

## CONTENTS

<i>Explanatory Foreword by the Director of Finance</i>	1 - 2
<i>Statement of Accounting Policies</i>	3 - 6
<i>Consolidated Revenue Account</i>	7 - 12
<i>Harbour Authority Summary Account</i>	13
<i>Orkney College of Further Education</i>	14
<i>Housing Revenue Account</i>	15 - 16
<i>Council Tax Income Account</i>	17 - 18
<i>Non Domestic Rates Income Account</i>	19
<i>Consolidated Balance Sheet</i>	20 - 32
<i>Cash Flow Statement</i>	33 - 34
<i>Pension Fund</i>	35 - 38
<i>Charity, Trust and Common Good Fund</i>	39
<i>The Statement on the System of Internal Financial Control</i>	40 - 41
<i>The Statement of Responsibilities for the Statement of Accounts</i>	42
<i>Independent Auditor's Report</i>	43 - 44

# EXPLANATORY FOREWORD BY THE DIRECTOR OF FINANCE

## Introduction

The Accounts of the Islands Council are set out on the following pages and have been prepared in accordance with the Code of Practice on Local Authority Accounting in Great Britain.

The financial statement presented on page 7 is the Consolidated Revenue Account which brings together all the Council's income and expenditure for the year and shows that the Council's revenue reserves have increased by £19.9M to £181.9M.

The following statements, the Harbour Authority Summary Revenue Account, the Housing Revenue Account, the Council Tax Income Account, the Non Domestic Rates Income Account, and the Orkney College of Further Education, provide further analysis of the figures shown in the Consolidated Revenue Account.

The Consolidated Balance Sheet on page 20 shows that overall the financial position of the authority at 31 March 2004 is very healthy. Fund Balances and Reserves total £345.6M with no external borrowing.

A Statement of Total Movement in Reserves is provided on page 30.

The Cash Flow Statement on page 33 reconciles the operating surplus to the movement in cash for the year.

The Council also maintains financial records for the Pension Fund and various charity and trust funds. These statements are provided following the Cash Flow Statement.

## Review of the Year

### Local Taxation

The Islands Council on 13 February 2003 agreed a General Fund budget of £53.4M and under the Local Government Finance Act 1992 set Council Tax for Band D properties at £900.00. This was the third lowest Council Tax figure in Scotland being some £109 below the Scottish Average.

### General Fund Service Spending

General Fund Services were financed by Revenue Support Grant of £41.4M, Non Domestic Rate Income of £6.4M and Council Tax Income of £6.2M. The net effect of the variations from budget is a General Fund surplus of £1.326M for the year after the use of balances.

### Capital Expenditure

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

Education	Kirkwall Grammar School Glaitness Primary Extension Shapinsay Primary School St Andrews School Extension
Recreation and Cultural	Hoy Outdoor Centre
Roads	B9066 Westray Phase VII
Harbours	Scapa Pier Improvements Stromness & Kirkwall Marinas
Community Social Services	One Stop Shop Dounby Care Unit Westray Care Unit
Other Housing	Garson Housing Development

Capital Expenditure for 2003/04 was contained within the consents issued by the Secretary of State for Scotland, while unapplied capital receipts increased by £136,000, from £729,000 to £865,000.

The Loan Debt outstanding on the various services accounts at 31 March 2004 was: Harbours - £5.5M, Housing Revenue Account - £0.6M, other General Fund Services - £26.8M and Orkney College £1.7M.

### **Trading Organisations**

The Council has maintained trading accounts in five areas of Construction & Municipal, Cleaning, Quarries, Waste Disposal and Catering. With effect from 2003/04 all significant trading activities require to break even over a three year rolling period. The results of the first three year period will not be seen until 2005/06. Surpluses have been achieved in each of the statutory trading accounts maintained.

### **Net Pension Fund Liability**

In accordance with the Financial Reporting Standard No 17 - Retirement Benefits (FRS 17) the net pension fund liability as at 31 March 2004 is £10.7M. This represents a decrease of £9.7M on the previous year, and is largely due to the rise in the equity markets at this time.

The actuarial valuation has considered the appropriate level of employers contributions necessary for the next three year period 2003/06, taking into account estimated revenues generated from investments in the future, to meet the fund's commitments in the long term.

### **Euro**

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

### **Acknowledgements**

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

**A TAIT, C.P.F.A., F.C.C.A.**  
**Director of Finance**  
**29 June 2004**

# STATEMENT OF ACCOUNTING POLICIES

## General

The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting. The Code of Practice has been developed by the CIPFA/LASAAC Joint Committee. Any exceptions to the Code of Practice are disclosed in the notes to the Accounts.

## Corporate and Democratic Core

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

## Overheads

The costs of Central Support Services have been fully allocated using a time or unit based method of apportionment over the various accounts of the Authority after separately identifying the cost of Corporate and Democratic Core and Unapportionable Central Overheads in accordance with BVACOP. In 2003/04, £5.987M of Central Support Services were apportioned on this basis.

## Debtors and Creditors

The Accounts have been maintained on a receipts and payments basis during the financial year and have been converted to an income and expenditure basis by incorporating sums due to and by the Council at 31 March 2004.

## Pension Costs

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

### Teachers

This is an unfunded scheme administered by the Scottish Executive. The pension costs charged to the accounts represent the contribution rate set by the Scottish Executive on the basis of a notional fund.

### Other employees

Other employees, subject to certain qualifying criteria, are eligible to join the Local Government Superannuation Scheme.

The full implementation of Financial Reporting Standard No.17 Retirement Benefits represents a change in accounting policy. Under the previous policy pension liabilities were only recognised in relation to retirement benefits when employers contributions became payable to the pension fund or payments fell due to pensioners for which we were directly responsible. The new policy reflects the pension cost related to current service and results in the recognition of a net pension liability and a pension reserve in the Consolidated Balance Sheet.

The pension costs that are included in the Net Cost of Service in respect of these employees represent the cost associated with the current service together with the capitalised pension costs relating to early retirements which took place during the year. The difference between these costs and the actual contributions made to the Scheme, determined in accordance with relevant Government regulations, is recorded as an adjustment to arrive at the expenditure to be met from government grants and local taxation.

As required by ACOP, a prior year adjustment has been made to the accounts, the outcome of which is to create a Pension Reserve and Pension Liability in the accounts as at 31 March 2003.

## **Revenue Grants**

All Revenue Grants are matched with the expenditure to which they relate.

## **Capital Grants**

Capital Grants received are matched to the expenditure incurred during the year.

## **Stocks and Work in Progress**

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

## **Fixed Assets**

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

Fixed assets have been valued on the following basis:

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

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

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

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

Capital Receipts are utilised to reduce outstanding loan debt or to finance Capital Expenditure during the year.

## **Depreciation**

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

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

## **Capital Charges**

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

## **Deferred Charges**

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

## **Finance Leases**

Fixed assets acquired by means of finance leases are included in the Balance Sheet, along with any outstanding finance lease obligations which have yet to crystallise.

## **Loan Debt**

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

The average rate of interest charged by the fund in 2003/04 was as follows:

Revenue balances	3.52% (2002/03 4.00%)
Capital balances	3.49% (2002/03 3.96%)

## **Provisions**

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

Provisions have been made for doubtful debts.

## **Reserves**

### **Repairs and Renewals Funds**

Repairs and Renewals Funds are maintained in the General Fund for the purpose of replacing plant, vehicles and vessels.

### **Capital Fund**

A Capital Fund is maintained in terms of Schedule 3 of the Local Government (Scotland) Act 1975 for the purpose of financing expenditure on Capital Assets.

### **Harbour Authority Revenue Account Balances**

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

### **Direct Service Organisation Revenue Account Balance**

This Reserve has been created from surpluses earned by the Council's Direct Service Organisations. In accordance with the Local Government Scotland Act 2003 these surpluses have been transferred to General Fund Balances.

### **Pension Reserve**

As required by ACOP, a prior year adjustment has been made to the accounts, the outcome of which is to create a Pension Reserve and Pension Liability in the accounts as at 31 March 2003. The Pension Reserve recognises that a net pension liability exists in terms of the Islands Councils obligation to fund the employees defined benefits pension scheme.

**Valuation of Investments**

Investments are shown at cost less related provision. Investments held by the Pension Fund are valued at market value. Property investments and Fishing Vessel Track Record investments are valued at open market value.

**Foreign Currency Translation**

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

**Group Accounts**

The Islands Council has a major interest in the companies detailed in Note 7 to the Consolidated Balance Sheet on page 26.

Group accounts have however not been prepared in accordance with the Accounting Code of Practice. The overriding principle of the Code is to provide clarity. It is believed that preparation of group accounts would in fact hinder the reader's understanding of the Statement of Accounts.

