



# Annual Accounts

## 2022 - 2023

[www.orkney.gov.uk](http://www.orkney.gov.uk)

# Contents

Management Commentary .....	1
Statement of Responsibilities for the Annual Accounts .....	22
Independent auditor's report to the members of Orkney Islands Council and the Accounts Commission....	24
Annual Governance Statement.....	28
Remuneration Report .....	40
Statements .....	47
Movement in Reserves Statement .....	47
Comprehensive Income and Expenditure Statement .....	48
Balance Sheet as at 31 March 2023 .....	49
Cash Flow Statement .....	50
Notes.....	52
Notes to the Core Financial Statements .....	52
Note 1 Summary of Significant Accounting Policies .....	52
Note 2 Accounting Standards Issued but not yet adopted.....	64
Note 3 Critical Judgements in Applying Accounting Policies .....	64
Note 4 Assumptions made about the Future .....	65
Note 5 Material Items of Income and Expenditure.....	66
Note 6 Events after the Balance Sheet Date .....	66
Note 7 Expenditure and Funding Analysis.....	66
Note 8 Adjustment between Accounting Basis and Funding Basis .....	71
Note 9 Transfer to or from General Fund Earmarked Balances and Other Reserves .....	73
Note 10 Other Operating Expenditure .....	75
Note 11 Financing and Investment Income and Expenditure .....	75
Note 12 Taxation and Non-specific Grant Income.....	75
Note 13 Property, Plant and Equipment .....	77
Note 14 Investment Properties .....	80
Note 15 Financial Instruments.....	80
Note 16 Inventories .....	84
Note 17 Short-term Debtors .....	85
Note 18 Cash and Cash Equivalents.....	85
Note 19 Assets Held for Sale .....	85
Note 20 Short-term Creditors .....	85
Note 21 Provisions .....	86
Note 22 Reserves.....	86
Note 23 Trading Operations .....	90
Note 24 Agency Services .....	90

Note 25 External Audit Costs .....	90
Note 26 Capital Grant Receipts in Advance .....	91
Note 27 Related Parties .....	91
Note 28 Capital Expenditure and Capital Financing .....	93
Note 29 Leases .....	94
Note 30 Impairment Losses.....	94
Note 31 Capitalisation of Borrowing Costs .....	94
Note 32 Pension Schemes Accounted as Defined Contribution Schemes .....	95
Note 33 Defined Benefit Pension Schemes.....	95
Note 34 Contingent Liabilities.....	99
Note 35 Nature and Extent of Risks Arising from Financial Instruments .....	100
Note 36 Charitable and Non-Charitable Trust Funds .....	103
Note 37 Common Good Fund .....	105
Housing Revenue Account.....	106
Council Tax Income Account.....	109
Non-Domestic Rates Account .....	111
Harbour Authority Account .....	112
Orkney College Account.....	115
Group Accounts.....	117
Glossary of Terms .....	131

# Management Commentary

The Management Commentary is intended to assist users in understanding the objectives and strategy of Orkney Islands Council, whilst demonstrating the stewardship of the public funds that support its mission and strategic priorities. It also provides a review of its business and financial performance throughout the year, summarising the position of the Council at the end of March 2023. It outlines the principal risks and uncertainties facing the Council and assesses the potential impact of those risks on future developments and performance. The financial position of the wider Council group is also presented, with the format and content of the Accounts prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom.

## Orkney Islands Council

Orkney Islands Council is the smallest local authority in Scotland. Established in 1975, the Council was one of the 3 original all-purpose island local authorities in Scotland. Around half of the population live in the main towns of Kirkwall and Stromness, with the remainder in largely rural settlements, giving rise to further cost implications associated with the provision of public services.



**Population** 22,540  
**Male** 49.7%  
**Female** 50.3%

**83.1% of the working age population are in employment (76.2%\*)**

And who operate **1,500 businesses**



### Life Expectancy

**Female** 83.5 years (81.0 years)\*

**Male** 80.1 years (76.8 years)\*

\*(Scottish Average, NRS)

## What do we provide?

...1,911 employees (FTE) who...

Look after **up to 106 people** in **4 Residential Care homes** 



Operate and maintain **29 harbours and piers, 7 airfields, 2 Travel Centres and 10 bus routes** across Orkney

Work in Integrated Health and Social care **supporting children, families, and adults** by partnering with **NHS Orkney**. 



Collect waste from **14,318 properties**, maintain **990Km of Roads and Infrastructure** with **238 Council vehicles**.

Provide **1,001 Council Houses** 

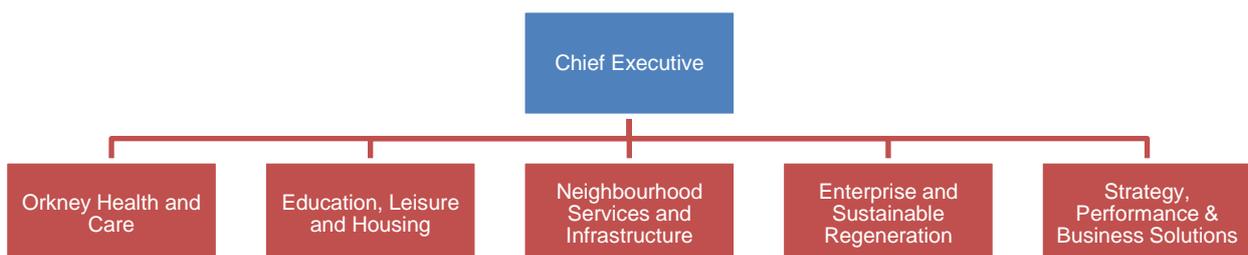
Teach and Support **3,178 pupils** in **24 Schools** 



Distribute start-up and support grants to **local businesses and much more...**

## Council Structure

The Council is structured into 5 main Directorates and is led by Chief Executive, Oliver Reid, who is responsible for ensuring the Council delivers its services efficiently and effectively to the residents of Orkney.



# Council Mission and Strategic Priorities

## What are we aiming to achieve for Orkney?

### The Orkney Partnership

The Council works alongside four other lead agencies in Orkney to maintain and deliver Orkney's Community Plan. The Council, NHS



### The Orkney Partnership

Working together for a better Orkney

Orkney, Highlands and Islands Enterprise (HIE), Police Scotland and Scottish Fire and Rescue Service all have a statutory duty to facilitate community planning. This group works in partnership with a network of other public, private and third sector agencies across Orkney with the shared mission of "Working together for a better Orkney".



The aim of Community Planning is to achieve better outcomes than would otherwise be achieved if they each worked separately. The Council supports the long-term ambitions of the Partnership by sharing both its mission and values, and by aligning the Council's five priorities in the Council Plan with those of the Partnership's three priorities.

The Community Plan, incorporating the Local Outcomes Improvement Plan, can be found at the following link: [Orkney Community Plan 2023-2030 incorporating the LOIP \(orkneycommunities.co.uk\)](https://orkneycommunities.co.uk/orkney-community-plan-2023-2030-incorporating-the-loip)

### The Council Plan

Our strategic plan for 2023 to 2028 focuses on growing Orkney's economy, strengthening its communities and developing local infrastructure over the next five years.

The 'Council Plan 2023 – 2028' sets out the key priorities for the Council over the next five years as well as the actions and projects that will need to be completed to meet those.

The priorities were developed following feedback from the public, as well as reflecting national priorities set by both the Scottish and UK Governments, the core services which the Council provides day to day and new duties arising from recent legislation.

Progress on the approved plan will be reported to Councillors every six months, with the actions attached to each priority subject to review depending on the changing political and financial landscapes affecting the work and resources of the Council.

The Strategic Priorities of the current Council plan are shown below:



The full Council Plan which details the Council's top priorities and projects to achieve them can be found at the following link: [Council Plan 2023-2028 \(orkney.gov.uk\)](https://www.orkney.gov.uk/council-plan-2023-2028).

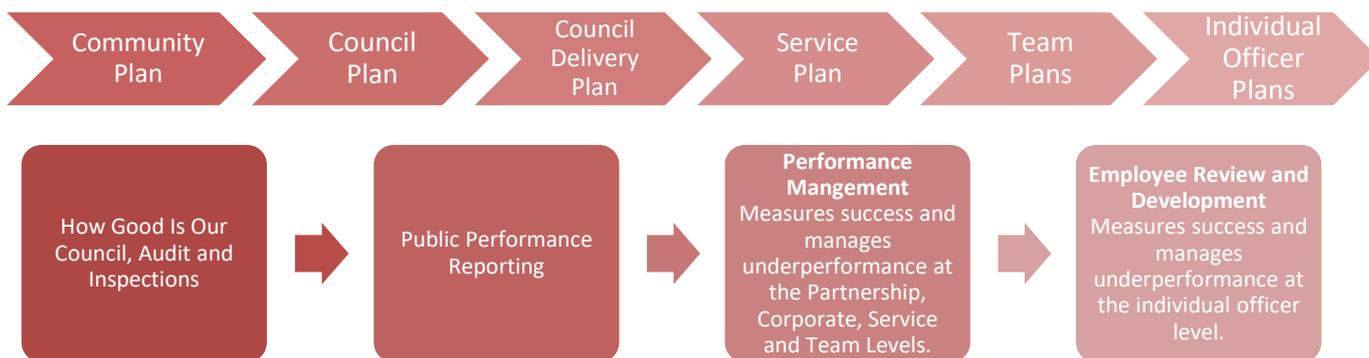
Underpinning all of our plans is the Council's commitment to combat climate change, having joined councils around the world in declaring a climate emergency in 2019. The opportunity to grow our green and blue economies with land and sea-based renewable energy projects will give Orkney a head start in the race to net zero, reducing energy use whilst simultaneously boosting employment. We will update the Council's own estate to reduce our carbon footprint, improve the energy efficiency of our social housing and facilitate affordable measures to upgrade cold homes and combat fuel poverty.

Reflecting this priority focus, Climate Change was included as a core underlying principle in OIC's draft 5-year plan, released for public consultation in 2023. OIC is also continuing to manage and report on its own carbon emissions. Along with other Councils, our annual returns in line with the Scottish Government's guidelines, will be made publicly available on the appropriate web page: <https://sustainablecotlandnetwork.org/reports/orkney-islands-council>

### **How do we achieve the objectives?**

The Council has an integrated Strategic Planning and Performance Framework which specifies the roles, responsibilities, systems and processes that enable the Council to meet its strategic priorities as described above. The Framework helps to ensure that the planned outcomes in the Council Plan are directly aligned to the performance measures that monitor its progress.

The following diagram illustrates how the Council's objectives are met, in respect of both the Community and Council Plan, through integrating plans, strategies and performance measures down to individual officer level.



The Council Delivery Plan is the mechanism which acts to guide the work of services responsible for the delivery of the Council's priorities over the remaining years of the Council Plan. The Delivery Plan includes key actions and projects supporting the 25 priorities under the Council's four strategic priority themes.

## Looking back over 2022-23

From the beginning of 2022-23 national COVID-19 restrictions continued to ease but locally services saw staff absences due to COVID-19 infections which impacted on the ability to deliver some core services in the short term. Despite this, throughout 2022-23 the Council has returned nearly all services back to pre-pandemic levels. Where possible, the Council has continued to offer hybrid working as an option for staff to provide flexibility and retain some more efficient working practices. Council meetings returned to in-person, with an option for hybrid, and this was essential following the local government election of Councillors in May 2022 in order to foster good working relationships between the 12 returning and 9 new councillors. A comprehensive induction programme was delivered to the elected members and set the scene for the collective development of the new Council Plan 2023-28 which was approved in March 2023.

In addition to the post pandemic recovery work, the impact of the war in Ukraine became evident and the Council supported the UK and Scottish Government Ukrainian resettlement programmes and worked with the community to identify housing and support services as part of these programmes.

Following the Platinum Jubilee celebrations in May 2022, the Council and the Orkney community joined the nation in mourning for Queen Elizabeth II, following her death on 8<sup>th</sup> September 2022. Flags were flown at half-mast, as well as a book of condolences being opened, and flowers being laid. In addition, the County also marked the proclamation of King Charles III with a Council-led ceremony on 11<sup>th</sup> September 2023, in line with national guidelines.

In December 2022, in response to the growing Cost of Living Crisis the Council provided a £200 cost of living payment, from the Strategic Reserve Fund to approximately 2,000 eligible residents who met income criteria in order to help with escalating fuel, energy and food costs. In addition, schemes for businesses and third sector were approved to mitigate the effects of soaring utility and project costs.

## Highlights

### Our People Our Plan

The Council continued to deliver the Our People Our Plan programme to prioritise the work whilst the new Council Plan was in development. Progress on the 7 key workstreams was steady and following the approval of the new management structure a recruitment drive was undertaken to populate the vacant posts. In January 2023 Orkney Islands Council achieved the Investors in People (IiP) standard award for the first time. This provided the Council with a framework of best practice to help the progression of initiatives to improve working practices, working environment, culture, performance

and staff retention and recruitment. The award recognised the many good things that were already happening under Our People Our Plan and the subsequent liP improvement plan that was developed will help achieve the next level by providing a focus on priorities and respond to staff feedback.

## **Pay and Grading**

Although the Scottish Local Government Living Wage is already consolidated in terms of being the minimum level of pay and is applicable for pay purposes such as overtime and allowances, the Council had not adjusted its pay and grading model to take account of the pay compression that this rate of pay causes. Therefore, there was a new pay and grading model approved and backdated to April 2021. This ensured that all staff on lower grades are remunerated on a fair basis.

## **Scapa Flow Visitor Centre**

The Scapa Flow Visitor Centre reopened in July 2022. This £4.3M project to refurbish and extend the Scapa Flow visitor centre was supported by Orkney Islands Council, the National Lottery Heritage Fund, Historic Environment Scotland, the Orkney LEADER Programme 2014-2020, Highlands and Islands Enterprise, NatureScot and Museums Galleries Scotland. It has recently been selected as one of five finalists for Art Fund Museum of the Year 2023, the world's largest museum prize.

## **Appointment of new Chief Executive**

On Monday 23 January 2023, Orkney Islands Council welcomed Oliver Reid as the new Chief Executive. Mr Reid has joined OIC from Renfrewshire Council where he was Head of Communities and Public Protection. He took over from interim Chief Executive, John Mundell, who had been with the Council for three and a half years.

## **Finance and Performance**

Financial information is a key part of the Council's Strategic Planning and Performance Framework with Council Services' financial performance regularly reported to members and their respective Committees. In reviewing the financial performance of the Council, the trading activities including the Housing Revenue Account, Harbour Authority including Strategic Reserve Fund, and Orkney College all need to be recognised in addition to that of General Fund Services.

The Strategic Reserve Fund, held as part of the Harbour Authority Account, has been applied to supplement the General Fund services as part of an agreed medium-term financial strategy. For the financial year 2022-23 it was agreed that £8.263M from the Strategic Reserve Fund be used as a funding source to supplement the General Fund Services revenue budget. The purpose and strategy of the Strategic Reserve Fund is detailed under the Harbour Authority Account section.

## **Revenue Expenditure**

### **General Fund**

Most day-to-day income and expenditure on service provision is accounted for in the Comprehensive Income and Expenditure Statement (CIES) which includes all activities associated with the General Fund Services, the Housing Revenue Account and Harbour Authority.

The revenue outturn position will be reported to the Policy & Resources Committee on 19 September 2023.

The following table shows the linkage between the budget figures reported to committee and the figures in the Annual Accounts.

Note 7 provides a reconciliation of the £0.205M of accounting adjustments that are made to the net expenditure chargeable to the Fund Balances to arrive at the amounts in the CIES.

2022-2023	General Fund Outturn					Annual Accounts	
	Approved Budget £000	Budget movements throughout the financial year £000	Revised Budget £000	Actual Net Expenditure £000	Variance £000	Accounting Adjustments £000	Net Expenditure per the Annual Accounts £000
Education	38,406	2,098	40,504	41,686	1,183	(2,979)	38,707
Cultural and Recreation	4,237	629	4,866	5,224	357	3,113	8,337
Orkney Health & Care	23,180	2,065	25,245	27,086	1,842	3,772	30,858
Roads and Transportation	6,588	1,174	7,762	8,914	1,152	3,980	12,894
Environmental Services	3,903	421	4,324	4,676	351	918	5,594
Other Services	16,308	872	17,180	11,679	(5,502)	3,485	15,164
Housing Revenue Account	0	0	0	174	174	(3,025)	(2,851)
Harbour Authority	1,397	(1,397)	0	(185)	(185)	2,569	2,383
Non-Distributed Cost	0	0	0	0	0	0	0
<b>Net Cost of Service</b>	<b>94,019</b>	<b>5,862</b>	<b>99,881</b>	<b>99,254</b>	<b>(628)</b>	<b>11,833</b>	<b>111,086</b>
<b>Other Income and Expenditure</b>	<b>(95,595)</b>	<b>5,140</b>	<b>(90,455)</b>	<b>(63,361)</b>	<b>27,094</b>	<b>(12,038)</b>	<b>(75,399)</b>
<b>Deficit/(Surplus) For Year</b>	<b>(1,576)</b>	<b>11,002</b>	<b>9,426</b>	<b>35,893</b>	<b>26,466</b>	<b>(205)</b>	<b>35,687</b>

## Explanations of major spend and variances throughout the year

**Education** – Increased expenditure in relation to pay and grading which includes backpay to 01 April 2021. Also, utility and property maintenance costs have increased.

