 3rd May 2007.

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

The Council is reimbursed by the Joint Board for any additional remuneration paid to the member from being a Convenor or Vice-Convenor of a Joint Board.

2. Remuneration Policy for Senior Employees

The salary of senior employees is set by reference to national arrangements. The Scottish Joint Negotiating Committee (SJNC) for Local Authority Services sets the salaries for the Chief Executives of Scottish local authorities. Circular CO/144 sets the amount of salary for the Chief Executive of Orkney Islands Council for the period 2008 to 2011. In line with Chief Executives from other local authorities the Chief Executive of Orkney Islands Council did not take the salary increase at 1st April 2010. Salaries of the Corporate Directors and Heads of Service are also based on Circular CO/144.

Other benefits received by senior employees include car mileage allowance which consisted of a monthly lump sum up until May 2009 and a mileage allowance.

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

3. Remuneration of Senior Employees
The regulations define a senior employee as any employee who meets one or more of the following criteria:

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

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

The term "remuneration" means gross salary, fees and bonuses, allowances and expenses and compensation for loss of office. The table below outlines the remuneration details for senior employees, including prior year figures. The table shows the relevant amounts, before tax and other deductions, due to, or receivable by, each of the persons named for the year to 31 March 2011, whether or not those amounts were actually paid to, or received by, those persons within that period.

2009-2010	Senior employees					2010-2011
Total	Name	Post held	Salary, Fees and Allowances	Expenses Allowance Chargeable to UK Income Tax	Benefits Other Than Cash	Total
£			£	£	£	£
121,138	Alistair Buchan (note 1) (note 6)	Chief Executive	101,398	124	20,685	**122,207**
99,442	Elaine Grieve (note 6)	Assistant Chief Executive	86,031	7	17,142	**103,180**
97,448	Brian Thomson	Director of Development & Environment Services	84,031	1	17,142	**101,174**
97,968	Nigel Mills	Director of Marine Services	84,031	23	17,142	**101,196**
0	Vacant Post (note 2) (note 6)	Director of Finance & Housing	400	0	0	**400**
0	Gareth Waterson (note 3)	Director of Finance & Housing	50,634	2	10,308	**60,944**
97,785	Leslie Manson	Director of Education & Recreation Services	84,031	0	17,142	**101,173**
73,856	Fiona Macdonald (note 6)	Assistant Director Legal & Admin (note 6)	63,787	0	13,013	**76,800**
0	Vacant Post (note 4)	Director of Community Social Services (note 4)	0	0	0	**0**
0	Gillian Morrison (note 5)	Assistant Director Strategy & Improvement / Chief Social Work Officer	29,620	1	6,031	**35,652**
587,637	**Total**		**583,963**	**158**	**118,605**	**702,726**

Note 1: The Chief Executive, Alastair Buchan, was seconded to Shetland Islands Council as Chief Executive on 5 July 2010. His costs including employers costs for the period 5 July 2010 to 31 March 2011 were £96,858.94. The amount recharged to Shetland Islands Council in 2010/11 was £104,325. Following this secondment the Council entered into a contract with SOLACE Enterprises Limited (SOLACE) for the services of Albert Tait in the role of Chief Executive. The Cost of this consultancy service for Chief Executive was £103,790 for the period 5 July 2010 to the 31 March 2011.

Note 2: The Council entered into a contract with SOLACE Enterprises Limited (SOLACE) for the services of Albert Tait in the role of the Director of Finance & Housing in 2002. This arrangement was in place until the 5 July 2010. The Cost of this consultancy service for Director of Finance and Housing was £113,100 and £29,145 in 2009/10 and 2010/11 respectively.

Note 3: Gareth Waterson was appointed as Interim Director of Finance & Housing on the 26 July 2010. Full year equivalent £84,031.

Note 4: The Council entered into a contract with MacAulay Consulting Ltd for the services of Duncan MacAulay in the role of the Director of Community Social Services and Chief Social Work Officer in 2008. This arrangement was in place until September 2010 when Cathie Cowan was appointed the Director of Orkney Health and Care, an unconsitituted body overarching both Orkney Islands Council Community Social Services and NHS Orkney. The cost of this consultancy service was £110,163 and £59,101 in 2009/10 and 2010/11 respectively.

Note 5: Gillian Morrison was appointed Chief Social Work Officer with effect from 29 Sept 2010. Full year equivalent £63,852.

Note 6: These figures include payments made to senior officers in respect of European Parliamentary Elections in 2009/10 and the UK Parliamentary Elections in 2010/11. Payments made to the Chief Executive, Alastair Buchan, in his role as returning officer were pensionable. There were no non-consolidated bonuses or performance related payments made to any senior officer in 2010-2011.

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

The table below shows the relevant amounts, before tax and other deductions, due to, or receivable by, each of the persons named for the year to 31 March 2011, whether or not those amounts were actually paid to, or received by, those persons within that period.

2009-2010	Convenor, Civic Head, senior councillors					2010-2011
Total	**Name**	**Position held**	**Salary, Fees and Allowances**	**Expenses Allowance Chargeable to UK Income Tax**	**Benefits Other Than Cash**	**Total**
£			**£**	**£**	**£**	**£**
32,729	Stephen Hagan	Convenor	27,058	454	5,520	**33,032**
24,434	James Stockan	Civic Head	20,294	454	4,140	**24,888**
22,980	Michael Drever	Chair (Planning & Protective Services)	18,911	454	3,858	**23,223**
17,710	John Eccles	Chair (Education & Leisure Services)	19,108	454	0	**19,562**
22,843	James Foubister	Chair (Transport & Infrastructure)	18,911	454	3,858	**23,223**
21,613	Samuel Harcus	Chair (Licensing Board / Vice Chair Monitoring & Audit)	17,338	454	3,537	**21,329**
22,908	Ian Johnstone	Chair (Development & Regeneration	18,911	454	3,858	**23,223**
19,635	Russell Madge	Chair (Monitoring & Audit)	18,933	454	3,771	**23,158**
22,576	Roderick McLeod	Chair (Social Services & Housing	18,911	454	3,858	**23,223**
207,428	**Total**		**178,375**	**4,086**	**32,400**	**214,861**

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

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

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

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

The tiers and members contribution rates for 2010-11 remain at the 2009-10 rates, (due to a decrease in the cost of living index for 2010-11) and are as follows:

Whole time pay	**Contribution rate 2010-2011**	**Contribution rate 2009-2010**
On earnings up to and including £18,000	5.5%	5.5%
On earnings above £18,000 and up to £22,000	7.25%	7.25%
On earnings above £22,000 and up to £30,000	8.5%	8.5%
On earnings above £30,000 and up to £40,000	9.5%	9.5%
On earnings above £40,000	12%	12%

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

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

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

The pension entitlements for Senior Employees and Senior Councillors for the year to 31 March 2011 are shown in the following table, together with the contribution made by the Council to each individual's pension during the year.

Senior employees						
Name	**Post held**	**Accrued pension benefits as at 31 March 2011**		**Change in accrued pension benefits since 31 March 2010**		**Pension contributions made by Orkney Islands Council during 2010-2011***
		Pension	**Lump Sum**	**Pension**	**Lump Sum**	
		£	**£**	**£**	**£**	**£**
Alistair Buchan	Chief Executive (seconded to Shetland Islands Council)	28,423	75,377	+1,657	+23	20,175
Elaine Grieve	Assistant Chief Executive	34,526	95,163	+2,204	+2,304	17,142
Brian Thomson	Director of Development & Environment Services	40,398	112,780	+2,346	+2,730	17,142
Nigel Mills	Director of Marine Services	19,289	49,453	+1,835	+1,197	17,142
Gareth Waterson	Director of Finance & Housing	16,969	43,317	+5,208	+10,876	15,246
Leslie Manson	Director of Education & Recreation Services	36,036	99,693	+2,241	+2,414	17,142
Fiona Macdonald	Assistant Director Legal & Admin	9,719	22,770	+1,273	+550	12,704
Gillian Morrison	Assistant Director Strategy & Improvement / Chief Social Work Officer	21,470	58,163	+1,986	+2,691	13,013
Total		**206,830**	**556,716**	**+18,750**	**+22,785**	**129,706**

Convenor, Civic Head, Senior Councillors						
Name	**Post held**	**Accrued pension benefits as at 31 March 2011**		**Change in accrued pension benefits since 31 March 2010**		**Pension contributions made by Orkney Islands Council during 2010-2011***
		Pension	**Lump Sum**	**Pension**	**Lump Sum**	
		£	**£**	**£**	**£**	**£**
Stephen Hagan	Convenor	1,572	1,895	+511	+70	5,520
James Stockan	Civic Head	17,328	49,838	+1,219	+2,529	4,140
Michael Drever	Chair (Planning & Protective Services)	1,037	1,138	+354	+40	3,858
John Eccles	Chair (Education & Leisure Services)	0	0	+0	+0	0
James Foubister	Chair (Transport & Infrastructure)	1,128	1,414	+359	+53	3,858
Samuel Harcus	Chair (Licensing Board / Vice Chair Monitoring & Audit)	1,339	1,339	+327	+45	3,537
Ian Johnstone	Chair (Development & Regeneration	1,078	1,264	+356	+46	3,858
Russell Madge	Chair (Monitoring & Audit)	1,304	2,158	+358	+135	3,771
Roderick McLeod	Chair (Social Services & Housing	10,306	28,917	+438	+265	3,858
Total		**35,092**	**87,963**	**+3,922**	**+3,183**	**32,400**

All senior employees and councillors apart from John Eccles shown in the tables above are members of the Local Government Pension Scheme (LGPS). The pension figures shown relate to the benefits that the person has accrued as consequence of their total local government service, and not just their current appointment.

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

6. Councillors' remuneration

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

2009-2010		2010-2011
£000		£000
340	Salaries	341
23	Basic Allowance	22
19	Civic Head	19
92	Employer Costs	101
22	Mileage	21
4	Conferences and Courses	4
28	Travel Costs	20
10	Subsistence	11
12	Other allowances and expenses	10
(9)	Reimbursed Costs	(9)
541	**Total**	**540**

The annual return of Councillors' salaries and expenses for 2010/11 is available for any member of the public to view at all Council libraries and public offices during normal working hours and is also available on the Council's website at www.orkney.gov.uk. Please follow the links on the Council's website as follows: www.orkney.gov.uk/Council/Councillors/Councillors-Record-of-Claims.htm.

7. Remuneration of Employees

The following table gives a statement of the number of employees whose remuneration, excluding pension contributions, was in excess of £50,000 during 2010-2011, in bands of £5,000. This information includes those senior employees who are subject to the fuller disclosure requirements in the tables above.

2009-2010		2010-2011
Number of employees	**Remuneration band**	**Number of employees**
14	£50,000 to £54,999	14
24	£55,000 to £59,999	24
8	£60,000 to £64,999	11
1	£65,000 to £69,999	3
1	£70,000 to £74,999	2
0	£75,000 to £79,999	0
4	£80,000 to £84,999	4
0	£85,000 to £89,999	0
0	£90,000 to £94,999	0
1	£95,000 to £99,999	1
53		**59**

T Stephen Hagan
Convenor
30 September 2011

Albert Tait
Chief Executive
30 September 2011

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the council, analysed into usable reserves (those reserves that can be applied to fund expenditure or to reduce local taxation) and unusable reserves. The surplus or deficit on the provision of services line shows the true economic cost of providing the council's services, more details of which are shown in the **comprehensive income and expenditure statement**. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax-setting and dwellings rent-setting purposes. The net increase or (decrease) before transfers to other statutory reserves line shows the statutory General Fund Balance and the Housing Revenue Account Balance before any discretionary transfers to or from the other statutory reserves of the council. Additional information to support these movements can be found in notes 23 and 24 to these accounts.

	General Fund Balance	Capital Fund	HRA Balance	Harbour Reserves	Capital Receipts Reserve	Renewals and Repairs Fund	Total Usable Reserves	Total Unusable Reserves	Total Reserves of the Authority
	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000
Balance as At 1 April 2009	**18,752**	**2,820**	**0**	**166,450**	**2,805**	**8,752**	**199,579**	**135,468**	**335,047**
Movement in reserves during the year									
Surplus or (deficit) on the provision of services	(18,025)		(8,984)	17,694			**(9,315)**		**(9,315)**
Other Comprehensive Income and Expenditure	0				0		**0**	(1,483)	**(1,483)**
Total Comprehensive Income and Expenditure	**(18,025)**	**0**	**(8,984)**	**17,694**	**0**	**0**	**(9,315)**	**(1,483)**	**(10,798)**
Adjustments between accounting basis & funding basis under regulations (Note 7)	18,930		9,471	(95)	(899)	0	**27,407**	(27,407)	**0**
Net Increase/Decrease before Transfers to Earmarked Reserves Statutory and Other Reserves	**905**	**0**	**487**	**17,599**	**(899)**	**0**	**18,092**	**(28,890)**	**(10,798)**
Transfers to or from earmarked reserves Statutory and Other Reserves	52	136	0	0	0	(188)	**0**	0	**0**
Increase/Decrease in Year	**957**	**136**	**487**	**17,599**	**(899)**	**(188)**	**18,092**	**(28,890)**	**(10,798)**
Balance as at 31 March 2010	**19,709**	**2,956**	**487**	**184,049**	**1,906**	**8,564**	**217,671**	**106,578**	**324,249**
Movement in reserves during the year									
Surplus or (deficit) on provision of services	13,898		523	14.049			**28,470**		**28,470**
Other Comprehensive Income and Expenditure	0				0		**0**	23,623	**23,623**
Total Comprehensive Income and Expenditure	**13,898**	**0**	**523**	**14.049**	**0**	**0**	**28,470**	**23,623**	**52,093**
Adjustments between accounting basis & funding basis under regulations	(10,419)		(450)	(9,085)	(376)	0	**(20,330)**	20,330	**0**
Net Increase/Decrease before Transfers to Earmarked Reserves Statutory and Other Reserves	**3,479**	**0**	**73**	**4,964**	**(376)**	**0**	**8,140**	**43,953**	**52,093**
Transfers to or from earmarked reserves Statutory and Other Reserves	(619)	552	0	0	0	127	**60**	(60)	**0**
Increase/Decrease in Year	**2,860**	**552**	**73**	**4,964**	**(376)**	**127**	**8,200**	**43,893**	**52,093**
Balance Sheet As At 31 March 2011	**22,569**	**3,508**	**560**	**189,013**	**1,530**	**8,691**	**225,871**	**150,471**	**376,342**

Comprehensive Income and Expenditure Statement

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

		2010-2011			2009-2010		
		£,000	£,000	£,000	£,000	£,000	£,000
	Notes	**Expenditure**	**Income**	**Net**	**Expenditure**	**Income**	**Net**
Central services		5,765	(1,198)	4,567	6,949	(1,343)	5,606
Cultural and Recreation		5,623	(975)	4,648	9,621	(1,042)	8,579
Education		31,166	(1,367)	29,799	37,103	(1,456)	35,647
Roads and Transportation		15,770	(547)	15,223	17,765	(533)	17,232
Housing Revenue Account		4,335	(2,120)	2,215	10,721	(2,042)	8,679
Harbour Authority		11,120	(7,508)	3,612	13,883	(6,752)	7,131
Housing services		5,367	(3,991)	1,376	5,291	(3,983)	1,308
Community Social Services		21,801	(4,779)	17,022	21,172	(5,114)	16,058
Planning and Development		3,902	(2,800)	1,102	3,543	(1,034)	2,509
Environmental Services		4,641	(829)	3,812	5,121	(811)	4,310
Police Services		1,245	0	1,245	1,713	0	1,713
Fire Services		1,665	0	1,665	1,824	0	1,824
Corporate and democratic core		2,656	0	2,656	2,301	31	2,332
Non distributed costs		0	(15,749)	(15,749)	0	1,823	1,823
Surplus/Deficit on Continuing Operations		**115,056**	**(41,863)**	**73,193**	**137,007**	**(22,256)**	**114,751**
Other Operating Expenditure	9			930			1,210
Financing and Investment Income and Expenditure	10			(7,873)			(22,694)
Surplus or Deficit of Discontinued Operations				0			0
Taxation and Non-Specific Grant Income	11			(94,720)			(83,952)
(Surplus) or Deficit on Provision of Services				**(28,470)**			**9,315**
Surplus or deficit on revaluation of non current assets	12			(129)			(32,133)
Surplus or deficit on revaluation of available for sale financial assets				0			0
Actuarial gains / losses on pension assets / liabilities	47			(23,494)			33,616
Other Comprehensive Income and Expenditure				**(23,623)**			**1,483**
Total Comprehensive Income and Expenditure				**(52,093)**			**10,798**

Balance Sheet as at 31 March 2011

The **balance sheet** shows the value as at 31 March 2011 of the assets and liabilities recognised by the council. The net assets of the council are matched by the reserves held by the council. Reserves are reported in two categories. The first category comprises usable reserves, which are those reserves that the council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve, which may only be used to fund capital expenditure or to repay debt). The second category of reserves comprises those that the council is not able to use to provide services. This category includes reserves that hold unrealised gains and losses in the value of assets (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold, and reserves that hold timing differences shown as 'adjustments between accounting basis and funding basis under regulations' in the **movement in reserves statement**.

	Note	31 March 2011	31 March 2010	1 April 2009
		£,000	£,000	£,000
Property, Plant & Equipment	12	200,870	196,150	189,430
Investment Property	12	18,491	18,198	24,095
Intangible Assets	12	306	343	351
Assets held for sale	20	0	0	67
Long Term Debtors	18	3,371	2,411	2,690
Long Term Assets		**223,038**	**217,102**	**216,633**
Short Term Investments	15	173,707	163,816	136,170
Inventories	16	690	681	645
Short Term Debtors	18	6,442	5,636	6,342
Cash and Cash Equivalents	19	44,406	17,041	27,247
Assets held for sale	20	439	253	93
Current Assets		**225,684**	**187,427**	**170,497**
Short Term Borrowing	15	0	0	20,000
Short Term Creditors	21	13,465	12,249	11,705
Provisions	22	84	0	0
Grants receipts in advance	38	360	526	172
Current Liabilities		**13,909**	**12,775**	**31,877**
Provisions	22	2,802	2,802	0
Long Term Borrowing	15	40,000	10,000	0
Other Long Term Liabilities	47	15,669	54,703	20,206
Long Term Liabilities		**58,471**	**67,505**	**20,206**
Net Assets		**376,342**	**324,249**	**335,047**
Usable reserves	23	225,871	217,671	199,579
Unusable Reserves	24	150,471	106,578	135,468
Total Reserves		**376,342**	**324,249**	**335,047**

The unaudited accounts were issued on 30 June 2011 and the audited accounts were authorised for issue on the 30 September 2011.