## CONSOLIDATED REVENUE ACCOUNT

Restated 31-Mar-03		Gross Expenditure	Income	31-Mar-04
Net Expenditure £000		£000	£000	Net Expenditure £000
	<b>Continuing Operations</b>			
24,335	Education	26,455	2,021	24,434
3,742	Cultural and Recreation	4,598	743	3,855
8,685	Community Social Services	13,816	4,465	9,351
1,225	Police Services	1,359	-	1,359
969	Fire Services	1,049	-	1,049
12,815	Roads and Transportation	13,478	1,138	12,340
696	Planning and Development	1,479	537	942
3,383	Environmental Services	4,137	720	3,417
2,390	Central Services	2,892	2,533	359
(79)	Housing Services	4,283	4,090	193
916	Harbour Authority	9,498	9,855	(357)
192	Non Distributed Cost	309	-	309
<b>59,269</b>	<b>NET COST OF SERVICES</b>	<b>83,353</b>	<b>26,102</b>	<b>57,251</b>
(421)	Net (Surplus)/Deficit on DSOs			-
(51)	Net (Surplus)/Deficit on Waste Disposal			-
(166)	Net (Surplus)/Deficit on Quarries			-
1,697	Net (Surplus)/Deficit on Harbour Investment Income			(8,581)
473	Net (Surplus)/Deficit on Orkney College			364
(276)	Interest on Balances			(198)
(126)	Pensions Interest cost and expected return on Pension Assets			1,069
(10,273)	Net(Income)/Expenditure on Asset Management Revenue Account			(7,105)
<b>50,126</b>	<b>NET OPERATING EXPENDITURE</b>			<b>42,800</b>
-	Contribution from Relevant Services Contingency Account			(483)
(47)	Contribution from Reserves			116
1,335	Contribution to Repairs and Renewals Funds			2,619
512	Capital expenditure financed from revenue - HRA			263
4,808	Capital expenditure financed from revenue - Other Accounts			6,652
65	Movement on Pensions Reserve			(588)
(6,593)	Reconciling amount for provisions for loan repayment			(5,258)
<b>50,206</b>	<b>AMOUNT TO BE MET FROM GOVERNMENT GRANTS AND LOCAL TAXPAYERS</b>			<b>46,121</b>
38,128	Revenue Support Grant			41,405
6,745	Non domestic Rate Income			6,409
5,574	Council Tax			6,233
<b>241</b>	<b>SURPLUS/(DEFICIT) FOR YEAR</b>			<b>7,926</b>
176,188	Balance at 1 April 2003			176,429
241	Surplus/(Deficit) for year			7,926
<b>176,429</b>	<b>BALANCE AT 31 MARCH 2004</b>			<b>184,355</b>

## Notes on Consolidated Revenue Account

### 1. Publicity Expenditure

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

<b>2002/03</b>		<b>2003/04</b>
<b>£000</b>		<b>£000</b>
148	Staff Recruitment Advertising	151
81	Other Advertising	115
47	Corporate Information Services	34
<b>276</b>		<b>300</b>

### 2. External Audit Fees

The fee payable to Audit Scotland in respect of external audit services undertaken in accordance with the Code of Practice is £0.184 million (2002/03 £0.161 million). No fees were paid in respect of other services provided by the appointed auditor.

### 3. Trading Organisations

The Council completes statutory trading accounts, within the definition of the Local Government in Scotland Act 2003, for five Organisations and maintains further non-statutory accounts for information purposes. Significant trading operations require to break even over a three year rolling period.

#### Statutory

Orkney Direct Construction and Municipal carries out general highway and road maintenance work for the Transport and Infrastructure Committee in addition to refuse collection and environmental cleansing for the Environment, Planning & Protective Services Committee.

Orkney Direct Cleaning carries out building cleaning for all public buildings.

Orkney Direct Quarries supplies most of the raw materials for work on the highways and roads in Orkney. Quarries surplus of £45K, attributable to external sales, was transferred as a contribution to the roads revenue budget.

Orkney Direct Waste Disposal arranges for the destruction of all domestic and industrial waste generated in Orkney.

Orkney Catering Services supplies the schools in Orkney through the Education Committee.

#### Non-Statutory

Orkney Direct Warehouse & Transport is responsible for the maintenance of all Council vehicles, mainly servicing vehicles and plant employed in other trading organisations as well as vehicles held within Education and Social Services Departments.

The actual financial performance, surplus / (deficit), for the current year is detailed below:

<b>2002/03</b>	<b>2002/03</b>		<b>2003/04</b>	<b>2003/04</b>
<b>£000</b>	<b>£000</b>		<b>£000</b>	<b>£000</b>
<b>Turnover</b>	<b>Surplus Statutory</b>		<b>Turnover</b>	<b>Surplus</b>
6,545	330	Construction & Municipal	6,307	200
1,031	79	Cleaning	1,106	85
1,686	166	Quarries	1,523	20
1,942	51	Waste Disposal	1,743	83
1,092	2	Catering	1,185	3
		<b>Non-Statutory</b>		
700	10	Warehouse & Transport	672	25
<b>12,996</b>	<b>638</b>		<b>12,536</b>	<b>416</b>

#### **4. Local Authority (Goods and Services) Act 1970**

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

<b>2002/03</b>	<b>2002/03</b>		<b>2003/04</b>	<b>2003/04</b>
<b>Receipts</b>	<b>Payments</b>		<b>Receipts</b>	<b>Payments</b>
<b>£000</b>	<b>£000</b>		<b>£000</b>	<b>£000</b>
-	13	Orkney Housing Association	1	1
-	13	Northern Police Joint Board	20	15
-	1	Highlands and Islands Fire Joint Board	-	1
-	1	RNLI	-	-
-	6	Orkney Islands Property Development	105	87
-	<b>34</b>		<b>126</b>	<b>104</b>

## 5. Asset Management Revenue Account

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

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

<b>2002/03</b>		<b>2003/04</b>
<b>£000</b>		<b>£000</b>
	<b>Expenditure</b>	
1,342	Interest	1,365
20	Debt Management	21
7,696	Provision for Depreciation	8,113
<b>9,058</b>	<b>TOTAL</b>	<b>9,499</b>
	<b>Income</b>	
17,970	Capital Charges	15,199
1,361	Government Grants Deferred	1,405
<b>19,331</b>	<b>TOTAL</b>	<b>16,604</b>
	(Surplus) / Deficit to Consolidated	
(10,273)	Revenue Account	(7,105)

## 6. Revenue Support Grant

The Scottish Office provided the Islands Council with £47.1M of Aggregate External Finance for 2003/04 in the form of Revenue Support Grant and Non Domestic Rates income as follows:

2002/03		2003/04
£000		£000
<b>Original</b>		
37,273	Revenue Support Grant	40,251
6,544	Non Domestic Rates Income	6,848
<b>43,817</b>		<b>47,099</b>
1,056	Adjustment for Redeterminations	715
<b>Actual Results</b>		
38,128	Revenue Support Grant	41,405
6,745	Non Domestic Rates Income	6,409
<b>44,873</b>		<b>47,814</b>

After adjustments have been made in respect of redeterminations and actual Non Domestic Rates receipts the final figure has increased by £715,000 to £47.814M. The Islands Councils collection of Non Domestic Rates is less than the provisional distributable amount for 2003/04 due to changes in the year. This resulted in an underpayment from the National Non Domestic Rates pool of £398,000.

## 7. Pension Costs

### Local Government Pension Scheme

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

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

2002/03		2003/04	
£000	% of Payroll	£000	% of Payroll
2,215	12.9	2,450	12.9
192	1.1	309	1.6
0	0.0	0	0.0
0	0.0	0	0.0
<b>2,407</b>	<b>14.0</b>	<b>2,759</b>	<b>14.5</b>
	<b>Total Operating Charge</b>		

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

3,675	21.4	2,914	15.3
(3,548)	(20.7)	(3,982)	(21.0)
<b>127</b>	<b>0.7</b>	<b>(1,068)</b>	<b>(5.7)</b>
	<b>Net return on assets</b>		
<b>2,280</b>	<b>13.3</b>	<b>3,827</b>	<b>20.2</b>
	<b>Net Revenue Account Cost</b>		

Included in the appropriation section of the consolidated revenue account is a transfer of £588K from the pension reserve. The net effect of these accounting entries is that expenditure met from government grants and local taxation equals the actual employers contributions made to the Scheme of £2780K, representing 14.9% of pensionable pay.

The employer's contribution rate is determined by the Fund's Actuary based on triennial actuarial valuations, the last review being 31 March 2002. Under Superannuation Fund Regulations contributions rates are set to meet the overall liabilities of the Fund. The employer's rates are set to meet the overall liabilities of the Fund. The employer's contribution was 250% of the employee's contribution for 2003/04.

In addition the Islands Council is responsible for all pension payments relating to added years benefits it has awarded, together with the related increases. In 2003/04 these amounted to £276,860 representing 1.27% of pensionable pay.

For further information see the Pension Fund Statement on pages 35-38.



## Teachers

In 2003/04 the Islands Council paid an employer's contribution of £982,499 to the Scottish Executive in respect of teachers' pension costs, which represented 10.53% of teachers' pensionable pay. The contribution rate was 7.4% to September 2003 and thereafter 12.5% to 31 March 2004.

In addition, the Islands Council is responsible for all pension payments relating to added years it has awarded, together with related increases. In 2003/04 these amounted to £185,209 representing 2% of pensionable pay.

## 8. Related Party Transactions

During the year transactions with related parties arose as follows:

2002/03 Receipts £000	2002/03 Payments £000		2003/04 Receipts £000	2003/04 Payments £000
		<b>Central Government</b>		
37,408	-	Revenue Grants Being payments made in support of Revenue Expenditure	41,405	-
8,333	-	Capital Grants Being payments made in support of Capital Expenditure	2,932	-
-	2,563	<b>Orkney Towage Company Limited</b> Being payments for the provision of Towage Services	-	2,466
-	4,060	<b>Orkney Ferries Limited</b> Being subsidy payments made in support of Ferry Services	-	4,388
-	1,225	<b>Northern Police Joint Board</b>	-	1,359
-	968	<b>Highlands and Islands Fire Joint Board</b>	-	1,049
-	229	<b>Orkney and Shetland Valuation Joint Board</b> Being payment of annual requisition to Joint Boards	-	238
17	43	<b>Chief Officials</b> Being advances and repayments of Car Loans	20	21
-	2,742	<b>Orkney Islands Pension Fund</b> Being payment of employers contributions in respect of employees	-	3,240

## 9. Members' Allowances and Officers' Emoluments

The total of Members' Allowances paid in the year amounted to £386,831.