**Orkney Health & Care** – Increased expenditure in relation to pay and grading which includes backpay to 01 April 2021. Recruitment pressures have also resulted in the requirement to use agency staff to cover essential posts, which costs a premium.

**Roads and Transport** – Winter maintenance costs for 2022-23 were high. Income in respect of car parks was less than anticipated. Increase cost of internal air contracts, as higher fuel costs were passed on by the operator.

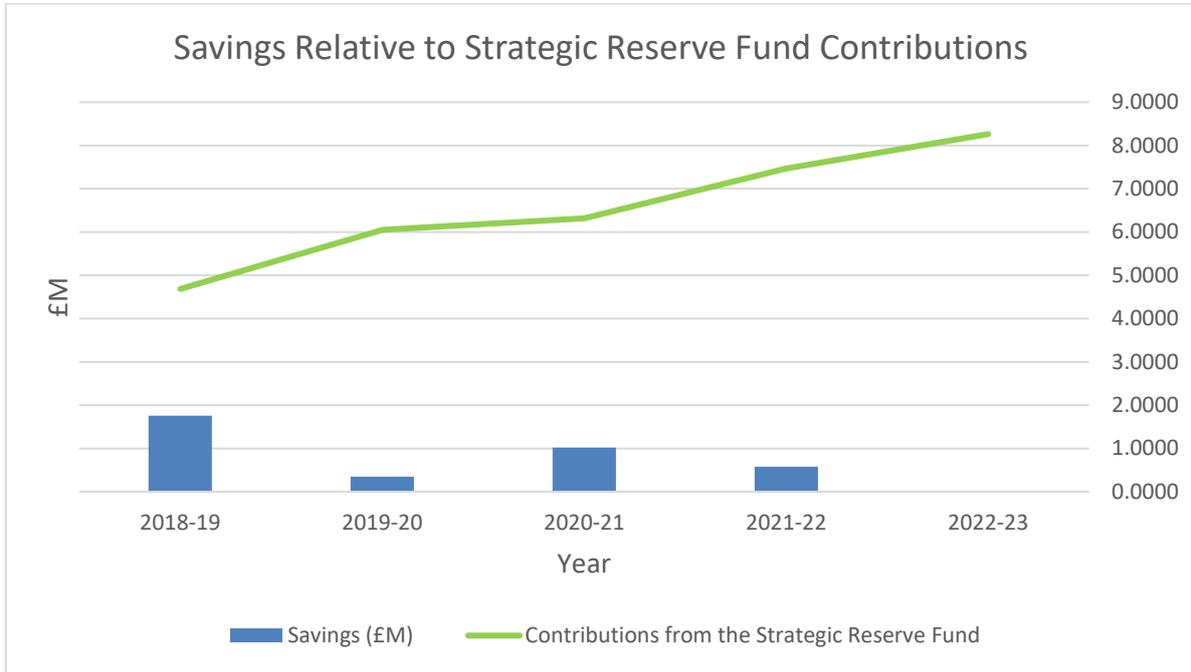
**Other Services** – Underspend on loan charges due to slippage on the planned delivery of the capital programme.

## Principal sources of finance



## Savings

As government funding continues to reduce in real terms, the Council recognises the financial challenges that come with the ongoing reduction in resources. The graph below shows the level of savings that Orkney Islands Council has delivered over the last five years and also the contributions taken from the Strategic Reserve Fund over the same period.



The 2023/24 budget included a contribution from reserves of £15.6 million to ensure a balanced budget. The medium-term financial strategy for the period 2023/24 to 2027/28 highlights that a growing contribution from reserves to meet in-year service costs is no longer sustainable, and baseline budgets need to return closer to funding levels. The indicative budget forecasts estimate a funding gap of £27.1M by 2027/28 without corrective action. Within the Council's Long Term Financial Plan for the period 2018 to 2030 it stated that the Council would face a best-case scenario cumulative funding gap of £23.6M over this period, with a worst-case scenario of £145.6M, with the most likely scenario at £65.7M. This included a planning assumption that the financial contributions from the Strategic Reserve Fund will be maintained over this period. A revised Long-Term Financial Plan needs to be developed to take into consideration changes in current assumptions including the ongoing pressures resulting from Brexit, COVID 19, the war in Ukraine and the instability within economic markets.

The Corporate Leadership Team are actively looking to review all services and to identify ways to increase revenue, reduce costs, and/or redesign operating models to deliver the significant efficiencies that will be required to set a balanced budget in 2024/25.

## Reserves

Use of the Council's Reserves is an important component in assessing the Council's ability to deliver effective services, as they support financial stability and provide flexibility to assist in the delivery of change and transformation. Within the Council's useable reserves, there are both uncommitted and earmarked reserves, with uncommitted reserves held to ensure the Council can manage any unexpected financial demands without disrupting delivery of Council services. The existing policy is to make a substantial financial contribution from the Strategic Reserve Fund each year to maintain the level of Council services currently provided within the county, while keeping the Council Tax on or below the national average for all Scottish local authorities.

The Movement in Reserves statement shows an overall net decrease of £34.885M in usable reserves.

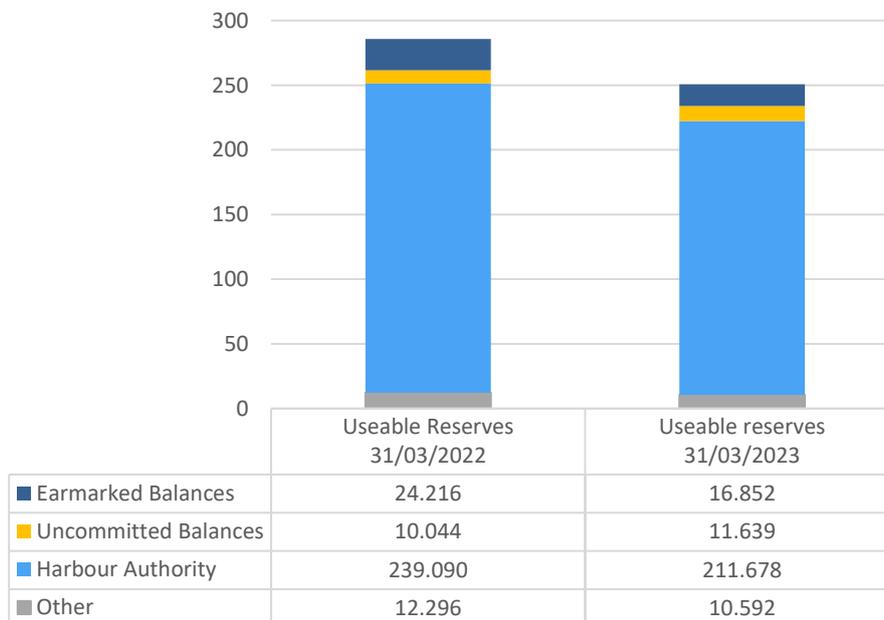
A review of the Council's Reserves Strategy during the year recognised £10.631M of earmarked General Fund balances which could be returned to un-committed balances. After taking into account these adjustments, a balance of £11.639M remains available for General Fund purposes as at 31 March 2023, of which £9.2M was required to set a balanced budget for 2023/24.

The Council's Reserves Strategy review set a target for the unearmarked General Fund balances at 2% of budgeted expenditure for 2023/24.

As inflationary pressures built up throughout financial year 2022-23, it was felt prudent to continue to put on hold the practice of accelerating debt repayments, carrying forward £0.6M on General Fund Services to provide the additional flexibility needed to manage these recurring pressures going forward. This also in part recognised the effect that recurring slippage on the capital programme has had on the Councils' capital financing requirement.

Full details of the Council's Movement in Reserves are shown in Note 22 Reserves.

The graph below summarises the Movements on the Reserves for 2022-23:

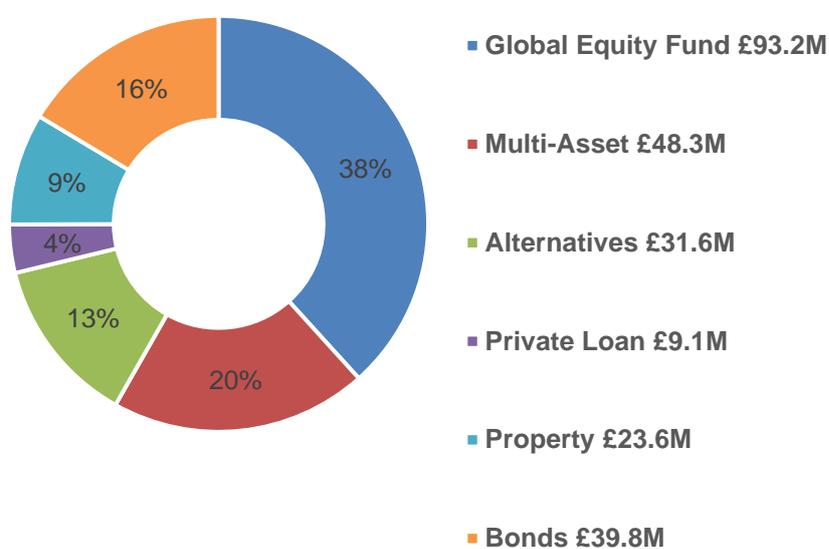


## Harbour Authority Account

The Harbour Authority Account is made up of three separate ring-fenced operations under Miscellaneous Pier and Harbours, Scapa Flow Oil Port and the Strategic Reserve Fund. Overall, the Harbour Authority generated a loss of £2.383M, from various harbour activities, due in part to a reduction in oil tankers, plus an increase in fuel and repair costs. Investment activities through the Strategic Reserve Fund returned a loss of £19.319M for the year and after netting off grants and other investment expenditure there was an overall loss on the Harbour Authority Account of £21.320M.

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

Financial assets include the following externally managed investments, held as part of the Strategic Reserve Fund on the Harbour Authority Account:

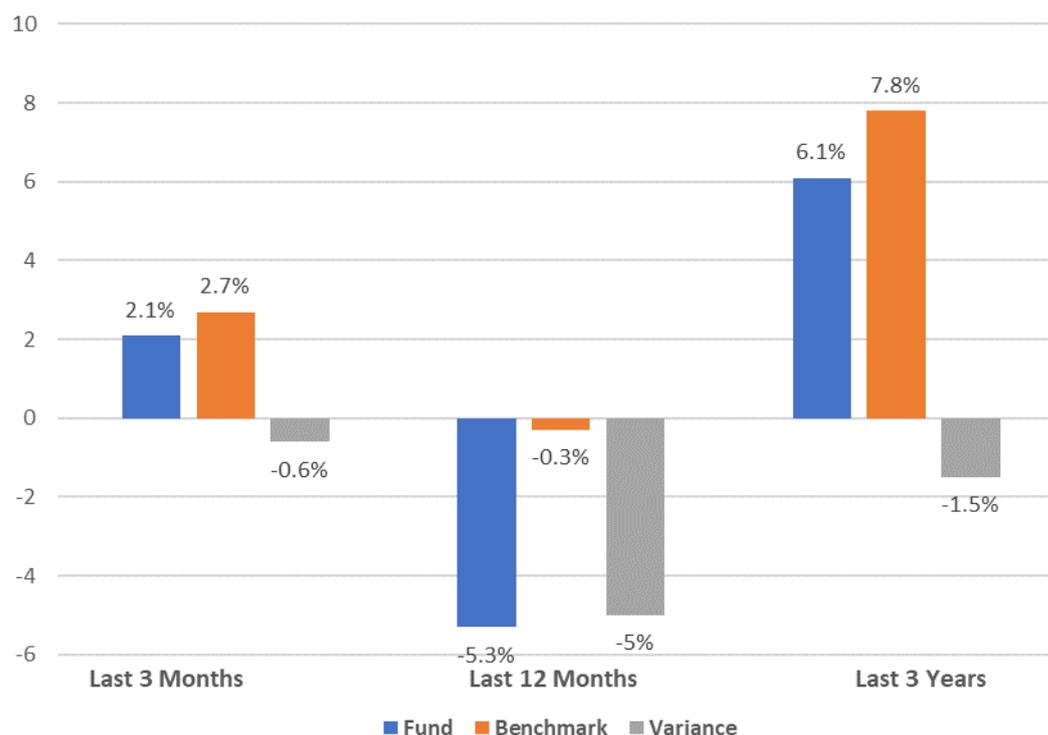


The Council aims to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of this Council is low in order to give priority to security of its investments. This is in keeping with the nature of the Council's Strategic Reserve Fund, which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

The prime objective for the managed fund investments is to maintain or increase their value in real terms over time, after allowing for disbursements or spending commitments on the Strategic Reserve Fund. To achieve this, external fund managers are incentivised to outperform the benchmarks for their respective mandates, in order to meet the targets set by the Council.

The performance of the Strategic Reserve Fund externally managed fund investments is measured against a range of indices reflecting the weighting or concentration of individual asset classes within the approved investment strategy with a target to outperform the aggregate benchmark over a rolling 3-year period. The following table indicates how managed fund investments have collectively performed relative to benchmark as at 31 March 2023:

## Managed Funds Investment - Performance summary



Strategic Reserve Fund managed fund investments decreased to a total of £245.649M, which after allowing for transfer or cash outflows, represents a loss of 5.3% on the year, with further analysis provided at Note 15.

After allowing for amounts required by statute and non-statutory proper accounting practice, including the use of reserves during the year, which included net contributions of £8.614M to support General Fund services, the net effect has been a reduction of £27.412M on the Harbour Authority Account Reserves for the year.

### Housing Revenue Account (HRA)

The HRA returned a surplus on its operations of £2.851M which can largely be attributed to revaluation of housing stock during the current year (loss £3.041M for 2021-22). After allowing for accounting for fixed assets and employee pension benefits, accelerated debt repayment and transfers to/from Reserves, the HRA achieved a deficit position of £0.174M for the year resulting in a reserve balance of £0.503M as at 31 March 2023 (£0.677M as at 31 March 2022).

### Orkney College

The range of higher and further educational activities provided by the College returned a deficit of £0.797M for the year (deficit of £0.784M for 2021-22). A large proportion of this accounting deficit can be attributed directly to being unable to achieve external funding to supplement core Scottish Funding Council support. On a funding basis, the net effect of the Orkney College activities resulted in a deficit of £0.620M for the year resulting in a shortfall of £0.139M as at 31 March 2023 (surplus £0.481M as at 31 March 2022).

### Orkney Integration Joint Board

The Orkney Integration Joint Board (OIJB) was established as a body corporate by order of Scottish Ministers with effect from 6 February 2016. The main purpose of the OIJB is to plan, resource and

oversee the delivery of high-quality health and social care services for and with the people of Orkney. The Council and the NHS are jointly accountable for the delivery of services by the OIJB.

The OIJB is included as a joint venture within the Group Accounts on the basis that the parties have joint equal rights to the net assets. A comprehensive review of the Integration Scheme was undertaken which was approved by NHS Orkney and Orkney Islands Council. The revised Integration Scheme was approved by Scottish Government in May 2022.

## Capital Expenditure

Capital expenditure represents money spent by the Council for buying, upgrading or improving assets such as buildings and roads. The Council receives the benefit from capital expenditure over a period exceeding one year, and the expenditure is financed and accounted for over the useful life of the assets. Further details, including the comparative figures are provided in Note 28.

**£22.257M**

**Actual capital expenditure incurred in 2022/23**

**£15.125M**

**Underspend due to expenditure not meeting the profile assumed in the capital programme**

### Projects with the largest capital spend in 2022/23:



Investing in Education £2.503M



Investing in Roads, Transport and Infrastructure £10.632M



Investing in Housing £1.320M



Investing in Social Care £3.029M



Investing in Plant and Vehicles £1.512M



Investing in IT £1.196M



Investing in Museums £1.102M



Other £0.963M

### Funding of the Capital Programme:

**£5.907M General Capital Grant**

**£10.554M Borrowing**

**£4.441M Specific Grants**

**(£0.478M) Funded from Revenue Contributions**

**£0.423M Other Capital Grants**

**£1.410M Capital Receipts**

It is recognised that in setting an ambitious capital programme, it was not deliverable due to weaknesses in the forward planning process, and this has resulted in a significant amount of capital programme slippage in previous years. Slippage is defined as capital projects which have not progressed in accordance with provisions made within the capital programme – this has been further compounded during the last financial year by reduced capacity within the construction industry, material shortages and delays with the delivery of plant and vehicles. Although there can be positive consequences of slippage this is recognised as a weakness on the basis that these delays are likely to result in higher costs for the Council to deliver the approved capital programme.