Gareth Waterson

Gareth Waterson, BAcc., CA
Director of Finance and Housing Services
30 September 2011

Cash Flow Statement

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

	Note	2010-2011	2009-2010
		£,000	£,000
Net surplus or (deficit) on the provision of services		28,470	(9,315)
Adjustment to surplus or deficit on the provision of services for noncash movements		(2,602)	2,593
Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities		1,008	(453)
Net cash flows from operating activities	**25**	**26,876**	**(7,175)**
Net Cash flows from Investing Activities	**26**	**(29,511)**	**(3,240)**
Net Cash flows from Financing Activities	**27**	**30,000**	**209**
Net increase or decrease in cash and cash equivalents		**27,365**	**(10,206)**
Cash and cash equivalents at the beginning of the reporting period		**17,041**	**27,247**
Cash and cash equivalents at the end of the reporting period		**44,406**	**17,041**

Note 1 Summary of Significant Accounting Policies

The Financial Statements for the year ended 31 March 2011 have been prepared in accordance with proper accounting practice as per section 12 of the Local Government in Scotland Act 2003. Proper accounting practice comprises the Code of Practice on Local Authority Accounting in the United Kingdom (the Accounting Code) and the Best Value Accounting Code of Practice, supported by International Financial Reporting Standards and recommendations made by the Local Authority (Scotland) Accounts Advisory Committee (LASAAC). They are designed to give a true and fair view of the financial performance and position of the Council and comparative figures for the previous financial year are provided. There are no significant departures from these recommendations.

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

- **Accruals basis** - the accruals concept requires the non-cash effects of transactions to be included in the financial statement for the year in which they occur, not in the period in which payment is made or income received

- **Going concern** - the going concern concept assumes that the Council will continue in existence for the foreseeable future

- **Understandability** – users of the financial statements are assumed to have a reasonable knowledge of accounting and local government

- **Relevance** – the information in the financial statements is useful for assessing the Council's stewardship of public funds and for making economic decisions

- **Materiality** - information is included in the financial statements where the information is of such significance that it could influence the decisions or assessments of users of the information

- **Reliability** – information included in the financial statements faithfully represents the substance of transactions, is free from bias and material error, is complete within the bounds of materiality and cost, and has been prudently prepared.

- **Primacy of legislative requirements** - legislative requirements have priority over accounting principles in the event of conflict between legislation and the Accounting Code.

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

Best Value Reporting

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

Major Changes in Accounting Practice

These annual accounts are the first to be prepared on an IFRS basis. Adoption of the IFRS-based Code has resulted in the restatement of various balances and transactions, with the result that some amounts presented in the accounts are different from the equivalent amounts presented in the audited annual accounts for 2009-2010. An explanation of the material differences is shown in Note 51 to the Core Financial Statements.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- The liabilities of the Orkney Islands Council pension fund attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 5.5% (based on the indicative rate of return on high quality corporate bond iBox sterling corporate AA over 15 year index.
- The assets of the Orkney Islands Council pension fund attributable to the Authority are included in the Balance Sheet at their fair value:
- quoted securities – current bid price
- unquoted securities – professional estimate
- unitised securities – current bid price
- property – market value.

- The change in the net pensions liability is analysed into seven components:
- current service cost – the increase in liabilities as result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
- past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- expected return on assets – the annual investment return on the fund assets attributable to the Authority, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- gains/losses on settlements and curtailments – the result of actions to relieve the Authority of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited/credited to the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve
- contributions paid to the Orkney Islands Council pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

The Notes to the Core Financial Statements provide further information.

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

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

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

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

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

Financial Instruments

Financial Assets

Financial assets are classified into two types:

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

Loans and Receivables

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

However, the Authority has made a number of loans to voluntary organisations at less than market rates (soft loans). When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

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

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

For Profit or Loss Assets

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Intangible Assets

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

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

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

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

Interests in Companies and Other Entities

The Authority has material interests in companies and other entities that have the nature of subsidiaries, associates and jointly controlled entities and require it to prepare group accounts. In the Authority’s own single-entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

Inventories

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

Investment Property

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

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

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

Leases

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

The Council as Lessee

Finance Leases

Property, plant and equipment held under a finance lease are recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease liability , and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life.
The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

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

The Council as Lessor

Finance Leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a Debtor in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a capital receipt for the disposal of the asset – applied to write down the Debtor (together with any premiums received), and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement)

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and will be required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the Debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

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

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

Overheads and Central Support Costs
The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA *Best Value Accounting Code of Practice 2010/11* (BVACOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

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

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

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

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

<u>Measurement</u>
Assets are initially measured at cost, comprising:
- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management

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

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

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

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

- infrastructure, community assets and assets under construction – depreciated historical cost
- council dwellings – fair value, determined using the basis of existing use value for social housing (EUV-SH). Council dwellings are valued using a discounted cashflow methodology in accordance with the Royal Institution of Chartered Surveyors (RICS) guidance.
- all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV). Operational assets are shown at the lower of net current replacement cost or net realisable value in existing use. Non-operational assets are shown at the lower of net current replacement cost or net realisable value.

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

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

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

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

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

Impairment

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

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

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

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

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

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

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

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

Deprecation is calculated on the following bases:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Trading Operations
The Local Government in Scotland Act 2003 repealed performance reporting duties under the Government's compulsory competitive tendering legislation and simultaneously replaced them with the requirement to identify and report the results of "Statutory trading operations". Each Statutory Trading Operation (STO) must account for its activities under proper accounting practice and break-even over a rolling three-year period.

Details of Statutory Trading Operations' services, and their turnover, expenditure and surplus are set out in Note 30. In accordance with Council policy, the surplus or deficit on each Trading Operation has been allocated to the General Fund balance.

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

Note 2 Accounting Standards Issued not Adopted

FRS30 Heritage Assets

The 2011-2012 Code confirms the impact of adopting FRS30 *Heritage Assets* requires disclosure in the 2010-2011 financial statements, where the extent of the information is known or is reasonably estimable. Heritage assets are those tangible assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture. Many of the assets held within the museum for example fall within this definition and will therefore require to be separately classified and valued in the 2011-2012 financial statements. These assets are classed in the 2010-2011 financial statements as community assets and, where valued, are valued at cost or an estimated value. The adoption of FRS30 in2011-2012 is likely to result in a significant revaluation gain as the majority of assets are not currently recognised in the financial statements as no cost information is available.

The heritage assets held by the Council are the collections of assets and artefacts exhibited or stored by Orkney Islands Council Heritage Service.

The Council anticipates it will be able to recognise those assets where either an external insurance valuation has been secured, or an internal valuation is possible. However owing to the large number of items in question it will not be possible to obtain valuations for some collections and to do so may result in a disproportionate cost in comparison to the benefits to the users of the financial statements.

The Council insures it's collection of paintings, based on a valuation of £0.250M, while the remainder of heritage assets are currently held on an uninsured basis.

There is no depreciation charged on heritage assets currently classified as community assets because it has been estimated that the assets have a useful life of such a length that any depreciation charge will be negligible and can be ignored on the basis of materiality. The Council considers that the heritage assets held will have indeterminate asset lives and a high residual value, therefore the Council does not consider it appropriate to charge depreciation on the assets.

Note 3 Critical Judgements in Applying Accounting Policies

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

Leases	The 2010-2011 accounts are the first to be produced in accordance with International Financial Reporting Standards (IFRS). The accounting policies have been amended to reflect the definitions and accounting arrangements for leases under IFRS, which includes separating property leases into their constituent land and buildings elements. Following an examination of all property leases, the Council has concluded that all land and property leases are operating leases and they have been accounted for on this basis.
Public Sector Reorganisation	The Scottish Government is currently consulting on the future structure of police and fire service organisations. The potential for structural or organisational change arising from these consultations does not change the “going concern” assumption for these organisations within the group accounts as this would be a “machinery of government” change, under which such transfers of service do not negate the presumption of going concern.
Public Sector Funding	There is a high degree of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.
Employee Benefits short-term provision	The Council has used a sampling approach to calculating the short-term provision for employee short-term compensated absences. A random sample of employees has been used to calculate the short-term provision necessary for annual leave.

Note 4 Assumptions made about the future

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

The items in the Council's Balance Sheet as at 31 March 2011 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Results differ from Assumption
Property, Plant & Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Authority will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by £0.185M for every year that useful lives had to be reduced.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £17.112M. However, the assumptions interact in complex ways. During 2010/11, the Council's actuaries advised that the net pensions liability had decreased by £39.034M as a result of estimates being revised as a result of actuarial gains of £23.494M attributable to updating of the assumptions.
Debt Impairment	At 31 March 2011, the Council had a balance for trade debtors of £7.991M. A review of significant balances suggested that an impairment of doubtful debts of 19.4% (£1.549M) was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient.	If collection rates were to deteriorate, an increase of 10% of the amount of the impairment of doubtful debts would require an additional £0.779M to be set aside as an allowance.

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

Note 5 Material Items of Income and Expenditure

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

Note 6 Events after the balance sheet date

The Director of Finance and Housing Services, being the officer responsible for the council's financial affairs, signed the Annual Accounts on 30 September 2011. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2011, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

Note 7 Adjustment between accounting basis and funding basis under regulations

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

2010-11	**Usable Reserves**					
	General Fund Balance	**Housing Revenue Account**	**Capital Receipts Reserve**	**Major Repair Reserves**	**Capital Grants Unapplied**	**Movement in Unuseable Reserves**
	£,000	£,000	£,000	£,000	£,000	£,000
Adjustments involving the Capital Adjustment Account:						
<u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</u>						
Charges for depreciation and impairment of non current assets	9,957	6	0	0	0	(9,963)
Revaluation losses on Property Plant and Equipment	118	2,576	0	0	0	(2,694)
Capital grants and contributions	(11,285)	(2,131)	0	0	0	13,416
Carrying amount of non current assets sold	2,567	341	0	0	0	(2,908)
Loans/Lease principal repayments during the year	(1,689)	0	0	0	0	1,689
Housing Revenue Account Transfers	(22)	22	0	0	0	0
<u>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</u>						
Capital expenditure charged against the General Fund and HRA balances	(2,160)	(243)	0	0	0	2,403
Adjustments involving the Capital Receipts Reserve:						
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	(2,354)	0	0	2,354
Proceeds From Sale of Non Current Assets	(1,290)	(688)	1,978	0	0	0
Adjustments involving the Financial Instruments Adjustment Account:						
Amounts by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements.	(54)	0	0	0	0	54
Adjustments involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 47)	(8,670)	(333)	0	0	0	9,003
Employer's pensions contributions and direct payments to pensioners payable in the year	(6,537)	0	0	0	0	6,537
Adjustment involving the Accumulating Compensated Absences Adjustment Account						
Adjustments in relation to Short-term compensated absences	(439)	0	0	0	0	439
Total Adjustments	**(19,504)**	**(450)**	**(376)**	**0**	**0**	**20,330**

2009/10 Comparative figures	Usable Reserves					
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repair Reserves	Capital Grants Unapplied	Movement in Unuseable Reserves
	£,000	£,000	£,000	£,000	£,000	£,000
Adjustments involving the Capital Adjustment Account:						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:						
Charges for depreciation and impairment of non current assets	6,388	23	0	0	0	(6,411)
Revaluation losses on Property Plant and Equipment	23,347	9,136	0	0	0	(32,483)
Movement in market value of investment properties	(2,709)					2,709
Capital grants and contributions	(6,070)	0	0	0	0	6,070
Carrying amount of non current assets sold	2,168	542	0	0	0	(2,710)
Loans/Lease principal repayments during the year	(2,404)	0	0	0	0	2,404
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:						
Capital expenditure charged against the General Fund and HRA balances	(451)	0	0	0	0	451
Adjustments involving the Capital Receipts Reserve:						
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	(2,399)	0	0	2,399
Use of Reserves to finance capital expenditure	(1,088)					1,088
Proceeds From Sale of Non Current Assets	(1,270)	(230)	1,500	0	0	0
Adjustments involving the Financial Instruments Adjustment Account:						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(67)	0	0	0	0	67
Adjustments involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 47)	6,874	0	0	0	0	(6,874)
Employer's pensions contributions and direct payments to pensioners payable in the year	(5,993)	0	0	0	0	5,993
Adjustments involving the Collection Fund Adjustment Account:						
Adjustment involving the Accumulating Compensated Absences Adjustment Account						
Adjustments in relation to Short-term compensated absences	110	0	0	0	0	(110)
Total Adjustments	**18,835**	**9,471**	**(899)**	**0**	**0**	**(27,407)**

Note 8 Transfer to or from earmarked and other statutory reserves

This note sets out the amounts set aside from the General Fund Balance in statutory reserves established under Schedule 3 of the Local Government (Scotland) Act 1975 to provide financing for specific areas of expenditure, and the amounts transferred back from these funds to meet General Fund expenditure in 2010-2011.

	2009-10				2010-11		
	Balance at 01 April 2009	**Transfers Out 2009-10**	**Transfers In 2009-10**	**Balance at 31 March 2010**	**Transfers Out 2010-11**	**Transfers In 2010-11**	**Balance at 31 March 2011**
	£,000	£,000	£,000	£,000	£,000	£,000	£,000
Repairs & Renewals Fund	8,752	1,459	1,271	8,564	742	869	8,691
Revenue statutory funds	**8,752**	**1,459**	**1,271**	**8,564**	**742**	**869**	**8,691**
Capital Fund	2,820	25	161	2,956	34	586	3,508
Capital statutory funds	**2,820**	**25**	**161**	**2,956**	**34**	**586**	**3,508**
Total	**11,572**	**1,484**	**1,432**	**11,520**	**776**	**1,455**	**12,199**

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

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

Ring-fenced elements of the General Fund Balance

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

	2009-10				2010-11		
	Balance at 01 April 2009	Transfers In 2009/10	Transfers Out 2009/10	Balance at 31 March 2010	Transfers In 2010/11	Transfers Out 2010/11	Balance at 31 March 2011
	£,000	£,000	£,000	£,000	£,000	£,000	£,000
General Fund:							
Modernising Government Fund	17	0	(17)	0	0	0	0
Corporate Development Fund	40	0	(30)	10	0	(10)	0
Modernising Teachers Fund	53	0	0	53	0	(53)	0
Community Council	274	0	(274)	0	0	0	0
Devolved School Management Fund	111	12	0	123	7	0	130
Orkney College	(770)	284	0	(486)	725	(239)	0
Single Status Fund	1,545	0	(1,545)	0	0	0	0
ALCO Development Fund	365	0	(182)	183	0	(183)	0
Training Fund	190	79	0	269	102	0	371
Energy Advice Centre	8	0	(8)	0	0	0	0
Energy Efficiency Fund	84	10	0	94	0	20	114
Care Facility Fund	421	0	0	421	0	0	421
Shared Services Fund	163	0	(76)	87	0	(87)	0
Spend to Save Fund	310	2,638	0	2,948	352	0	3,300
Renewable Energy Fund	0	8,000	0	8,000	0	0	8,000
Recreation & Cultural Services Project Fund	0	49	0	49	200	(27)	222
Conservation Grants Fund	0	0	0	0	24	0	24
Development Grants Fund	0	0	0	0	1,443	0	1,443
	0	0	0	0	0	0	0
Total General Fund	**2,811**	**11,072**	**(2,132)**	**11,751**	**2,853**	**(579)**	**14,025**
Total Earmarked Reserves	**2,811**	**11,072**	**(2,132)**	**11,751**	**2,853**	**(579)**	**14,025**

The unallocated balance of £8.544 million is 10% of the Council's annual running costs.

Note 9 Other operating expenditure

	2010-11	2009-10
	£,000	£,000
Gains/losses on the disposal of non current assets	930	1,210
	930	**1,210**

Note 10 Financing and investment income and expenditure

	2010-11	2009-10
	£,000	£,000
Interest payable and similar charges	1,196	685
Pensions interest cost and expected return on pensions assets	220	1,710
Interest receivable and similar income	(9,667)	(24,229)
Income and expenditure in relation to investment properties and changes in their fair value	(56)	(2,075)
Other investment income	434	1,215
Total	**(7,873)**	**(22,694)**

Note 11 Taxation and non-specific grant income

The council credited the following taxation and non-specific grant income to the **comprehensive income and expenditure statement** during 2010-2011.

	2010-11	2009-10
	£,000	£,000
Council Tax Income	7,881	7,650
NDR Redistribution	7,905	8,330
Non-ring-fenced government grants	65,518	61,902
Capital Grants	13,416	6,070
Total Taxation and Non-Specific Grant Income	**94,720**	**83,952**

Note 12 Property, Plant and Equipment

2010-2011	Council Dwellings	Buildings	Infra-structure Assets	Vehicles, Plant & Equipment	Community Assets	PP&E Under Construction	Surplus Assets	Total PP&E
	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000
Cost or Valuation								
At 1 April 2010	5,506	108,810	112,178	25,172	4,380	3,628	1,412	**261,086**
Additions (Note 40)	1,310	1,605	4,508	2,088	128	9,727	0	**19,366**
Revaluation increases/decreases to Revaluation Reserve	0	129	0	0	0	0	0	**129**
Impairment decreases to Surplus or Deficit on the Provision of Services	(2,586)	(86)	0	0	0	0	0	**(2,672)**
Derecognition - Disposals	(36)	(1,654)	(179)	(666)	(85)	(234)	(206)	**(3,060)**
Derecognition - Other	0	0	0	0	0	0	0	**0**
Reclassifications & Transfers	1,398	0	0	0	0	(1,398)	0	**0**
Reclassified to Held for Sale	0	0	0	0	0	0	0	**0**
Reclassified from Held for Sale		0	0	0	0	0	0	**0**
Balance as at 31 March 2011	**5,592**	**108,804**	**116,507**	**26,594**	**4,423**	**11,723**	**1,206**	**274,849**
Depreciation and Impairment								
At 1 April 2010	0	3,238	38,566	21,864	1,208	12	48	**64,936**
Depreciation Charge	0	2,886	4,913	1,363	58	0	22	**9,242**
Depreciation written out on Revaluation Reserve	0	0	0	0	0	0	0	**0**
Depreciation written out on Revaluation taken to Surplus or Deficit on the Provision of Services	0	0	0	0	0	0	0	**0**
Impairment losses/reversals to Revaluation Reserve	0	0	0	0	0	0	0	**0**
Impairment losses/reversals to Surplus or Deficit on the Provision of Services	0	545	20	5	0	0	9	**579**
Derecognition - Disposals	0	(46)	(38)	(667)	(18)	0	(9)	**(778)**
Derecognition - Other	0	0	0	0	0	0	0	**0**
Reclassifications & Transfers	0	0	0	0	0	0	0	**0**
Eliminated on reclassification to Held for Sale	0	0	0	0	0	0	0	**0**
Balance as at 31 March 2011	**0**	**6,623**	**43,461**	**22,565**	**1,248**	**12**	**70**	**73,979**
Net Book Value								
Balance as at 31 March 2011	**5,592**	**102,181**	**73,046**	**4,029**	**3,175**	**11,711**	**1,136**	**200,870**
Balance as at 31 March 2010	**5,506**	**105,572**	**73,612**	**3,308**	**3,172**	**3,616**	**1,364**	**196,150**