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

2002/03 Number of Employees	2002/03 Remuneration Band	2003/04 Number of Employees
33	£40,000 - £49,999	45
12	£50,000 - £59,999	17
6	£60,000 - £69,999	1
1	£70,000 - £79,999	6
	£80,000 - £89,999	1

## HARBOUR AUTHORITY SUMMARY ACCOUNT

This statement shows the trading position of the Harbour Authority and net movements in reserves for the year.

<b>Restated</b>				
<b>2002/03</b>			<b>2003/04</b>	
<b>Net</b>		<b>Gross</b>	<b>Net</b>	
<b>Expenditure</b>		<b>Expenditure</b>	<b>Expenditure</b>	
<b>£000</b>		<b>£000</b>	<b>£000</b>	
(1,669)	Scapa Flow Oil Port	6,626	6,922	(296)
2,675	Miscellaneous Piers and Harbours	2,726	2,722	4
(90)	Oil Pollution Account	146	211	(65)
<b>916</b>	<b>(Profit)/Loss for year</b>	<b>9,498</b>	<b>9,855</b>	<b>(357)</b>
(3,014)	Adjustments for Capital Financing Costs			(336)
	Pensions Interest Cost and Expected			
(10)	Return on Pension Assets			83
34	Transfer to Pension Reserve			(23)
<b>(2,074)</b>	<b>Transfer to Harbour Reserve Fund</b>			<b>(633)</b>
	<b>Represented by :</b>	<b>Balance at</b>	<b>Net</b>	<b>Balance at</b>
		<b>01/04/03</b>	<b>Movement</b>	<b>31/03/04</b>
		<b>£000</b>	<b>£000</b>	<b>£000</b>
	Strategic Reserve Fund	108,279	9,947	118,226
	Flotta Terminal Decline & Decommissioning Fund	42,000	-	42,000
	Relevant Services Contingency	21,092	(741)	20,351
	Conservation Fund	167	6	173
	Talented Performers Fund	49	-	49
	Travel Fund	74	3	77
	Talented Young Persons Fund	43	(1)	42
	<b>TOTAL</b>	<b>171,704</b>	<b>9,214</b>	<b>180,918</b>

### Notes

1. The net movement on the Harbour Authority includes the trading profit on the Harbour Authority Revenue Account of £0.633M and a surplus generated on investment activities, of £8.581M after netting off grants and other non investment expenditure.
2. A contribution from the Harbour Funds to finance revenue and capital expenditure during the year was made as follows:-

<b>2002/03</b>		<b>2003/04</b>
<b>£000</b>		<b>£000</b>
	<b>Revenue Expenditure</b>	
47	Relevant Services Contingency Fund	483
	<b>Capital Expenditure</b>	
1,200	Relevant Services Contingency Fund	1,000
1,835	Strategic Reserve Fund	4,849
<b>3,082</b>	<b>Total</b>	<b>6,332</b>

## ORKNEY COLLEGE OF FURTHER EDUCATION

The Islands Council maintains accounting records on behalf of the Orkney College. The College is funded by direct grants from the Scottish Further Education Funding Council.

<b>Restated</b>			
<b>2002/03</b>			<b>2003/04</b>
<b>£000</b>		<b>£000</b>	<b>£000</b>
	<b>Expenditure</b>		
1,550	Staff Costs		1,712
184	Property Costs		224
428	Supplies & Services		519
48	Transport Costs		51
74	Administration Costs		75
18	Apportioned Costs		22
624	Capital Charges		430
<b>2,926</b>			<b>3,033</b>
	<b>Income</b>		
1,866	Grants		2,098
430	Fees & Charges		470
157	Other Income		101
473	Deficit/(Surplus) for Year		364
<b>2,926</b>			<b>3,033</b>
(257)	Orkney College Reserve 1 April 2003		(479)
(473)	Deficit for year	(364)	
284	Adjust for Capital Financing Costs	307	
	Pensions Interest Cost and Expected		
6	Return on Pension Assets	(53)	
(39)	Transfer to Pension Reserve	(2)	
(222)	Transfer to Reserves		(112)
<b>(479)</b>	<b>Orkney College Reserve 31 March 2004</b>		<b>(591)</b>

## HOUSING REVENUE ACCOUNT

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

<b>Restated</b>		
<b>2002/03</b>		<b>2003/04</b>
<b>£000</b>		<b>£000</b>
-	Housing Support grant	-
1,735	Dwelling Rents(gross)	1,698
22	Non-Dwelling Rents(gross)	21
104	Other Income	82
<b>1,861</b>	<b>TOTAL INCOME</b>	<b>1,801</b>
593	Repairs and Maintenance	520
409	Supervision and Management	434
785	Capital Finance Costs	707
31	Bad Debts and voids	30
49	Other Expenditure	101
	Pensions Interest Cost and Expected	
(1)	Return on Pension Assets	14
(5)	Transfer to Pension Reserve	(5)
<b>1,861</b>	<b>TOTAL EXPENDITURE</b>	<b>1,801</b>
-	(Surplus)/Deficit for Year	-
-	(Surplus)/Deficit from Previous Years	-
-	Accumulated (Surplus)/Deficit	-

### Housing Revenue Account Notes

#### 1. Housing Stock

The numbers and types of dwellings included in the Council's Housing Stock as at 31 March 2004 are as follows:

<b>2002/03</b>		<b>2003/04</b>
<b>Number of</b>		<b>Number of</b>
<b>Dwellings</b>		<b>Dwellings</b>
52	1 Apartment	51
302	2 Apartment	292
267	3 Apartment	251
235	4 Apartment	224
14	5 Apartment	14
<b>870</b>		<b>832</b>

#### 2. Rent Arrears

<b>2002/03</b>		<b>2003/04</b>
£52,958	Dwelling Arrears	£56,209
£29,538	Non Dwelling & Other Arrears	£20,581
<b>£82,496</b>		<b>£76,790</b>
148	Number of Tenants in Arrears	171



### 3. Provision for Bad Debts

<b>2002/03</b>		<b>2003/04</b>
£25,785	Dwelling Arrears	£30,902
£13,862	Non Dwelling & Other Arrears	£17,068
<b>£39,647</b>		<b>£47,970</b>

### 4. Reconciliation to Consolidated Revenue Account

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

<b>2002/03</b>		<b>2003/04</b>
<b>£000</b>		<b>£000</b>
-	Net Expenditure	-
	Less:	
273	Loan Charges	444
512	CFCR	263
	Add:	
273	Capital Charges	444
(512)	Net Cost of Service	(263)
	Add:	
512	CFCR	263
-	Transferred to HRA Balances	-

## COUNCIL TAX INCOME ACCOUNT

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

<b>2002/03</b>		<b>2003/04</b>
<b>£000</b>		<b>£000</b>
6,894	<b>Gross Council Tax Levied</b>	6,123
1,226	Less Relieved, Remitted and Written Off	(141)
<b>5,668</b>	<b>Net Council Tax Due for Year</b>	<b>6,264</b>
45	Provision for Bad Debts	4
58	Less Council Tax Benefit (Net of Government Grants)	31
<b>5,565</b>	<b>Net Council Tax Income</b>	<b>6,229</b>
	Adjustment for previous years:	
8	Council Tax	3
1	Community Charge	1
<b>5,574</b>	<b>Transfers to General Fund</b>	<b>6,233</b>

### Notes

#### 1. Calculation of Council Tax Base

	@	<b>Bands</b>								<b>Total</b>
		<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>E</b>	<b>F</b>	<b>G</b>	<b>H</b>	
Number of Dwellings	-	3,064	2,647	1,853	1,360	832	164	16	2	9,938
Exemption	-	(558)	(103)	(63)	(16)	(10)	(4)	-	-	(754)
Disabled Relief	9	13	(2)	(3)	(3)	(12)	(2)	-	-	-
Discounts (25%)	(1)	(295)	(240)	(126)	(70)	(26)	(5)	(1)	-	(764)
Discounts (50%)	-	(194)	(84)	(51)	(23)	(8)	(2)	(1)	-	(363)
<b>Equivalent Dwellings</b>	<b>8</b>	<b>2,030</b>	<b>2,218</b>	<b>1,610</b>	<b>1,248</b>	<b>776</b>	<b>151</b>	<b>14</b>	<b>2</b>	<b>8,057</b>
Ratio	5/9	6/9	7/9	8/9	9/9	11/9	13/9	15/9	18/9	
<b>Band D Equivalents</b>	<b>4</b>	<b>1,353</b>	<b>1,725</b>	<b>1,431</b>	<b>1,248</b>	<b>948</b>	<b>218</b>	<b>23</b>	<b>4</b>	<b>6,954</b>
Less provision for non-collection										(274)
<b>Council Tax Base</b>										<b>6,680</b>

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

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

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

## 2. Details of Charges Levied

2002/03	2003/04
£	£
824.00 Council Tax - Band D - General Rate	900.00

### Council Tax Charges for 2003/2004

Band	Property Value	Proportion of Band D	Council Tax £
A	Up to £27,000	6/9	600.00
B	£27,000 to £35,000	7/9	700.00
C	£35,000 to £45,000	8/9	800.00
D	£45,000 to £58,000	9/9	900.00
E	£58,000 to £80,000	11/9	1,100.00
F	£80,000 to £106,000	13/9	1,300.00
G	£106,000 to £212,000	15/9	1,500.00
H	Above £212,000	18/9	1,800.00

The above table shows the Council Tax Charges due for 2003/04 on a domestic dwelling with an unmetered public water supply, based on two or more people aged 18 years or over resident in the property before any exemption, discounts or relief is applied.