## 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 2022-23 were approved by Council on 1 March 2022. 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.

The key performance indicators are:

Prudential Indicator	Original Limit	Actuals	Commentary
<b>Approved limit for capital expenditure</b>	£34.382M	£22.257M	The maximum that the Council may spend on capital investments during the year.
<b>Capital financing requirement</b>	£16.867M	£7.808M	The Council's aggregate capital expenditure that is yet to be financed.
<b>Aggregate external debt as at 31 March 2023</b>		£30.065M	
Operational boundary	£65.000M		The upper limit for the aggregate external borrowing need.
Authorised limit	£75.000M		The upper limit of aggregate external borrowing that is affordable and prudent.

## Treasury Management

The borrowing strategy is prepared in accordance with the Code of Practice on Treasury Management in Local Authorities and with the Council utilising a borrowing facility from the Public Works Loan Board (PWLB).

Following on from the PWLB Consultation in July 2020, HM Treasury has published revised lending terms which restricts the use of PWLB funds, by disallowing councils use of the funds as a means to purchase investment assets primarily for yield. These new restrictions also extend further to ensure that no lending to councils will be approved if there is the intent to buy assets for yield in the capital plans. As a result of these changes to lending terms, the Council may face additional challenges in securing borrowing for future capital projects.

The Council's Treasury Management Strategy is approved by the Policy and Resources Committee and ensures that decisions are scrutinised sufficiently to mitigate potential risk. This can be found at the following link: [Treasury Management Strategy](#)

## Balance Sheet

The Balance Sheet represents a snapshot of Orkney Islands Council's overall financial position as at 31 March 2023. It brings together the year-end balances of all the Council's accounts and presents money owed to and by the Council, assets owned and the reserves at the Council's disposal.



In financial terms, the Council remains in good health, with its net worth increasing from £703.594M to £812.311M for the financial year to 31 March 2023, being an increase of £108.717M or 15.5%

### Explanation of the main changes to the Council's Balance Sheet

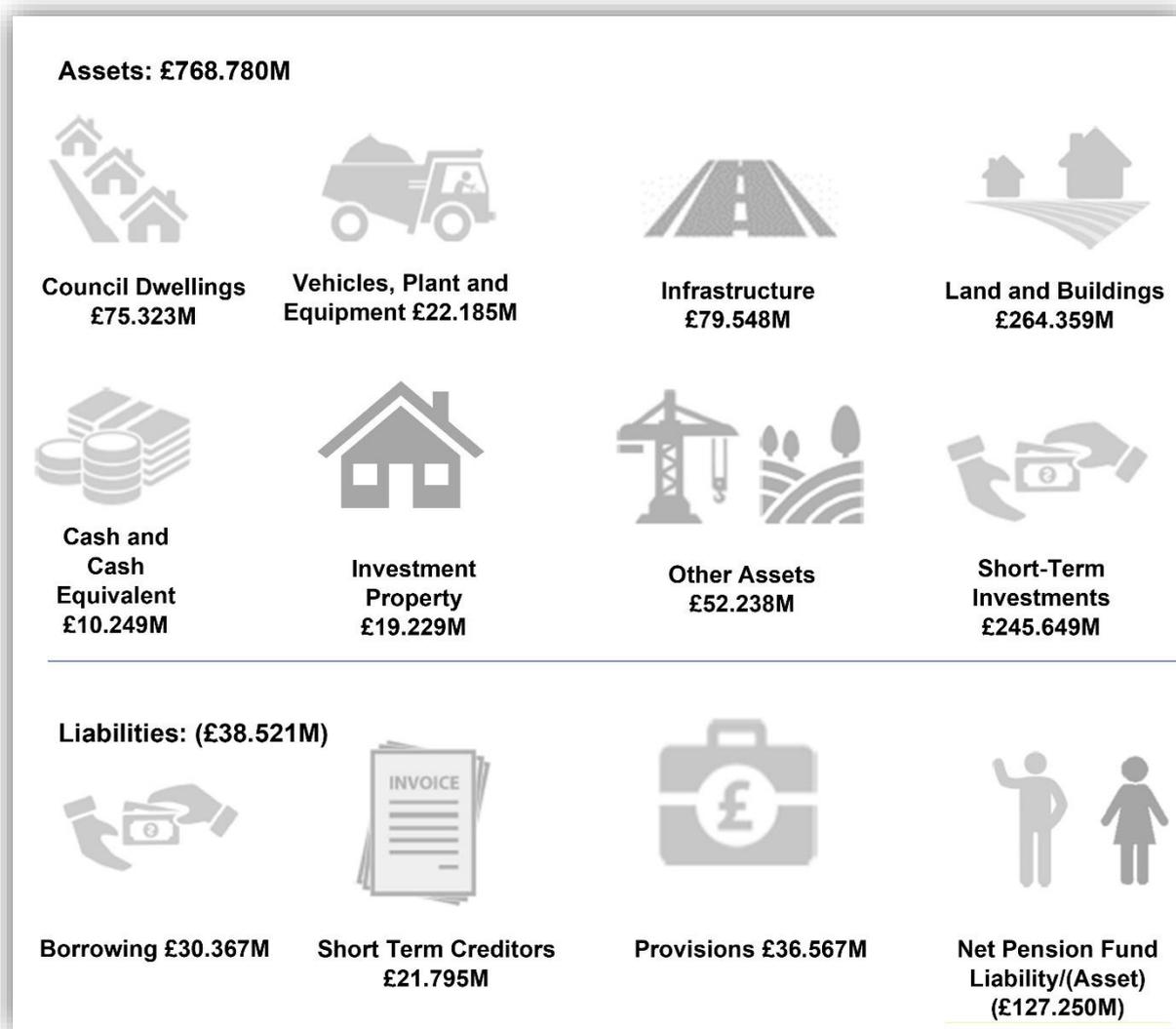
**Long term assets** – The increase reflects the rolling programme of revaluations carried out during this financial year.

**Current assets** – The reduction is mainly due to a loss in the value of externally managed investments of the Strategic Reserve Fund and a large reduction in cash balances at the balance sheet date.

**Usable Reserves** – the decrease on usable reserves can be attributed to a reduction on both earmarked and unearmarked reserves. There is also a reduction in Harbour Authority Fund as a result of the loss on the Strategic Reserve Fund.

**Unusable Reserves** – the increase on unusable reserves can be attributed to the large revaluation gain on the pension asset.

## Details of Assets and Liabilities



## Key Financial Ratios

The Chartered Institute of Public Finance and Accountancy (CIPFA) Directors of Finance Section recommends that certain “financial ratios” are included in the Management Commentary to assist the reader to assess the performance of the Council over the financial year and the affordability of its ongoing commitments. The following table provides details of those indicators with an explanation of each, grouped into CIPFA categories for the various areas of financial activity.

Financial Indicator	2021-22	2022-23	Commentary
<b>Reserves</b>			
Uncommitted General Fund reserve as a proportion of Annual Budgeted Net Expenditure	11.0%	12.6%	This reflects the level of funding available to manage financial risk/unplanned expenditure and 2023/24 budget requirements and is considered sufficient.
Increase/(Decrease) in the Uncommitted General Fund Balance	3.360M	1.595M	Reflects the review of the Councils Uncommitted General Fund Reserve.

<b>Council Tax</b>			
In-year Collection Rate	93.4%	96.9%	Reflects the Council's effectiveness in collection of Council Tax debt and financial management.
Ratio of Council Tax Income to Overall Level of Funding	11.5%	11.3%	Reflects the Council's capacity to vary expenditure by raising Council Tax income, a principle source of finance within the Local Authority control.
<b>Financial Management</b>			
Actual Outturn Compared to Budgeted Expenditure	97.1%	100.6%	How closely expenditure compares to the budget is a reflection of the effectiveness of financial management. The indicator is based on the format of budget monitoring as reported throughout the year.
Actual Contribution to/(from) Unallocated General Fund Balance compared to Budget	3.7%	1.7%	
<b>Debt/Long-term Borrowing</b>			
Ratio of Financing Cost to Net Revenue Stream:			These two ratios indicate the scale of financing costs compared with the level of funding available to the Council.
General Fund	2.2%	0.3%	
HRA	31.3%	32.9%	

## Group Accounts

In accordance with the Code of Practice on Local Authority Accounting in the United Kingdom the Council has prepared Group Accounts to reflect its interests in subsidiaries, associates and joint ventures. The Council has identified 2 "subsidiary" entities where the Council has a "controlling interest", as follows: Orkney Ferries Limited and the Pickaquoy Centre Trust.

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

The Orkney Integration Joint Board and the Orkney Research and Innovation Campus are included as "joint ventures". The effect of recognising the Council's interests in subsidiaries and associates on a group basis is an increase in net worth of £3.778M to £816.089M.

## Council Plan Targets, Outcomes and Planned Actions

The table below summarises some of the 81 action points contained within the Council's Delivery Plan 2018-23 that have been progressed to completion during this financial year and also the ones experiencing some underperformance. Actions that have not progressed to completion on the Council's Delivery Plan for 2018-23 will fall under three categories going forward –

- Council Priorities – These actions have been included in the Council Delivery Plan 2023-28 which was presented to the Policy and Resources Committee on 18 April 2023. Future performance reporting will be based on this plan.
- Directorate Priorities – These actions will be included in the relevant Directorate Delivery Plans and progress on these actions will be reported to the relevant committees.
- Outstanding Actions – These actions are not included in either the Council Delivery Plan or the Directorate Delivery Plans and will be reported as an annex in the Council Delivery Plan performance report and identified as outstanding actions from Council Delivery Plan 2018-23.

<b>Actions progressed during the year</b>
<p><b>Coastal Flood Protection</b></p> <p>The Orkney Local Flood Risk Management Plan (LFRMP) 2022-2026 was published on 19 December 2022. Any necessary funding for the projects contained in the Plan will be requested through the Policy and Resources Committee. The flood risk management plan work will be included in the new Directorate Delivery Plan.</p>
<p><b>Orkney Outdoor Access Strategy Action Plan</b></p> <p>The Council agreed in December 2021 to allocate £0.5M towards footpaths, core paths and cycle links. A list of projects is currently being developed and a seminar was held with Elected Members on 27 October 2022 to discuss their aspirations for projects, with subsequent report presented to Development and Infrastructure Committee in February 2023 where seven feasibility studies covering a range of core paths and active travel routes were approved.</p>
<p><b>Extend the Orkney Offer</b></p> <p>A report from the Association of Directors of Education in Scotland/ Education Scotland 3 Isles review of Senior Phase was presented to Education, Leisure and Housing Committee on 8 February 2023. This included plans for Senior Phase Curriculum Review.</p>
<p><b>Digital Culture</b></p> <p>A review of digital infrastructure, strategy and improvement was carried out between August and October 2022 involving all Education, Leisure and Housing establishments. Further work in this area will be considered for inclusion in the Directorate Delivery Plan.</p>
<p><b>Islands Deal</b></p> <p>The Islands Growth Deal was signed-off by UK and Scottish Governments on 20 January 2023. On 29<sup>th</sup> March the Islands Centre for Net Zero, a joint project involving Orkney, Shetland and Western Isles was the first to receive sign off on its Full Business Case and is now a live project. Other Orkney specific projects including Orkney specific projects including Orkney Research and Innovation Campus Phase 2, Orkneys Vertical Farm, Scapa Flow Future Fuels Hub are still working on finalising their business cases as is the other two joint projects TalEntEd Islands (which includes University of Highlands and Islands, Robert Gordon University and Heriot-Watt University) and Creative Islands Wellbeing which includes the Pier Arts Centre based in Stromness.</p>
<p><b>Car Parking Responsibilities, Speed Limits and Infrastructure</b></p> <p>Much work has taken place regarding decriminalised parking including a meeting of a Consultative Group (joint between Roads and Environmental Services and Planning and Regulatory Services). This work highlighted mixed views on whether to proceed with a car parking / Environmental Health Officer enforcement model and equally to advance Decriminalised Parking Enforcement (DPE) noting the need to be self-financing. Staff resources and budget limitations continue to prevent this being progressed; however, we continue to review the position and are engaging with Transport Scotland, other local authorities and also Police Scotland (locally) who are in a similar position to identify appropriate ways forward. This area of work will be included in the new Directorate Delivery Plan.</p>
<p><b>Orkney Local Biodiversity Action Plan</b></p> <p>The Council is a partner in the development of the Orkney Local Diversity Action Plan and lead for several actions. The Council is participating in the Orkney Native Wildlife Project Steering Group and Partnership Board and has also signed up to the Edinburgh Declaration on Biodiversity which is aimed at showing political support for global action on biodiversity. The Local Biodiversity Steering Group is reviewing and updating the current Plan. Now that the Council has implemented biodiversity duties a report on the actions will be presented to the Policy and Resources Committee in November 2023.</p>
<p><b>Community Associations and Community Schools</b></p> <p>The Community, Learning and Development (CLD) team continue to provide support and guidance to community schools, village halls and the wider community by attending meetings on a regular basis; running the annual halls event; organising various training and partnership events. A review of the community school</p>

handbook is underway. The Annual Return has been completed by Community Associations in Community Schools and the Annual Levy has been issued. A partnership review of Community Development support is planned by the Strategic Community Learning Group.

#### **Museums Service**

The Scapa Flow Museum was officially opened on 29 April 2023 at 'Hoy on Hoy' Event. National Lottery Heritage Fund (NLHF) additional contingency work completed, including restoration and interpretation of 3 historic naval guns and the installation of the Royal Oak model completed March 2023.

#### **Maintenance Strategy**

An update report on the Maintenance Strategy along with the Corporate Asset Improvement and Replacement Programmes is due to be presented to the Asset Management Sub-committee in September 2023. The Maintenance Strategy is being developed to define the key priorities for ongoing maintenance of the estate however, many of the outcomes linked to this action are dependent on the setting of the Council's Capital Programme plan, which is currently being reviewed by the Corporate Leadership Team will be presented to Elected Members for consideration and a decision on the priorities. The outcomes are also linked in with the new Council Plan with developing our infrastructure and transforming our Council being two of the strategic priorities within the Council Plan 2023-2028.

#### **Flooding Risk**

The Orkney Local Flood Risk Management Plan (LFRMP) was published on 19 December 2022. Actions contained within the plan will be progressed as and when funding and resources allow, with reports coming to Policy and Resources Committee as required. Survey work which will be used to inform the Shoreline Management Plan will now be undertaken in Summer 2023.

#### **Terrestrial and Marine Planning Policy**

The Scottish Government issued a direction to delegate regional marine planning functions to the Council in July 2020 with the function transferring to the Council on 27 November 2020, and the first meeting of the Orkney Marine Planning Advisory Group established to assist the Council with preparation of the Marine Plan was held in March 2021. Since then, various processes and presentation of reports has taken place with the draft Regional Marine Plan being approved by the Development and Infrastructure Committee in November 2022.

#### **Burial Grounds**

The cemetery extensions in the current programme are almost complete, with work almost complete on the two remaining extensions. The identified list of major works is almost complete but will require spend in financial year 2023/24 and the completion of the programme has therefore been extended. This has also enabled inclusion of some additional works, including installation of plinths across several burial grounds.

#### **Actions experiencing underperformance**

#### **Planned Action**

#### **Day Care Services**

The review and redesign of the approach to day care services for adults has been delayed due to staffing capacity issues within Orkney Health and Care and as a result of delays in progress on the capital project to replace St Rognvalds House.

Service redesign will continue in due course when capacity allows and in line with the replacement for St Rognvalds House.