2009-2010 Comparative figures	Council Dwellings	Land & Buildings	Infrastructure Assets	Vehicles, Plant & Equipment	Community Assets	PP&E Under Construction	Surplus Assets	Total PP&E
	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000
Cost or Valuation								
Balance as At 1 April 2009	16,700	117,929	108,502	24,693	4,695	140	2,601	275,260
Additions (Note 40)	501	2,781	2,111	1,502	136	2,842	4	**9,877**
Donations	0	0	0		0	0	0	**0**
Revaluation increases/decreases to Revaluation Reserve	160	21,383	2,966	27	14	39	465	**25,054**
Impairment decreases to Surplus or Deficit on the Provision of Services	(11,146)	(33,097)	(301)	0	(57)	(136)	(1,672)	**(46,409)**
Derecognition - Disposals	(633)	(1,648)	0	(1,020)	0	(319)	(195)	**(3,815)**
Derecognition - Other	0	0	0	0	0	0	0	**0**
Reclassifications & Transfers	(76)	1,462	(1,100)	(30)	(408)	1,062	462	**1,372**
Reclassified to Held for Sale	0	0	0	0	0	0	(253)	**(253)**
Reclassified from Held for Sale	0	0	0	0	0	0	**0**	**0**
At 31 March 2010	**5,506**	**108,810**	**112,178**	**25,172**	**4,380**	**3,628**	**1,412**	**261,086**
Depreciation and Impairment								
Balance as At 1 April 2009	2,227	23,869	36,137	21,569	1,335	0	693	**85,830**
Depreciation Charge	15	1,985	2,972	1,306	56	0	35	**6,369**
Depreciation written out on Revaluation Reserve	4	(6,453)	(615)	(13)	(195)	266	(73)	**(7,079)**
Depreciation written out on Revaluation taken to Surplus or Deficit on the Provision of Services	(2,146)	(17,130)	0	0	12	0	0	**(19,264)**
Impairment losses/reversals to Revaluation Reserve	0	0	0	0	0	0	0	**0**
Impairment losses/reversals to Surplus or Deficit on the Provision of Services	0	663	72	10	0	0	13	**758**
Derecognition - Disposals	(100)	(424)	0	(1,009)	0	0	(24)	**(1,557)**
Derecognition - Other	0	0	0	0	0	0	48	**48**
Reclassifications & Transfers	0	728	0	1	0	(254)	(644)	**(169)**
Eliminated on reclassification to Held for Sale	0	0	0	0	0	0	0	**0**
At 31 March 2010	**0**	**3,238**	**38,566**	**21,864**	**1,208**	**12**	**48**	**64,936**
Net Book Value								
Balance as at 31 March 2010	**5,506**	**105,572**	**73,612**	**3,308**	**3,172**	**3,616**	**1,364**	**196,150**
Balance as at 31 March 2009	**14,473**	**94,060**	**72,365**	**3,124**	**3,360**	**140**	**1,908**	**189,430**

Revaluations

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

2010-2011	Council Dwellings	Investment Properties	Buildings	Infra-structure Assets	Vehicles, Plant & Equipment	Community Assets	Intangible Assets	PP&E Under Construction	Surplus Assets	Total Assets
	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000
Historic Cost				**73,046**	**4,029**	**3,175**	**306**	**11,711**		**92,267**
NBV of assets valued at:										
31 March 2010	**5,592**		**102,181**				**0**		**1,136**	**108,909**
31 March 2011		**18,491**								**18,491**
Total	**5,592**	**18,491**	**102,181**	**73,046**	**4,029**	**3,175**	**306**	**11,711**	**1,136**	**219,667**

Note 13 Investment properties

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

	31 March 2011	31 March 2010
	£,000	£,000
Rental income from investment property	(1,242)	(1,230)
Direct operating expenses arising from investment property	580	3,223
‘Net Gain/Loss included in Financing & Investment Income in the CIES’	**(662)**	**1,993**
Carrying amount of investment properties sold	628	456
(Surplus)/deficit on sale of Investment Properties:	**628**	**456**
Changes in Fair Value of Investment Properties	(22)	(4,524)
	(56)	**(2,075)**

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

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

	31 March 2011	31 March 2010
	£,000	£,000
Balance at start of the year	18,198	24,095
Additions:		
- Purchases	941	260
- Construction	0	0
- Subsequent expenditure	0	0
Disposals	(626)	(452)
Net gains/losses from fair value adjustments	(22)	(4,524)
Transfers:		
- to/from Inventories	0	0
-to/from Property, Plant and Equipment	0	(1,181)
Other changes	0	
Balance at end of the year	18,491	18,198

Note 14 Intangible assets

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

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

	2010-11		2009-10	
	Other Assets	Total	Other Assets	Total
	£,000	£,000	£,000	£,000
Balance at start of year:				
Gross carrying amounts	1,911	1,911	1,821	1,821
Accumulated amortisation	(1,568)	(1,568)	(1,470)	(1,470)
Net carrying amount at start of year	**343**	**343**	**351**	**351**
Additions:				
Purchases	105	105	90	90
Acquired through business combinations	0	0	0	0
	448	**448**	**441**	**441**
Amortisation for the period	(142)	(142)	(98)	(98)
Other changes	0	0	0	0
Net carrying amount at end of year	**306**	**306**	**343**	**343**
Comprising:				
Gross carrying amounts	2,016	2,016	1,911	1,911
Accumulated amortisation	(1,710)	(1,710)	(1,568)	(1,568)
	306	**306**	**343**	**343**

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

Note 15 Financial Instruments

Categories of financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The term 'financial instrument' covers both financial assets and financial liabilities and includes trade payables, borrowings (for example Public Works Loan Board debt and market debt), financial guarantees, bank overdraft, trade receivables, loans receivable, cash deposits with financial institutions (some on a fixed term basis and some which are immediately available) and longer term investments. The following categories of financial instrument are carried in the **balance sheet**. (Those financial instruments that are classified as cash and cash equivalents are not included in this table – please see note 19 for details of these.)

	Long-term			Current		
	31 March 2011	31 March 2010	01 April 2009	31 March 2011	31 March 2010	01 April 2009
	£,000	£,000	£,000	£,000	£,000	£,000
Investments						
Loans and receivables	0	0	0	0	0	0
Available-for-sale financial assets	0	0	0	0	0	0
Unquoted equity investment at cost	0	0	0	1,662	1,662	662
Financial assets at fair value through profit and loss	0	0	0	172,045	162,154	135,508
Total investments	**0**	**0**	**0**	**173,707**	**163,816**	**136,170**
Debtors						
Loans and receivables	3,371	2,411	2,690			
Financial assets carried at contract amounts				6,442	5,636	6,342
Total Debtors	**3,371**	**2,411**	**2,690**	**6,442**	**5,636**	**6,342**
Borrowings						
Financial liabilities at amortised cost	40,000	10,000	0	0	0	20,000
Financial liabilities at fair value through profit and loss	0	0	0	0	0	0
Total borrowings	**40,000**	**10,000**	**0**	**0**	**0**	**20,000**
Other Long Term Liabilities						
PFI and finance lease liabilities	0	0	0	0	0	0
Total other long term liabilities	**40,000**	**10,000**	**0**	**0**	**0**	**20,000**
Creditors						
Financial liabilities at amortised cost	0	0	0	0	0	0
Financial liabilities carried at contract amount	0	0	0	13,465	12,249	11,705
Total creditors	**0**	**0**	**0**	**13,465**	**12,249**	**11,705**

Loans and receivables include a loan to Orkney Islands Property Development Limited of £1.209 million.

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

The following items of income, expense, gain and loss relating to financial instruments are included within the lines “financing and investment income and expenditure” and “(surplus) or deficit on the revaluation of available-for-sale financial assets” in the **comprehensive income and expenditure statement**.

2010-2011	**Financial assets: loans and receivables**	**Available-for-sale financial assets**	**At fair value through profit and loss**	**Financial liabilities at amortised cost**	**At fair value through profit and loss**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Interest expense (including finance lease interest)	0.000	0.000	0.000	1.161	0.000	1.161
Impairment losses	(0.122)	0.039	0.245	0.000	0.000	0.162
Fee expense	0.015	0.000	0.172	0.035	0.000	0.222
Total expense in the (surplus) or deficit on the provision of services	**(0.107)**	**0.039**	**0.417**	**1.196**	**0.000**	**1.545**
Interest income	(0.047)	0.000	(0.158)	(0.643)	0.000	(0.848)
Interest income accrued on impaired financial assets	(0.054)	0.000	0.000	0.000	0.000	(0.054)
Dividend income	0.000	0.000	0.000	0.000	0.000	0.000
Other income	(0.006)	0.000	(8.968)	0.000	0.000	(8.974)
Total income in the (surplus) or deficit on the provision of services	**(0.107)**	**0.000**	**(9.126)**	**(0.643)**	**0.000**	**(9.876)**
Net gain on revaluation	0.000	0.000	0.000	0.000	0.000	0.000
(Surplus) or deficit on the revaluation of available-for-sale financial assets (in other comprehensive income and expenditure)	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**
Net (gain) or loss for the year (in total comprehensive income and expenditure)	**(0.214)**	**0.039**	**(8.709)**	**0.553**	**0.000**	**(8.331)**

2009-2010 comparative figures	Financial assets: loans and receivables	Available-for-sale financial assets	At fair value through profit and loss	Financial liabilities at amortised cost	At fair value through profit and loss	Total
	£m	£m	£m	£m	£m	£m
Interest expense (including finance lease interest)	0.000	0.000	0.000	0.647	0.000	0.647
Impairment losses	(0.013)	0.007	(0.018)	0.000	0.000	(0.024)
Fee expense	0.038	0.000	0.219	0.038	0.000	0.295
Total expense in the (surplus) or deficit on the provision of services	**0.025**	**0.007**	**0.201**	**0.685**	**0.000**	**0.918**
Interest income	(0.068)	0.000	(0.111)	(0.849)	0.000	(1.028)
Interest income accrued on impaired financial assets	(0.067)	0.000	0.000	0.000	0.000	(0.067)
Dividend income	0.000	0.000	0.000	0.000	0.000	0.000
Other income	0.000	0.000	(24.722)	0.000	0.000	(24.722)
Total income in the (surplus) or deficit on the provision of services	**(0.135)**	**0.000**	**(24.833)**	**(0.849)**	**0.000**	**(25.817)**
Net gain on revaluation	0.000	0.000	0.000	0.000	0.000	0.000
(Surplus) or deficit on the revaluation of available-for-sale financial assets (in other comprehensive income and expenditure)	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**
Net (gain) or loss for the year (in comprehensive income and expenditure)	**(0.110)**	**0.007**	**(24.632)**	**(0.164)**	**0.000**	**(24.899)**

Fair Values of Assets and Liabilities

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

- Estimated ranges of interest rates at 31 March 2011 of 3.01% to 5.25% for loans from the PWLB and 5.5% for other loans receivable and payable, based on new lending rates for equivalent loans at that date
- No early repayment or impairment is recognised
- Where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

	31/03/2011		31/03/2010	
	Carrying amount	Fair value	Carrying amount	Fair value
	£,000	£,000	£,000	£,000
Financial liabilities	40,000	37,376	10,000	10,043
Long-term creditors	0	0	0	0

The fair value of the liabilities is lower than the carrying amount because the Authority's portfolio of loans includes a number of fixed rate loans where the interest rate payable is lower than the prevailing rates at the Balance Sheet date. This shows a notional future gain (based on economic conditions at 31 March 2011) arising from a commitment to pay interest to lenders below current market rates.

	31/03/2011		31/03/2010	
	Carrying amount	Fair value	Carrying amount	Fair value
	£,000	£,000	£,000	£,000
Loans and receivables	0	0	0	0
Long-term debtors	3,792	3,371	2,886	2,411

The fair value of the assets is lower than the carrying amount because the Authority's portfolio of investments includes a number of fixed rate loans where the interest rate receivable is lower than the rates available for similar loans at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31 March 2011) attributable to the commitment to receive interest below current market rates.

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

Note 16 Inventories

	2010-11	2009-10	2008-09
	£,000	£,000	£,000
WIP	0	0	0
Central Stores	0	0	0
Other	690	681	645
Reversals of write offs in previous years	0	0	0
Total	**690**	**681**	**645**

Note 17 Construction Contracts

The following significant contracts for capital investment have been entered into by the Islands Council and extend beyond 31 March 2011 :

Project Name	Purpose	Approx. Value £m	Anticipated Completion
Inner North Isles Hard Ramps	Boat landing facility upgrades	**0.298**	August - 2011
Housing	Construction of new council houses	**5.426**	Various
Schools Investment Programme	Construction of new school facilities	**56.000**	Various

Note 18 Short-term debtors

	Short Term Debtors		
	2010-11	2009-10	2008-09
	£,000	£,000	£,000
Government Departments	0	0	0
NDR & Council Tax	826	954	2,068
Other Local Authorities	0	0	0
Rents	175	170	140
Public corporations and trading funds	0	0	0
Bodies external to general government	0	0	0
Employee car loans	0	0	0
Grants	0	0	0
Value Added Tax	850	307	478
Loans and advances	0	0	0
Prepayments	0	0	0
Finance lease debtors	0	0	0
Trade debtors	4,477	4,205	3,656
NHS Bodies	114	0	0
Impairment of loans and receivables	0	0	0
Total	**6,442**	**5,636**	**6,342**

Note 19 Cash and cash equivalents

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

	2010-11	2009-10	2008-09
	£,000	£,000	£,000
Cash and Bank balances	9	9	9
Short Term Investments (considered to be Cash Equivalents)	35,000	10,000	20,000
Short Term Deposits (considered to be Cash Equivalents)	9,397	7,032	7,238
Bank Overdraft	0	0	0
Total	**44,406**	**17,041**	**27,247**

Note 20 Assets held for sale

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

	Current		Non Current	
	31 March 2011	31 March 2010	31 March 2011	31 March 2010
	£000's	£000's	£000's	£000's
Balance outstanding at start of year	**253.0**	**93.0**	**0**	67.0
Assets newly classified as held for sale:				
Additions	184.0	0	0	0
Transfers from Other Non Current assets	0	0	0	0
Transferred from Non-Current Assets during year	0	0	0	0
Revaluation Gains losses taken to Surplus or deficit on the provision of services	0	0	0	0
Revaluation gains losses other	2.0	0	0	0
Impairment losses	0	0	0	0
Assets declassified as held for sale:				
Assets sold Cost	0	(93.0)	0	(67.0)
Other Disposals	0	0	0	
Transfers from non current to current	0	253.0	0	0
Balance outstanding at year-end	**439.0**	**253.0**	**0**	**0**

Note 21 Short-term creditors

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

	2010-11	2009-10	2008-09
	£,000	£,000	£,000
Government Departments	0	0	0
NHS Bodies	65	0	0
Public corporations and trading funds	0	0	0
Bodies external to general government	0	0	0
NDR & Council Tax	67	117	105
HRA	154	61	106
Remuneration due to employees	0	0	0
Accumulated Absences	2,256	2,695	2,585
Receipts in advance	400	677	568
Trade creditors	7,955	7,437	7,036
Capital Contributions unapplied	0	0	0
Other	2,568	1,262	1,305
Total Short Term Creditors	**13,465**	**12,249**	**11,705**

Note 22 Provisions

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

	At 1 April 2010	Increase in provision during year	Utilised during year	Unused Amounts Reversed	Interest earned	Balance as at 31 March 2011
	£,000	£,000	£,000	£,000	£,000	£,000
Compensation Payments	0	84	0	0	0	84
Other	2,802	0	0	0	0	2,802
	2,802	84	0	0	0	**2,886**
Current Provisions	0	84	0	0	0	84
Long Term Provisions	2,802	0	0	0	0	2,802
	2,802	**84**	**0**	**0**	**0**	**2,886**

Other

A provision of £2.802M has been identified as the Council's Section 75 debt in respect of the Merchant Navy Officers Pension Fund (MNOPF) - Post 78 Section. This debt is triggered when no active members of the Pension Fund are directly employed by the Council. As at 31 March 2010 a formal request for this amount has yet to be received from the MNOPF.

The Council has identified a potential under payment of £0.084M in respect of fostering allowances which has been provided for.

Note 23 Usable reserves

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

1 April 2009	31 March 2010		31 March 2011
£m	£m		£m
18.752	19.709	General Fund Balance	22.569
0	0.487	Housing Revenue Account Balance	0.560
2.805	1.906	Capital Receipts Reserve	1.530
2.820	2.956	Other Statutory Funds	3.508
166.450	184.049	Harbours	189.013
8.752	8.564	Repairs and Renewals Fund	8.691
199.579	**217.671**	**Total usable reserves**	**225.871**

Note 24 Unusable reserves

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

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

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

Summary of unusable reserves

	31 March 2011	31 March 2010
	£,000	£,000
Capital Adjustment Account	138,251	133,049
Financial Instruments Adjustment Account	(421)	(475)
Revaluation Reserve	30,566	31,402
Pensions Reserve	(15,669)	(54,703)
Employee Statutory Adjustment Account	(2,256)	(2,695)
Total Unusable Reserves	**150,471**	**106,578**

(i) Movement in the year: Revaluation Reserve

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

	31 March 2011	31 March 2010
	£,000	£,000
Balance at 1 April	31,402	1,046
Upward revaluation of assets	129	32,133
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	0	0
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	**31,531**	**33,179**
Difference between fair value depreciation and historical cost depreciation	(965)	(1,777)
Balance at 31 March	**30,566**	**31,402**

(ii) Movement in the year: Capital Adjustment Account

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

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

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

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

	31 March 2011		31 March 2010	
	£,000	£,000	£,000	£,000
Balance at 1 April		**133,049**		**157,755**
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:				
Charges for depreciation and impairment of non current assets	(9,963)		(6,411)	
Revaluation losses on Property, Plant and Equipment	(2,694)		(32,483)	
Revenue expenditure funded from capital under statute	0		0	
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(2,908)		(2,710)	
		(15,565)		**(41,604)**
Adjusting amounts written out of the Revaluation Reserve		905		1,777
Net written out amount of the cost of non current assets consumed in the year		**(14,660)**		**(39,827)**
Capital financing applied in the year:				
Use of the Capital Receipts Reserve to finance new capital expenditure	2,354		2,399	
Use of the Major Repairs Reserve to finance new capital expenditure	0		1,088	
Loans Lease principal repayments	1,689		2,404	
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	0		0	
Application of grants to capital financing from the Capital Grants Unapplied Account	13,416		6,070	
Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	0		0	
Capital expenditure charged against the General Fund and HRA balances	2,403		451	
		19,862		**12,412**
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		0		2,709
Movement in the Donated Assets Account credited to the Comprehensive Income and Expenditure Statement		0		0
Balance at 31 March		**138,251**		**133,049**

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

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

	31 March 2011	31 March 2010
	£,000	£,000
Balance at 1 April	**(475)**	**(542)**
Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement	0	0
Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	0	0
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	54	67
Balance at 31 March	**(421)**	**(475)**

(iv) Movement in the year: Pension Reserve

The Pension Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions or regulations. The council accounts for post-employment benefits in the comprehensive income and expenditure statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the council makes employer's contributions to pension funds. The debit balance on the Pension Reserve shows a significant shortfall in the benefits earned by past and current employees. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid. Employers' contribution rates and contribution strategy will be reviewed following the next formal pension fund valuation as at 31 March 2011.