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

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

## 3. Residual Community Charge Income

During the year Community Charge arrears were collected as follows:

2002/03	2003/04
£000	£000
2 Reduction in Provision for Bad Debts	1
- Less Written Off	(1)
1 Less Cost of Collection	1
<b>1 Net Community Charge Income</b>	<b>1</b>

## 4. Arrears of Council Tax and Community Charge

31-Mar-03	31-Mar-04
£	£
459,667 Council Tax Arrears	515,392
6,271 Community Charge Arrears	5,857

## NON DOMESTIC RATES INCOME ACCOUNT

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

<b>2002/03</b>		<b>2003/04</b>
<b>£000</b>		<b>£000</b>
7,462	<b>Gross Rates Levied and Contributions in Lieu</b>	7,371
706	Less Relieved, Remitted and Written Off	954
2	Interest on Overpaid Rates	10
9	Provision for Bad Debt	(2)
<b>6,745</b>	<b>Net Non Domestic Rates Income</b>	<b>6,409</b>
-	Adjustment for years prior to introduction of national non-domestic rate pool	
<b>6,745</b>	<b>Contribution to national non-domestic rate pool</b>	<b>6,409</b>

### Notes

#### 1. Rateable Values and Number of Premises as at 1 April 2003

Number of Subjects	Rateable Value 01-Apr-02 £000		Number of Subjects	Rateable Value 01-Apr-03 £000
136	6,368	Industrial & Freight Subjects	106	6,094
6	1,247	Public Utilities	7	842
		Commercial Subjects :		
265	1,256	Shops	259	1,257
147	1,016	Offices	154	1,059
201	790	Hotels, Boarding Houses etc.	153	225
555	2,658	Other	656	3,296
<b>1,310</b>	<b>13,335</b>		<b>1,335</b>	<b>12,773</b>
476	3,448	Miscellaneous	473	3,642
<b>1,786</b>	<b>16,783</b>	<b>TOTAL</b>	<b>1,808</b>	<b>16,415</b>

#### 2. Non Domestic Rate Poundage

<b>2002/03</b>	<b>2003/04</b>
47.8p Property Rate	47.8p

Non Domestic Rates are levied by the Islands Council on local Commercial and Industrial properties. The rate is, however, set by Central Government.

#### 3. Non Domestic Rates Arrears

<b>31-Mar-03</b>	<b>31-Mar-04</b>
<b>£</b>	<b>£</b>
80,200 Arrears of Non Domestic Rates	35,930

#### 4. Contribution to National NDR Pool

<b>2002/03</b>		<b>2003/04</b>
<b>£000</b>		<b>£000</b>
6,984	Provisional Contributable Amount	6,807
(239)	Difference from Notified Amount	(398)
<b>6,745</b>	<b>Contribution to National NDR Pool</b>	<b>6,409</b>

**CONSOLIDATED BALANCE SHEET  
AS AT 31st MARCH 2004**

<b>Restated 31-Mar-03 £000</b>		<b>Notes</b>	<b>31-Mar-04 £000</b>
	<b>Fixed Assets</b>	<b>1</b>	
	Operational Assets		
15,687	Council Dwellings		16,345
86,441	Other Land and Buildings		89,285
4,993	Vehicles and Plant		4,297
68,439	Infrastructure		73,160
3,153	Community Assets		3,285
8,827	Non Operational Assets		9,121
<b>187,540</b>	<b>Total Fixed Assets</b>		<b>195,493</b>
138,615	<b>Long Term Investments</b>	<b>7</b>	155,996
4,930	<b>Long Term Debtors</b>	<b>3</b>	4,088
<b>331,085</b>	<b>TOTAL LONG TERM ASSETS</b>		<b>355,577</b>
	<b>Current Assets</b>		
792	Stocks and Work in Progress	<b>4</b>	752
7,717	Debtors		6,094
6	Cash in Hand		6
11,712	Investments	<b>7</b>	5,450
<b>20,227</b>			<b>12,302</b>
	<b>Less Current Liabilities</b>		
3,353	Creditors		3,479
1,641	Bank Overdraft		2,052
4,127	Advances from Other Accounts		6,098
<b>9,121</b>			<b>11,629</b>
<b>342,191</b>	<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>356,250</b>
-	<b>Loan Debt</b>		-
20,436	<b>Net Pension Liability</b>		10,674
<b>321,755</b>	<b>TOTAL ASSETS LESS LIABILITIES</b>	<b>8</b>	<b>345,576</b>
	<b>REPRESENTED BY:</b>		
	<b>Capital Reserves</b>		
116,013	Fixed Asset Restatement Reserve		113,787
2,353	Capital Financing Reserve		5,952
729	Usable Capital Receipts		865
39,139	Government Grants Deferred		41,571
1,526	Capital Fund		1,551
<b>159,760</b>			<b>163,726</b>
	<b>Revenue Reserves</b>		
2,441	General Fund Balances		3,437
171,704	Harbour Authority Fund		180,918
(20,436)	Pension Reserve		(10,674)
2,284	DSO Fund		-
6,002	Repairs and Renewals Fund		8,169
<b>161,995</b>			<b>181,850</b>
<b>321,755</b>	<b>TOTAL EQUITY</b>		<b>345,576</b>

**A TAIT, C.P.F.A., F.C.C.A.  
Director of Finance  
29 June 2004**

## Notes on the Consolidated Balance Sheet

### 1. Fixed Assets

The following represents an analysis of fixed assets owned by the Islands Council as at 31 March 2004.

<b>Number of Items 2002/03</b>			<b>Number of Items 2003/04</b>
870	<b>Council Dwellings</b>	Council Dwellings	832
1	<b>Operational Buildings</b>	Concert Halls & Theatres	1
42		Other Housing Properties	44
82		Depots & Workshops	82
2		Museums	2
11		Community/Day Centres	11
2		Sports Centres & Pools	2
2		Libraries	2
29		Schools	29
9		Office Buildings	9
3		Parks & Amenity Properties	3
		Miscellaneous :	
37		Public Conveniences	37
10		Refuse Sites	10
2		Quarries	2
16	<b>Infrastructure</b>	Sea Defences	16
977		Roads (Kilometres)	978
55		Piers & Harbours	56
9		Airfields	9
24		Car Parks	24
41	<b>Community Assets</b>	Cemeteries	41
21		Historic Buildings/Monuments	21
12		Parks	12
6	<b>Operational Equipment</b>	Computers	6
194		Mechanical Plant	203
219		Vehicles	237
78		Other Equipment	79
13		Ferries	13
22	<b>Non Operational Property</b>	Surplus Assets	38
96		Commercial Property	96
6		Land Awaiting Development	6
7		Assets Under Construction	6
<b>2,898</b>	<b>TOTAL</b>		<b>2,907</b>

## Fixed Asset Transactions

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

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

	<b>Council Dwellings £000</b>	<b>Other Land &amp; Buildings £000</b>	<b>Plant and Vehicles £000</b>	<b>Infrastructure £000</b>	<b>Community £000</b>	<b>Non Operational £000</b>	<b>Total £000</b>
Net book value of assets at 01/04/03	15,687	86,441	4,993	68,439	3,153	8,827	187,540
<b>Movement in 2003/04</b>							
Additions	680	4,635	1,778	8,152	200	2,847	18,292
Disposals	(681)	-	-	-	-	(429)	(1,110)
Revaluations	1,270	(2,258)	(725)	-	-	597	(1,116)
Reclassifications	-	3,571	-	(1,000)	-	(2,571)	-
Depreciation	(611)	(3,104)	(1,749)	(2,431)	(68)	(150)	(8,113)
Impairments	-	-	-	-	-	-	-
Net book value of assets at 31/03/04	<b>16,345</b>	<b>89,285</b>	<b>4,297</b>	<b>73,160</b>	<b>3,285</b>	<b>9,121</b>	<b>195,493</b>

Assets to the value of £24K are held on behalf of the Community Councils.

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

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

	<b>Council Dwellings £000</b>	<b>Other Land &amp; Buildings £000</b>	<b>Plant and Vehicles £000</b>	<b>Infrastructure £000</b>	<b>Community £000</b>	<b>Non Operational £000</b>	<b>Total £000</b>
Valued at historic cost	-	-	4,297	73,160	3,285	-	80,742
Valued at Current Value in:							
31 March 2004	16,345	10,369	-	-	-	5,747	32,461
31 March 2003	-	8,770	-	-	-	3,374	12,144
31 March 2002	-	2,412	-	-	-	-	2,412
31 March 2001	-	17,165	-	-	-	-	17,165
31 March 2000	-	50,569	-	-	-	-	50,569
<b>Total</b>	<b>16,345</b>	<b>89,285</b>	<b>4,297</b>	<b>73,160</b>	<b>3,285</b>	<b>9,121</b>	<b>195,493</b>

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

The value of assets employed as at 31 March 2004 are analysed as follows:

<b>2002/03</b>		<b>2003/04</b>
<b>£000</b>		<b>£000</b>
110,698	General Fund	112,123
51,113	Harbour Fund	57,181
16,263	Housing Revenue Account	16,514
1,452	Direct Services Organisations	1,712
7,425	Orkney College	7,252
571	Quarries	638
18	Waste Disposal	73
<b>187,540</b>	<b>Total Assets Employed</b>	<b>195,493</b>

### 1(b) Comparison with Section 94 consents

Capital expenditure must not exceed the sum of capital consents issued by the Secretary of State for Scotland, capital receipts from the disposal of assets, European Union grants and Capital Financed from Current Revenue (CFCR).