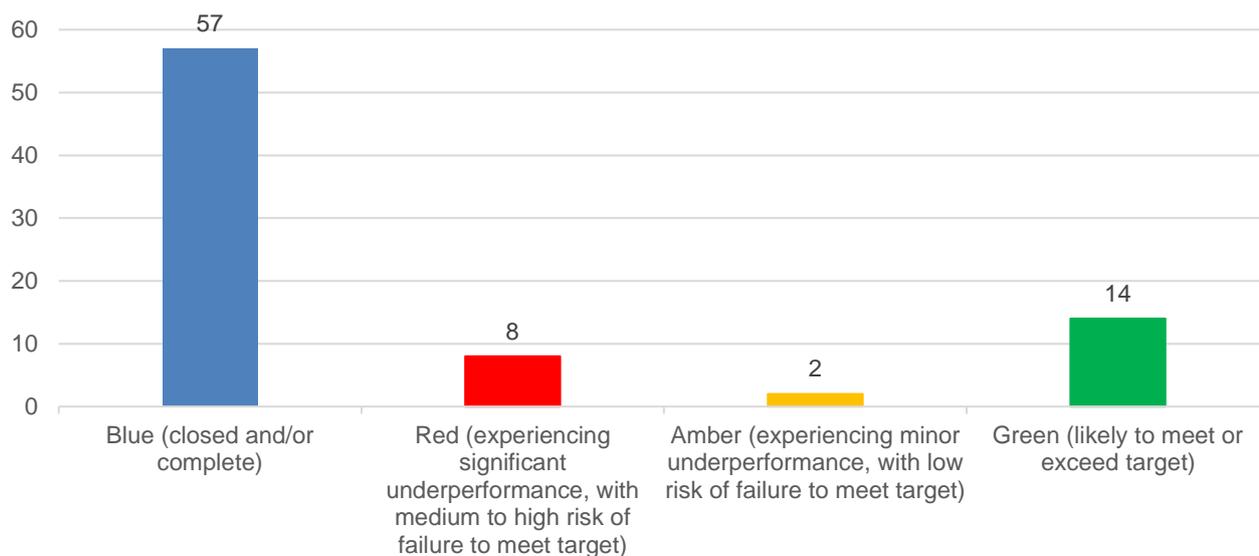
#### **Inter-Island Ferry Services**

Transfer of responsibility at no net detriment to the Council.

The impetus behind this action was the shortfall in revenue funding for the ferry service and the lack of progress in securing funding for vessel replacement. Although the full revenue funding was received in 2022/23, the funding for 2023/24 is less than requested from Transport Scotland. The

	funding for capital replacement of vessels remains to be resolved but a working group with Scottish Government has been established on the instruction of the Depute First Minister with the first meeting of the working group held on 31 January 2023.
<b>Airfield Strategy and Investment Plan</b>	
Fit for purpose Airfields in accordance with the OIC Airfields Safety Management System.	Following an audit by the Civil Aviation Authority the need to complete the Terminal Programme has been highlighted and this will need to be progressed through the Capital Project Appraisal (CPA) process. A stage 2 CPA was approved for Westray, Stronsay, Papa Westray and Eday terminal buildings at Policy and Resources Committee on 20 June 2023. However, only part of the funding application to the Island Infrastructure Fund was approved meaning that until further funding can be identified only work on Papa Westray and Stronsay can commence.
<b>Policy and Provision for School Staffing, Curriculum and Financial Management</b>	
Sustainability of a learning offer across our communities.	Due for implementation during 2023/24 with final policy being presented to Education, Leisure and Housing in the Autumn of 2023. A number of staff vacancies within the Education Leisure and Housing Teams and difficulties in recruitment has placed limitations upon progress to date.
<b>Environmental Survey and Response Capability</b>	
Maintain high standards of environmental monitoring and research activity.	As part of the regional marine plan making process, a State of the Environment Assessment of Orkney waters was published in November 2020. The Council is currently working in partnership with Marine Scotland and NatureScot to undertake high resolution digital ariel bird surveys for the north of Orkney and Scapa Flow Special Protection Areas, this will provide up to date and accurate bird population data to inform spatial planning and future marine development activities. The final project report will be completed later in 2023 when NatureScot have undertaken their quality assurance process.
<b>Island Games</b>	
Increased number and quality of coaches and volunteers; Improved facilities; enhancement of Orkney's profile across the UK and internationally; increase the quality of Orkney sport.	Monthly planning meetings arranged between Orkney Islands Council officers and the 2025 Organising Committee to look at individual specific areas such as transport, catering, etc.
<b>Physical Activity and Wellbeing Strategy</b>	
Increased participation in physical activity; increase in number of people who fall into the 'healthy weight' category.	Finalising partners delivery plans then the strategy will be presented to Corporate Leadership Team (CLT) followed by a report to Education, Leisure and Housing Committee.

Progress on the 81 Council Plan actions can be summarised below:



### Local and National Statutory Performance Indicators 2020-21

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

The Council has mapped the LGBF indicators against the OIC target outcomes and priorities in the Council Plan. The most recent LGBF performance data is for the year ending 31 March 2021.

The most recent LGBF data for the Council is available at the following link: [Local Government Benchmarking Framework](#)

## Looking ahead

The Council's capital programme is progressing and includes a new nursery in Kirkwall, for which the Council received £1.683M grant funding from the Scottish Government's Islands Infrastructure Fund, house builds and the new Kirkwall Care Facility.

More focussed work is underway to address recruitment and retention to address the high number of vacancies. In addition, services will be looking at service redesign to address the budgetary challenges in line with the Medium-Term Financial Strategy.

### Islands Deal

On 20<sup>th</sup> January 2023 Orkney Islands Council along with Shetland Islands Council and Comhairle nan Eilean Siar formally signed the 'Full Deal', an agreement between UK and Scottish Government to make long-term investments tailored to the needs and strengths of the islands, referred to as the Islands Growth Deal. This is modelled on the City and Regional Growth Deals delivered across the UK.

The UK and Scottish Governments will each invest £50 million, over 10 years, which could deliver up to £393 million investment across the three island groups, creating up to 1,300 jobs while developing sustainable communities.

The Islands Growth Deal aims to harness the islands' unique assets to create world class, innovative and globally focussed industries that will help address the islands' severe demographic challenges and strengthen the distinct and important contribution the islands make to the economic vitality and international reputation of Scotland and the United Kingdom.

Across the three island groups it aims to:

- Create up to 1,300 sustainable jobs
- Support the islands to be among the first places in the UK to achieve net zero.
- Create internationally significant new port infrastructure that will play an important role in supporting Scotland and the UK to achieve net zero targets.
- Strengthen the Islands' place as unique 'living laboratories' for global innovation in low carbon technologies, wellbeing research and sustainable food production in partnership with their leading universities and research institutes.
- Showcase the Islands' outstanding natural environment, heritage, culture and creativity to the world.
- Create the foundation for an innovation-focused recovery from the COVID-19 pandemic and support inclusive growth across all the Island communities.

The three local authorities are working together to deliver joint projects including the Islands Centre for Net Zero, Creative Islands and Wellbeing and TalEntEd Islands whilst also taking forward Island specific projects. The projects specific to Orkney include:

- Orkney Research and Innovation Campus Phase 2
- Orkney Vertical Farm
- Orkney World Heritage Site Gateway
- Scapa Flow Future Fuels Hub

Projects are developing their business cases in line with The Green Book which is guidance issued by HM Treasury on options appraisal and applies to all proposals that concern public spending using the 5 case business model. Once approved by the Joint Islands Programme Board and Joint Islands Committee, Scottish and UK Government projects will be able to draw down funding.

The Islands Centre for Net Zero, a partnership of organisations with a large footprint within Orkney and led by the European Marine Energy Centre has already had elements of its business case approved and are in the early phases of project delivery.

## Community Wind Farm

Orkney's Community Wind Farm project comprises three Council owned windfarms each with 28.8MW capacity (86.4MW total). The three sites have all achieved planning permission, with two awarded a guaranteed price for electricity under the Contracts for Difference auction. The project requires a new subsea transmission connection to Orkney in order to be built out. Ofgem has issued a minded to approval for the Needs Case for the interconnector, with full approval expected imminently. The interconnector is due to be delivered in 2027, and independent financial analysis indicates an average annual real profit (in today's money) of c. £6 million per year to the Council.

## Economic Opportunities

Offshore wind is emerging as a major growth industry for Scotland and the UK; a key catalyst is the ScotWind leasing round, led by Crown Estate Scotland, which has culminated in multiple offshore wind projects that have the potential to realise up to 27 Gigawatts of renewable power and an average investment (per project) of £1.4 billion in Scotland's supply chain.

This represents a significant step forward in transition to net zero, supporting the Scottish and UK Governments' targets to achieve net zero by 2045 and 2050 respectively. Generating renewable energy and accelerating the transition process also has a significant role to play in protecting energy security for the UK.

To enable delivery of current ScotWind and future offshore wind projects additional and suitable port capacity is needed in Scotland. The proximity of Orkney and natural harbour asset of Scapa Flow to the offshore wind sites presents a significant opportunity that the Council is exploring.

## Conclusion

Overall, the Management Commentary reflects well on both the efforts and professionalism of officers and on the Council's financial management, scrutiny and monitoring procedures.

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

*James Stockan*

**Councillor James Stockan**  
Leader

08 December 2023

*OL R 1 .*

**Oliver D Reid**  
Chief Executive

08 December 2023

*Gareth Waterson*

**Gareth Waterson, BAcc., CA**  
Corporate Director of  
Enterprise and Sustainable  
Regeneration

08 December 2023

## Statement of Responsibilities for the Annual Accounts

### The Authority's Responsibilities

The authority is required to:

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

I can confirm that these annual accounts were approved for signature by the Monitoring and Audit Committee at its meeting on 29 November 2023.

Signed on behalf of Orkney Islands Council.

*James Stockan*

**Councillor James Stockan**  
Leader

08 December 2023

## **The Chief Finance Officer's Responsibilities**

The Corporate Director of Enterprise and Sustainable Regeneration is responsible for the preparation of the authority's Annual Accounts in accordance with proper practices as required by legislation and as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 (the Accounting Code).

In preparing the Annual Accounts, the Chief Finance Officer, has:

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

The Chief Finance Officer has also:

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

I certify that the financial statements give a true and fair view of the financial position of the local authority and its group at the reporting date and the transactions of the local authority and its group for the year ended 31 March 2023.



**Gareth Waterson, BAcc., CA**  
Corporate Director of Enterprise  
and Sustainable Regeneration

08 December 2023

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

## Reporting on the audit of the financial statements

### Opinion on financial statements

We certify that we have audited the financial statements in the annual accounts of Orkney Islands Council and its Group for the year ended 31 March 2023 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Group and Council Comprehensive Income and Expenditure Statements, Group and Council Balance Sheets, Group and Council Movement in Reserves Statement, Group and Council Cash Flow Statements, the Council Tax Income Account, the Non-domestic Rates Income Account, the Housing Revenue Account, the Harbour Authority Account, the Orkney College Account and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards, as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 (the 2022/23 Code).

In our opinion the accompanying financial statements:

- give a true and fair view of the state of affairs of the Council and its Group as at 31 March 2023 and of the income and expenditure of the Council and its Group for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2022/23 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

### Basis for opinion

We conducted our audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the [Code of Audit Practice](#) approved by the Accounts Commission for Scotland. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We were appointed by the Accounts Commission on 18 May 2022. Our period of appointment is five years, covering 2022/23 to 2026/27. We are independent of the Council and its Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the Council. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to going concern basis of accounting

We have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the ability of the Council and its Group to continue to adopt the going concern basis of accounting for a period of at least twelve months from when the financial statements are authorised for issue.

These conclusions are not intended to, nor do they, provide assurance on the current or future financial sustainability of the Council and its Group. However, we report on the Council's arrangements for financial sustainability in a separate Annual Audit Report available from the [Audit Scotland website](#).

### **Risks of material misstatement**

We report in our Annual Audit Report the most significant assessed risks of material misstatement that we identified and our judgements thereon.

### **Responsibilities of the Corporate Director of Enterprise and Sustainable Regeneration and Monitoring and Audit Committee for the financial statement**

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

In preparing the financial statements, the Corporate Director of Enterprise and Sustainable Regeneration is responsible for assessing the ability of the Council and its Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention to discontinue the operations of the Council and its Group.

The Monitoring and Audit Committee is responsible for overseeing the financial reporting process.

### **Auditor's responsibilities for the audit of the financial statements**

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities outlined above to detect material misstatements in respect of irregularities, including fraud. Procedures include:

- using our understanding of the local government sector to identify that the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003 are significant in the context of the Council and its Group;
- inquiring of the Corporate Director of Enterprise and Sustainable Regeneration as to other laws or regulations that may be expected to have a fundamental effect on the operations of the Council and its Group;
- inquiring of the Corporate Director of Enterprise and Sustainable Regeneration concerning the policies and procedures of the Council and its Group regarding compliance with the applicable legal and regulatory framework;
- discussions among our audit team on the susceptibility of the financial statements to material misstatement, including how fraud might occur; and
- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

The extent to which our procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the Council's controls, and the nature, timing and extent of the audit procedures performed.

Irregularities that result from fraud are inherently more difficult to detect than irregularities that result from error as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## Reporting on other requirements

### **Opinion prescribed by the Accounts Commission on the audited parts of the Remuneration Report**

We have audited the parts of the Remuneration Report described as audited, namely the Senior Officers' Remuneration, Remuneration of Senior Councillors, the Senior Officers' and Senior Councillors' Pension Entitlement tables, the Councillors' Remuneration, the Remuneration of Officers receiving more than £50,000, and the Exit Packages of Employees disclosures. In our opinion, the audited parts of the Remuneration Report have been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

### **Other information**

The Corporate Director of Enterprise and Sustainable Regeneration is responsible for the other information in the annual accounts. The other information comprises the Management Commentary, Annual Governance Statement, Statement of Responsibilities and the unaudited parts of the Remuneration Report.

Our responsibility is to read all the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except on the Management Commentary and Annual Governance Statement to the extent explicitly stated in the following opinions prescribed by the Accounts Commission.

### **Opinions prescribed by the Accounts Commission on the Management Commentary and Annual Governance Statement**

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

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003; and

- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

### **Matters on which we are required to report by exception**

We are required by the Accounts Commission to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the audited parts of the Remuneration Report are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

### **Conclusions on wider scope responsibilities**

In addition to our responsibilities for the annual accounts, our conclusions on the wider scope responsibilities specified in the Code of Audit Practice, including those in respect of Best Value, are set out in our Annual Audit Report.

### **Use of our report**

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 108 of the Code of Audit Practice, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.



Michael Wilkie, (for and on behalf of KPMG LLP),  
319 St Vincent Street  
Glasgow  
G2 5AS

24 January 2024

# Annual Governance Statement

## Scope of Responsibility

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

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

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

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

However, it should be noted that a sound system of corporate governance and internal control provides only reasonable, but not absolute, assurance that the Council will not be hindered in achieving its objectives or in the orderly and legitimate conduct of its business by circumstances which may reasonably be foreseen. A system of corporate governance and internal control cannot provide protection with certainty against an organisation failing to meet its objectives or material errors, losses, fraud, or breaches of laws or regulations.

## Purpose of the Governance Framework

The governance framework comprises the systems and processes, and culture and values by which the authority is directed and controlled. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services and the achievement of key outcomes.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them effectively.

## The Governance Framework

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



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

The foundation of the Council's integrity is its culture. The Council's culture is demonstrated through the leadership, behaviour, openness and mutual respect of its Elected Members and Chief Officers. It is evidenced by its adoption of a range of robust structures, systems and procedures including:

- [OIC Standing Orders, Scheme of Delegation & Scheme of Administration](#)
- Equality impact assessments
- A Corporate [Anti-fraud Policy](#)
- Codes of conduct for Councillors and senior officers
- Elected Members preparation for regular meetings; active participation in decision making; registering and declaring their interests.

## **Governance Principle B - Ensuring openness and comprehensive stakeholder engagement**

The Council is committed to openness and transparency, with the following strategies and policies in place to support this:

- Open community consultation provides service users with the opportunities to give their views about their needs and the needs of their communities.
- A Community Consultation and Engagement Policy was approved by the Council in 2019, which serves to complement the Consultation and Engagement Guide already adopted by the Council.
- An Annual Performance report, its Annual Accounts and, on behalf of The Orkney Partnership, an annual report on the Local Outcomes Improvement Plan to communicate the Council's activities, achievements, financial position and performance.
- Council committee and sub-committee meetings are held in public and only where there is a legal requirement to do so will a particular agenda item be considered in private.
- Audio casting of meetings has been implemented to improve access to the Council decision making process.
- [Council Committees, Agendas, Minutes and Reports](#) available on the Council website.
- Staff surveys, recent improvements from the surveys included increasing availability of learning and development opportunities and increased opportunities to contribute to future team plans.
- A Communications Strategy in place which provides an overall strategic direction for managing the Council's communications activities with a member/officer consultative working group that continues to assist with reviewing the Strategy.
- Protocols are in place to meet requests made under the Freedom of Information Act, and to publicise the nature of those requests.

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

Orkney Islands Council shares its missions and values with The Orkney Partnership, which maintains the [Orkney Community Plan](#), as detailed in the Management Commentary.

- The [Council Plan 2023-2028](#) sets out the strategic priorities and aims of the incoming Councillors elected in 2022, and the [Council Delivery Plan](#) describes some of the projects, services and policies which will progress those priorities and achieve tangible outcomes for Orkney.