	31 March 2011	31 March 2010
	£,000	£,000
Balance at 1 April	**(54,703)**	**(20,206)**
Actuarial gains or losses on pensions assets and liabilities	23,494	(33,616)
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	15,540	(881)
Balance at 31 March	**(15,669)**	**(54,703)**

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

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

	31 March 2011	31 March 2010
	£,000	£,000
Balance at 1 April	**(2,695)**	**(2,585)**
Settlement or cancellation of accrual made at the end of the preceding year	439	0
Amounts accrued at the end of the current year	0	(110)
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	0	0
Balance at 31 March	**(2,256)**	**(2,695)**

Note 25 Cash flow statement: operating activities – adjustments to the net provision of services for non-cash movements

	2010-11	2009-10
	£,000	£,000
Adjustment to surplus or deficit on the provision of services for noncash movements		
Depreciation	9,384	6,467
Impairment & downward revaluations (& non-sale de-recognitions)	3,273	32,230
Excess of depreciation charged to HRA Services over the Major repair -s allowance element of housing subsidy	0	0
Amortisation (included with depreciation above)	0	0
(Increase)/Decrease in Stock	(9)	(36)
(Increase)/Decrease in Debtors	(1,015)	592
Housing Pooled Capital Receipts	0	0
Increase/(decrease) in impairment provision for bad debts	209	114
Increase/(Decrease) in Creditors	1,134	898
Increase/(Decrease) in Interest Creditors	0	0
Movements in the Pension Reserve not relating to actuarial changes	(15,540)	881
Carrying amount of non-current assets sold	2,567	2,168
WIP written off to Net Cost of Services	0	0
Investment Income not involving movement of cash	(10,279)	(26,914)
Contributions to Other Reserves/Provisions	7,696	(8,419)
Movement in value of investment properties-included above in Impairment & downward revaluations (& non-sale de-recognitions)	(22)	(5,388)
Amounts posted to CIES from Donated Assets Account	0	0
	(2,602)	**2,593**
Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities		
Purchase of short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)	201,516	176,145
Proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)	(200,508)	(176,598)
Proceeds from the sale of PP&E, investment property and intangible assets	0	0
Capital grants included in "Taxation & non-specific grant income"	0	0
	1,008	**(453)**

Note 26 Cash flow statement: investing activities

	2010-11	2009-10
	£,000	£,000
Purchase of PP&E, investment property and intangible assets	20,412	10,227
Purchase of Short Term Investments (not considered to be cash equivalents)	27,232	0
Purchase of Long Term Investments	0	1,099
Other Payments for Investing Activities	1,319	53
Proceeds from the sale of PP&E, investment property and intangible assets	(1,978)	(1,500)
Proceeds from Short Term Investments (not considered to be cash equivalents)	0	0
Proceeds from Long Term Investments	0	0
Capital Grants and Contributions Received	(13,238)	(6,047)
Other Receipts from Investing Activities	(4,236)	(592)
Net Cash flows from Investing Activities	**29,511**	**3,240**

Note 27 Cash flow statement: financing activities

	2010-11	2009-10
	£,000	£,000
Cash Receipts from Short and Long Term Borrowing	0	0
Other Receipts from Financing Activities	(30,000)	(10,209)
Cash payments for the reduction of the outstanding liability relating to a finance lease and on-Balance Sheet PFI contracts	0	0
Repayment of Short and Long Term Borrowing	0	10,000
Other payments for Financing Activities	0	0
Net Cash flows from Financing Activities	**(30,000)**	**(209)**

Note 28 Amounts reported for resource allocation decisions

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

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

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

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

Service Area income and expenditure analysis 2010-11	Education	Leisure & Cultural	Community Social Services	Roads	Transport	Environmental Services	Housing Revenue Account	Harbours	Total
	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000
Fees, charges & other income	724	715	2,061	129	52	772	2,071	7,507	**14,031**
Government grants	316	0	2	223	130	35	16	0	**722**
Other grants & contributions	535	365	2,797	16	15	39	33	1,267	**5,067**
Total Income	**1,575**	**1,080**	**4,860**	**368**	**197**	**846**	**2,120**	**8,774**	**19,820**
Employee expenses	20,452	2,146	14,699	1	387	620	510	3,774	**42,589**
Other service expenses	9,137	3,040	5,888	4,563	8,746	3,627	1,180	3,936	**40,117**
Support service recharges	753	345	970	185	114	315	358	366	**3,406**
Total Expenditure	**30,342**	**5,531**	**21,557**	**4,749**	**9,247**	**4,562**	**2,048**	**8,076**	**86,112**
Net Expenditure	**28,767**	**4,451**	**16,697**	**4,381**	**9,050**	**3,716**	**(72)**	**(698)**	**66,292**

Service Area income and expenditure analysis 2009-2010 comparative figures	Education	Leisure & Cultural	Community Social Services	Roads	Transport	Environmental Services	Housing Revenue Account	Harbours	Total
	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000
Fees, charges & other income	749	790	2,231	117	49	757	1,970	6,752	**13,415**
Government grants	500	7	3	74	114	8	42	0	**748**
Other grants & contributions	208	245	2,881	13	165	47	30	0	**3,589**
Total Income	**1,457**	**1,042**	**5,115**	**204**	**328**	**812**	**2,042**	**6,752**	**17,752**
Employee expenses	20,628	2,146	14,522	0	249	788	353	5,885	**44,571**
Other service expenses	7,875	2,748	5,371	4,325	9,126	3,426	860	3,423	**37,154**
Support service recharges	883	373	971	201	118	298	341	298	**3,483**
Total Expenditure	**29,386**	**5,267**	**20,864**	**4,526**	**9,493**	**4,512**	**1,554**	**9,606**	**85,208**
Net Expenditure	**27,929**	**4,225**	**15,749**	**4,322**	**9,165**	**3,700**	**(488)**	**2,854**	**67,456**

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

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

	2010-11	2009-10
	£m	£m
Net expenditure in the [Directorate] Analysis	66.292	67.456
Net expenditure of services and support services not included in the Analysis	2.217	16.165
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	8.626	40.142
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	(3.941)	(9.013)
Cost of Services	**73,194**	**114,750**

Reconciliation to subjective analysis of income and expenditure

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

2010-11	Directorate Analysis	Services and Support Services not in Analysis	Amounts not reported to management for decision making	Amounts not included in I&E	Cost of Services	Corporate Amounts	Total
	£,000	£,000	£,000	£,000	£,000	£,000	£,000
Government Grants	722	4,614	0	0	5,336	75,442	**80,778**
Other Grants, Reimbursements & Contributions	3,372	3,441	0	0	6,813	1,073	**7,886**
Rents & Lettings	2,722	440	0	0	3,162	1,172	**4,334**
Sales	1,120	45	0	0	1,165	0	**1,165**
Investment Income	15	0	0	0	15	10,037	**10,052**
Interest & Loans	10,171	989	0	0	11,160	980	**12,140**
Fees & Charges	0	0	0	0	0	1,470	**1,470**
Miscellaneous Income	1,972	704	(2,329)	0	347	0	**347**
Capital Grants & Contributions	0	5,348	0	0	5,348	13,416	**18,764**
Income from Council Tax	0	0	0	0	0	7,881	**7,881**
Total Income	**20,094**	**15,581**	**(2,329)**	**0**	**33,346**	**111,471**	**144,817**
Staff Costs	41,460	11,336	(434)	0	52,362	3,321	**55,683**
Property Costs	7,340	1,104	0	0	8,444	967	**9,411**
Supplies & Services	2,859	2,159	0	0	5,018	545	**5,563**
Transport Costs	3,695	221	0	0	3,916	151	**4,067**
Administration Costs	1,098	1,309	0	0	2,407	158	**2,565**
Apportioned Costs	3,406	0	0	0	3,406	61	**3,467**
Third Party Payments	16,263	3,498	0	0	19,761	1,699	**21,460**
Transfer Payments	1,475	6,002	0	0	7,477	303	**7,780**
Miscellaneous Expenditure	8,757	4,673	(5,140)	0	8,290	0	**8,290**
Finance and Capital Charges	22	4,447	0	(3,941)	528	1,196	**1,724**
Depreciation and Impairment	11	(1,201)	11,881	0	10,691	256	**10,947**
Gain or Loss on Disposal of Fixed Assets	0	0	0	0	0	930	**930**
Accounting for Pensions	0	(15,749)	(11)	0	(15,760)	220	**(15,540)**
Total expenditure	**86,386**	**17,799**	**6,296**	**(3,941)**	**106,540**	**9,807**	**116,347**
Surplus or deficit on the provision of services	**66,292**	**2,218**	**8,625**	**(3,941)**	**73,194**	**(101,664)**	**(28,470)**

2009-10 comparative figures	Directorate Analysis	Services and Support Services not in Analysis	Amounts not reported to management for decision making	Amounts not included in I&E	Cost of Services	Corporate Amounts	Total
	£,000	£,000	£,000	£,000	£,000	£,000	£,000
Government Grants	741	4,863	0	0	5,604	72,178	**77,782**
Other Grants, Reimbursements & Contributions	6,487	(2,978)	0	0	3,509	1,719	**5,228**
Rents & Lettings	0	0	0	0	0	1,246	**1,246**
Sales	0	0	0	0	0	144	**144**
Investment Income	0	0	0	0	0	26,618	**26,618**
Interest & Loans	14	594	0	0	608	1,258	**1,866**
Fees & Charges	15,329	(1,346)	0	0	13,983	926	**14,909**
Miscellaneous Income	303	72	0	0	375	35	**410**
Capital Grants & Contributions	0	0	0	0	0	6,070	**6,070**
Income from Council Tax	0	0	0	0	0	7,650	**7,650**
Total Income	**22,874**	**1,205**	**0**	**0**	**24,079**	**117,844**	**141,923**
Staff Costs	59,106	(11,699)	3,194	(5,729)	44,872	2,991	**47,863**
Property Costs	6,968	27	-	-	6,995	823	**7,818**
Supplies & Services	4,218	404	0	0	4,622	488	**5,110**
Transport Costs	4,639	(355)	0	0	4,284	136	**4,420**
Administration Costs	1,496	(41)	0	0	1,455	145	**1,600**
Apportioned Costs	4,454	1,928	0	0	6,382	60	**6,442**
Third Party Payments	16,977	2,419	0	0	19,396	391	**19,787**
Transfer Payments	1,503	2,529	0	0	4,032	2,092	**6,124**
Miscellaneous Expenditure	6,696	2,652	0	0	9,348	31	**9,379**
Finance and Capital Charges	37	3,742	0	(3,284)	495	713	**1,208**
Depreciation and Impairment	0	0	35,125	0	35,125	1,618	**36,743**
Gain or Loss on Disposal of Fixed Assets	0	0	0	0	0	1,211	**1,211**
Accounting for Pensions	0	0	1,823	0	1,823	1,710	**3,533**
Total expenditure	**106,094**	**1,606**	**40,142**	**(9,013)**	**138,829**	**12,409**	**151,238**
Surplus or deficit on the provision of services	**83,220**	**401**	**40,142**	**(9,013)**	**114,750**	**(105,435)**	**9,315**

Note 29 Acquired and Discontinued Operations
The Council has no acquired or discontinued operations in the year to 31 March 2011.

Note 30 Trading operations
Following a review of the Councils trading operations it was reaffirmed that no significant trading operations existed which required the establishment of separate trading accounts.

Note 31 Agency Services
The Council does not provide any agency services to any organisations out with its group.

Note 32 Road Charging Schemes Under the Transport (Scotland) Act 2001
The Council does not operate a road charging or workplace charging scheme.

Note 33 Pooled Budgets
The Council has not entered into any pooled budget arrangements during the year to 31 March 2011.

Note 34 Members Allowances

These details are included in the Remuneration Report on pages 14 to 19.

Note 35 Officers Remuneration

These details are included in the Remuneration Report on pages 14 to 19.

Note 36 External audit costs

Fees payable to Audit Scotland in respect of external audit services undertaken in accordance with Audit Scotland's *Code of Audit Practice* in 2010-2011 were £0.215 million (£0.215 million in 2009-2010). There were no fees paid to Audit Scotland in respect of any other services.

Note 37 Dedicated Schools Grant

Not required for Scottish local authorities.

Note 38 Capital Grants Receipts in Advance

The Council credited the following grants to the comprehensive income and expenditure account in 2010/11.

Total Scottish Government Grants Received	**2010/11**
	£m
Other Education Grants	0.305
College - Scottish Funding Council Grants	1.666
Other Miscellaneous Grants	0.310
Structural Maintenance - Reconstruction	0.223
Other CSS Grants	0.001
Homelessness Strategy	0.003
Transportation	0.084
TOTAL	**2.592**

Credited to Services	
Central services	0.032
Education	0.307
Roads and Transportation	0.304
Housing Revenue Account	0.016
Housing services	0.178
Community Social Services	0.002
Planning and Development	(0.010)
Environmental Services	0.033
Corporate and democratic core	0.064
Orkney College	1.666
	2.592

The council has received a capital grant that has yet to be recognised as income. This is because this grant has conditions attached to it that remain outstanding, and which would require the monies to be returned to the grantor. The balance at 31 March 2011 is as follows:

1 April 2009	31 March 2010		31 March 2011
£m	£m	*Capital Grants Receipts in Advance*	£m
0.025	0.025	NHS Orkney - Hydrotherapy Equipment Upgrade	0.000
0.070	0.093	Scottish Government - Telecare Funding	0.105
0.023	0.000	NHS Orkney - Occupational Therapy Store	0.000
0.000	0.354	Scottish Government - Stromness Town Heritage	0.201
0.020	0.020	LIDL Store – Proposed Road Works	0.020
0.034	0.034	HITRANS – North Ronaldsay Airfield Works	0.034
0.172	**0.526**	**Total Capital Grants Receipts in Advance**	**0.360**

Note 39 Related parties

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

Scottish Government

Scottish Government have effective control over the general operations of the council, being responsible for providing the statutory framework within which the council operates. The Scottish Government provides the majority of the council's funding in the form of grants and prescribes the terms of many of the transactions that the council has with other parties (such as council tax bills and housing benefits). Grants received from the Scottish Government are set out in the subjective analysis in note 38 on amounts reported for resource allocation decisions. Grant receipts outstanding at 31 March 2011 are shown in note 38.

Companies and Joint Boards

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

Officers

The operation of a car loan scheme which was available to assist officers of the council in the discharge of their duties is deemed to be a related party transaction. This scheme is no longer active.

Pension fund

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

	2010-11			2009-10		
	Receipts	**Payments**	Debtor / (Creditor)	**Receipts**	**Payments**	Debtor / (Creditor)
	£m	£m	£m	£m	£m	£m
Scottish Government						
Revenue Grants	65.518			61.902		
Being payments made in support of Revenue Expenditure						
Capital Grants	5.738			3.872		
Being payments made in support of Capital Expenditure						
Companies and Joint Boards						
Orkney Towage Company Limited		2.750	(0.072)		1.540	0.005
Being payments made for the provision of Towage Services						
Orkney Ferries Limited		6.883	(1.134)		6.904	(0.679)
Being payments made in support of the Ferry Services						
Northern Joint Police Board		1.245	0.154		1.713	0.147
Highlands and Islands Fire Board		1.665	(0.091)		1.824	(0.012)
Orkney and Shetland Valuation Joint Board		0.269	0.016		0.286	
Being payments of annual requisition to Joint Boards						
Officers						
Being advances and repayments of Car Loans	0.017			0.023		
Orkney Islands Pension Fund						
Being payments of employers contributions in respect of employees		5.960			5.413	

Note 40 Capital expenditure and capital financing

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

Capital Expenditure and Capital Financing	**2010-11**	**2009-10**
	£,000	£,000
Opening Capital Financing Requirement	**35,065**	**37,239**
Property, Plant and Equipment	19,366	9,877
Investment Properties	941	260
Intangible Assets	105	90
Other	248	241
Revenue Expenditure Funded from Capital under Statute	0	0
	20,660	**10,468**
Sources of finance		
Capital receipts	(2,354)	(2,399)
Government grants and other contributions	(13,416)	(6,070)
Other Contributions	(2,423)	(1,548)
Major Repairs Allowance	0	0
Sums set aside from revenue:		
Direct revenue contributions:		
General	(2,160)	(451)
HRA	(243)	0
Developers Contributions S106	0	0
Loans fund principal	797	(2,174)
	(19,799)	**(12,642)**
Closing Capital Finance Requirement	**35,926**	**35,065**
Explanation of movements in year		
Increase in underlying need to borrowing (supported by government financial assistance)	0	0
Increase in underlying need to borrowing (unsupported by government financial assistance)	797	(2,174)
Assets acquired under finance leases:	0	0
Assets acquired under PFI/PPP contracts	0	0
Increase/(decrease) in Capital Financing Requirement	**797**	**(2,174)**

At 31 March 2011 the Council had commitments on capital contracts for non-housing projects of £56.298 million and for housing projects of £5.426 million. This expenditure will be funded from a combination of government grants, external borrowing, and income from selling assets and contributions from revenue budgets.

Note 41 Leases

<u>Orkney Islands Council as Lessee</u>

Finance Leases

The Council has not entered into any finance lease agreements.

Operating Leases

The Council has acquired properties by entering into operating leases.

The expenditure charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was £0.426m (2009/10 £0.509m).

Future minimum payments are set out below:-

	2010/11		2009/10	
	Land and buildings	Vehicles, plant and equipment	Land and buildings	Vehicles, plant and equipment
	£,000	£,000	£,000	£,000
Minimum lease rentals payable:				
No later than 1 year	86	0	86	0
Later than 1 year and no later than 5 years	341	0	327	0
Later than 5 years	2,491	0	2,572	0
	2,918	**0**	**2,985**	**0**

<u>Orkney Islands Council as Lessor</u>

Finance Leases

The Council has not entered into any finance lease agreements.

Operating Leases

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

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

The total value of rental income recognised during the period was £1.529m (2009/10 £1.410m). No contingent rents were recognised.

Future minimum lease income is set out below:-

	2010/11		2009/10	
	Land and buildings	Vehicles, plant and equipment	Land and buildings	Vehicles, plant and equipment
	£,000	£,000	£,000	£,000
Minimum lease rentals payable:				
No later than 1 year	1,588	0	1,545	0
Later than 1 year and no later than 5 years	4,920	0	5,022	0
Later than 5 years	17,751	0	18,106	0
	24,259	**0**	**24,673**	**0**

Note 42 Private Finance Initiatives and Similar Contracts
The Council has not entered into any PFI or similar arrangements during the year to 31 March 2011.

Note 43 Impairment Losses
The Code requires disclosure by class of assets of the amounts for impairment losses and impairment reversals charged to the Surplus or Deficit on the Provision of Services and to Other Comprehensive Income and Expenditure. These disclosures are consolidated in Note 12 reconciling the movement over the year in the Property, Plant and Equipment and Intangible Asset balances.