	<b>Programmes</b>		
	<b>Composite</b>	<b>Housing</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Allocation as Applied for 2003/04	10,676	235	10,911
Enhanced by Capital Receipts and Revenue Contributions	10,677	457	11,134
<b>Total Section 94 Consents Available</b>	<b>21,353</b>	<b>692</b>	<b>22,045</b>
<b>Total Capital Payments for 2003/04</b>	<b>21,340</b>	<b>690</b>	<b>22,030</b>
Underspend Carried Forward to 2004/05	<b>13</b>	<b>2</b>	<b>15</b>
<b>Reconciliation of Capital Payments</b>			
Capital Payments	21,340	690	22,030
<b>Adjusted for:</b>			
Reserve Fund Lending	(2,636)	-	(2,636)
Car Loans	(145)	-	(145)
Scapa Flow Oil Port	23	-	23
Sundry Creditors	103	3	106
<b>TOTAL CAPITAL EXPENDITURE</b>	<b>18,685</b>	<b>693</b>	<b>19,378</b>
<b>Represented by</b>			
Fixed Assets			18,292
Deferred Charges			1,069
Long Term Debtors			17
			<b>19,378</b>

### 1(c) Sources of Finance for Fixed Assets acquired

The following statement shows how capital expenditure in the year has been financed. The total of fixed asset and deferred charge expenditure in the year should match the sum of the individual sources of finance.

2002/03 £000		2003/04 £000
7,517	Loans	6,172
748	Capital Receipts	477
12,119	Grant Receipts	4,222
5,320	CFCR	7,605
306	Other Income	902
<b>26,010</b>		<b>19,378</b>

### 1(d) Commitments under Capital Contracts

The following significant contracts for capital investment have been entered into by the Islands Council and extend beyond the 31 March 2004:

Project Name	Purpose	Approximate Value £000	Anticipated Completion
One Stop Shop	Office Accommodation	122	Apr-2004
Hoy Outdoor Centre	Upgrade & Extension	543	Sep-2004
Shapinsay School	Upgrade	163	Jun-2004
West Mainland Care Home	Residential Care	2,593	Dec-2004
Stromness Travel Centre	Upgrade & Extension	207	Jul-2004
Westray B9066	Road Improvements	347	Aug-2004
Scapa Pier	Improvements	837	Oct-2004
Kirkwall & Stromness Harbour	Marina's	1,939	Mar-2005

### 2. Deferred Charges

Deferred charges represent capital expenditure for which no tangible asset exists. As deferred charges do not reflect continuing benefit to the Islands Council they are amortised in full in the year the expenditure is incurred.

	Balance as at 01-Apr-03 £000	Expenditure in Year £000	Amortised Balance as at in Year £000	31-Mar-04 £000
Improvement Grants	-	379	379	-
Other	-	690	690	-
<b>Total</b>	-	<b>1,069</b>	<b>1,069</b>	-

### 3. Long Term Debtors

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

2002/03 £000		2003/04 £000
465	Housing Loans	400
330	Car Loans	288
4,031	Harbours	3,297
104	Others	103
<b>4,930</b>		<b>4,088</b>

#### 4. Stocks and Work in Progress

	<b>2002/03</b>		<b>2003/04</b>
	<b>£000</b>		<b>£000</b>
		<b>Stocks</b>	
	160	General Fund	138
	103	Quarries	98
	195	Harbours	190
	183	Orkney Direct	164
	151	DLO Vehicle Maintenance	147
	<b>792</b>		<b>737</b>
		<b>Work in Progress</b>	
	-	Orkney Direct	15

#### 5. Debtors

Debtors are shown net of bad debt provision, and represents the net amount due to the Council as at 31 March 2004.

The Islands Council provides for any bad or doubtful debts at the end of each financial year, based on the age of debtors outstanding. At 31 March 2004 the Bad Debt Provision has increased from £897,000 to £952,000 being an increase of £55,000 on the year.

#### 6. Loan Debt

##### Long Term

The Islands Council has no long term debt as at 31 March 2004.

##### Short Term

	<b>2002/03</b>		<b>2003/04</b>
	<b>£000</b>		<b>£000</b>
	<b>1,641</b>	Bank Overdraft	<b>2,052</b>

#### 7. Investments

The investments shown in the Consolidated Balance Sheet consist of a number of individual funds, each valued at the lower of cost or market value. The following is a summary of the investments held by the Islands Council as at 31 March 2004:

<b>Lower of Cost &amp; Market Value</b>	<b>Market Value</b>	<b>Investments</b>	<b>Lower of Cost &amp; Market Value</b>	<b>Market Value</b>
<b>2002/03</b>	<b>2002/03</b>		<b>2003/04</b>	<b>2003/04</b>
<b>£000</b>	<b>£000</b>		<b>£000</b>	<b>£000</b>
		<b>Long Term</b>		
116,630	116,630	Bonds and Equities	127,787	128,221
7,109	7,109	Land and Buildings	11,998	11,998
672	672	Private Companies	672	672
511	511	Fishing Quota	348	348
12,766	12,766	Cash Deposits	14,265	14,265
927	927	Miscellaneous	926	926
<b>138,615</b>	<b>138,615</b>		<b>155,996</b>	<b>156,430</b>
		<b>Short Term</b>		
<b>11,712</b>	<b>11,712</b>	Cash Deposits	<b>5,450</b>	<b>5,450</b>

The Islands Council has controlling interest in the following private limited companies:

<b>2002/03</b>	<b>Orkney Towage Company Ltd</b>	<b>Weyland Farms Ltd</b>	<b>Orkney Ferries Ltd</b>	<b>Orkney Meat Ltd</b>
Principal Activity	Tug Operation	Mixed Farming	Sea Transport	Meat Processing
Shares Held	75%	100%	100%	38%
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Investments Less Provision	1	510	-	61
Net Assets	714	125	31	1,063
Profit / (Loss) After Tax	(228)	(27)	-	(3)
Profit / (Loss) Before Tax	(349)	(27)	-	(6)
<b>2001/02</b>				
Net Assets	941	152	31	1,066
Profit / (Loss) After Tax	(675)	(8)	-	222
Profit / (Loss) Before Tax	(675)	(8)	-	276

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

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

A dividend of £8,164 was received during the year on the Ordinary Share Holding in Orkney Meat Limited. No dividends were received from any other of the above companies.

The Islands Council has provided in full against a diminution in the value of its £7,498,000 investment in Orkney Ferries Limited.

At the 31 March 2004 the Islands Council's Reserve Fund loan to Weyland Farms Limited stood at £92,260, a decrease of £27,220 on the year. The Loan Balance has been provided for in full. The Islands Council is committed to ensure an orderly winding up of the Company should it cease trading and will ensure that all bona fide creditors are paid in full.

Copies of the companies' audited accounts are available for inspection from the Director of Finance.

## **8. Net Assets Employed**

The value of net assets employed as at 31 March 2004 are analysed as follows:

<b>2002/03</b>		<b>2003/04</b>
<b>£000</b>		<b>£000</b>
75,562	General Fund	84,947
221,221	Harbour Fund	237,266
15,989	Housing Revenue Account	16,371
3,736	Direct Service Organisations	1,712
4,324	Orkney College	4,569
765	Quarries	638
158	Waste Disposal	73
<b>321,755</b>		<b>345,576</b>

## **9. Description of Reserves**

The Fixed Asset Restatement Reserve accounts for any surpluses or deficits arising from the revaluation or disposal of fixed assets.

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

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

Government Grants Deferred arise where the acquisition of a fixed asset is financed wholly or in part by a government grant, the amount of the grant should be credited to the government grants - deferred account, and written-off over the useful life of the asset matching the depreciation of the asset to which it relates. The balance of deferred grants carried forward has been written down in respect of assets no longer held by the Islands Council.

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

The Housing Revenue Account balances represent accumulated surpluses generated on the housing revenue account. These funds are ring fenced as required under the Housing (Scotland) Act 1987.

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

In accordance with the Local Government in Scotland Act the Trading Organisations' Reserves have been transferred during the year to the General Fund.

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.

The General Fund balance as at 31 March 2004 represents the surplus on General Fund Services after crediting all income due and debiting the cost of providing the appropriate services, and after taking account of transfers from Reserves. Included in this balance are the following funds :-

Community Councils Fund of £175K being the balance of the accumulated fund held on behalf of the Community Councils as at 31 March 2004.

The DSM Fund of £35K represents the balance of the funds held on behalf of the schools under the Devolved School Management Scheme as at 31 March 2004. The DSM funds are committed solely to the Education Service and are not available for use by other services.

The Orkney College deficit of £591,000 represents the balance of College losses as at 31 March 2004.