- The Islands (Scotland) Act 2018 (the Act) introduced a statutory requirement for Island Communities Impact Assessments (ICIA) under Section 8 of the Act. A relevant authority must prepare an island communities impact assessment in relation to a policy, strategy or service which, in the authority's opinion, is likely to have an effect on an island community which is significantly different from its effect on other communities (including other island communities) in the area in which the authority exercises its functions.
- [Performance Monitoring Reports](#), with progress on the actions contained within the Delivery Plan, are reported to the Council every six months, in accordance with the Council's performance management framework.
- The Council's [Sustainable Procurement Policy](#) is detailed in the Procurement Strategy and Council's Contract Standing Orders. Before undertaking a Tendering exercise, the Relevant Council Officer is required to take into account the social, economic and environmental impacts of the proposed Contract and whether the Contract will contribute to the achievement of sustainable development in accordance with the Sustainable Procurement Duty.

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

The Council recognises the financial challenges it faces and ensures that all officers and Elected Members are fully aware of the on-going issues that remain as government funding continues to reduce in real terms. The following governance arrangements are in place to optimise the achievement of the outcomes in the Council Plan.

- The budget setting process continues to play a pivotal role in supporting progress towards the key outcomes.
- A Medium-Term Financial Strategy has been developed to establish the framework for the Council to set a balanced budget over the period 2023-2028. The strategy includes a general recognition that either new sources of income will need to be identified, or further consideration will have to be given to delivering spending reductions over the medium-to-long term given the requirement for continued and significant budget realignment to ensure the sustainable use of reserves to balance the budget over the term of the strategy.
- A Long-Term Financial Plan for the years 2018-2019 to 2029-2030 was approved by the Council in February 2019 and addresses the financial sustainability of the Council in the longer term in light of the difficult financial climate and continuing economic uncertainty.
- The Improvement and Performance team support a portfolio of approved projects and facilitate the coordination of the Corporate Leadership Team's (CLT) improvement agenda. This is scrutinised through quarterly update reports produced for the CLT and an annual report, which is scrutinised by CLT, prior to presentation to Policy and Resources Committee. The focus of these reports is around the benefits of the projects and the measurement of outcomes.
- The Improvement Service has produced a special benchmarking report for Orkney with key comparative performance information which is used in the planning process for delivery of Council services.
- Established committee structures, Members Seminars and briefings from the CLT furnish Elected Members with an extensive volume of information on both the availability of resources and options for future service delivery, enabling informed decisions to be made.
- Operational Service plans which detail the projects and activities through which the Council Plan key strategic priorities are to be actioned.
- A sustainable procurement policy which demonstrates social value and makes reference to modern slavery.

All of these plans are kept on the Council's new online performance management system, Pentana Risk, with progress [Monitoring Reports](#) reported twice a year to Elected Members.

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

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

- Elected Members and senior officers are provided with a range of support services to ensure that they have the necessary knowledge and skills to be fully effective.
- Access to complementary support services provided by the Improvement Service, the Scottish Government and other agencies.
- Improvement Service notebooks given to Elected Members to guide them on the support available and how to navigate the Improvement Service website.
- A range of seminars and training events are organised on an on-going basis for Elected Members to attend.
- Briefing notes are routinely prepared and distributed to provide the Members with up-to-date information on key strategic and operational issues.
- Induction Programme and information relating to empowering communities for Elected Members.
- The expansion of the audio casting of meetings.
- The introduction of hybrid meetings allowing Elected Members the opportunity to attend meetings and training events via Microsoft Teams.
- A [Communication Strategy](#) is in place which provides an overall strategic direction for managing the Council's communications activities
- A Continuous Professional Development Framework for Elected Members is administered by the Improvement Service however, participation is voluntary.
- The use of an Employee Review and Development Framework to ensure performance of staff in a consistent way across all Services, building a culture where everyone should know what is expected of them and are aware of the competencies and the behaviours required.
- Staff Personal Development Plans are included as part of the Employee Review and Development Scheme, with the aim to get the best from the Council's staff and help them achieve their full potential by identifying training needs and addressing ways of meeting them.
- The Chief Executive has a robust 360-degree annual appraisal and review process which is facilitated by SOLACE.
- Access to training for employees through professional bodies to which employees belong and through external training opportunities.
- The development and implementation of an online modular training facility called iLearn, which staff can access both at work and home.
- The Best Value Assurance Report recognised the stable, effective leadership strongly focussed on doing what is right for Orkney's communities.
- A Political Engagement Strategy is in place with the purpose of enhancing and integrating the Council's political engagement in respect of its key strategic priorities.
- During 2021-22 the Council launched Our People Our Plan which was split into seven projects aimed at improving the Council's leadership and organisational capacity, to energise staff, and improve confidence across our communities and our stakeholders.
- The People Plan 2022-26 replaces and enhances the previous Human Resource Strategy and is focussed on supporting Priority Projects 1, 2 and 3 from Our People, Our Plan and the new Council operating model. It is supported by a Delivery Plan, which outlines key actions and outcomes to ensure the priorities are met.

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

Through its Scheme of Administration and Scheme of Delegation to Officers the Council has the following arrangements in place covering risk, performance management, internal control and financial management.

- The system of internal control is based on financial regulations, regular management information, administrative procedures, management supervision and a scheme of delegation and accountability.
- A Corporate Risk Register which is reviewed and updated every six months, following evaluation by the Extended Corporate Leadership Team (ECLT). It is also reported to the Council every year.
- A risk management policy and strategy, which is reviewed biennially, and is designed to support the identification, evaluation and mitigation of risks which may impact on its ability to meet its objectives.
- A policy to combat fraud, theft, bribery and corruption as an integral part of protecting public finances.
- Participation in the National Fraud Initiative, a data matching programme involving other public bodies, to provide assurances on the robustness of information held by the Council as well as highlighting data anomalies that require to be addressed.
- Corporate Services Information Governance Officer guiding and monitoring best practice in the security of personal data.
- The oversight of risk and financial monitoring is delegated as the responsibility of the Chief Executive, the Corporate Directors and the Heads of Service, as chief officers.
- The Council has appointed officers to the statutory roles of Chief Finance Officer, Monitoring Officer, Chief Social Work Officer, Chief Education Officer and Data Protection Officer.

The Chief Finance Officer role, appointed in terms of section 95 of the Local Government (Scotland) Act 1973, is held by the Corporate Director of Enterprise and Sustainable Regeneration, reporting directly to the Chief Executive. Strong financial management procedures are secured through the work of the Chief Finance Officer who:

- Provides advice to the Council on all financial matters and the effective system of internal financial control under the terms of the Financial Regulations
- Ensures the timely production and reporting of budget estimates, budget monitoring and annual accounts.

The Monitoring and Audit Committee provide:

- Independent assurance on the adequacy of the Council's Corporate Governance, performance, risk management and internal control frameworks.
- Further independent assurance of this Committee is achieved by restricting membership - those ineligible for membership are the Convener, Council Leader, Depute Leader, and Chairs of Service committees.
- An Internal Audit Annual Strategy prepared by the Chief Internal Auditor which takes account of considerations including the [Council Risk Register](#).

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

Information is disseminated in many forms targeted at different audiences for different purposes to deliver effective accountability:

- Council business is conducted through an established cycle of committee meetings held in public, unless exempt under statutory provision,

- Principle committee meetings are audio-cast live, with recordings available thereafter for download from the Council's public website.
- Agenda and associated reports are issued to the relevant Elected Members and chief officers, and to the public via the Council's website.
- Committee reports follow consistency with a corporate style including the purpose of the report, information relevant to the matter under consideration, a conclusion and recommendations proposed.
- Minutes of meeting are prepared, and once approved are also publicised on the Council website.
- Statutory returns that follow prescribed layouts.
- Newsletters which target specific groups.
- Consultation documents which contain basic information designed to prompt initial interest in particular services and projects.
- The adoption of the Scottish Public Services Ombudsman - Model Complaints Handling Procedure, with [Council Compliments and Complaints](#) reported to the ECLT on a quarterly basis, Service Committees on a 6-monthly basis and an annual report submitted to Monitoring and Audit Committee.
- Adoption of the Consultation and Engagement Guidelines issued by the Orkney Partnership, which includes recommendations on feedback in accordance with national guidelines.

## **Review of Effectiveness of Governance Arrangements**

In line with best practice the Council is responsible for conducting, at least annually, a review of the effectiveness of its governance framework, including the system of internal financial control. This annual review is supported by a process of self-assessment against the Local Code of Corporate Governance, and is informed by various means:

- The Council and its committees - monitor governance arrangements throughout the year.
- The Corporate Leadership Team (CLT) - overall responsibility for the development and maintenance of the governance environment.
- The Extended Corporate Leadership Team – assist the CLT in keeping the governance under review whilst acting with the wider objectives of the Council in mind to ensure resources are effectively deployed to achieve local and national outcomes.
- The Corporate Director of Enterprise and Sustainable Regeneration – the Council's most senior adviser on all financial matters.
- The Chief Social Worker – required to, in the discharge of the Council's statutory social work duties, produce an annual report on all statutory, governance and leadership functions of the role.
- Internal Audit – a professional and objective internal audit service in accordance with the Local Authority Accounts (Scotland) Regulations 2014. The service conforms to the standards and practices set out in the Public Sector Internal Audit Standards.
- External Auditors, review bodies, agencies and inspectorates – who come together as a Local Area Network to determine any scrutiny activity required which feeds into the National Scrutiny Plan.

The 2022-23 self-assessment of the Council's Local Code of Corporate Governance was reviewed by the CLT on 4 May 2023 and the Council's degree of compliance with each principle in the Local Code was graded in accordance with the CIPFA Framework as "3 – fully compliant with the requirement".

## **Internal Audit and Monitoring and Audit Committee**

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

The internal audit plan for financial year 2022-2023 included core financial systems testing, other systems operating within services, annual audits, corporate reviews and follow up on a quarterly basis of all recommended improvement actions.

The Chief Internal Auditor provides an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control. It is the opinion of the Chief Internal Auditor, on the basis of the audit work performed in 2022-2023, that the Council has a framework of controls in place that provides adequate assurance regarding the organisation's governance framework, related internal controls, and the management of key risks. The actions identified during the audit work carried out did not impact on the overall governance arrangements of the Council.

The Chief Internal Auditor confirmed that there were no fraud issues reported to the Council's external auditors in financial year 2022-2023.

The Monitoring and Audit Committee provides independent assurance on the adequacy of the Council's corporate governance, performance, risk management and internal control frameworks. They also oversee financial reporting, the annual governance processes, and the Council's internal and external audit arrangements.

## **Integration Joint Board**

The Chief Internal Auditor for Orkney Islands Council (OIC) has been appointed as the Chief Internal Auditor for the Orkney Integration Joint Board (IJB) for a period of five years starting from April 2021. It has been agreed that Azets, as the internal auditor of NHS Orkney (NHSO), will provide support to the IJB Chief Internal Auditor to deliver the Orkney IJB internal audit plan.

## **Significant Governance Issues**

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

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

These reviews have identified the governance matters and concerns where actions will be taken forward to progress improvement.

Significant Governance Issue	Potential Impact	Mitigating actions currently in place	Proposed Action
<b>Workforce Capacity</b>			
Workforce Management and Planning	Inability to recruit to senior management and/or technical positions. Higher level of turnover in staffing along with a loss of knowledge and experience. Lack of resilience and capacity to deal with change, maintain current service levels and deliver on Council priorities.	A new 3.5-year People Plan was agreed in June 2022 to identify priority areas for improvement and development. Progress against actions in the plan are well underway with a number complete.	Continue to deliver against workforce priorities outlined in People Plan and the new Council Plan.  Recruitment taskforce set up to explore improvements and new ideas in respect of tackling recruitment challenges.
<b>Electrical Installation Condition Reports (EICR)</b>			
The undertaking of EICRs	There was an issue with undertaking the EICR reports. This has resulted in a substantial amount of work needing to be completed within a short period of time to meet health and safety regulations at unknown additional costs.	Additional resources have been appointed to ensure this is completed within the required timeframe.	Monitor progress and address additional costs.
<b>Financial Pressures</b>			
Executive Directors highlighted several areas where service delivery is under considerable budgetary pressure.  Increase of adverse budget variances and overspends.	The exceptional increases in fuel and energy costs has placed major cost pressures on operational expenditure  Contract renewals exceeding budget and therefore creating shortfalls.	Work to progress energy efficiency and define a route to net zero is ongoing. The Council is participating in the Strategic Territory Partnering Board Net Zero Leadership and Construction programme as part of this.  Budget monitoring and reporting arrangements	Position to be reviewed by CLT

Significant Governance Issue	Potential Impact	Mitigating actions currently in place	Proposed Action
Service pressures and increasing demand for services has meant the Council had to make significant budget savings in response to unprecedented reductions in Government funding since 2011.	Brexit, the Covid 19 pandemic, and the cost-of-living crisis have exacerbated the situation. Funding pressures are likely to be extreme.	The Medium-Term Financial Strategy for the period 2023/24 to 2027/28 was presented to Policy and Resource Committee on 20 June 2023. This serves as a key planning document for the use of reserves over the medium-term.	Performance levels should be kept under review.  Longer term, there will be an ongoing dialogue with Scottish Government to ensure a fair settlement for Orkney.
<b>Capital Slippage</b>			
Slippage on the capital programme.	Capital programme impacted by increased construction costs and lead times. Additionally, a major design and build project has had to be retendered.	Budget monitoring and reporting arrangements, along with submission of revised CPA's where necessary.	Capital Programme Board and CLT to keep under review
<b>Neighbourhood Services</b>			
Neighbourhood Services baseline costs are higher than previous charge-out rates	The delay in replacing the New Horizon costing system has delayed updates to the charge-out rates which has meant income has not met costs.	Replace the New Horizon costing system and reflect current costs in charge-out rates.	Complete the replacement of the New Horizon costing system and reflect current costs in charge-out rates.  Review planned, cyclical and reactive works within Roads to reduce budgetary variances.
<b>Educational Need</b>			
The level of reported unmet educational need implies a resource greater than the allocated budget to achieve statutory compliance.	Reduction in provision of other services as a result of redirecting resources to meet minimum statutory requirements.	Work to review and update practice is ongoing. This is linked to the improvement agenda within children's services and the more specific review of the school resource model.	Review of Services and report with key recommendations to Education, Leisure and Housing Committee.

## Update on significant governance issues previously reported

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

Prior Year Significant Governance Issue	Action Taken	Further Action Required
<b>Workforce Capacity</b>		
Workforce Management and Planning	A new 3.5-year People Plan was agreed in June 2022 to identify priority areas for improvement and development. Progress against actions in this plan are well underway with a number complete.	Continue to deliver against workforce priorities outlined in the People Plan and the new Council Plan. New workforce plans across services were a highlighted People Plan priority to be addressed in 2023-24.  Recruitment taskforce set up to explore improvements and new ideas in respect of tackling recruitment challenges.
<b>Resource Pressures</b>		
The impact of Covid 19 on normal service delivery for financial year 2022-23.	During 22/23 direct action against Covid 19 was reduced/removed as services seek to return to pre-covid operating levels - where applicable.	No further action required.
<b>Financial Pressures</b>		
With inflation now forecast to exceed 10% (CPI) for financial year 2022-23, Heads of Service are going to find it more challenging to operate from within approved budgets.	Energy prices and insurance cost increases are included in 23/24 budget setting.	Continue to review pressures through budget monitoring and reporting arrangements.  Where possible, seek to review budgets during the budget setting process and consider actions taken during 23/24 by services to manage within their funding envelope.
	Wage rises are also included at modest levels. All other costs remain at 22/23 budgeted levels, and services will be required to operate within these set limits.	
The 2021 Internal Audit on the Financial Planning and Budget Setting Process recognised that the Council's long-term financial strategy identified a cumulative funding gap of between £23.6M and £145.6M based on a range of optimistic to pessimistic assumptions.	The annual budget setting process looks at all areas of growth and any potential savings that can be made.  The Council also prepare an annual reserves strategy which considers the use of reserves to support the budget setting process.	The Medium-Term Financial Strategy has been updated to cover period 2023-2028.  Long-Term Financial Plan requires updating to take account of up-to-date information.

<b>Capital Slippage</b>		
Slippage on the capital programme.	The Capital Programme Board and CLT have kept the approved capital programme under review during 2022/23 and slippage has begun to reduce.	Continue to monitor the spend on existing projects within the capital programme and ensure that the new projects added to the capital programme for the next 5 years have realistic timelines for delivery, based on the available resources. This should continue to reduce the level of slippage being reported.
<b>Quarry Service</b>		
Stock Values	The imported stone was added to the stock balance sheet at the end of 21/22. Since then, it continues to be sold to customers on request. Stock is decreasing and the amount remaining has been reflected in the closing balance for 22/23.	A strategy for reducing the stockpile of imported stone was developed in 2022 and the opportunities for implementing this have now been considered by the Quarry Manager. Stocks will continue to reduce as part of the standard commercial operation of the quarry.
<b>Scottish Government Settlement</b>		
The permanent addition or baselining of grant funding streams into the Local Government finance settlement by Scottish Government to support the delivery of national initiatives.	Through Local Government Directors of Finance and COSLA, lobbying to reduce the rigidity of ring-fenced funding with/out-with Grant Aided Expenditure is on-going.	Continued lobbying required to ensure Local Government funding is flexible in its application to meet needs.