Note 44 Capitalisation of Borrowing Costs
The Council does not capitalise its borrowing costs.

Note 45 Termination benefits
The Council did not pay any employee termination benefits during the year 2010/11.

Note 46 Pension schemes accounted for as defined contribution schemes
The Scottish Teachers' Superannuation Scheme is a contributory pension scheme administered and regulated by the Scottish Public Pensions Agency (an executive agency of the Scottish Government) on behalf of the Scottish Ministers. The Scottish Teachers' Superannuation Scheme is a defined benefit scheme but, as it is not possible to identify each participating council's share of the underlying liabilities on a consistent and reasonable basis, the Scottish Teachers' Superannuation Scheme is accounted for as if it were a defined contribution scheme. Throughout the year the council's rate of contribution as employer was 14.9% (14.9% in 2009-2010) and the employee rate was 6.4% (6.4% in 2009-2010). The council paid £1.813 million (£1.792 million in 2009-2010) for employer's contributions to the Scottish Public Pensions Agency. £0.286 million of expenditure (£0.287 million in 2009-2010) was charged to service revenue accounts in respect of "added years" pension enhancement termination benefits, representing 2.35% of employees' pensionable pay (2.39% in 2009-2010).

Note 47 Defined benefit pension schemes
(i) Participation in pension schemes

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

The council participates in two pension schemes: one which is exclusive to teachers and one which is open to all other employees. The pension scheme for teachers – the Scottish Teachers' Superannuation Scheme – is explained in note 46 whilst this note relates exclusively to the pension scheme for all other employees – the Local Government Pension Scheme.

The Local Government Pension Scheme in Scotland (LGPS) is a funded, defined benefit, statutory occupational pension scheme. It is regulated by the Scottish Public Pensions Agency (an executive agency of the Scottish Government), but is administered locally by fund administering authorities through regional pension funds. Orkney Islands Council is the fund administering authority. As a funded scheme, the council and employees pay contributions into the fund, calculated at a level intended to balance the scheme's pension liabilities with the scheme's investment assets. The statutory nature of the fund means that the post-employment benefits are defined and set out in law.

The council has additional liabilities for unfunded discretionary pension payments outside the main schemes such as arrangements for the award of discretionary post-employment benefits upon early retirement. This is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there is no investment assets built up to meet these pensions' liabilities, and cash has to be generated to meet actual pension's payments as they eventually fall due.

(ii) Transactions relating to post-employment benefits

The council accounts for post-employment benefits in the **comprehensive income and expenditure statement** as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and accounting for investment returns on any resources set aside to meet the costs. However, the charge according to statutory regulations that is required to be made against the General Fund Balance and the Housing Revenue Account Balance is based upon the employer contributions payable by the council to the pension fund in the year. This requires an adjustment to be made in the **movement in reserves statement** to remove the cost (according to generally accepted accounting practices) of post-employment benefits, and replace that cost with the value of employer contributions payable to the fund in the year. The following transactions have been made in the **comprehensive income and expenditure statement** and the General Fund Balance via the **movement in reserves statement** during the year:

2009-2010		2010-2011
£m		£m
	Included within net cost of services:	
3.341	Current service cost	6.526
1.359	Past service cost	(15.768)
0.464	Losses or (gains) on curtailments and settlements	0.019
	Included within financing and investment income and expenditure:	
7.291	Interest cost	9.377
(5.581)	Expected return on scheme assets	(9.157)
6.874	**Total of LGPS post-employment benefits charged to the surplus or deficit on the provision of services**	**(9.003)**
	Included within other comprehensive income and expenditure:	
33.616	Actuarial losses or (gains)	(23.494)
40.490	**Total of LGPS post-employment benefits charged to the comprehensive income and expenditure statement**	**(32.497)**
	Movement in reserves statement:	
33.616	Actuarial losses or (gains)	(23.494)
6.874	Reversal of items relating to post-employment benefits debited or credited to the surplus or deficit on the provision of services in the comprehensive income and expenditure statement	(9.003)
(5.993)	Employer contributions and direct payments to pensioners payable in the year	(6.537)
(34.497)	**Movement in the year on the Pension Reserve**	**(39.034)**

The cumulative amount of actuarial gains and losses recognised in the **comprehensive income and expenditure statement** as at 31 March 2011 is a loss of £10.418 million (£33.912 million at 31 March 2010). The total contributions expected to be made by the council to the Pension Fund in the forthcoming year to 31 March 2012 is £6.204 million.

(iii) Assets and liabilities relating to post-employment benefits

Orkney Islands Council's share of the defined benefit obligation (that is, the scheme liabilities) and of the scheme assets in the Pension Fund has been assessed by Hymans Robertson LLP, the Fund's independent actuaries. The assessment indicates that, as at 31 March 2011, the defined benefit obligation exceeded scheme assets by £15.669 million (£54.703 million as at 31 March 2010). The defined benefit obligation is valued on an actuarial basis using the "projected unit credit" method, which estimates the pensions that will be payable in future years (dependent on assumptions about mortality rates, salary levels and other factors) discounted to their present value. The discount rate used at 31 March 2011 was 5.5% based on the indicative rate of return on high quality corporate bonds. Scheme assets are valued at fair value which, in the case of marketable securities, is market value using the current bid price. Where no market price is available, the fair value of scheme assets is estimated. The valuations are based on the latest formal valuation of the Pension Fund which was carried out as at 31 March 2008.

The common position for employers participating in the Pension Fund is that, based on a snapshot valuation as at 31 March 2011, a net pension liability is disclosed as a result of prevailing market conditions at that date. The net pension liability of £15.669 million represents a decrease of £39.034 million between 31 March 2010 and 31 March 2011. The net pension liability has a substantial impact on the net worth of the council as recorded in the **balance sheet**. However, statutory arrangements for funding the deficit mean that the financial position of the council remains assured. The deficit on the Pension Fund will be made good by increased contributions over the remaining working life of employees, as assessed by the Fund's actuaries.

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 arising from the pension scheme deficits of the Northern Joint Police Board, the Highlands and Islands Fire Board and the Orkney and Shetland Valuation Joint Board. In accordance with accounting regulations, the group accounts as set out on pages 97 to 115 include a share of the post-employment benefits transactions, defined benefit obligations and scheme assets of these joint boards. Further information can be found in the annual report and accounts of each joint board.

(iv) Movement in defined benefit obligation (scheme liabilities)

The following is a reconciliation of the 2010-2011 opening and closing balances of the present value of Orkney Islands Council's Pension Fund's defined benefit obligation (that is, scheme liabilities).

2009-2010		2010-2011
£m		£m
104.155	Opening balance at 1 April 2010	179.757
3.341	Current service cost	6.526
7.291	Interest cost	9.377
1.854	Member contributions	1.904
65.232	Actuarial losses or (gains)	(17.662)
1.359	Past service cost	(15.768)
0.464	Losses or (gains) on curtailment	0.019
0.000	Liabilities extinguished on settlement	0.000
0.000	Liabilities assumed in entity combinations	0.000
(0.580)	Estimated benefits paid: unfunded	(0.577)
(3.359)	Estimated benefits paid: other	(3.524)
179.757	**Closing balance at 31 March 2011**	**160.052**

(v) Movement in scheme assets

The following is a reconciliation of the 2010-2011 opening and closing balances of the fair value of Orkney Islands Council's Pension Fund's scheme assets.

2009-2010		2010-2011
£m		£m
83.949	Opening balance at 1 April 2010	125.054
5.581	Expected return on scheme assets	9.157
1.854	Member contributions	1.904
5.413	Employer contributions	5.960
0.580	Contributions in respect of unfunded benefits	0.577
31.616	Actuarial losses or (gains)	5.832
0.000	Assets distributed on settlement	0.000
0.000	Assets acquired in entity combinations	0.000
(0.580)	Estimated benefits paid: unfunded	(0.577)
(3.359)	Estimated benefits paid: other	(3.524)
125.054	**Closing balance at 31 March 2011**	**144.383**

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

The actual return on scheme assets in 2010-2011 was £14.191 million (£45.437 million in 2009-2010).

(vi) Scheme history: analysis of defined benefit obligation and scheme assets

The council's share of the accumulated deficit or surplus in the scheme is shown below, for each of the last five years. The analysis shows the nature of various elements of the council's share of the scheme's defined benefit obligation and the major asset categories that constitute the council's total share of the scheme assets:

	31 March 2007	31 March 2008	31 March 2009	31 March 2010	31 March 2011
	£m	£m	£m	£m	£m
Fair value of scheme assets	95.330	99.790	83.949	125.054	144.383
Fair value of scheme liabilities	(117.462)	(104.573)	(104.155)	(179.757)	(160.052)
Council's share of (deficit) or surplus in the scheme	**(22.132)**	**(4.783)**	**(20.206)**	**(54.703)**	**(15.669)**

Basis for estimating assets and liabilities

The following table shows the principal assumptions used by Hymans Robertson LLP, the Fund's independent actuaries, to estimate the council's post-employment benefits transactions for 2010-2011, and the council's share of the Pension Fund's defined benefit obligation (scheme liabilities) and scheme assets as at 31 March 2011:

31 March 2010		31 March 2011
5.5%	Discount rate for defined benefit obligation	5.5%
	Long-term expected rate of return on scheme assets:	
7.8%	Equity instruments	7.5%
5.0%	Debt instruments	4.9%
5.8%	Property	5.5%
4.8%	All other assets	4.6%
5.3%	Rate of increase in salaries*	5.1%
3.8%	Rate of increase in pensions	2.8%
3.8%	Rate of inflation	2.8%
	Mortality assumptions:	
	Longevity at age 65 for current pensioners:	
21.5 years	Men	21.5 years
24.9 years	Women	24.9 years
	Longevity at age 65 for future pensioners:	
23.5 years	Men	23.5 years
27.0 years	Women	27.0 years
	Commutation assumptions - percentage of the maximum additional tax-free cash (per HM Revenue & Customs limits) converted from annual pension into retirement lump sum:	
50%	for pre-April 2009 service	50%
75%	for post-April 2009 service	75%

**Salary increases are 0.0% pa nominal for the years to 31 March 2012 and 31 March 2013, reverting to 5.1% pa thereafter.*

History of experience gains and losses

The actuarial gains and losses identified as movements on the Pension Reserve in each of the last five years can be analysed into the following categories, measured as a percentage of assets or liabilities at each year-end:

	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011
	%	%	%	%	%
Experience (gains and (losses) on Assets	4.0	25.3	(31.6)	(6.8)	4.04
Experience (gains and (losses) on Liabilities	(0.2)	(0.4)	0.1	(0.7)	(0.24)

(v) Statutory Accounts

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

Note 48 Contingent liabilities
The Council has no material contingent liabilities as at 31 March 2011.

Note 49 Contingent assets
The Council has no material contingent assets as at 31 March 2011.

Note 50 Nature and extent of risks arising from Financial Instruments
The Authority's activities expose it to a variety of financial risks:

• credit risk – the possibility that other parties might fail to pay amounts due to the Authority

• liquidity risk – the possibility that the Authority might not have funds available to meet its commitments to make payments

• market risk – the possibility that financial loss might arise for the Authority as a result of changes in such measures as interest rates and stock market movements.

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

Credit Risk

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

Deposits are not made with banks and financial institutions unless they are rated independently with minimum score of A1/P1/F1 short term debt ratings with Moodys, Standard & Poors or Fitch. The authority has a policy of not lending more than £10M of its surplus balances to individual institutions at any one time.

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

2010-2011	Amount at 31 March 2010	Historical experience of non-payment adjusted for market conditions at 31 March 2010	Adjustment for Market Conditions @ 31/03/11	Estimated maximum exposure to default and uncollectability at 31 March 2010
	£m	%	%	£m
Deposits with financial institutions and local authorities	44.305	0.0%	0.0%	0.000
Customers (sundry income)	7.991	5.0%	19.40%	1.550
Total	**52.296**			**1.550**

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

The Authority does not generally allow credit for customers, such that £2.268M of the £3.967M balance is past its due date for payment. The past due but not impaired amount can be analysed by age as follows:

31 March 2010		31 March 2011
£m		£m
0.286	Less than three months	0.342
0.357	Three to six months	0.205
0.314	Six months to one year	0.209
1.406	More than one year	1.512
2.363	**Sundry income debtors balance**	**2.268**

Collateral
Orkney Islands Council acts as the lender of last resort for housing loans. In such cases the council takes a standard security over the property. As at 31 March 2011 the outstanding value of loans advanced by the council was £0.174 million (£0.162 million as at 31 March 2010).

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

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

	31/03/11	31/03/10
	£m	£m
Less than one year	0	0
Between one and two years	0	0
Between two and five years	10.000	10.000
More Than 5 Years	30.000	0
	40.000	**10.000**

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

Market risk: interest rate risk

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

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

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

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

To illustrate the notional impact of changes in interest rates upon the council, the following table shows the financial effect if rates had been 1% higher during 2010-2011, with all other variables held constant.

	31/03/11	31/03/10
	£,000	£,000
Increase in interest payable on variable rate borrowings	0	0
Increase in interest receivable on variable rate investments	-747	-374
Increase in government grant receivable for financing costs	0	0
Impact on Surplus or Deficit on the Provision of Services	**-747**	**-374**
Share of overall impact debited to the HRA	0	0
Decrease in fair value of fixed rate investment assets	52	67
Impact on Other Comprehensive Income and Expenditure	0	0
Decrease in fair value of fixed rate borrowings liabilities (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure)	**52**	**67**

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

Market risk: price risk

The authority held £143.349M of investments as at 31 March 2011 in the form of equity shares and bonds, including £1.162M in a number of joint ventures and in local industry. The authority is consequently exposed to losses arising from movement in the price of the shares.

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

These clearly defined shares are all classified as 'for profit or sale', meaning that all movements in price will impact directly on the income and expenditure account. A general shift of 5% in the general price of shares (positive or negative) would have resulted in a £7.168M gain or loss being recognised in the income and expenditure account.

Market risk: foreign exchange risk

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

Note 51 Impact of Adoption of International Financial Reporting Standards

These are the Council's first financial statements prepared in accordance with Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (the Code).

The Code requires that for the first time, Local Authority accounts in 2010/11 should be prepared in accordance with International Financial Reporting Standards (except in instances where the Code allows departures). The date of transition to IFRS is 1 April 2009. Comparative figures for the 2008/09 and 2009/10 Balance Sheets as well as the 2009/10 Comprehensive Income and Expenditure Statement should be restated from UK Generally Accepted Accounting Principles (UK GAAP) where required.

The Council's IFRS accounting policies presented in Note 1 have been applied in preparing the financial statements for the year ended 31 March 2011, the comparative information and the opening statement of financial position at the date of transition.

The Council has applied the IFRS 1 First-time Adoption of International Financial Reporting Standards in preparing these first IFRS compliant financial statements, except in cases where interpretations or adaptations to fit the public sector, have been prescribed by the Code of Practice on Local Authority Accounting (The Code). Material differences between amounts presented under the SORP 2009 and the IFRS-based Code are explained below.

Although the general requirement is to apply the requirements of IFRS retrospectively, IFRS 1 permits limited exceptions to this requirement. The Code clearly specifies which exemptions from retrospective application are available to local authorities. Therefore, Orkney Islands Council has made use of the following exemptions available under the Code:

Depreciated Historical Cost - The Revaluation Reserve was first introduced in the SORP on 1 April 2007. As part of the transition arrangements to the Revaluation Reserve, the SORP required the reserve to be established with a zero balance on 1 April 2007. The carrying amounts of an authority's assets were deemed to be their depreciated historical cost. Paragraph 10.1.1.8 of the Code preserves this treatment.

IFRIC 4 Determining Whether an Arrangement Contains a Lease - IFRIC 4 requires authorities to review their contractual arrangements and assess whether these contracts contain, in substance, a lease. Where this is the case, authorities will need to separate the lease from the remainder of the contract, and account for the lease in accordance with IAS 17 and the Code. Where arrangements were in place prior to 1 April 2009 (the transition date), the Code requires authorities to make the assessment of whether an arrangement contains a lease based on the facts and circumstances existing at that date (i.e. 1 April 2009). This approach has been taken due to the complex nature of such arrangements, and the difficulties of establishing what information would have been available at the inception of the arrangement. Instead, authorities can rely on the information available about conditions applying at the transition date.

(i) Government Grants

Under the Code, grants and contributions for capital schemes are recognised as income when they become receivable. Previously, grants were held in a grants deferred account and recognised as income over the life of the assets which they were used to fund.

As a result of adopting the accounting policy required by the Code all deferred government grants have been written out of the liabilities in the balance sheet, recognised through the Comprehensive Income and Expenditure Account and subsequently transferred from the General Fund to the Capital Adjustment Account. The financial statements have been amended as follows:

(a) The balance on the Government Grants Deferred Account at 31 March 2009 has been transferred to the Capital Adjustment Account in the opening 1 April 2009 balance sheet; and

(b) Portions of government grants deferred were previously recognised as income in 2009/10; these have been removed from the Comprehensive Income and Expenditure Statement in the comparative figures.

These have resulted in the following changes being made to the 2009/10 financial statements:-

Opening 1 April 2009 Balance Sheet

	2008/09 Statements	Adjustments Made
	£m	**£m**
Government Grants Deferred Account	54.553	(54.553)
Capital Adjustment Account	103.201	54.553
		0.000

31 March 2010 Balance Sheet

	2009/10 Statements	Adjustments Made
	£m	£m
Government Grants Deferred Account	585.68	(58.568)
Capital Adjustment Account	71.133	58.568
Capital Grants In Advance	0.000	0.000
		0.000

2009/10 General Fund Summary

	2009/10 Statements	Adjustments Made
	£m	£m
Central services	5.469	(0.049)
Cultural and Recreation	8.545	(0.034)
Education	35.429	(0.156)
Roads and Transportation	16.921	(0.307)
Housing Revenue Account	8.676	(0.003)
Harbour Authority	8.571	(1.230)
Housing services	1.293	(0.012)
Community Social Services	15.976	(0.099)
Planning and Development	2.493	(0.016)
Environmental Services	4.296	(0.008)
Orkney College	1.097	(0.118)
	108.766	**(2.032)**

There is no change to the General Fund balance, as capital grant income is transferred out of the General Fund under both the previous and current accounting policies.

(ii) Short Term Accumulating Absences

Short-term accumulating compensated absences refer to benefits that employees receive as part of their contract of employment, entitlement to which is built up as they provide services to the Council. The most significant benefit covered by this heading is holiday pay.

Employees build up an entitlement to paid holidays as they work. Under the Code, the cost of providing holidays and similar benefits is required to be recognised when employees render services that increase their entitlement to future compensated absences. As a result, the Council is required to accrue for any annual leave earned but not taken at 31 March each year. Under the previous accounting arrangements, no such accrual was required.

The Scottish Government has introduced Statutory Mitigation for this additional cost so that its negative impact can be removed from the General Fund. The Regulations issued mean local Councils are only required to fund holiday pay and similar benefits when they are used, rather than when employees earn the benefits. Amounts are transferred to the Accumulating Compensated Absences Adjustment Account until the benefits are used.