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

## **10. European Single Currency**

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

As at 31 March 2004 no commitments in respect of costs associated with the Euro had been made, no exceptional expenditure had been incurred and it was not possible to forecast the total costs likely to be incurred.

## 11. Retirement Benefits

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

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

As at 31 March 2003			As at 31 March 2004		
Total Pension Fund Assets £000	OIC Pension Assets £000	Expected Return % p.a.	Total Pension Fund Assets £000	OIC Pension Assets £000	Expected Return % p.a.
34,105	32,177	8.0	45,394	44,305	7.7
9,130	8,614	4.8	10,050	9,809	5.1
-	0	6.0	-	0	6.5
3,638	3,432	4.0	5,270	5,144	4.0
<b>46,873</b>	<b>44,223</b>	<b>7.1</b>	<b>60,714</b>	<b>59,258</b>	<b>7.0</b>

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

As at 31 March 2003 £000	As at 31 March 2004 £000
<b>44,223</b> Estimated Assets	<b>59,258</b>
59,141 Present Value of Scheme Liabilities	64,219
5,518 Present Value of Unfunded Liabilities	5,713
<b>64,659</b> Total Value of Liabilities	<b>69,932</b>
<b>(20,436)</b> Net Pension Asset / (Liability)	<b>(10,674)</b>

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

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

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

Liabilities are valued on an actuarial basis using the projected unit method which assesses the future liabilities of the fund discounted at their present value. The valuations are based on a valuation as of 31 March 2002 and updated for the following three years by Hymans Robertson the independent actuaries to the Orkney Islands Council Pension Fund. The main assumptions used in the calculation are as follows:

	<b>2002/03</b>		<b>2003/04</b>
	%		%
	2.5	Price Increases	2.9
	4.0	Salary Increases	4.4
	2.5	Pension Increases	2.9
	6.1	Rate used to discount scheme liabilities	6.5

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

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

<b>2002/03</b>	<b>2003/04</b>
<b>£000</b>	<b>£000</b>
(2,486) Surplus/(Deficit) at beginning of year	(20,436)
(2,214) Current Service Cost	(2,450)
2,346 Employer Contributions	2,761
0 Contributions in respect of Unfunded Benefits	479
0 Other Income	0
0 Other Outgoings (e.g. expenses etc.)	0
(192) Past service costs	(309)
0 Impact of settlements and curtailments	0
126 Net return on assets	(1,069)
(18,016) Actuarial gains/(losses)	10,350
<b>(20,436) Surplus/(deficit) at end of year</b>	<b>(10,674)</b>

The following is a history of the gains and losses:

<b>2002/03</b>	<b>2003/04</b>
<b>£000</b>	<b>£000</b>
(12,902) Difference between the expected and actual return on assets	10,385
44,223 Value of assets	59,258
<b>(29.2%) Percentage of assets</b>	<b>17.5%</b>
(5,114) Experience gains/(losses) on liabilities	(35)
59,141 Present value of liabilities	69,933
<b>(8.6%) Percentage of the present value of liabilities</b>	<b>(0.1%)</b>
18,016 Actuarial gains/(losses)	10,350
59,141 Present value of liabilities	69,933
<b>(30.5%) Percentage of the present value of liabilities</b>	<b>14.8%</b>

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

For further information on the Orkney Islands Council Pension Fund see pages 35-38.

## STATEMENT OF TOTAL MOVEMENT IN RESERVES

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

<b>Restated</b>		
<b>2002/03</b>		<b>2003/04</b>
<b>£000</b>		<b>£000</b>
	Surplus/(Deficit) for year	
(128)	General Fund	996
-	Housing Revenue Account	-
1,832	Add back Movements on specific revenue reserves	9,097
(65)	Deduct Appropriation from pensions reserve	(588)
(18,016)	Actuarial gains and (losses) relating to pensions	10,350
<b>(16,377)</b>	<b>Total Increase / (Decrease) in revenue resources</b>	<b>19,855</b>
117	Increase / (Decrease) in useable capital receipts	136
-	Increase / (Decrease) in unapplied capital grants and contributions	-
<b>117</b>	<b>Total Increase / (Decrease) in realised capital resources (note 1)</b>	<b>136</b>
(2,469)	Gains / (Losses) on revaluation of fixed assets	(1,116)
-	Impairment losses on fixed assets due to general changes in prices	-
<b>(2,469)</b>	<b>Total Increase / (Decrease) in unrealised value of fixed assets (note 2)</b>	<b>(1,116)</b>
<b>(471)</b>	<b>Value of assets sold, disposed of or decommissioned (note 3)</b>	<b>(1,110)</b>
2,846	Capital receipt set aside	1,942
(1,273)	Revenue resources set aside	1,657
11,306	Movement on Government Grants Deferred	2,432
<b>12,879</b>	<b>Total Increase / (Decrease) in amounts set aside to finance capital investment (note 4)</b>	<b>6,031</b>
	<b>Specific Capital Reserves</b>	
(108)	Capital Fund - Movement	25
<b>(6,429)</b>	<b>Total recognised gains and losses</b>	<b>23,821</b>

## Notes to the Statement of Total Movements in Reserves

### 1. Movements in realised capital resources

<b>Usable Capital Receipts 2002/03 £000</b>		<b>Usable Capital Receipts 2003/04 £000</b>
590	Amounts receivable in 2003/04	948
<b>(473)</b>	<b>Amounts applied to finance new capital investments in 2003/04</b>	<b>(812)</b>
<b>117</b>	<b>Total increase / (Decrease) in realised capital resources in 2003/04</b>	<b>136</b>
612	Balance brought forward at 1 April 2003	729
729	Balance carried forward at 31 March 2004	865

### 2. Movements in unrealised value of fixed assets

<b>Fixed asset restatement reserve 2002/03 £000</b>		<b>Fixed asset restatement reserve 2003/04 £000</b>
(2,469)	Gains / (losses) on revaluation of fixed assets in 2003/04	(1,116)
-	Impairment losses on fixed assets due to general changes in prices 2003/04	-
<b>(2,469)</b>	<b>Total increase / (decrease) in unrealised value of fixed assets</b>	<b>(1,116)</b>

### 3. Value of assets sold, disposed of or decommissioned

<b>2002/03 £000</b>		<b>2003/04 £000</b>
(471)	Amounts written off fixed asset balances for disposals in 2003/04	(1,110)
(2,940)	Total movement on reserve in 2003/04	(2,226)
118,953	Balance brought forward at 1 April 2003	116,013
116,013	Balance carried forward at 31 March 2004	113,787

#### 4. Movements in amounts set aside to finance capital investment

2002/03 £000		Capital Financing Reserve £000	Gov't Grants Deferred £000	Total 2003/04 £000
	Capital receipts set aside in 2003/04			
2,693	- reserved receipts	1,703		
153	- useable receipts applied	239		
<b>2,846</b>	<b>Total capital receipts set aside in 2003/04</b>	<b>1,942</b>		<b>1,942</b>
	Revenue resources set aside in 2003/04			
5,320	- capital expenditure financed from revenue	6,915		
(6,593)	- reconciling amount for provisions for loan repayment	(5,258)		
<b>(1,273)</b>	<b>Total revenue resources set aside in 2003/04</b>	<b>1,657</b>		<b>1,657</b>
12,667	Grants applied to capital investment in 2003/04		3,837	
(1,361)	Amounts credited to the asset management revenue account in 2003/04		(1,405)	
<b>11,306</b>	<b>Movement on Government Grants Deferred</b>		<b>2,432</b>	<b>2,432</b>
<b>12,879</b>	<b>Total Increase / (Decrease) in amounts set aside to finance capital investments</b>			<b>6,031</b>
	Total movement on reserve in 2003/04	3,599	2,432	
	Balance brought forward at 1 April 2003	2,353	39,139	
	Balance carried forward at 31 March 2004	5,952	41,571	

#### 5. Analysis of actuarial gains and losses recognised in the Pension Reserve

2002/03 £000		2003/04 £000
(12,902)	Actual Return less expected return on pension scheme assets	10,385
(5,113)	Experience gains and losses arising on scheme liabilities	(35)
(1)	Changes in financial assumptions underlying the present value of scheme liabilities	0
<b>(18,016)</b>	<b>Actuarial gain/(loss) in pension plan</b>	<b>10,350</b>

The adoption of FRS 17 Retirement Benefits represents a change in accounting policy which is accounted for as a prior year adjustment, and results in the creation of a pension reserve of £20,436k as at 31 March 2003.