## Concluding Remarks

In our respective roles as Leader of the Council and Chief Executive, we are committed to good governance and recognise the contribution it makes to securing delivery of service outcomes in an effective manner. We have been advised on the results of the annual review of the Local Code of Corporate Governance and that the Council's arrangements continue to be regarded as fit for purpose in accordance with the CIPFA governance framework. It is our opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the systems of governance operated by the Council. This annual governance statement summarises the Council's current governance arrangements and affirms our commitment to ensuring they are regularly reviewed and remain fit for purpose.

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

*James Stockan*

**Councillor James Stockan**

Leader

08 December 2023

*OL R D*

**Oliver D Reid**

Chief Executive

08 December 2023

# Remuneration Report

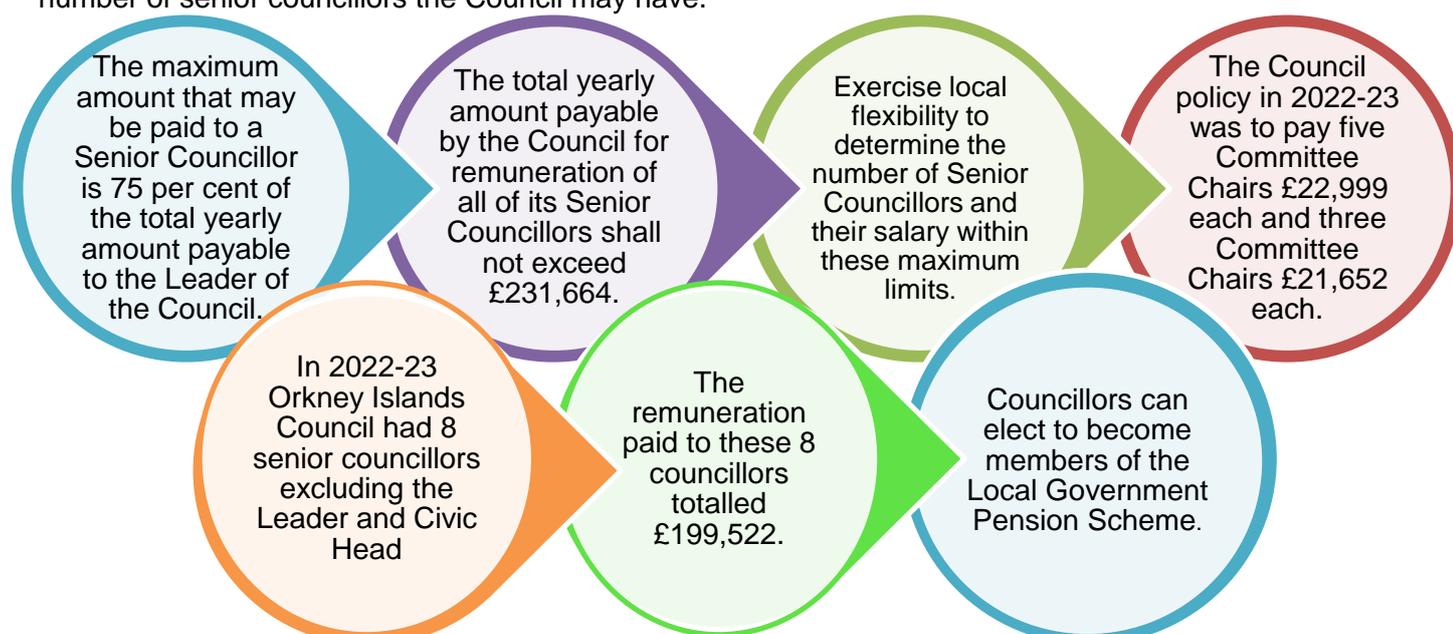
The Local Authority Accounts (Scotland) Regulations 2014 require local authorities in Scotland to prepare a Remuneration Report as part of the annual statutory accounts.

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

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

The remuneration of councillors is regulated by the Local Governance (Scotland) Act 2004 (Remuneration) Regulations 2007 (SSI No. 2007/183). The Regulations provide for the grading of councillors for the purposes of remuneration arrangements, as either the Leader of the Council, the Civic Head, Senior Councillors or Councillors. The salary that is to be paid to the Leader of the Council is set out in the Regulations. For 2022-23 the salary for the Leader of Orkney Islands Council is £31,275 which is £1,347 less than the maximum. This was agreed to enable the Depute Leader to be paid the same as a Committee Chair. The Regulations permit the Council to remunerate one Civic Head. The Regulations set out the maximum salary that may be paid to that Civic Head. Council policy is to pay at the national maximum.

The Regulations also set out the remuneration that may be paid to senior councillors and the total number of senior councillors the Council may have.



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

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

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

## 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-152 sets the amount of salary for the Chief Executive of Orkney Islands Council for the period 2022-2023. Salaries of the Corporate Directors and Heads of Service are also based on Circular CO-152.

Other benefits received by senior employees include car mileage allowance.

## 3. Remuneration of Senior Employees

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



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

The term “remuneration” means gross salary, fees and bonuses, allowances and expenses and compensation for loss of employment. The table below outlines the remuneration details for senior employees, including prior year figures. The table shows the relevant amounts, before tax and other deductions, due to, or receivable by, each of the persons named for the year to 31 March 2023, whether those amounts were actually paid to, or received by, those persons within that period.

2021-2022	Senior Employees		2022-2023		
Total £	Name	Position held	Salary, Fees and Allowances £	Election Payments £	Total £
160,482	John Mundell	Chief Executive (to 31/01/2023)	155,734	1,189	156,923
0	Oliver Reid	Chief Executive (from 23/01/2023) (Full Year Equivalent £119,331)	17,653	0	17,653
91,735	Gareth Waterson	Corporate Director - Enterprise & Sustainable Regeneration	101,728	1,080	102,808
56,751	Hayley Green	Corporate Director - Neighbourhood Services & Infrastructure	101,728	0	101,728
87,984	Karen Greaves	Corporate Director - Strategy, Performance and Business Solutions	101,728	1,080	102,808
97,223	James Wylie	Corporate Director - Education, Leisure & Housing Services	101,728	0	101,728
48,244	Colin Kemp	Head of Finance (to 12/09/2022)	40,699	0	40,699
0	Erik Knight	Head of Finance (from 15/08/2022) (Full Year Equivalent £84,704)	49,640	0	49,640
75,781	Gavin Mitchell	Head of Legal & Governance	86,643	0	86,643
<b>618,200</b>	<b>Total</b>		<b>757,281</b>	<b>3,349</b>	<b>760,630</b>

#### 4. Remuneration of Senior Councillors

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

The table below shows the relevant amounts, before tax and other deductions, due to, or receivable by, each of the persons named for the year to 31 March 2023, whether or not those amounts were actually paid to, or received by, those persons within that period.

2021-2022	Leader, Civic Head and Senior Councillors		2022-2023
Salary, Fees and Allowances £	Name	Position held	Salary, Fees and Allowances £
0	Graham Bevan	Convener (from 16/05/2022)	20,770
0	Alexander Cowie	Chair (Monitoring and Audit) (from 16/05/2022)	21,264
21,824	Rob Crichton	Chair (Planning) (to 05/05/2022)	3,145
20,546	David Dawson	Chair (Orkney Ferries) (to 05/05/2022). Chair (Development & Infrastructure) (from 16/05/2022)	22,671
23,217	Harvey Johnston	Convener (to 05/05/2022)	3,346
21,824	Rachael King	Vice Chair (IJB)	21,732
21,824	Leslie Manson	Depute Leader of the Council (to 05/05/2022)	19,998
20,546	John Richards	Chair (Monitoring and Audit) (to 05/05/2023)	2,961
21,824	Gwenda Shearer	Chair (Education, Leisure & Housing) (to 05/05/2022, reappointed 16/05/2022)	22,855
21,824	Graham Sinclair	Chair (Development and Infrastructure) (to 05/05/2022)	3,145
29,678	James Stockan	Leader of the Council (to 05/05/2022, reappointed 16/05/2022)	30,883
0	Mellissa-Louise Thomson	Chair (Orkney Ferries Ltd)	18,424
0	Owen Tierney	Chair (Planning) (from 16/05/2022)	22,386
20,546	Duncan Tullock	Chair (Licensing (to 05/05/2022, reappointed 22/06/2022)	19,814
0	Heather Woodbridge	Depute Leader of the Council (from 16/05/2022)	22,386
<b>223,653</b>	<b>Total</b>		<b>255,780</b>

#### 5. Pension Entitlement

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

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

The scheme's normal pension age for both councillors and employees is State Pension Age, which is currently 66. If the State Pension Age changes in the future, then this change will also apply to a member's normal pension age in the Local Government Pension Scheme.

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

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

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

The pension entitlements for Senior Employees and Senior Councillors for the year to 31 March 2023 are shown in the following table, together with the contribution made by the Council to each individual's pension during the year:

Senior Employees							
Pension contributions made by Orkney Islands Council during 2021-2022 £	Name	Post held	Accrued pension benefits as at 31 March 2023		Change in accrued pension benefits since 31 March 2022		Pension contributions made by Orkney Islands Council during 2022-2023 £
			Pension	Lump Sum	Pension	Lump Sum	
			£	£	£	£	
0	John Mundell	Chief Executive	0	0	0	0	0
0	Oliver Reid	Chief Executive (from 23/01/2023)	360	0	360	0	3,001
15,127	Gareth Waterson	Corporate Director - Enterprise & Sustainable Regeneration	43,920	58,167	772	2,132	17,294
14,812	Hayley Green	Corporate Director-Neighbourhood Services & Infrastructure *	51,262	0	7,575	0	17,294
14,490	Karen Greaves	Corporate Director - Strategy, Per, Business Solutions *	40,365	51,821	7,665	9,931	17,294
16,528	James Wylie	Corporate Director - Education, Leisure & Housing Services	7,627	0	2,243	0	17,294
13,796	Colin Kemp	Head of Finance (to 12/09/2022)	45,714	80,961	2,272	2,562	6,919
0	Erik Knight	Head of Finance (from 15/08/2022)	1,510	0	1,480	0	8,439
12,866	Gavin Mitchell	Head of Legal & Governance	11,668	0	2,066	0	14,729
<b>87,619</b>	<b>Total</b>		<b>202,426</b>	<b>190,949</b>	<b>24,433</b>	<b>14,625</b>	<b>102,264</b>

Note 1 \* includes a transfer in of pension benefits from other pension funds or schemes.

Leader, Civic Head and Senior Councillors							
Pension contributions made by Orkney Islands Council during 2021-2022 £	Name	Post held	Accrued pension benefits as at 31 March 2023		Change in accrued pension benefits since 31 March 2022		Pension contributions made by Orkney Islands Council during 2022-2023 £
			Pension	Lump Sum	Pension	Lump Sum	
			£	£	£	£	
0	Graham Bevan	Convener (from 16/05/2022)	424	0	424	0	3,531
0	Alexander Cowie	Chair (Monitoring and Audit) (from 16/05/2022)	2,429	0	591	0	3,615
3,710	Rob Crichton	Chair (Planning) (to 05/05/2022)	6,327	1,514	290	64	535
3,493	David Dawson	Chair (Orkney Ferries) (to 05/05/2022). Chair (Development & Infrastructure) (from 16/05/2022)	2,382	0	521	0	3,854
3,947	Harvey Johnston	Convener (to 05/05/2022)	5,937	0	315	0	569
3,710	Rachael A King	Vice Chair (IJB) **	7,563	0	658	0	3,695
3,710	Leslie Manson	Depute Leader of the Council (to 05/05/2022)	4,323	0	790	0	3,400
3,493	John Richards	Chair (Monitoring and Audit) (to 05/05/2022)	4,679	0	245	0	503
3,710	Gwenda Shearer	Chair (Education, Leisure & Housing) (to 05/05/2022, reappointed 16/05/2022)	4,472	0	685	0	3,885
3,710	Graham Sinclair	Chair (Development and Infrastructure) (to 05/05/2022)	6,164	1,691	308	73	535
5,045	James Stockan	Leader of the Council *	36,799	87,310	4,582	10,388	5,250
0	Mellissa- Louise Thomson	Chair (Orkney Ferries Ltd)	376	0	376	0	3,132
0	Owen Tierney	Chair (Planning) (from 16/05/2022)	5,902	0	118	0	0
3,493	Duncan Tullock	Chair (Licensing) (to 05/05/2022, reappointed 22/06/2022) *	6,549	0	834	0	3,368
0	Heather Woodbridge	Depute Leader of the Council (from 16/05/2022)	1,020	0	474	0	3,806
<b>38,021</b>	<b>Total</b>		<b>95,346</b>	<b>90,515</b>	<b>11,211</b>	<b>10,525</b>	<b>39,678</b>

Note 1 \* includes transfers in of pension benefits from other pension funds or schemes

Note 2 \*\* the Orkney Health and Care Committee was disestablished by Council on 7/12/2021 - it was also agreed that the Chair or Vice Chair of the Integration Joint Board, whichever was the Council appointment, should, from a Council perspective, act as spokesperson on all health, social care and social work matters, including attendance at the Health and Social Care Board of the Convention of Scottish Local Authorities.

All senior employees and councillors shown in the tables above (below the age of 75) are members or can become members of the Local Government Pension Scheme (LGPS).

In accordance with guidance provided by the Scottish Government, the above figures reflect any transfer of pension benefits from another pension fund or scheme to their current employment and pension scheme. Para 5 of the schedule requires the remuneration report to include certain remuneration information of local authority subsidiary bodies. No remuneration is paid directly by these companies to the manager, or Elected Members.

## 6. Councillors' remuneration

The Council paid the following amounts to its Elected Members (Councillors) during the year:

	2021-2022	2022-2023
	£000	£000
Salaries	433	448
Mileage	3	12
Conferences and Courses	0	0
Travel Costs	3	23
Subsistence	1	14
Other Allowances and Expenses	1	1
Telephone and ICT Expenses	3	3
Reimbursed Costs	(5)	(20)
<b>Total</b>	<b>439</b>	<b>481</b>

The annual return of Councillors' salaries and expenses for 2022-2023 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](http://www.orkney.gov.uk). Please follow the links on the Council's website as follows: [Councillors Record of Claims](#)

## 7. Remuneration of Employees

The following table gives a statement of the number of employees whose remuneration, excluding pension contributions, was in excess of £50,000 during 2022-2023, in bands of £5,000. This information includes those senior employees who are subject to the fuller disclosure requirements in the tables above.

Remuneration Band	2021-2022 Number of employees	2022-23 Number of employees
£165,000 to £169,999	0	0
£160,000 to £164,999	1	0
£155,000 to £159,999	0	1
£150,000 to £154,999	0	0
£145,000 to £149,999	0	0
£140,000 to £144,999	0	0
£135,000 to £139,999	0	1
£130,000 to £134,999	1	0
£125,000 to £129,999	1	0
£120,000 to £124,999	1	1
£115,000 to £119,999	0	0
£110,000 to £114,999	1	2
£105,000 to £109,999	1	2
£100,000 to £104,999	2	4
£95,000 to £99,999	1	0
£90,000 to £94,999	1	2
£85,000 to £89,999	2	5
£80,000 to £84,999	5	4
£75,000 to £79,999	1	5
£70,000 to £74,999	8	6
£65,000 to £69,999	4	10
£60,000 to £64,999	15	12
£55,000 to £59,999	23	34
£50,000 to £54,999	54	81
<b>Total</b>	<b>122</b>	<b>170</b>

## 8. Exit Packages

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

Exit Package Cost Band	Number of Compulsory Redundancies		Number of Other Departures Agreed		Total Number of Exit Packages by Cost Band		Total Cost of Exit Packages in each Band	
	2021-2022	2022-2023	2021-2022	2022-2023	2021-2022	2022-2023	2021-2022	2022-2023
							£000	£000
£0 - £19,999	0	0	0	0	0	0	3	0
£20,000 - £39,999	1	0	0	0	0	0	0	0
£40,000 - £59,999	0	0	0	0	0	0	0	0
£60,000 - £79,999	0	0	0	0	0	0	0	0
£80,000 - £99,999	0	0	0	0	0	0	0	0
£100,000 - £149,999	0	0	0	0	0	0	0	0
£150,000 - £199,999	0	0	1	0	0	0	192	0
£200,000 - £299,999	0	0	0	0	0	0	0	0
<b>Total</b>	<b>1</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>195</b>	<b>0</b>

## 9. Trade Union (Facility Time Publication Requirements) Regulations 2017

The Council is required to report from 1 April 2017 a range of information on facility time made available to its employees who are trade union representatives.

For the reporting year 2022-2023, the equivalent of 0.8 FTE (across 21 individuals) of paid facility time was made available, with an associated cost of £0.049M. This sum equates to 0.06% of the Council's overall staff costs.