Accruing for short-term accumulating compensated absences has resulted in the following changes being made to the 2009/10 financial statements:-

Opening 1 April 2009 Balance Sheet

	2008/09 Statements	Adjustments Made
	£m	£m
Short Term Creditors	9.120	2.585
Accumulating Compensated Absences Adjustment Account	0.000	(2.585)
		0.000

31 March 2010 Balance Sheet

	2009/10 Statements	Adjustments Made
	£m	**£m**
Short Term Creditors	9.554	2.695
Accumulating Compensated Absences Adjustment Account	0.000	(2.695)
		0.000

2009/10 General Fund Summary

	2009/10 Statements	Adjustments Made
	£m	£m
Central services	5.469	0.041
Cultural and Recreation	8.545	0.000
Education	35.429	0.063
Roads and Transportation	16.921	0.004
Housing Revenue Account	8.676	(0.001)
Harbour Authority	8.571	0.007
Housing services	1.293	0.003
Community Social Services	15.976	(0.016)
Planning and Development	2.493	(0.001)
Environmental Services	4.296	0.005
Corporate & Democratic Core	2.327	0.005
Orkney College	1.097	0.000
	111.093	**0.110**

(iii) Re-categorisation of Property Assets

IAS 40 *Investment property* and IAS 16 *Property, Plant and Equipment* modified the definitions of 'Property, Plant and Equipment' and, in particular, 'Investment Property'. The result of these changes was the re-categorisation of assets between assets headings as detailed below.

Opening 1 April 2009 Balance Sheet

	2008/09 Statements	Adjustments Made
	£m	£m
Non Current Assets		
Intangible assets	0.000	0.350
Property, plant and equipment - Council Dwellings	14.418	0.055
Property, plant and equipment - Other Land & Buildings	95.318	(1.257)
Property, plant and equipment - V,P,F&E	3.474	(0.350)
Property, plant and equipment - Infrastructure	72.071	0.294
Property, plant and equipment - Community assets	3.361	
Property, plant and equipment - Surplus assets	3.127	(1.219)
Investment property	21.847	2.248
Assets Under Construction	0.419	(0.280)
Assets held for sale	0.000	0.066
Current Assets		
Assets held for sale	0.000	0.093
		0.000

31 March 2010 Balance Sheet

	2009/10 Statements	Adjustments Made
	£m	£m
Non Current Assets		
Property, plant and equipment - Other Land & Buildings	105.583	**(0.011)**
Property, plant and equipment - V,P,F&E	3.319	**(0.011)**
Property, plant and equipment - Community assets	3.173	**(0.001)**
Property, plant and equipment - Surplus assets	1.663	**(0.301)**
Investment property	18.201	**(0.003)**
Assets Under Construction	3.616	**0.000**
Current Assets		
Assets held for sale	0.000	**0.253**
Reserves		
Capital Adjustment Account		**0.169**
Harbour Reserve		**(0.095)**
		0.000

(iv) Cash and Cash Equivalents

Under the Code Orkney Islands Council must show cash and cash equivalents as a single balance on the face of the I&E Account. Cash and cash equivalents include the bank balances, petty cash, overdrafts (if they are integral to the cash management of the organisation) and investments due to mature within 3 months of the balance sheet date. Therefore an adjustment was made to consolidate short term borrowing, cash balances with the overdraft balance as the latter is considered by the Council to integral to the day to day cash management of the organisation.

Opening 1 April 2009 Balance Sheet

	2008/09 Statements	Adjustments Made
	£m	£m
Current Assets		
Investments	27.282	(27.282)
Cash and Bank	0.009	(0.009)
Cash and Cash Equivalents	0.000	27.247
Current Liabilities		
Bank Overdraft	(0.044)	0.044
		0.000

31 March 2010 Balance Sheet

	2009/10 Statements	Adjustments Made
	£m	£m
Current Assets		
Investments	17.073	(17.073)
Cash and Bank	0.009	(0.009)
Cash and Cash Equivalents	0.000	17.041
Current Liabilities		
Bank Overdraft	(0.041)	0.041
		0.000

Note 52 Charitable and Non Charitable Trust Funds

This section of the Annual Accounts shows the summary of transactions relating to the Charitable and Non charitable Trust Funds administered by Orkney Islands Council as sole trustee. A summary of the balances held at 31 March 2011 and how these balances were invested is also detailed. Orkney Islands Council administers these Funds and separately accounts for them. They do not form part of the Council's single entity balance sheet, although under s222 of the Local Government (Scotland) Act 1973, the property of the Trust Funds "vest[s] in" the relevant local authority. However they are included in the annual accounts of the Council as a note to the core financial statements.

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

Summary Income and Expenditure Account

2009-2010				2010-2011
		Registered Charitable Trusts	Non Registered Trusts	Total
£000		£000	£000	£000
	Income			
(51)	Interest on Investments etc.	(7)	(42)	(49)
	Expenditure			
66	General Expenditure	22	22	44
15	**(Surplus)/Deficit for the Year**	**15**	**(20)**	**(5)**

Balance Sheet as at 31 March 2011

31 March 2010 £000		Note	Registered Charitable Trusts £000	Non Registered Trusts £000	31 March 2011 Total £000
2	Property		2	0	2
897	Short-term Deposits with Orkney Islands Council		249	647	896
(6)	Current Liabilities		0	(1)	(1)
893	**Total Assets less Liabilities**		**251**	**646**	**897**
	Represented by				
893	Trust Fund Balances		251	646	897
893	**Total Net Worth**	(iii)	**251**	**646**	**897**

(i) Registered as Charities

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

Orkney Educational Trust	SC019752	North Ronaldsay Common Good	SC014973
Sheriff Thoms Bequest	SC019753	Orkney Destitution Relief Committee	SC003598
Baron Stewart Moncrieff's	SC019754	Isabella Sutherland Isbister Bequest	SC003598
Frances Taylor's Bequest	SC019755	William J Brass Bequest	SC003598
James Cumming's Bequest	SC019756	Rev D Webster's Bequest	SC003598
Mrs Robina Heddle's Bequest	SC019757	Buttle Trust	SC003598
Ms Annie Peace’s Bequest	SC019758	Miss Maggie A Sutherland Bequest	SC003598
William Orkney Reid's Bursary Fund	SCO19761	Anderson Trust	SC003598
Baikie Bursary	SC019762	Queens Own Highlanders	SC003598
Mowat Bequest	SC019763	Lord Lieutenants Orkney Relief Fund	SC003598
Mrs Flett's Bequest	SC019764	John Murray Slater's Bequest	SC003598
County Home Comforts Fund	SC019765	PC Flett's Amenities Bequest	SC003598
St Peter's House Comforts Fund	SC019766	PC Flett's Cursiter Bequest	SC003598

(iii) Trust Fund Balances

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

	£000
Orkney Educational Trust	62
Various bursary awards made to individuals for further education opportunities, and in the promotion of sport, visual arts, music and drama.	
Sheriff Thoms Bequest	21
The restoration of St Magnus Cathedral.	
William Orkney Reid's Bursary Fund	11
To assist the education of any promising pupils of Kirkwall Grammar School.	
County Home Comforts Fund	36
To promote the social welfare and comfort of residents of the County Home subsequently renamed as St Rognvald's House, Kirkwall, Orkney.	
St Peter's House Comforts Fund	34
To promote the social welfare and comfort of residents of St Peters House, Stromness, Orkney.	
North Ronaldsay Common Good	13
Any common good project for North Ronaldsay.	
Others	74
For various purposes including the upkeep of lairs, financial assistance to poor and infirm persons, the provision of prizes to school pupils, and other charitable activities.	
Total	**251**

Note 53 Common Good Fund

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

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

2009-2010		2010-2011
		Total
£000		£000
	Income	
(35)	Interest on Investments etc.	(35)
	Expenditure	
44	General Expenditure	30
9	**(Surplus)/Deficit for the Year**	**(5)**

Balance Sheet as at 31 March 2011

31 March 2010				31 March 2011
		Stromness	Kirkwall	Total
£000	**Investments**	**£000**	**£000**	**£000**
27	Property	1	26	27
199	Capital Deposits	50	149	199
226	**TOTAL LONG TERM ASSETS**	**51**	**175**	**226**
	Current Assets			
402	Loans Fund Deposit	50	358	408
0	**Less Current Liabilities**	0	0	0
402	**NETT CURRENT ASSETS**	**50**	**358**	**408**
628	**NETT ASSETS**	**101**	**533**	**634**
	Represented by			
199	Capital Reserve	50	149	199
429	Revenue Reserve	51	384	435
628	**ACCUMULATED FUNDS**	**101**	**533**	**634**

NOTES

Accounting Policies

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

Housing Revenue Account income and expenditure statement

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

2009-2010		2010-2011	
£m		**£m**	**£m**
	Expenditure:		
0.816	Repairs and maintenance	1.034	
0.717	Supervision and management	0.721	
9.173	Depreciation and impairment of non-current assets	2.582	
0.015	Increase or (decrease) in the allowance for bad debts	(0.002)	
10.721			4.335
	Income:		
(1.937)	Dwelling rents	(2.030)	
(0.007)	Non-dwelling rents	(0.007)	
(0.098)	Other income	(0.083)	
(2.042)			(2.120)
8.679	**Net cost of HRA services as included in the comprehensive income and expenditure statement**		**2.215**
	HRA share of the operating income and expenditure included in the comprehensive income and expenditure statement:		
0.003	Accounting For Pensions		(0.335)
0.000	Capital Grants		(2.131)
0.303	(Gain) or loss on sale of HRA non-current assets		(0.322)
(0.016)	Interest payable and similar charges		0.048
0.015	Pensions interest cost and expected return on pensions assets		0.002
8.984	**(Surplus) or deficit for the year on HRA services**		**(0.523)**

Movement on the Housing Revenue Account statement

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

2009-2010		2010-2011			
£m		£m	£m	£m	£m
0.000	Balance on the HRA at the end of the previous year				(0.487)
8.984	(Surplus) or deficit for the year on the HRA income and expenditure statement			(0.523)	
	Adjustments between accounting basis and funding basis under regulations:				
0.000	Difference between any other item of income and expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements		0.000		
(0.303)	Reverse out gain or (loss) on sale of HRA non-current assets		0.322		
	HRA share of contributions to or (from) the Pension Reserve:				
(0.044)	Reverse out net charges made for post-employment benefits in accordance with IAS19	0.274			
0.052	Pensions cost chargeable for the year in accordance with statutory provisions: employer's contributions payable to Orkney Islands Council Pension Fund	0.059			
0.008	HRA share of contributions to or (from) the Pension Reserve		0.333		
(0.002)	HRA share of contributions to or (from) the Employee Statutory Adjustment Account		0.003		
0.000	Capital expenditure funded by the HRA		0.243		
	Transfer to or (from) the Capital Adjustment Account:				
(9.174)	Reverse out depreciation and impairment losses on non-current assets	(2.582)			
0.000	Reverse out credits made for capital grants	2.131			
0.000	Loans fund principal contribution from the HRA	0.000			
(9.174)	Transfer to or (from) the Capital Adjustment Account		(0.451)		
(9.471)	Total of adjustments between accounting basis and funding basis under regulations			0.450	
(0.487)	**Net (increase) or decrease before transfers to or from reserves**			**(0.073)**	
0.000	Transfers to or (from) reserves			0.000	
(0.487)	**(Increase) or decrease in the year on the HRA**				**(0.073)**
(0.487)	**Balance on the HRA at the end of the current year**				**(0.560)**

Notes to the Housing Revenue Account income and expenditure statement

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

The Council was responsible for managing 776 dwellings during 2010-2011 (762 in 2009-2010). The following shows an analysis of these dwellings by type.

2009-2010		2010-2011
Number at 31 March 2010	Type of dwelling	Number at 31 March 2011
30	One-apartment	31
276	Two-apartment	279
223	Three-apartment	228
219	Four-apartment	223
14	Five-apartment	15
762	**Total**	**776**

2. The amount of rent arrears

At 31 March 2011 total rent arrears amounted to £0.088M (£0.078M at 31 March 2010). This is 4.3% of the total value of rents due at 31 March 2011.

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

In the financial year 2010-2011 the rental bad debt provision has been decreased by £0.003M (£0.001M decrease during 2009-2010). The provision to cover the potential loss of income stands at £0.042M at 31 March 2011. This is 2.1% of the total value of rents due at that date.

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

NIL.

Council Tax Income Account

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

2009-2010		2010-2011
£m		£m
9.230	Gross council tax levied	9.332
0	Council tax benefits (net of government grant)	0
(1.496)	Other discounts and reductions	(1.377)
(0.036)	Write-off of uncollectable debts and allowance for impairment	(0.045)
(0.048)	Adjustment to previous years’ community charge and council tax	(0.029)
7.650	**Transfer to the comprehensive income and expenditure statement**	**7.881**

Calculation of the council tax

Dwellings are valued by the Assessor and placed within valuation bands ranging from the lowest “A” to the highest “H”. The council tax base is the number of chargeable dwellings across all valuation bands (adjusted for dwellings where discounts apply), after providing for non-payment, expressed as an equivalent number of band D dwellings. The band D council tax charge is calculated using the council tax base, and this in turn fixes the charge for each of the other bands, which are based on pre-determined proportions relative to the band D charge. The band D charge for 2010-2011 was £1,037 (unchanged from 2009-2010).

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

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

Annual council tax charges

2010-2011	Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H
	£691.33	£806.56	£921.78	£1,037.00	£1,267.44	£1,497.89	£1,728.33	£2,074.00

Calculation of the council tax base

2010-2011	Number of dwellings	Number of exemptions	Disabled relief	Discounts of 25%	Discounts of 50%	Total equivalent dwellings	Ratio to Band D	Band D equivalents
@	0	0	6	(1)	0	5	5 : 9	3
Band A	2,551	(237)	10	(283)	(129)	1,912	6 : 9	1,275
Band B	2,717	(94)	10	(253)	(73)	2,307	7 : 9	1,794
Band C	2,077	(58)	(5)	(153)	(51)	1,810	8 : 9	1,609
Band D	1,569	(26)	0	(87)	(27)	1,429	9 : 9	1,429
Band E	1,091	(12)	(20)	(39)	(16)	1,004	11 : 9	1,227
Band F	222	(2)	(1)	(6)	(4)	209	13 : 9	302
Band G	18	(2)	0	(1)	(1)	14	15 : 9	23
Band H	3	0	0	0	0	3	18 : 9	6
Total	**10,248**	**(431)**	**0**	**(823)**	**(301)**	**8,693**		**7,668**
						Class 17 and 24 dwellings		0
						Sub-total		**7,668**
						Provision for non-payment and future award of discounts and reliefs		93
						Council tax base		**7,761**

@ denotes additional relief for disabled persons occupying Band A properties

Non Domestic Rates Account

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

2009-2010		2010-2011
£m		£m
8.759	Gross rates levied	10.035
(1.846)	Reliefs and other deductions	(2.322)
(0.002)	Payment of interest	0.000
0.069	Write-offs of uncollectable debts and allowance for impairment	0.000
6.980	**Net non-domestic rate income**	**7.713**
(0.252)	Adjustment to previous years' non-domestic rates	(0.130)
1.602	**Contribution (to) or from the national non-domestic rate pool**	**0.322**
8.330	Transfer to comprehensive income and expenditure statement	**7.905**

The nature and amount of each rate fixed

The non-domestic rates charge for each subject is determined by the rateable value placed upon it by the Assessor, multiplied by the rate per pound (the "rate poundage"). The national non-domestic rates poundage is set each year by the First Minister for Scotland. For 2010-2011 the charge was 40.7 pence in the pound. From 1 April 2010 the Scottish Government amended the existing Small Business Bonus Scheme (SBBS). Under the SBBS properties with a rateable value up to and including £10,000 are entitled to a 100% reduction in their business rates. Properties with a rateable value of between £10,001 and £12,000 receive a 50% reduction and properties with a rateable value of between £12,001 and £18,000 receive a 25% reduction. This allows a business with two or more properties with a combined rateable value of under £25,000 to qualify for relief. The relief is 25% for properties with an individual rateable value less than £18,000. For properties with a rateable value over £35,000 a supplement of 0.7 pence in the pound was added as per the Non-domestic Rates (Levying) (Scotland) Regulations 2004 as amended.