**CASH FLOW STATEMENT FOR THE  
YEAR ENDED 31 MARCH 2004**

<b>2002/03</b>		<b>£000</b>	<b>2003/04</b>
<b>£000</b>		<b>£000</b>	<b>£000</b>
	<b>Revenue Activities</b>		
	<b>Cash Outflows</b>		
36,893	Cash paid to and on behalf of Employees	43,963	
23,949	Other Operating Payments	16,092	
460	Housing Benefit Payments	439	
7,012	NDR Payments to Pool	6,807	
1,598	Precepts Paid	1,581	
<b>69,912</b>	<b>Total Payments</b>	<b>68,882</b>	
	<b>Cash Inflows</b>		
782	Rents (after Rebate)	744	
6,701	Council Tax Income	7,236	
1	Community Charge Income	1	
6,544	NDR Receipts from Pool	6,848	
6,706	Non Domestic Rates receipts	6,422	
37,609	Revenue Support Grant	40,996	
2,375	DWP Grant for Benefits	2,539	
4,190	Other Government Grants	4,555	
6,193	Cash received for Goods and Services	4,458	
<b>71,101</b>	<b>Total Receipts</b>	<b>73,799</b>	
<b>1,189</b>	<b>Net Cash Inflows from Revenue Activities</b>		<b>4,917</b>
	<b>Returns on Investments and Servicing of Finance</b>		
	<b>Cash Outflows</b>		
123	Interest Paid	153	
<b>123</b>	<b>Total Payments</b>	<b>153</b>	
	<b>Cash Inflows</b>		
903	Interest Received	271	
<b>903</b>	<b>Total Receipts</b>	<b>271</b>	
<b>780</b>	<b>Net Cash Inflow from Investments and Servicing of Finance</b>		<b>118</b>
	<b>Capital Activities</b>		
	<b>Cash Outflows</b>		
24,711	Purchase of Fixed Assets	18,186	
531	Purchase of Long Term Investments	2,365	
1,636	Other Capital Payments	1,502	
<b>26,878</b>	<b>Total Payments</b>	<b>22,053</b>	
	<b>Cash Inflows</b>		
515	Sale of Fixed Assets	948	
11,469	Capital Grants received	5,785	
188	Sale of Long Term Investments	122	
1,780	Other Capital Receipts	1,519	
<b>13,952</b>	<b>Total Receipts</b>	<b>8,374</b>	
<b>(12,926)</b>	<b>Net Cash Outflow from Capital Activities</b>		<b>(13,679)</b>
<b>(10,957)</b>	<b>Net Cash Outflow before Financing</b>		<b>(8,644)</b>
	<b>Management of Liquid Resources</b>		
<b>12,073</b>	<b>Net (Increase)/Decrease in Short Term Deposits</b>		<b>6,262</b>
	<b>Management of Financing</b>		
	<b>Cash Outflows</b>		
1,033	Repayments of Amounts Borrowed	1,971	
<b>1,033</b>		<b>1,971</b>	
	<b>Cash Inflows</b>		
-	New Loans raised	-	
<b>(1,033)</b>	<b>Net Cash Outflow from Financing</b>		<b>(1,971)</b>
<b>2,149</b>	<b>Increase / (Decrease) in Cash</b>		<b>(411)</b>

## Notes to the Cashflow Statement

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

2002/03 £000		2003/04 £000
241	<b>Operating Surplus</b>	7,926
	<b>Non Cash Transactions</b>	
1,662	Contributions to Reserves	3,092
(9,998)	Adjustments not Involving the Movement of Funds	(15,288)
8,473	Contributions to Capital	9,055
94	Increase/(Decrease) in Bad Debt Provision	54
<b>472</b>		<b>4,839</b>
	<b>Items on an Accruals Basis</b>	
(174)	(Increase)/Decrease in Stock and Work in Progress	40
868	(Increase)/Decrease in Debtors	(19)
23	Increase/(Decrease) in Creditors	57
<b>717</b>		<b>78</b>
<b>1,189</b>	<b>Cash Inflow from Revenue Activities</b>	<b>4,917</b>

### 2. Movement in Cash

2002/03 £000		31-Mar-04 £000	31-Mar-03 £000	Movement £000
2,149	Bank Overdraft	(2,052)	(1,641)	(411)
-	Cash	6	6	-
<b>2,149</b>	<b>Increase / (Decrease) in Cash</b>	<b>(2,046)</b>	<b>(1,635)</b>	<b>(411)</b>

### 3. Reconciliation of Liquid Resources

2002/03 £000		31-Mar-04 £000	31-Mar-03 £000	Movement £000
(12,073)	Temporary Lending	5,450	11,712	(6,262)

### 4. Reconciliation of Financing

2002/03 £000		31-Mar-04 £000	31-Mar-03 £000	Movement £000
(1,033)	Revenue Advances from Common Good, Charities & Pension Fund	(6,098)	(4,127)	(1,971)

### 5. Analysis of Government Grants

2002/03 £000		2003/04 £000
	<b>Grants Received</b>	
94	Teacher Training	91
273	Other Education Grants	364
26	Pre - School Funding	-
629	National Priorities Action Fund	618
38	Social Inclusion Partnership	49
359	Other Miscellaneous Grants	266
843	Community Social Services - Specific Training	912
122	Mental Illness Specific Grant	133
333	Offender Services	354
1,261	Scottish Funding Council for Further Education	1,295
212	Transportation - Rural Initiative	473
<b>4,190</b>	<b>Total</b>	<b>4,555</b>

## PENSION FUND ACCOUNT

The Orkney Islands Council Pension Fund is constituted under the various Local Government Pension Fund Acts and related regulations and provides pension benefits to all local government employees, excluding principally teachers, of Orkney Islands Council, together with 13 other organisations of a statutory and voluntary nature which have been accepted into the fund as admitted bodies. The members of the fund increased from 1,221 employees at 31 March 2003 to 1,391 employees at 31 March 2004 and the number of pension payments increased from 366 at 31 March 2003 to 384 at 31 March 2004.

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

The monies belonging to the Pension Fund are entirely managed by appointed Investment Fund managers and are held separately from any of the employing bodies which participate in the Pension Fund. After meeting the cost of current benefits, all surplus cash income is invested and the increasing value of investment is then available to meet future liabilities to employees within the Fund. In addition to a contingent liability to meet future pension benefits payable to existing employees, the funds must also provide for the future payment of deferred pension benefits which have been preserved by former employees in respect of service prior to their leaving.

Employees contributions are fixed by statute, with employers contributions being assessed every three years by an independent Actuary to determine the level of contribution necessary by employing bodies to ensure that the fund is able to meet all future benefits. For employees, officers contribute 6% whilst manual workers contribute 5%. Following completion of the 2002 Actuarial valuation, the employers rate will see the implementation of a stepped increase in contribution rates for a period of three years commencing in 2003 at 250%, rising to 275% in 2004 and 295% in 2005.

The funds have been invested in accordance with the investment controls laid down in the Local Government Pension (Scotland) Regulations 1989 and quoted investments of the fund have been revalued to market value at 31 March 2004 with the gain on revaluation being credited to the fund.

## PENSION FUND ACCOUNT

<b>2002/03</b>	<b>FUND ACCOUNT</b>	<b>2003/04</b>
<b>£000</b>		<b>£000</b>
	<b>Contributions Receivable</b>	
1,222	Employees Contributions	1,350
2,743	Employer Contributions	3,240
205	Transfer Values	1,562
406	Contributions from Services (Pension Increases)	52
<b>4,576</b>		<b>6,204</b>
	<b>Benefits Payable</b>	
	Pension Benefits:	
1,816	Retirement Pensions	1,702
351	Retirement Allowances	355
148	Death Gratuities	37
7	Refund of Contributions	14
36	Transfer Values	713
1	Equivalent Payment Contributions	9
106	Fund Administration	118
<b>2,465</b>		<b>2,948</b>
<b>2,111</b>	<b>Net Additions from Dealings with Members</b>	<b>3,256</b>
	<b>Returns on Investments</b>	
1,444	Investment Income	1,631
	Gain in Market Value of Investments:	
(2,684)	Realised	(1,006)
(11,017)	Unrealised	10,102
(137)	Investment Management Expenses	(142)
<b>(12,394)</b>	<b>Net Return on Investments</b>	<b>10,585</b>
<b>(10,283)</b>	<b>Net Increase in Fund during year</b>	<b>13,841</b>
57,156	Opening Net Assets of Fund	46,873
<b>46,873</b>	<b>Closing Net Assets of Fund</b>	<b>60,714</b>
	<b>Net Assets Statement ( as at 31 March )</b>	
	<b>Investment Assets</b>	
5,480	Fixed Interest - Public Sector	5,560
1,627	Fixed Interest - Overseas	2,053
22,224	Equities - UK	27,306
11,881	Equities - Overseas	18,088
1,377	Index Linked - UK	2,219
645	Index Linked - Overseas	218
1,272	Funds held by Investment Managers - Other ( Cash )	1,181
<b>44,506</b>		<b>56,625</b>
	<b>Current Assets</b>	
102	Sundry Debtors	22
2,299	Loans Fund Deposit	4,184
	<b>Less Current Liabilities</b>	
34	Sundry Creditors	117
<b>2,367</b>	<b>Net Current Assets</b>	<b>4,089</b>
<b>46,873</b>	<b>Net Assets</b>	<b>60,714</b>
	<b>Financed by:</b>	
<b>46,873</b>	Accumulated Fund	<b>60,714</b>

A TAIT, C.P.F.A., F.C.C.A.  
 Director of Finance  
 29 June 2004

## Notes to the Pension Fund Account

### 1. Actuarial Valuation Reports

Actuarial report was provided in 2003 after undertaking valuations on the fund as at 31 March 2002. Information from this actuarial valuation is undernoted:

(a) Market value of assets at valuation £57,156,000.