Of the total time made available, 21 individuals spent between 1 – 50% of their time during the year on trade union-related activities.

*James Stockan*

**Councillor James Stockan**  
Leader

08 December 2023

*OL Reid*

**Oliver D Reid**  
Chief Executive

08 December 2023

# Statements

## 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 Note 22 to these accounts:

	General Fund Balance	HRA Balance	Harbour Reserve	Capital Fund	Capital Receipts Reserve	Capital Grants Unapplied	Renewals & Repairs Fund	Total Usable Reserves	Total Unusable Reserves	Total Reserves of the Authority
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Balances as at 1 April 2021</b>	<b>(29,431)</b>	<b>(650)</b>	<b>(239,550)</b>	<b>(508)</b>	<b>(2,519)</b>	<b>(20)</b>	<b>(10,234)</b>	<b>(282,912)</b>	<b>(374,929)</b>	<b>(657,841)</b>
<b>Movement in reserves during the year</b>										
(Surplus) or deficit on the provision of services	121,039	3,041	1,323	0	0	0	0	125,403	0	125,403
Other Comprehensive Income and Expenditure	(93,881)	(146)	(5,962)	0	0	0	0	(99,989)	(71,167)	(171,156)
<b>Total Comprehensive Income and Expenditure</b>	<b>27,158</b>	<b>2,895</b>	<b>(4,639)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>25,414</b>	<b>(71,167)</b>	<b>(45,753)</b>
Adjustments between accounting basis & funding basis under regulations (Note 8)	(23,890)	(2,669)	(2,167)	0	578	0	0	(28,148)	28,148	0
<b>Net (Increase)/Decrease before Transfers to Earmarked Reserves Statutory and Other Reserves</b>	<b>3,268</b>	<b>226</b>	<b>(6,806)</b>	<b>0</b>	<b>578</b>	<b>0</b>	<b>0</b>	<b>(2,734)</b>	<b>(43,019)</b>	<b>(45,753)</b>
Transfer (to) or from earmarked reserves Statutory and Other Reserves	(8,097)	(253)	7,266	0	0	0	1,084	0	0	0
<b>(Increase)/Decrease in Year</b>	<b>(4,829)</b>	<b>(27)</b>	<b>460</b>	<b>0</b>	<b>578</b>	<b>0</b>	<b>1,084</b>	<b>(2,734)</b>	<b>(43,019)</b>	<b>(45,753)</b>
<b>Balance as at 31 March 2022</b>	<b>(34,260)</b>	<b>(677)</b>	<b>(239,090)</b>	<b>(508)</b>	<b>(1,941)</b>	<b>(20)</b>	<b>(9,150)</b>	<b>(285,646)</b>	<b>(417,948)</b>	<b>(703,594)</b>
<b>Movement in reserves during the year</b>										
(Surplus) or deficit on provision of services	111,554	(2,851)	2,383	0	0	0	0	111,086	0	111,086
Other Comprehensive Income and Expenditure	(92,104)	(553)	18,937	0	0	0	0	(73,720)	(146,083)	(219,803)
<b>Total Comprehensive Income and Expenditure</b>	<b>19,450</b>	<b>(3,404)</b>	<b>21,320</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>37,366</b>	<b>(146,083)</b>	<b>(108,717)</b>
Adjustments between accounting basis & funding basis under regulations (Note 8)	(3,432)	3,578	(2,522)	0	(105)	0	0	(2,481)	2,481	0
<b>Net (Increase)/Decrease before Transfers to Earmarked Reserves Statutory and Other Reserves</b>	<b>16,018</b>	<b>174</b>	<b>18,798</b>	<b>0</b>	<b>(105)</b>	<b>0</b>	<b>0</b>	<b>34,885</b>	<b>(143,602)</b>	<b>(108,717)</b>
Transfer (to) or from earmarked reserves Statutory and Other Reserves	(10,249)	0	8,614	(711)	0	0	2,346	0	0	0
<b>(Increase)/Decrease in Year</b>	<b>5,769</b>	<b>174</b>	<b>27,412</b>	<b>(711)</b>	<b>(105)</b>	<b>0</b>	<b>2,346</b>	<b>34,885</b>	<b>(143,602)</b>	<b>(108,717)</b>
<b>Balance as at 31 March 2023</b>	<b>(28,491)</b>	<b>(503)</b>	<b>(211,678)</b>	<b>(1,219)</b>	<b>(2,046)</b>	<b>(20)</b>	<b>(6,804)</b>	<b>(250,761)</b>	<b>(561,550)</b>	<b>(812,311)</b>

## 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.

		2021-2022			2022-2023		
		£000	£000	£000	£000	£000	£000
	Notes	Expenditure	Income	Net	Expenditure	Income	Net
Cultural and Recreation		8,912	(1,066)	7,846	9,754	(1,417)	8,337
Education		52,130	(3,713)	48,417	42,457	(3,750)	38,707
Roads and Transportation		24,885	(8,194)	16,691	26,970	(14,076)	12,894
Housing Revenue Account		7,054	(4,013)	3,041	1,321	(4,172)	(2,851)
Harbour Authority		16,910	(15,588)	1,322	20,401	(18,018)	2,383
Housing Services		6,438	(4,550)	1,888	7,429	(5,773)	1,656
Orkney Health & Care		58,979	(31,032)	27,947	66,056	(35,198)	30,858
Planning and Development		5,365	(2,400)	2,965	6,102	(1,735)	4,367
Environmental Services		6,169	(1,262)	4,907	7,072	(1,478)	5,594
Other Services		14,371	(4,097)	10,274	13,650	(4,509)	9,141
Non-Distributed Costs		105	0	105	0	0	0
<b>(Surplus)/Deficit on Continuing Operations</b>		<b>201,318</b>	<b>(75,915)</b>	<b>125,403</b>	<b>201,212</b>	<b>(90,126)</b>	<b>111,086</b>
Other Operating Expenditure	10			(681)			(37)
Financing and Investment Income and Expenditure	11			(4,447)			20,184
Taxation and Non-Specific Grant Income: Other	12			(94,861)			(93,867)
<b>(Surplus)/Deficit on Provision of Services</b>				<b>25,414</b>			<b>37,366</b>
Surplus on revaluation of non-current assets	13			(59,209)			(22,860)
(Surplus)/Deficit on revaluation of financial assets at fair value through Other Comprehensive Income and Expenditure	22			(243)			1,299
Remeasurement of the net Pension Fund Liability/(Assets)	33			(11,715)			(124,522)
<b>Other Comprehensive Income and Expenditure</b>				<b>(71,167)</b>			<b>(146,083)</b>
<b>Total Comprehensive Income and Expenditure (Surplus)/Deficit</b>				<b>(45,753)</b>			<b>(108,717)</b>

## Balance Sheet as at 31 March 2023

The balance sheet shows the value as at 31 March 2023 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 2022	31 March 2023
		£000	£000
Property, Plant & Equipment	13	426,586	470,752
Heritage Assets		912	912
Investment Property	14	20,649	19,229
Intangible Assets		206	224
Long Term Investments	15	9,220	6,187
Long Term Debtors	15	2,906	5,174
Other Long Term Assets	33	20,760	131,501
<b>Long Term Assets</b>		<b>481,239</b>	<b>633,979</b>
Short Term Investments	15	270,898	245,649
Inventories	16	2,418	3,052
Short Term Debtors	17	11,781	9,410
Cash and Cash Equivalents	18	22,700	10,249
Assets held for sale	19	474	380
<b>Current Assets</b>		<b>308,271</b>	<b>268,740</b>
Short Term Borrowing	15	5,408	339
Short Term Creditors	20	18,283	21,795
<b>Current Liabilities</b>		<b>23,691</b>	<b>22,134</b>
Provisions	21	32,168	38,246
Long Term Borrowing	15	30,057	30,028
<b>Long Term Liabilities</b>		<b>62,225</b>	<b>68,274</b>
<b>Net Assets</b>		<b>703,594</b>	<b>812,311</b>
Usable Reserves	22	285,646	250,761
Unusable Reserves	22	417,948	561,550
<b>Total Reserves</b>		<b>703,594</b>	<b>812,311</b>

The unaudited accounts were issued on 30 June 2023.

The audited accounts were authorised for issue on 29 November 2023.



**Gareth Waterson, BAcc., CA**

Corporate Director of Enterprise and Sustainable Regeneration

08 December 2023

## 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.

	2021-2022	2022-2023
	£000	£000
Net surplus or (deficit) on the provision of services	(25,414)	(37,366)
<b>Adjustment to surplus or deficit on the provision of services for non-cash movements</b>	17,571	16,917
Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	1,155	1,626
<b>Net Cash flows from Operating activities</b>	<b>(6,688)</b>	<b>(18,823)</b>
<b>Net Cash flows from Investing Activities</b>	<b>(3,210)</b>	<b>11,610</b>
<b>Net Cash flows from Financing Activities</b>	<b>(2,453)</b>	<b>(5,238)</b>
<b>Net increase or decrease in cash and cash equivalents</b>	<b>(12,351)</b>	<b>(12,451)</b>
Cash and cash equivalents at the beginning of the reporting period	35,051	22,700
<b>Cash and cash equivalents at the end of the reporting period</b>	<b>22,700</b>	<b>10,249</b>

### Cash Flow Statement: Operating activities

	2021-2022	2022-2023
	£000	£000
<b>Adjustment to surplus or deficit on the provision of services for non-cash movements</b>		
Depreciation and Impairment losses	22,978	8,345
Revaluation (Gain)/Loss	2,286	(6,627)
Amortisation (included with depreciation above)	24	35
(Increase)/Decrease in Stock	(667)	(634)
(Increase)/Decrease in Debtors	(1,729)	2,187
(Increase)/Decrease in Creditors	(757)	5,028
Movements in the Pension Reserve not relating to actuarial changes	15,201	13,781
Carrying amount of non-current assets sold	433	1,478
Investment Income not involving movement of cash	(8,255)	11,983
Contributions to Other Reserves/Provisions	(11,736)	(18,655)
Movement in value of investment properties - included above in impairment & downward revaluations (& non-sale de-recognitions)	(207)	(4)
	<b>17,571</b>	<b>16,917</b>
<b>Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities</b>		
Purchase of short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)	13,405	24,521
Proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)	(12,250)	(22,895)
	<b>1,155</b>	<b>1,626</b>

**Cash Flow Statement: Investment Activities:**

	2021-2022	2022-2023
	£000	£000
Purchase of PP&E, investment property and intangible assets	12,367	22,822
Purchase of Short-Term Investments (not considered to be cash equivalents)	0	(10,343)
Purchase of Long-Term Investments	6,275	0
Other Payments for Investing Activities	(537)	1,829
Proceeds from the sale of PP&E, investment property and intangible assets	(1,115)	(1,515)
Proceeds from Short Term Investments (not considered to be cash equivalents)	(6,088)	(14,125)
Proceeds from Long Term Investments	0	0
Capital Grants and Contribution Received	(8,037)	(10,571)
Other Receipts from Investing Activities	345	293
<b>Net Cash flows from Investing Activities</b>	<b>3,210</b>	<b>(11,610)</b>

**Cash Flow Statement: Financing Activities:**

	2021-2022	2022-2023
	£000	£000
Cash receipts from Short- and Long-Term borrowing	0	0
Other Receipts from Financing Activities	(71)	(250)
Repayment of Short- and Long-Term borrowing	28	5,029
Other payments for Financing Activities	2,496	459
<b>Net Cash flows from Financing Activities</b>	<b>2,453</b>	<b>5,238</b>

# Notes

## Notes to the Core Financial Statements

### Note 1 Summary of Significant Accounting Policies

The Financial Statements for the year ended 31 March 2023 have been prepared in accordance with proper accounting practice as per section 12 of the Local Government in Scotland Act 2003. Proper accounting practice comprises the Code of Practice on Local Authority Accounting in the United Kingdom (the Accounting Code), supported by International Financial Reporting Standards and recommendations made by the Local Authority (Scotland) Accounts Advisory Committee (LASAAC). The Annual Accounts have been prepared on a “going concern” basis. 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:

- **Going concern** - the going concern concept assumes that the Council will continue in existence for the foreseeable future.
- **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.
- **Understandability** – users of the financial statements are assumed to have a reasonable knowledge of accounting and local government.
- **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.
- **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.

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

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

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

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

## Accruals of Expenditure and Income

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

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

## Cash and Cash Equivalents

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

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

## Charges for the Use of Assets

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

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

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

## Charities

Some of the charities or trust funds controlled by the Council are registered charities. The International Financial Reporting Standards (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 Statement Of Recommended Practice (SORP). The financial statements for the Common Good Funds controlled by the Council have been produced in accordance with the Code of Practice for Local Government Accounting.

## **Employee Benefits**

### **Benefits payable during employment**

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

### **Termination benefits**

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

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

### **Post-employment benefits**

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

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

- The liabilities of the Orkney Islands Council pension fund attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e., an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 2.4% based on the indicative rate of return on high quality corporate bonds.

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

The Notes to the Core Financial Statements provide further information.

## **Events after the Balance Sheet date**

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

- Adjusting Event – 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.

## **Financial Instruments**

### **Financial Assets**

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics. There are three main classes of financial assets measured at:

- Amortised Cost
- Fair value through profit or loss (FVPL)
- Fair value through other comprehensive income (FVOCI)

The authority's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except those whose contractual payment are not solely payment of principal and interest (i.e., where the cash flows do not take the form of a basic debt instrument).

### **Financial Assets Measured at Amortised Cost**

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 business and 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 business and 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.

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.

### **Financial Assets at Fair Value through Other Comprehensive Income**

Financial assets will be recognised at fair value through other comprehensive income classification if the following conditions are met:

- The entity's business model is to hold the financial asset to obtain benefits by collecting the contractual cash flows associated with the financial asset and selling the financial asset.
- The contractual cashflows arising from the financial asset are solely payments of principal and interest.

The Authority can also opt to classify any investment in equity instruments not held for trading purposes as a financial asset at Fair Value through Other Comprehensive Income.

### **Expected Credit Loss Model**

The authority recognises expected credit losses on all of its financial assets held at amortised cost or FVOCI, either on a 12-month or lifetime basis. The authority has adopted the simplified approach for the expected credit loss model which applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the authority.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

The authority has used reasonable and supportable information available to support the measurement of lifetime expected losses on an individual instrument basis. It has therefore assessed losses for the portfolio on a collective basis.

The Authority has grouped the loans into two groups for assessing loss allowances:

- Group 1 – these loans were made to local businesses as part of a Council initiative to provide economic development on the basis that systems were put in place to measure and monitor the risk of default for each of the businesses that was provided with a loan. Loss allowances for these loans can be assessed on an individual basis.
- Group 2 – for the residual group of loans, including self-build housing loans, the Authority relies on past due information and calculates losses based on lifetime credit losses for all loans more than 30 days past due.

### **Financial Assets Measured at Fair Value through Profit or Loss**

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

The fair value measurements of the financial assets are based on the following techniques:

- instruments with quoted market prices – the market price.
- other instruments with fixed and determinable payments – discounted cash flow analysis.

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

The inputs to the measurement techniques are categorised in accordance with the following three levels:

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

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

## **Financial Liabilities**

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

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**

Under the Local Authority (Capital Finance and Accounting) (Scotland) Regulation 2016, the Council operates a statutory Loans Fund which is administered with the 2016 Regulations, proper accounting practices and prudent financial management.

All loans raised are paid into the Fund and advances are made to Services to finance capital expenditure during the year.

Repayments to the Loans Fund are calculated on a prudential basis using the asset life method where the annual repayments of principal are calculated as equal instalments based on the initial life and value of the asset.

Interest on the Loans Fund advances has been calculated and allocated to the Comprehensive Income and Expenditure Statement.

## **Foreign Currency Translation**

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

## **Government Grants and other Contributions**

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

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

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

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

### **Intangible Assets**

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

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. 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 the Capital Receipts Reserve.

### **Interests in Companies and Other Entities**

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

### **Inventories**

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

### **Investment Property**

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

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

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

## **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 lessee to the lessor. All other leases are classified as operating leases. Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification. Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

### **Operating Leases (Council as lessor)**

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

### **Operating Leases (Council as lessee)**

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

## **Overheads and Central Support Costs**

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

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

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

## **Property, Plant and Equipment**

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

## **Recognition**

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

## Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

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

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

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

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

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

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

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

## **Fair Value Measurement**

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

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

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

## **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.

## **Disposals**

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

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

## **Depreciation**

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

Depreciation is charged in full in the year of acquisition and no charge made in the year of disposal. Depreciation is calculated on the following bases:

- dwellings and other buildings – straight-line allocation over 10 years up to 100 years as estimated by the Council Valuer.
- vehicles, plant and equipment – straight-line allocation over 3 years up to 30 years.
- infrastructure – straight-line allocation over 40 years up to 80 years, with a few exceptions for longer lifespans in respect of stone-built piers.