Analysis of Orkney Islands Council's rateable values

2010-2011		£m	£m
Rateable value at 1 April 2010:	commercial	6.518	
	industrial and freight transport	3.671	
	others	13.952	
			24.141
Running roll (full-year rateable value)			0.533
Rateable value at 31 March 2011			**24.674**
Wholly exempt subjects			(0.405)
Net rateable value at 31 March 2011			**24.269**

Harbour Authority Revenue Account income and expenditure statement

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

2009-2010		2010-2011		
£m		£m	£m	£m
		Expenditure	*Income*	*Net*
3.551	Scapa Flow Oil Port	4.979	(3.714)	1.265
3.580	Miscellaneous Piers and Harbours	6.141	(3.794)	2.347
7.131		11.120	(7.508)	3.612
7.131	**Net cost of Harbour Services as included in the comprehensive income and expenditure statement**			**3.612**
	Harbours share of the operating income and expenditure included in the comprehensive income and expenditure statement:			
(0.015)	Accounting For Pensions			(3.377)
0.000	Capital Grants			(4.385)
(0.120)	(Gain) or loss on sale of Harbour Authority assets			(0.209)
0.004	Interest payable and similar charges			0.029
(24.830)	Harbours Investment Income			(9.733)
0.136	Pensions interest cost and expected return on pensions assets			0.014
(17.694)	**(Surplus) or deficit for the year on Harbour Authority**			**(14.049)**

Movement on the Harbour Authority Revenue Account statement

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

2009-2010		2010-2011			
£m		£m	£m	£m	£m
(166.450)	Balance on the Harbour Authority at the end of the previous year				(184.049)
(17.694)	(Surplus) or deficit for the year on the Harbour income and expenditure statement			(14.049)	
	Adjustments between accounting basis and funding basis under regulations:				
0.000	Difference between any other item of income and expenditure determined in accordance with the Code and determined in accordance with statutory Harbour requirements		(0.052)		
0.120	Reverse out gain or (loss) on sale of Harbour non-current assets		(0.197)		
	Harbour share of contributions to or (from) the Pension Reserve:				
(0.402)	Reverse out net charges made for post-employment benefits in accordance with IAS19	2.948			
0.478	Pensions cost chargeable for the year in accordance with statutory provisions: employer's contributions payable to Orkney Islands Council Pension Fund	0.417			
0.076	Harbour share of contributions to or (from) the Pension Reserve		3.365		
0.000	Harbour share of contributions to or (from) the Employee Statutory Adjustment Account		0.015		
(0.198)	Capital expenditure funded by the Harbour Authority		0.444		
	Transfer to or (from) the Capital Adjustment Account:				
(4.492)	Reverse out depreciation and impairment losses on non-current assets	(3.513)			
0.189	Reverse out credits made for capital grants	4.385			
0.000	Loans fund principal contribution from the Harbour Authority	0.064			
(4.303)	Transfer to or (from) the Capital Adjustment Account		0.936		
(4.305)	Total of adjustments between accounting basis and funding basis under regulations			4.511	
(21.999)	**Net (increase) or decrease before transfers to or from reserves**			**(9.538)**	
4.400	Transfers to or (from) reserves			4.574	
(17.599)	**(Increase) or decrease in the year on the Harbour Authority**				**(4.964)**
(184.049)	**Balance on the Harbour authority at the end of the current year**				**(189.013)**

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

	2009-2010				2010-2011		
	Balance at 1 April 2009	Transfers out 2009-2010	Transfers in 2009-2010	Balance at 31 March 2010	Transfers out 2010-2011	Transfers in 2010-2011	Balance at 31 March 2011
Harbour Balances	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Strategic Reserve Fund	116.473	(0.000)	19.205	135.678	(1.189)	0.000	134.489
Flotta Terminal Decline & Decommissioning Fund	41.119	(2.818)	0.000	38.301	(0.000)	0.002	38.303
Conservation Fund	0.186	(0.000)	0.004	0.190	(0.000)	0.003	0.193
Talented Performers Fund	0.057	(0.000)	0.001	0.058	(0.000)	0.001	0.059
Travel Fund	0.092	(0.000)	0.002	0.094	(0.000)	0.001	0.095
Fisheries Fund	5.489	(0.000)	0.361	5.850	(0.000)	0.411	6.261
Orkney Memorial Fund	0.667	(0.000)	0.011	0.678	(0.000)	0.006	0.684
Talented Young Persons Fund	0.033	(0.004)	0.000	0.029	(0.003)	0.000	0.026
Miscellaneous Piers Reserve Fund	0.308	(0.000)	0.791	1.099	(0.000)	0.698	1.797
Renewable Energy Fund	2.026	(0.000)	0.046	2.072	(0.000)	5.034	7.106
Harbour Fund Balances	**166.450**	**(2.822)**	**20.421**	**184.049**	**(1.192)**	**6.156**	**189.013**

Orkney College Revenue Account income and expenditure statement

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

2009-2010		2010-2011	
£m		£m	£m
	Expenditure:		
2.992	Staff Costs	3.321	
0.372	Property Costs	0.443	
0.657	Supplies & Services	0.545	
0.136	Transport Costs	0.151	
0.145	Administration Costs	0.158	
0.060	Apportioned Costs	0.061	
1.617	Depreciation and impairment of non-current assets	0.075	
5.979			4.754
	Income:		
(3.664)	Grants	(2.931)	
(1.086)	Fees & Charges	(1.389)	
(0.014)	Other income	(0.000)	
(4.764)			(4.320)
1.215	**Net cost of Orkney College services as included in the comprehensive income and expenditure statement**		**0.434**
	Orkney College share of the operating income and expenditure included in the comprehensive income and expenditure statement:		
0.000	Accounting For Pensions		(1.742)
0.000	Capital Grants		(0.133)
0.000	(Gain) or loss on sale of Orkney College non-current assets		0.000
0.000	Interest payable and similar charges		0.000
0.075	Pensions interest cost and expected return on pensions assets		0.009
1.290	**(Surplus) or deficit for the year on Orkney College**		**(1.432)**

Movement on the Orkney College Revenue Account statement

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

2009-2010		2010-2011			
£m		£m	£m	£m	£m
0.770	Balance on the College at the end of the previous year				0.486
1.290	(Surplus) or deficit for the year on the College income and expenditure statement			(1.432)	
	Adjustments between accounting basis and funding basis under regulations:				
0.000	Difference between any other item of income and expenditure determined in accordance with the Code and determined in accordance with statutory College requirements		0.000		
0.000	Reverse out gain or (loss) on sale of HRA non-current assets		0.000		
	College share of contributions to or (from) the Pension Reserve:				
(0.222)	Reverse out net charges made for post-employment benefits in accordance with IAS19	1.453			
0.264	Pensions cost chargeable for the year in accordance with statutory provisions: employer's contributions payable to Orkney Islands Council Pension Fund	0.280			
0.042	College share of contributions to or (from) the Pension Reserve		1.733		
0.000	College share of contributions to or (from) the Employee Statutory Adjustment Account		0.006		
0.001	Capital expenditure funded by the College		0.007		
	Transfer to or (from) the Capital Adjustment Account:				
(1.617)	Reverse out depreciation and impairment losses on non-current assets	(0.182)			
0.000	Reverse out credits made for capital grants	0.133			
0.000	Loans fund principal contribution from the College	0.000			
(1.617)	Transfer to or (from) the Capital Adjustment Account		(0.049)		
(1.574)	Total of adjustments between accounting basis and funding basis under regulations			1.697	
(0.284)	**Net (increase) or decrease before transfers to or from reserves**			**0.265**	
0.000	Transfers to or (from) reserves			(0.751)	
(0.284)	**(Increase) or decrease in the year on the College**				**(0.486)**
0.486	**Balance on the College at the end of the current year**				**0.000**

Statement of Group Accounting Policies

The Code of Practice on Local Authority Accounting in the United Kingdom 2010-11 (the Code) placed a requirement on authorities to consider all their interests in external organisations including limited companies and other statutory organisations. This includes other local authorities or similar bodies defined in section 106 of the Local Government (Scotland) Act 1973 e.g. statutory bodies such as 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 2011 represents the consolidation of the balances and transactions of the Council its subsidiaries and associates.

The group accounting policies are those specified for the single entity financial statements; where materially different accounting policies of group members have been aligned to those of the single entity. The accounting policies of all group members are materially the same as those of the single entity; except in the following cases:-

- Where group members are not required to prepare their financial statements on an IFRS basis consolidation adjustments have been made.

Combining Entities

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

Name of Combining Entity	**Method of Accounting**
Orkney Towage Company Limited	Subsidiary
Orkney Ferries Limited	Subsidiary
Pickaquoy Centre Trust	Associate
Northern Joint Police Board	Associate
Highlands and Islands Fire Board	Associate

To comply with the Code, the Council has identified a number of companies where the Council has a "controlling interest" - these are termed "subsidiaries". The Council holds 100% of the shares in 2 Companies (Orkney Towage Company Limited and Orkney Ferries Limited). Under accounting standards, the council is required to include the results of organisations termed as "associates", or "joint ventures" because it has a "significant influence" over financial and operating policies. The Council has no shares or ownership of any of these organisations which are entirely independent of the Council under law and for taxation.

Under accounting standards, the Council requires to include the results of the Pickaquoy Centre Trust as an “associates” because it has a “power to participate” in their financial and operating policies. The Council has no shares in, or ownership of, any of these three organisations, which are entirely independent of the Council under law and for taxation. The other two (Northern Joint Police Board and Highlands and Islands Fire Board) entities are included within the Group Accounts under the wider definition of an “associate” although the Council holds less than 20% of voting rights that is normally presumed to confer significant influence.

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

		2010/11	2009/10
Name of Combining Entity	**Method of Combining**	%	%
Pickaquoy Centre Trust	Power to Participate	**100.00**	100.00
Northern Joint Police Board	% Revenue Contribution	**5.25**	5.43
Highlands and Islands Fire Board	% Revenue Contribution	**7.70**	7.29

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

Basis of Combination and Going Concern

In line with the principles contained within the Code, the Group Financial Statement for the year ended 31 March 2011 has been prepared on the basis of a full consolidation of the financial transactions and balances of the Council and its subsidiaries.

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

For three of the five entities, the Council has a share in a net liability. The negative balances arise from the inclusion of liabilities related to the defined benefit pension schemes as required by IAS 19 (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 £13.960 million, representing the Council’s share of the net liabilities in these entities. As above, this reflects the combined pension liability of these organisations, particularly those recorded for the Police and Firemen’s Pension Schemes.

All of the above associates consider it appropriate that their Statement of Accounts should follow the “going concern” basis of accounting. Statutory arrangements with the Scottish Government for the funding of the Northern Joint Police Board deficit and with the constituent local authorities for the deficit of the Highlands and Islands Fire Board mean that the financial position of these entities remains assured.

Group Movement in Reserves
FOR THE YEAR ENDED 31 MARCH 2011

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

	General Fund Balance	HRA Balance	Other Reserves	Harbour Reserves	Total Usable Reserves	Unusable Reserves	Total Authority Reserves	Authority's share of subsidiaries & associates	Total Reserves Attributable to Authority	Total Group Reserves
	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000
Balance at 31 March 2009	**19,780**	**0**	**14,377**	**166,450**	**200,607**	**139,265**	**339,872**	**(18,654)**	**321,218**	**321,218**
Surplus or (deficit) on provision of services	(20,877)	(8,984)	0	17,694	**(12,167)**	0	**(12,167)**	0	**(12,167)**	**(12,167)**
Other Comprehensive Expenditure and Income	0	0	0	0	**0**	(1,483)	**(1,483)**	0	**(1,483)**	**(1,483)**
Total Comprehensive Expenditure and Income	**(20,877)**	**(8,984)**	**0**	**17,694**	**(12,167)**	**(1,483)**	**(13,650)**	**0**	**(13,650)**	**(13,650)**
Adjustments between Group accounts and Authority accounts	(1,973)	0	0	0	**(1,973)**	0	**(1,973)**	**1,973**	**0**	**0**
Net Increase / Decrease before Transfers	**(22,850)**	**(8,984)**	**0**	**17,694**	**(14,140)**	**(1,483)**	**(15,623)**	**1,973**	**(13,650)**	**(13,650)**
Adjustments between accounting basis & funding basis under regulations	22,727	9,471	(899)	(95)	**31,204**	(31,204)	**0**	0	**0**	**0**
Net Increase / Decrease before Transfers to Earmarked Reserves	**(123)**	**487**	**(899)**	**17,599**	**17,064**	**(32,687)**	**(15,623)**	**1,973**	**(13,650)**	**(13,650)**
Transfers to / from Earmarked Reserves	52	0	(52)	0	**0**	0	**0**	(11,865)	**(11,865)**	**(11,865)**
Increase / Decrease in Year	**(71)**	**487**	**(951)**	**17,599**	**17,064**	**(32,687)**	**(15,623)**	**(9,892)**	**(25,515)**	**(25,515)**
Balance at 31 March 2010	**19,709**	**487**	**13,426**	**184,049**	**217,671**	**106,578**	**324,249**	**(28,546)**	**295,703**	**295,703**

	General Fund Balance	HRA Balance	Other Reserves	Harbour Reserves	Total Usable Reserves	Unusable Reserves	Total Authority Reserves	Authority's share of subsidiaries & associates	Total Reserves Attributable to Authority	Total Group Reserves
	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000
Balance at 31 March 2010	**19,709**	**487**	**13,426**	**184,049**	**217,671**	**106,578**	**324,249**	**(28,546)**	**295,703**	**295,703**
Surplus or (deficit) on provision of services	15,757	523	0	14,049	**30,329**	0	**30,329**	0	**30,329**	**30,329**
Other Comprehensive Expenditure and Income	0	0	0	0	**0**	23,623	**23,623**	**0**	**23,623**	**23,623**
Total Comprehensive Expenditure and Income	**15,757**	**523**	**0**	**14,049**	**30,329**	**23,623**	**53,952**	**0**	**53,952**	**53,952**
Adjustments between Group accounts and Authority accounts	(1,859)	0	0	0	**(1,859)**	0	**(1,859)**	**1,859**	**0**	**0**
Net Increase / Decrease before Transfers	**13,898**	**523**	**0**	**14,049**	**28,470**	**23,623**	**52,093**	**1,859**	**53,952**	**53,952**
Adjustments between accounting basis & funding basis under regulations	(9,530)	(450)	(376)	(9,085)	**(19,441)**	19,441	**0**	0	**0**	**0**
Net Increase / Decrease before Transfers to Earmarked Reserves	**4,368**	**73**	**(376)**	**4,964**	**9,029**	**43,064**	**52,093**	**1,859**	**53,952**	**53,952**
Transfers to / from Earmarked Reserves	(1,508)	0	679	0	**(829)**	829	**0**	12,727	**12,727**	**12,727**
Increase / Decrease in Year	**2,860**	**73**	**303**	**4,964**	**8,200**	**43,893**	**52,093**	**14,586**	**66,679**	**66,679**
Balance at 31 March 2011	**22,569**	**560**	**13,729**	**189,013**	**225,871**	**150,471**	**376,342**	**(13,960)**	**362,382**	**362,382**

Group Comprehensive Income and Expenditure Statement for the year ended 31 March 2011

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

		31/03/11			31/03/10		
		£,000	£,000	£,000	£,000	£,000	£,000
	Notes	**Expenditure**	**Income**	**Net**	**Expenditure**	**Income**	**Net**
Central services		5,765	(1,198)	4,567	6,949	(1,343)	5,606
Cultural and Recreation		5,623	(975)	4,648	9,621	(1,042)	8,579
Education		31,166	(1,367)	29,799	37,103	(1,456)	35,647
Roads and Transportation		13,340	2,010	15,350	15,478	1,848	17,326
Housing Revenue Account		4,335	(2,120)	2,215	10,721	(2,042)	8,679
Harbour Authority		11,928	(9,152)	2,776	14,575	(6,103)	8,472
Housing services		5,367	(3,991)	1,376	5,291	(3,983)	1,308
Community Social Services		21,801	(4,779)	17,022	21,172	(5,114)	16,058
Planning and Development		3,902	(2,800)	1,102	3,543	(1,034)	2,509
Environmental Services		4,641	(829)	3,812	5,121	(811)	4,310
Police Services		1,245	0	1,245	1,713	0	1,713
Fire Services		1,665	0	1,665	1,824	0	1,824
Corporate and democratic core		2,656	0	2,656	2,301	31	2,332
Non distributed costs		0	(15,749)	(15,749)	0	1,823	1,823
Surplus/Deficit on Continuing Operations	**5**	**113,434**	**(40,950)**	**72,484**	**135,412**	**(19,226)**	**116,186**
Other Operating Expenditure				930			1,210
Financing and Investment Income and Expenditure	**7**			(7,882)			(22,582)
Taxation and Non-Specific Grant Income				(94,720)			(83,952)
Associates and Joint Ventures accounted for on an equity basis	**6**			(1,141)			1,305
Group(Surplus) or Deficit				**(30,329)**			**12,167**
Surplus or deficit on revaluation of non current assets				(129)			(32,133)
Actuarial gains / losses on pension assets / liabilities				(23,494)			33,616
Share of other Comprehensive Expenditure & Income of associates & joint ventures	**10**			(5,338)			10,048
Other Comprehensive Income and Expenditure				**(28,961)**			**11,531**
Total Comprehensive Income and Expenditure	**8**			**(59,290)**			**23,698**

Group Balance Sheet As At 31 March 2011

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

	Notes	31 March 2011	31 March 2010	1 April 2009
		£,000	**£,000**	**£,000**
Property, Plant & Equipment		205,642	201,529	195,517
Investment Property		18,491	18,198	24,095
Intangible Assets		306	343	351
Assets held for sale		0	0	67
Long Term Debtors		3,371	2,411	2,690
Investments in associates and joint ventures		7,612	7,419	6,692
Long Term Assets		**235,422**	**229,900**	**229,412**
Short Term Investments		173,707	163,816	136,170
Inventories		941	936	869
Short Term Debtors		5,788	5,569	5,968
Cash and Cash Equivalents		45,567	19,110	28,503
Assets held for sale		439	253	93
Current Assets		**226,442**	**189,684**	**171,603**
Short Term Borrowing		0	0	20,000
Short Term Creditors		14,349	15,378	12,891
Provisions		84	0	0
Current Liabilities		**14,433**	**15,378**	**32,891**
Long Term Creditors		0	3	15
Provisions		2,802	2,802	0
Long Term Borrowing		40,000	10,000	
Other Long Term Liabilities	**9**	16,178	58,709	21,373
Long Term Investments in Associates		25,709	36,463	25,346
Capital Grants Receipts in Advance		360	526	172
Long Term Liabilities		**85,049**	**108,503**	**46,906**
Net Assets		**362,382**	**295,703**	**321,218**
Group Reserves		362,382	295,703	321,218
Total Reserves		**362,382**	**295,703**	**321,218**

The unaudited accounts were issued on 30 June 2011 and the audited accounts were authorised for issue on the 30 September 2011.

Gareth Waterson

Gareth Waterson, BAcc., CA
Director of Finance and Housing Services
30 September 2011

Group Cash Flow Statement at 31 March 2011

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

	Notes	2010/11	2009/10
		£,000	£,000
Net surplus or (deficit) on the provision of services		30,329	(12,167)
Adjustment to surplus or deficit on the provision of services for noncash movements	11	(5,364)	6,306
Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	11	1,008	(453)
Net cash flows from operating activities		**25,973**	**(6,314)**
Net Cash flows from Investing Activities	12	**(29,516)**	**(3,288)**
Net Cash flows from Financing Activities	13	**30,000**	**209**
Net increase or decrease in cash and cash equivalents		**26,457**	**(9,393)**
Cash and cash equivalents at the beginning of the reporting period		**19,110**	**28,503**
Cash and cash equivalents at the end of the reporting period		**45,567**	**19,110**

Notes to the Financial Statements
FOR THE YEAR ENDED 31 MARCH 2011
The notes required for the accounts of Orkney Islands Council itself are disclosed separately in the preceding pages. The following notes provide material additional amounts and details in relation to the other combining entities. The accounting regulations require specific disclosures about the combining entities and the nature of their business.

1. Disclosure of Differences with Main Statement of Accounting Policies
The financial statements in the Group Accounts of Orkney Islands Council are prepared in accordance with the accounting policies set out on pages 24 to 38 with the additions and exceptions shown in the following section.

Group Income and Expenditure Account

Retirement Benefits
In common with Orkney Islands Council, the subsidiaries participate in the Council's Pension Scheme. This is explained on pages 69 to 74. The subsidiaries have accounting policies for pensions accounting that are consistent with those of the Council.

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

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 in a separate line. In the case of proceeds for the Council's assets, these are taken to the Usable Capital Receipts Reserve. Amounts in respect of Council assets are appropriated to the Capital Adjustment Account. For the share of proceeds for associates, these are taken instead to the Group Income and Expenditure Reserve.

Group Balance Sheet

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

Depreciation

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

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

Stock

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

Goodwill

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

2. Combining Entities

The Subsidiaries have been consolidated on a line by line basis. To permit consolidation, the Profit and Loss Accounts of the subsidiary entities have been presented in accordance with the CIPFA 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 Limited

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

The net assets of the company as at 31 March 2011 were £4.700M compared to £3.279M at 31 March 2010. The profit before taxation for the period to 31 March 2011 was £0.837M compared to a loss of £1.405M for the period to 31 March 2010. In 2010-11, Orkney Islands Council contributed £2.774M or 90.1% of the company’s turnover. No dividend payments were due to, or received by, the Council in respect of its investment.

The latest set of audited accounts is for the year to 31 March 2011. Copies of these accounts can be obtained from Orkney Islands Council, School Place, Kirkwall, Orkney, KW15 1NY.