(b) Members Contributions

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

(c) Employers contributions as a percentage of employees contributions

1 April 2003	250%
1 April 2004	275%
1 April 2005	295%

(d) Valuation assumptions:

Investment Return:	
Equities	6.65%
Bonds	5.20%
Pay Increases	4.10%
Price Inflation / Pension Increases	2.60%
Rate used to discount scheme liabilities	6.30%

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

(f) The level of funding in terms of the percentage of assets available to meet liabilities was 96%

### 2. Investment Assets

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

2002/03			2003/04	
£000	%		£000	%
44,506	94.95	Baillie Gifford and Company	56,625	93.27
2,299	4.90	Loans Fund Deposit	4,184	6.89
68	0.15	Sundry Debtors less Creditors	(95)	(0.16)
<b>46,873</b>	<b>100.00</b>		<b>60,714</b>	<b>100.00</b>

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

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

2002/03			2003/04	
£000			£000	
29,081	UK	Listed	35,085	
-		Unlisted	-	
14,153	Foreign	Listed	20,359	
-		Unlisted		
<b>43,234</b>			<b>55,444</b>	

### 3. Purchases and Sales

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

2002/03		2003/04	
£000		£000	
25,552	Purchases	16,822	
20,699	Sales	13,744	

### 4. Contributions Receivable and Payable

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

Contributions Receivable		Contributions Payable		Contributions Receivable		Contributions Payable	
2002/03		2002/03		2003/04		2003/04	
£000		£000		£000		£000	
3,409		2,259	Administering Authority	3,936		2,021	
556		56	Admitted Bodies	654		73	
<b>3,965</b>		<b>2,315</b>		<b>4,590</b>		<b>2,094</b>	

### 5. Investment Sub Committee

The Orkney Islands Council carries out its administration functions through its Investment Sub Committee which comprises the Convener S Hagan, Vice Convener J Sinclair, Councillor A K Johnson, Councillor M Drever and Councillor R Selater.

### 6. Admitted Bodies

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

- Orkney Tourist Board
- Orkney Heritage Society
- Orkney Towage Company Limited
- Weyland Farms Limited
- Orkney Meat Limited
- Orkney Ferries Limited
- Orkney Enterprise
- Drinkwise Orkney
- Orkney Islands Property Development Limited
- Pickaquoy Centre Trust
- Orkney Opportunities Centre
- Orkney & Shetland Joint Valuation Committee
- D & H Glue

## CHARITY, TRUST AND COMMON GOOD FUNDS

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

	<b>2002/03</b>			<b>2003/04</b>
	<b>Net</b>	<b>Expenditure</b>	<b>Income</b>	<b>Net</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
(1) Educational Trust		4	2	2
(8) Education Bequests		7	53	(46)
(19) Social Bequests		20	48	(28)
(1) Miscellaneous		2	3	(1)
(1) Sheriff Thom's Bequest		1	1	-
(38) Common Good Fund		25	41	(16)
(3) Cathedral Promotion Fund		-	3	(3)
(1) Cathedral Fabric Fund		4	4	-
<b>(72)</b>		<b>63</b>	<b>155</b>	<b>(92)</b>
<b>31-Mar-03 Balance Sheet</b>				<b>31-Mar-04</b>
	<b>£000</b>			<b>£000</b>
<b>Investments</b>				
16 Listed Securities				15
29 Property				29
<b>45</b>				<b>44</b>
149 Capital Deposits				149
<b>194 Total Long Term Assets</b>				<b>193</b>
<b>Current Assets</b>				
1,678 Loan Fund Deposit				1,765
<b>6 Less Current Liabilities</b>				<b>-</b>
<b>1,672 Net Current Assets</b>				<b>1,765</b>
<b>1,866 Net Assets</b>				<b>1,958</b>
<b>Financed by:</b>				
66 Educational Trusts				64
284 Education Bequests				330
771 Social Bequests				799
88 Miscellaneous Trusts				89
431 Common Good Funds				447
3 Cathedral Promotion Fund				6
52 Cathedral Fabric Fund				52
22 Sheriff Thom's Bequest				22
149 Unapplied Capital Receipts				149
<b>1,866</b>				<b>1,958</b>

A TAIT, C.P.F.A., F.C.C.A.  
**Director of Finance**  
**29 June 2004**

## STATEMENT ON THE SYSTEM OF INTERNAL FINANCIAL CONTROL

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

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

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

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

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

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

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

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

6 The staffing resource of the internal audit section has increased to three full time members of staff from May 2004, in order to cover the potential areas of activity identified in the audit plan. The Council's external auditors hold the view that the section is now at least at 75% of the level they would recommend. In conjunction with the developing remit of the Monitoring and Audit Committee the staffing resource of the internal audit function will continue to be kept under review by the Council.

A budgetary control follow up audit carried out by the Council's external auditors, has raised specific concerns regarding the authority's budgetary control system. Managers have agreed a plan of recommendations to address the weaknesses identified, and to improve the system of internal control.

Aligned to planned improvements in the budgetary control system the Council has approved the adoption of proposals to integrate the strategic and service planning processes within the budget preparation arrangements. Further improvements have also been agreed for the capital appraisal arrangements. The staffing resources within the Accountancy function have subsequently been enhanced, which will enable support and training to be provided for budget holders during 2004/05.

Taken together with the other previously agreed actions these should address the concerns raised within the audit report.

The Orkney Islands Council Pension Fund audit includes a number of specific recommendations to strengthen the internal control system covering the Pension Fund's investments, pensions payments and fund contributions. In response to this an action plan has been agreed to address the weaknesses identified and to improve the system of internal control.

An external audit of the Payroll function is currently on-going with an initial review indicating similar weaknesses in internal control systems, as identified in the Pension Audit. These issues will be addressed as a priority through an action plan to be agreed with External Audit.

A further area where action needs to be progressed relates to corporate governance. Specific areas of activity have been identified and reported upon to the Monitoring and Audit Committee as requiring urgent attention such as the early adoption of a local code of corporate governance and the introduction of formal risk management systems with structured processes, including quality control, to identify and evaluate all significant operational risks. A risk management policy statement has been agreed by the Management Team and will be recommended for approval by the Council later this year. A fraud and corruption policy is due to be adopted by the Council as part of the revised Financial Regulations, and will be supported by a fraud plan setting out detailed procedures and operational guidelines.

A register of all significant sums paid by way of grant assistance has been established and is due to be reported to the Council in accordance with the "Following the Public Pound" guidance. A related issue is the need to clearly define the role, responsibilities, liability and probity of members and officers of the Council being appointed to external bodies funded by the Council. Both of these issues are currently being progressed, by means of reports to the Monitoring and Audit Committee.

**A TAIT, C.P.F.A., F.C.C.A.**  
**Director of Finance**  
**29 June 2004**

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

### **The Authority's Responsibilities**

The authority is required:

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

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

### **The Director of Finance's Responsibilities**

The Director of Finance is responsible for the preparation of the authority's statement of accounts which, in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ("the Code of Practice"), is required to present fairly the financial position of the authority at the accounting date and its income and expenditure for the year ended 31 March 2004.

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

selected suitable accounting policies and then applied them consistently;

made judgements and estimates that were reasonable and prudent;

complied with the Code of Practice.

The Director of Finance has also:

kept proper accounting records which were up to date;

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

I confirm that this Statement of Accounts presents fairly the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2004.

**A TAIT, C.P.F.A., F.C.C.A.  
Director of Finance  
29 June 2004**

## **INDEPENDENT AUDITOR'S REPORT**

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

I certify that I have audited the financial statements on pages 3 to 39 under the Local Government (Scotland) Act 1973. The financial statements have been prepared in accordance with the accounting policies set out on pages 3 to 6.

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 the Code of Audit Practice approved by the Accounts Commission and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by Audit Scotland, dated July 2001.

### **Respective responsibilities of the Director of Finance and Auditor**

As described on page 42 the Director of Finance of the Council is responsible for the preparation of the financial statements in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom, a Statement of Recommended Practice ("the SORP"). My responsibilities, as independent auditor, are established by statute and the Code of Audit Practice approved by the Accounts Commission, and guided by the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements present fairly the financial position of the Council at 31 March 2004 and its income and expenditure for the year. I also report if, in my opinion, the Council has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the Statement on the System of Internal Financial Control on pages 40 to 41 complies with the requirements of the SORP. I report if, in my opinion, the statement does not comply with the requirements or if it is misleading or inconsistent with other information I am aware of from my audit. I am not required to consider whether the statement covers all risks and controls, or form an opinion on the effectiveness of the Council's corporate governance procedures or risk and control procedures.

I read the other information published with the financial statements and consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

### **Basis of audit opinion**

I conducted my audit in accordance with Part VII of the Local Government (Scotland) Act 1973 and the Code of Audit Practice, which requires compliance with relevant United Kingdom Auditing Standards issued by the Auditing Practices Board.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Director of Finance in the preparation of the financial statements and of whether the accounting policies are appropriate to the Council's circumstances, consistently applied and adequately disclosed.

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

### **Opinion**

In my opinion the financial statements present fairly the financial position of the Council as at 31 March 2004 and its income and expenditure for the year then ended.

### **Failure to comply with statutory requirement**

It has not been necessary to qualify my opinion in respect of the following matter.

Supporting people grant of £357,000 has been used by the Council in 2003/04 to fund expenditure on housing support services, both directly and by making payments to other providers. Housing support services as defined in the Regulation of Care (Scotland) Act 2001 require to be registered with the Care Commission. An Order made under that Act required applications to register to be made before 1 October 2003.

However, due to the fact that multiple and complex services were being provided, it took some time for the Care Commission and individual providers to agree on the number of applications required and no valid applications were made before 1 October 2003. As a result, expenditure funded by supporting people grant since 1 October 2003 in respect of services that required to be registered is not in compliance with the statutory requirement. The Council estimates that the sum involved for the period from 1 October 2003 to 31 March 2004 is in the region of £27,000.

Peter Tait CPFA, Chief Auditor  
Audit Services  
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1/5 Osborne Terrace  
Edinburgh EH12 5HG

22 September 2004