Orkney Ferries Limited

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

The net liability of the company at 31 March 2011 was £0.443M compared to £2.656M at 31 March 2010. There was no profit or loss before taxation for the period to 31 March 2011 or the period to 31 March 2010. In 2010-11, Orkney Islands Council contributed £6.294M or 72.4% of the company’s turnover. Orkney Ferries is deficit funded, where by, any surpluses or deficits earned by the Company will be repaid to, or recovered from the Council. No dividend payments were due to, or received by, the Council in respect of its investment.

The latest set of audited accounts is for the year to 31 March 2011. Copies of these accounts can be obtained from Orkney Islands Council, School Place, Kirkwall, Orkney, KW15 1NY.

Pickaquoy Centre Trust

The Pickaquoy Centre Trust is a company limited by trust formed in 1999 and is registered in Scotland. Its principal place of business is The Pickaquoy Centre, Muddisdale Loan, Kirkwall KW15 1LR. The Trust provides leisure facilities within Orkney Islands Council's area to the general public. The objectives of the Trust are to provide facilities for recreation, sport, cultural and other leisure activities for the benefit of the community in Orkney. Any surplus generated by the charity is applied solely to its continuation and development. The Pickaquoy Centre Trust is included in the Council's Group Accounts, because the Council has ultimately been prepared to accept the risk of cash shortfalls in the entity, and as such it was ultimately exercising significant influence over it. Councillors and Council Officials hold 5 of the 11 seats on the board, with each trustee entitled to one vote.

In 2010-11, Orkney Islands Council contributed £0.718M or 55.0% of the company's turnover and its share of the year-end net assets of £0.244M (2009-10 liability of £0.083M) are included in the Group Balance Sheet.

The latest set of audited accounts is for the year to 31 March 2011. When available, copies of these accounts can be obtained from The Pickaquoy Centre, Muddisdale Loan, Kirkwall KW15 1LR.

The following additional disclosures are required under accounting regulations for the Pickaquoy Centre Trust because the Council's share of the net assets of the Company exceeds 25%.

	2010/11	2009/10
Council's Share of Pickaquoy Centre Trust Limited	**100.00%**	100.00%
	£M	£M
Turnover	**1.305**	1.328
Profit/(Loss) before tax	**0.164**	(0.191)
Interest Payable/Receivable	**Nil**	Nil
Taxation	**Nil**	Nil
Profit/(Loss) after tax	**0.164**	(0.191)
Fixed Assets	**0.080**	0.086
Current Assets	**0.328**	0.344
Liabilities due within one year	**(0.151)**	(0.206)
Liabilities due after one year or more	**(0.013)**	(0.307)
Net Assets / Liabilities	**0.244**	(0.083)
Contingent Liabilities	**None**	None
Capital Commitments	**None**	None

Northern Joint Police Board

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 2010-11, Orkney Islands Council contributed £1.205M or 5.25% of the Board's estimated running costs and its share of the year-end net liability of £288.617M (2009-10 £447.100M) 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.

	2010/11	2009/10
Council's Share of Northern Joint Police Board	**5.25%**	5.43%
	£M	£M
Turnover	**1.438**	0.578
Fixed Assets	**2.437**	2.552
Current Assets	**0.793**	0.740
Liabilities due within one year	**(0.378)**	(0.419)
Liabilities due after one year or more	**(18.007)**	(27.150)
Net Liabilities	**(15.155)**	(24.278)
Contingent Liabilities	**None**	None
Capital Commitments	**0.002**	0.025

Highlands and Islands Fire Board

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 2010-11, Orkney Islands Council contributed £1.695M or 7.70% of the Board's estimated running costs and its share of the year-end net liability of £41.135M (2009-10 £63.992M) 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.

	2010/11	2009/10
Council's Share of Highlands and Islands Fire Board	**7.70%**	7.29%
	£M	£M
Turnover	**0.365**	0.106
Fixed Assets	**3.601**	3.395
Current Assets	**0.370**	0.304
Liabilities due within one year	**(0.329)**	(0.328)
Liabilities due after one year or more	**(6.810)**	(8.036)
Net Liabilities	**(3.168)**	(4.665)
Contingent Liabilities	**None**	None
Capital Commitments	**None**	None

3. Financial Impact of Consolidation

The effect of inclusion of the above bodies on the Group Balance Sheet is to reduce both Reserves and Net Assets by £13.960M 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.

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

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

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

5. Surplus/Deficit on Continuing Operations of Subsidiaries

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

			2010/11			2009/10
	£,000	£,000	£,000	£,000	£,000	£,000
	Expenditure	Income	Net	Expenditure	Income	Net
Roads and Transportation	(2,430)	2,557	**127**	(2,287)	2,381	**94**
Harbour Authority	808	(1,644)	**(836)**	692	649	**1,341**
Total	**(1,622)**	**913**	**(709)**	**(1,595)**	**3,030**	**1,435**

6. Share of Operating Results of Associates & Joint Ventures

	£,000	£,000	2010/11 £,000	2009/10 £,000
	Expenditure	Income	Net Income Expenditure	Net Income Expenditure
Cultural, environmental, regulatory and planning services	1,159	(1,305)	**(146)**	(89)
Police	3,383	(4,058)	**(675)**	1,099
Fire Service	1,966	(2,286)	**(320)**	295
Total	**6,508**	**(7,649)**	**(1,141)**	**1,305**

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

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

	2010/11	2009/10
Subsidiaries	**£,000**	**£,000**
Interest Expense	0	98
Interest Income	(9)	(3)
Tax	0	17
Total Group Entities	**(9)**	**112**

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

	2010/11	2009/10
	£,000	**£,000**
Deficit/ (Surplus) for the year on the Authority Income and Expenditure Account	(52,093)	10,798
Deficit/(Surplus) for the year attributable to group entities:	(7,197)	12,900
Deficit/ (Surplus) for the year on the Group Income and Expenditure Account	**(59,290)**	**23,698**

9. Pension Costs

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

	IFRS Council	Group Entities	31 March 2011 Total	31 March 2010 Total	31 March 2009 Total
	£,000	**£,000**	**£,000**	**£,000**	**£,000**
Fair Value of Employer Assets	144,383	13,494	157,877	136,711	91,776
Present value of funded liabilities	(151,699)	(13,934)	(165,633)	(186,053)	(106,087)
Net (Under)/Overfunding in Funded Plans	(7,316)	(440)	(7,756)	(49,342)	(14,311)
Present Value of Unfunded Liabilities	(8,353)	(69)	(8,422)	(9,367)	(7,062)
Net Asset/(Liability)	**(15,669)**	**(509)**	**(16,178)**	**(58,709)**	**(21,373)**

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

Merchant Navy Ratings Pension Plan (MNRPP)
Some employees contribute to this defined contribution pension plan. The contribution rate is 5.1%. Contributions payable in the year amounted to £1,748.

Merchant Navy Officers Pension Fund (MNOPF)
The MNOPF is closed to new members however some existing employees may qualify to contribute to the MNOPF, a defined benefit scheme, with a contribution rate of 15.5% (until 30 September 2010 11.9%). The group made contributions to this fund of £74,193 in the year. It is a multiple employer scheme and the company is unable to identify its share of the underlying assets and liabilities. As at the last full valuation, reported in spring 2010, the pre-78 (old) section of MNOPF 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 requested further deficit contributions from each employer. The additional contributions paid by the Orkney Towage during the current year totalled £452,065.

Merchant Navy Rating Pension Fund (MNRPP)
Some employees may qualify to contribute to the MNRPP, a defined benefit scheme, with a contribution rate of 15.5% (until 30 September 2010 11.9%). The group made contributions to this fund of £2,451 in the year. It is a multiple employer scheme and the group is unable to identify its share of the underlying assets and liabilities. As at the last full valuation in March 2005, the MNRPP had a deficit of assets over liabilities of £94M.

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

	2010/11	**2009/10**
	£,000	**£,000**
Surplus or deficit on revaluation of non current assets	(528)	(509)
Other Gains and Losses	20	0
Actuarial gains / losses on pension assets / liabilities	(4,830)	10,557
Total	**(5,338)**	**10,048**

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

	2010/11	2009/10
	£,000	£,000
Adjustment to surplus or deficit on the provision of services for noncash movements		
Depreciation	9,414	6,632
Impairment & downward revaluations (& non-sale de-recognition)	3,864	32,821
(Increase)/Decrease in Stock	(5)	(67)
(Increase)/Decrease in Debtors	(428)	285
Increase/(decrease) in impairment provision for bad debts	209	114
Increase/(Decrease) in Creditors	(1,111)	2,841
Increase/(Decrease) in Interest Creditors	0	0
Payments to Pension fund	(15,980)	1,841
Carrying amount of non-current assets sold	2,567	2,168
Investment Income not involving the movement of cash	(11,568)	(26,522)
Contributions to Other Reserves/Provisions	7,696	(8,419)
Movement in value of investment properties-included above in Impairment & downward revaluations (& non-sale de-recognition)	(22)	(5,388)
	(5,364)	**6,306**
Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities		
Purchase of short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)	201,516	176,145
Proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)	(200,508)	(176,598)
	1,008	**(453)**

12. Cash Flow from Investing Activities

	2010/11	2009/10
	£,000	£,000
Purchase of PP&E, investment property and intangible assets	20,426	10,275
Purchase of Short Term Investments (not considered to be cash equivalents)	27,232	0
Purchase of Long Term Investments	0	1,099
Other Payments for Investing Activities	1,319	53
Proceeds from the sale of PP&E, investment property and intangible assets	(1,987)	(1,500)
Capital Grants and Contributions Received	(13,238)	(6,047)
Other Receipts from Investing Activities	(4,236)	(592)
Net Cash flows from Investing Activities	**29,516**	**3,288**

13. Cash flows from Financing Activities

	2010/11	2009/10
	£,000	£,000
Cash Receipts from Short and Long Term Borrowing	(30,000)	(10,209)
Repayment of Short and Long Term Borrowing	0	10,000
Net Cash flows from Financing Activities	**(30,000)**	**(209)**

Note 14 Amounts reported for resource allocation decisions

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

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

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

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

Service Area income and expenditure analysis 2010-11	Education	Leisure & Cultural	Community Social Services	Roads	Transport	Environmental Services	Housing Revenue Account	Harbours	Total
	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000
Fees, charges & other income	724	715	2,061	129	52	772	2,071	7,507	**14,031**
Government grants	316	0	2	223	130	35	16	0	**722**
Other grants & contributions	535	365	2,797	16	15	39	33	1,267	**5,067**
Total Income	**1,575**	**1,080**	**4,860**	**368**	**197**	**846**	**2,120**	**8,774**	**19,820**
Employee expenses	20,452	2,146	14,699	1	387	620	510	3,774	**42,589**
Other service expenses	9,137	3,040	5,888	4,563	8,746	3,627	1,180	3,936	**40,117**
Support service recharges	753	345	970	185	114	315	358	366	**3,406**
Total Expenditure	**30,342**	**5,531**	**21,557**	**4,749**	**9,247**	**4,562**	**2,048**	**8,076**	**86,112**
Net Expenditure	**28,767**	**4,451**	**16,697**	**4,381**	**9,050**	**3,716**	**(72)**	**(698)**	**66,292**

Service Area income and expenditure analysis 2009-2010 comparative figures	Education	Leisure & Cultural	Community Social Services	Roads	Transport	Environmental Services	Housing Revenue Account	Harbours	Total
	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000
Fees, charges & other income	749	790	2,231	117	49	757	1,970	6,752	**13,415**
Government grants	500	7	3	74	114	8	42	0	**748**
Other grants & contributions	208	245	2,881	13	165	47	30	0	**3,589**
Total Income	**1,457**	**1,042**	**5,115**	**204**	**328**	**812**	**2,042**	**6,752**	**17,752**
Employee expenses	20,628	2,146	14,522	0	249	788	353	5,885	**44,571**
Other service expenses	7,875	2,748	5,371	4,325	9,126	3,426	860	3,423	**37,154**
Support service recharges	883	373	971	201	118	298	341	298	**3,483**
Total Expenditure	**29,386**	**5,267**	**20,864**	**4,526**	**9,493**	**4,512**	**1,554**	**9,606**	**85,208**
Net Expenditure	**27,929**	**4,225**	**15,749**	**4,322**	**9,165**	**3,700**	**(488)**	**2,854**	**67,456**

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

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

	2010-11	2009-10
	£m	£m
Net expenditure in the [Directorate] Analysis	66.292	67.456
Net expenditure of services and support services not included in the Analysis	2.217	16.165
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	7.917	41.577
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	(3.941)	(9.013)
Cost of Services	**72.485**	**116.185**

Reconciliation to subjective analysis of income and expenditure

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

2010-11	Directorate Analysis	Services and Support Services not in Analysis	Amounts not reported to management for decision making	Amounts not included in I&E	Cost of Services	Corporate Amounts	Total
	£,000	£,000	£,000	£,000	£,000	£,000	£,000
Government Grants	722	4,614	0	0	5,336	75,442	**80,778**
Other Grants, Reimbursements & Contributions	3,372	3,441	0	0	6,813	1,073	**7,886**
Rents & Lettings	2,722	440	0	0	3,162	1,172	**4,334**
Sales	1,120	45	0	0	1,165	0	**1,165**
Investment Income	15	0	0	0	15	10,037	**10,052**
Interest & Loans	10,171	989	0	0	11,160	988	**12,148**
Fees & Charges	0	0	(913)	0	(913)	1,470	**557**
Miscellaneous Income	1,972	704	(2,329)	0	347	1,141	**1,488**
Capital Grants & Contributions	0	5,348	0	0	5,348	13,416	**18,764**
Income from Council Tax	0	0	0	0	0	7,881	**7,881**
Total Income	**20,094**	**15,581**	**(3,242)**	**0**	**32,433**	**112,620**	**145,053**
Staff Costs	41,460	11,336	(434)	0	52,362	3,321	**55,683**
Property Costs	7,340	1,104	0	0	8,444	967	**9,411**
Supplies & Services	2,859	2,159	0	0	5,018	545	**5,563**
Transport Costs	3,695	221	0	0	3,916	151	**4,067**
Administration Costs	1,098	1,309	0	0	2,407	158	**2,565**
Apportioned Costs	3,406	0	0	0	3,406	61	**3,467**
Third Party Payments	16,263	3,498	(1,622)	0	18,139	1,699	**19,838**
Transfer Payments	1,475	6,002	0	0	7,477	303	**7,780**
Miscellaneous Expenditure	8,757	4,673	(5,140)	0	8,290	0	**8,290**
Finance and Capital Charges	22	4,447	0	(3,941)	528	1,196	**1,724**
Depreciation and Impairment	11	(1,201)	11,881	0	10,691	256	**10,947**
Gain or Loss on Disposal of Fixed Assets	0	0	0	0	0	930	**930**
Accounting for Pensions	0	(15,749)	(11)	0	(15,760)	220	**(15,540)**
Total expenditure	**86,386**	**17,799**	**4,674**	**(3,941)**	**104,918**	**9,807**	**114,725**
Surplus or deficit on the provision of services	**66,292**	**2,218**	**7,916**	**(3,941)**	**72,485**	**(102,813)**	**(30,328)**

Balance Sheet as at 31 March 2011

2009-10 comparative figures	Directorate Analysis	Services and Support Services not in Analysis	Amounts not reported to management for decision making	Amounts not included in I&E	Cost of Services	Corporate Amounts	Total
	£,000	£,000	£,000	£,000	£,000	£,000	£,000
Government Grants	741	4,863	0	0	5,604	72,178	**77,782**
Other Grants, Reimbursements & Contributions	6,487	(2,978)	0	0	3,509	1,719	**5,228**
Rents & Lettings	0	0	0	0	0	1,246	**1,246**
Sales	0	0	0	0	0	144	**144**
Investment Income	0	0	0	0	0	26,618	**26,618**
Interest & Loans	14	594	0	0	608	1,258	**1,866**
Fees & Charges	15,329	(1,346)	(3,030)	0	10,953	926	**11,879**
Miscellaneous Income	303	72	0	0	375	35	**410**
Capital Grants & Contributions	0	0	0	0	0	6,070	**6,070**
Income from Council Tax	0	0	0	0	0	7,650	**7,650**
Total Income	**22,874**	**1,205**	**(3,030)**	**0**	**21,049**	**117,844**	**138,893**
Staff Costs	59,106	(11,699)	3,194	(5,729)	44,872	2,991	**47,863**
Property Costs	6,968	27	-	-	6,995	823	**7,818**
Supplies & Services	4,218	404	0	0	4,622	488	**5,110**
Transport Costs	4,639	(355)	0	0	4,284	136	**4,420**
Administration Costs	1,496	(41)	0	0	1,455	145	**1,600**
Apportioned Costs	4,454	1,928	0	0	6,382	60	**6,442**
Third Party Payments	16,977	2,419	(1,595)	0	17,801	1,696	**19,497**
Transfer Payments	1,503	2,529	0	0	4,032	2,092	**6,124**
Miscellaneous Expenditure	6,696	2,652	0	0	9,348	31	**9,379**
Finance and Capital Charges	37	3,742	0	(3,284)	495	825	**1,320**
Depreciation and Impairment	0	0	35,125	0	35,125	1,618	**36,743**
Gain or Loss on Disposal of Fixed Assets	0	0	0	0	0	1,211	**1,211**
Accounting for Pensions	0	0	1,823	0	1,823	1,710	**3,533**
Total expenditure	**106,094**	**1,606**	**38,547**	**(9,013)**	**137,234**	**13,826**	**151,060**
Surplus or deficit on the provision of services	**83,220**	**401**	**41,577**	**(9,013)**	**116,185**	**(104,018)**	**12,167**

SYSTEM OF INTERNAL FINANCIAL CONTROL

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

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

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

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

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

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

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

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

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

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

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

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

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

6. The development of the Council's Medium Term Financial Strategy remains a priority for the Council. As part of a Tough Times Tough Choices work-stream the Council has undertaken a comprehensive review of the full range of services it currently provides, to identify areas for the generation of significant financial savings from 2011/12 onwards. This requirement follows on from Central Government plans to reduce public sector funding on average by 12% in real terms during the next financial settlement period 2011/12 to 2013/14, which equates to approximately £4M per year for the Council.

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

Orkney Health and Care was formally established as a shadow board between the Council and NHS Orkney as a joint working arrangement on 1 April 2010. Although governance arrangements surrounding this partnership have been formulated, concerns regarding a clear separation of the risks and responsibilities for each organisation as well as key staff remain.

The Council currently operates decentralised arrangements for the procurement of goods and services. Having adopted a corporate procurement strategy, work remains ongoing to develop a centralised procurement function within the Council to adhere with best practice. During the year the Council updated its contract standing orders and issued detailed guidance on procurement process to all Services. Work remains ongoing to increase awareness of the Contract Standing Orders across the Council, and adopt approved methods for procurement of goods and services in a more consistent manner.

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

I am satisfied that the responsible officers are aware of, and are addressing the issues detailed above and which relate to the financial year ended 31 March 2011.

Gareth Waterson

G Waterson, BAcc., CA
Director of Finance and Housing Services
30 September 2011

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