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

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

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

### **Heritage Assets**

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

There is no depreciation charged on the Heritage Assets because it has been estimated that the assets have a useful life of such length that any depreciation charge on the asset will be negligible and can be ignored on the basis of materiality. The Council considers that the Heritage Assets held by the Council will have indeterminate lives and a high residual value; hence the Council does not consider it appropriate to charge depreciation for the assets. There will therefore be no change to the depreciation charged in the financial statements in relation to the Council's Heritage Assets.

### **Provisions, Contingent Liabilities & Contingent Assets**

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

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

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

### **Contingent Liabilities**

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

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

## **Contingent Assets**

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

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

## **Reserves**

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

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

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

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

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

## **Revenue Expenditure Funded from Capital under Statute**

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

## **VAT**

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

## **Note 2 Accounting Standards Issued but not yet adopted**

The Code requires the disclosure of information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. The Code required implementation from 1 April 2023, therefore there is no impact on the 2022-23 financial statements. This applies to the adoption of the following new or amended standards within the 2022-2023 Code:

- Definition of Accounting Estimates (Amendments to IAS 8) issued in February 2021. The amendments aim to improve accounting policy disclosures and to help users of the financial statements to distinguish between changes in accounting estimates and changes in accounting policies.
- Disclosure of Accounting Policies (Amendments to IAS 1) issued in February 2021. This requires organisations to disclose their material accounting policy information rather than their significant accounting policies.
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12) issued in May 2021. The main change is an exemption from the initial recognition exemption.

The implementation of IFRS 16 for Lease Accounting which should have been adopted with effect from 1 April 2022 has now been deferred until 1 April 2024 with local authorities having the option to adopt earlier if they decide to do so. This standard replaces IAS 17 and removes the operating classification for leases, eliminating the ability for organisations to keep operating leases off balance sheet, by reporting them as a note to the accounts. With the new standard all leases will be considered finance leases unless they meet the specific exception criteria. The Council has opted to defer implementation until 1 April 2024.

## **Note 3 Critical Judgements in Applying Accounting Policies**

In applying accounting policies, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

**Public Sector Funding:** There is a high degree of uncertainty about future funding levels for local government. However, the Council has determined that this uncertainty is not yet 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.

**Asset Valuations:** The Council's appointed valuer of property assets carries out regular reviews of the value of assets reported in the Balance Sheet and any significant changes in value are processed as asset revaluations or impairments. These values are based on their professional opinion using available market information at the time of assessment. There is no indication that the Council's investment properties have suffered a material valuation uncertainty or impact as a result of the recent market conditions and as a result, rental levels and renewals appear to have been unaffected to any material degree, allowing for normal vacancy rates at any given time.

## Note 4 Assumptions made about the Future

The Annual Accounts contain 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 2023 for which there is significant risks of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if results differ from assumption
<b>Property, Plant &amp; Equipment</b>	<p>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.</p> <p>There is currently valuation uncertainty in relation to Property, Plant and Equipment due to the current turmoil in the economic markets which is affecting real estate markets and material prices globally.</p>	<p>If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for Property, Plant and Equipment would increase by £2.663M for every year that useful lives had to be reduced.</p>
<b>Pensions Liability</b>	<p>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.</p>	<p>The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.1% decrease in the discount rate assumption would result in an increase in the pension liability of £0.006M. The impact of the change of various assumptions is shown in note 33.</p>
<b>Debt Impairment</b>	<p>As at 31 March 2023, the Council had a balance for trade debtors of £9.410M. A review of significant balances suggested that an impairment of doubtful debts of 24.61% (£2.316M) was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient.</p>	<p>If collection rates were to deteriorate, an increase of 10% of the amount of the impairment of doubtful debts would require an additional £0.941M to be set aside as an allowance.</p>
<b>Flotta Oil Terminal Decommissioning</b>	<p>As at 31 March 2023, the Council has recognised a contractual commitment in respect of the future decommissioning of the Flotta Oil Terminal as a provision of £38.246M.</p>	<p>The provision is updated annually by RPI, as at 28 February, for the effects of inflation. A 1.0% increase in inflation in excess of the budgeted assumption would require a further £0.382M to be provided for.</p>
<b>Fair Value Measurement</b>	<p>When the fair value of financial assets and liabilities cannot be measured based on quoted prices in active markets (i.e., Level 1 inputs), their fair value is measured using valuation techniques. Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible judgement is required in establishing fair values. These judgements typically include consideration such as uncertainty and risk. However, changes in the assumptions used could affect the fair value of the council's assets and liabilities.</p>	

**Asset Valuation**

The obsolescence rates used in the valuation process have been set through valuer judgement, using various data sources, for example, past experience, Scottish Assessors Association Practice Notes (Contractor's valuations), consideration of asset versus modern equivalent, and market comparison. The sensitivity of this assumption in the valuation process shows that where the building is relatively modern, and still close to the template for a modern replacement, the depreciation rates are starting low, and the impact is modest, but where the asset is more obsolete the change in value caused by variation in the depreciation rates are more pronounced. For example, a change of +/- 5% in the obsolescence rates used in the valuation Orkney's schools valued at DRC at £154,319,000 would result in a change in value of -£2,305,000 to £2,268,000, or -1.5% to 1.4%.

## 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 Section 95 Officer, being the officer responsible for the Council's financial affairs, signed the Draft Annual Accounts on 30 June 2023. 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 2023, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

On 18 October 2023 the Orkney Fishermen's Society Ltd (OFS) were placed in administration. The Council have investment in OFS in the form of preference shares totalling £250,000 and had also provided the company with £100,000 cashflow loan.

Work has commenced to collate a claim to the Administrators which will include the above items, along with other debt the company has accrued with the Council. Other debts include unpaid Non-Domestic Rates of £163,302 and trade debt of £51,608.

In due course, once the outcome of the administration process is known, there may be a requirement to write-off debt and impair the investment assets currently held on the Council's balance sheet.

## Note 7 Expenditure and Funding Analysis

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

The Expenditure and Funding Analysis is structured in accordance with the Council's Management structure and shows how the expenditure is allocated for decision making purposes between the Authority's Services. Income and Expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

2022-2023	Net Expenditure to Fund Balances	Adjustment Between Funding & Accounting Basis	Net Expenditure in CIES
	£000	£000	£000
Education	41,686	(2,979)	38,707
Cultural and Recreation	5,224	3,113	8,337
Orkney Health & Care	27,086	3,772	30,858
Roads and Transportation	8,914	3,980	12,894
Environmental Services	4,676	918	5,594
Other Services	11,679	3,485	15,164
Housing Revenue Account	174	(3,025)	(2,851)
Harbour Authority	(185)	2,569	2,384
Non-Distributed Costs	0	0	0
<b>Cost of Service</b>	<b>99,254</b>	<b>11,833</b>	<b>111,087</b>
<b>Other Income and Expenditure</b>	<b>(61,683)</b>	<b>(12,038)</b>	<b>(73,721)</b>
<b>Deficit/(Surplus) For Year</b>	<b>37,571</b>	<b>(205)</b>	<b>37,366</b>

## Expenditure and Income Analysed by Nature

2022-2023		£000
<b>Expenditure</b>		
Staff Costs		98,941
Property Costs		16,559
Supplies & Services		11,545
Transport Costs		10,063
Administration Costs		1,969
Apportioned Costs		9,138
Third Party Payments		26,861
Transfer Payments		10,609
Miscellaneous Expenditure		46,208
Capital & Financing Charges		(7,538)
<b>Income</b>		
Government Grants		86,435
Other Grants, Reimbursements & Contributions		56,882
Rents & Lettings		6,700
Sales		1,270
Interest & Loans		(10,998)
Fees & Charges		32,998
Apportioned Income		11,764
Miscellaneous Income		1,938
<b>(Surplus)/Deficit on provision of services</b>		<b>37,366</b>

	General Fund	Housing Revenue Account	Harbour Authority	Total
	£000	£000	£000	£000
<b>Balance as at 1 April 2022</b>	<b>(34,259)</b>	<b>(677)</b>	<b>(239,090)</b>	<b>(274,026)</b>
Deficit/(Surplus) For Year	5,769	174	25,733	31,676
<b>Balance as at 31 March 2023</b>	<b>(28,490)</b>	<b>(503)</b>	<b>(213,357)</b>	<b>(242,350)</b>

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

The adjustments between funding and accounting basis totalling £0.205M includes transfers to/(from) the repairs and renewals fund and the Capital Statutory Fund of (£1.530M) as detailed in Note 9 to the Accounts.

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

2021-2022	Net Expenditure to Fund Balances	Adjustment Between Funding & Accounting Basis	Net Expenditure in CIES
	£000	£000	£000
Education	37,462	10,955	48,417
Cultural and Recreation	5,048	2,798	7,846
Orkney Health & Care	22,337	5,610	27,947
Roads and Transportation	12,789	3,902	16,691
Environmental Services	3,896	1,011	4,907
Other Services	13,321	1,805	15,126
Housing Revenue Account	(27)	3,068	3,041
Harbour Authority	24	1,299	1,323
Non-Distributed Costs	0	105	105
<b>Cost of Service</b>	<b>94,850</b>	<b>30,553</b>	<b>125,403</b>
<b>Other Income and Expenditure</b>	<b>(99,245)</b>	<b>(743)</b>	<b>(99,988)</b>
<b>Deficit/(Surplus) For Year</b>	<b>(4,395)</b>	<b>29,810</b>	<b>25,415</b>

2021-2022	£000
<b>Expenditure</b>	
Employee expenses	57,693
Other service expenses	85,187
Support service recharges	3,451
Depreciation and Revaluation	24,599
Movement in accumulated absences	27
Movement in pensions reserve	15,023
Transfer from reserves	7,616
Net expenditure not included in analysis	11,596
<b>Income</b>	
Fees, charges and other service income	24,149
Grants and contributions	41,127
Transfer to reserves	11,055
Principal repayment of loan debt	2,267
Capital financed by current revenue	1,191
<b>Net Cost of Service</b>	<b>125,403</b>
Financing and investment income and expenditure	(4,447)
Taxation and non-specific grant funding: other	(94,861)
Other operating expenditure	(681)
<b>(Surplus)/Deficit on provision of services</b>	<b>25,414</b>

	General Fund	Housing Revenue Account	Harbour Authority	Total
	£000	£000	£000	£000
<b>Balance as at 1 April 2021</b>	<b>(29,431)</b>	<b>(650)</b>	<b>(239,550)</b>	<b>(269,631)</b>
Deficit/(Surplus) For Year	(4,828)	(27)	460	(4,395)
<b>Balance as at 31 March 2022</b>	<b>(34,259)</b>	<b>(677)</b>	<b>(239,090)</b>	<b>(274,026)</b>

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

	Accounting for Capital Note 1	Accounting for Pensions Note 2	Other Adjustments Note 3	Transfer to/from Reserves	Total Adjustments
2022-2023	£000	£000	£000	£000	£000
Education	(6,071)	2,504	589	0	(2,979)
Cultural and Recreation	2,602	507	4	0	3,113
Orkney Health & Care	(342)	4,097	17	0	3,772
Roads and Transportation	3,080	899	1	0	3,980
Environmental Services	418	500	0	0	918
Other Services	(8,787)	3,543	34	8,696	3,485
Housing Revenue Account	(3,662)	84	0	552	(3,025)
Harbour Authority	704	1,178	5	681	2,569
Non-Distributed Costs	0	0	0	0	0
<b>Cost of Service</b>	<b>(12,058)</b>	<b>13,312</b>	<b>650</b>	<b>9,929</b>	<b>11,833</b>
<b>Other Income and Expenditure</b>	<b>262</b>	<b>469</b>	<b>52</b>	<b>(12,821)</b>	<b>(12,038)</b>
<b>Deficit/(Surplus) For Year</b>	<b>(11,796)</b>	<b>13,781</b>	<b>702</b>	<b>(2,892)</b>	<b>(205)</b>

	Accounting for Capital Note 1	Accounting for Pensions Note 2	Other Adjustments Note 3	Transfer to/from Reserves	Total Adjustments
2021-2022	£000	£000	£000	£000	£000
Education	8,631	2,555	9	(240)	10,955
Cultural and Recreation	2,476	536	(1)	(214)	2,797
Orkney Health & Care	1,074	4,535	1	0	5,610
Roads and Transportation	3,098	971	1	(168)	3,902
Environmental Services	511	500	0	0	1,011
Other Services	(6,426)	4,243	16	3,972	1,805
Housing Revenue Account	2,574	95	0	400	3,069
Harbour Authority	1,177	1,265	1	(1,144)	1,299
Non-Distributed Costs	0	0	0	105	105
<b>Cost of Service</b>	<b>13,115</b>	<b>14,700</b>	<b>27</b>	<b>2,711</b>	<b>30,553</b>
<b>Other Income and Expenditure</b>	<b>392</b>	<b>501</b>	<b>(10)</b>	<b>(1,626)</b>	<b>(743)</b>
<b>Deficit/(Surplus) For Year</b>	<b>13,507</b>	<b>15,201</b>	<b>17</b>	<b>1,085</b>	<b>29,810</b>

## **Adjustments for Capital Purposes**

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

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

## **Net Change for the Pensions Adjustment**

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

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

## **Other Differences**

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

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

## Note 8 Adjustment between Accounting Basis and Funding Basis

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

Usable Reserves					
2022/23	General Fund Balance	Housing Revenue Account	Harbour Reserves	Capital Receipt Reserves	Movement in Unusable Reserves
	£000	£000	£000	£000	£000
<b>Adjustments involving the Capital Adjustment Account:</b>					
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</b>					
Charges for depreciation and impairment of non-current assets	5,389	(142)	3,098	0	(8,345)
Amortisation of Intangible Assets	35	0	0	0	(35)
Revaluation losses on Property, Plant and Equipment	(5,377)	(1,250)	0	0	6,627
Movements in the Market Value of Investment Properties	0	0	(4)	0	4
Capital grants and contributions	(9,466)	(881)	(424)	0	10,771
Revenue expenditure funded from capital under statute	0	0	0	0	0
Carrying amount of non-current assets sold	1,194	0	284	0	(1,478)
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>					
Statutory Provision for the Financing of Capital Investment	(310)	(1,386)	(1,050)	0	2,746
Capital expenditure charged against the General Fund and HRA balances	0	0	478	0	(478)
<b>Adjustments involving the Capital Receipts Reserve:</b>					
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	0	(1,410)	1,410
Proceeds from sale of non-current assets	(479)	(3)	(1,033)	1,515	0
<b>Adjustments involving the Financial Instruments Adjustment Account:</b>					
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	0	0	(9)	0	9
<b>Adjustments involving the Pensions Reserve:</b>					
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 47)	20,037	135	1,885	0	(22,057)
Employer's pensions contributions and direct payments to pensioners payable in the year	(7,517)	(51)	(708)	0	8,276
<b>Adjustment involving the Accumulating Compensated Absences Adjustment Account:</b>					
Adjustment in relation to Short-term compensated absences	706	0	5		(711)
<b>Total Adjustments</b>	<b>4,212</b>	<b>(3,578)</b>	<b>2,522</b>	<b>105</b>	<b>(3,261)</b>

Usable Reserves					
2021/22	General Fund Balance	Housing Revenue Account	Harbour Reserves	Capital Receipt Reserves	Movement in Unusable Reserves
	£000	£000	£000	£000	£000
<b>Adjustments involving the Capital Adjustment Account:</b>					
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</b>					
Charges for depreciation and impairment of non-current assets	17,632	2,046	3,300	0	(22,978)
Amortisation of Intangible Assets	24	0	0	0	(24)
Revaluation losses on Property, Plant and Equipment	1	2,285	0	0	(2,286)
Movements in the Market Value of Investment Properties	0	0	(207)	0	207
Capital grants and contributions	(6,912)	(488)	0	0	7,400
Carrying amount of non-current assets sold	429	0	4	0	(433)
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>					
Statutory Provision for the Financing of Capital Investment	(260)	(884)	(1,123)	0	2,267
Capital expenditure charged against the General Fund and HRA balances	(500)	(385)	(339)	0	1,224
<b>Adjustments involving the Capital Receipts Reserve:</b>					
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	0	(1,693)	1,693
Proceeds from sale of non-current assets	(379)	0	(736)	1,115	0
<b>Adjustments involving the Financial Instruments Adjustment Account:</b>					
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	0	0	2	0	(2)
<b>Adjustments involving the Pensions Reserve:</b>					
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 40)	20,955	144	1,915	0	(23,014)
Employer's pensions contributions and direct payments to pensioners payable in the year	(7,114)	(49)	(650)	0	7,813
<b>Adjustment involving the Accumulating Compensated Absences Adjustment Account:</b>					
Adjustment in relation to Short-term compensated absences	14	0	1	0	(15)
<b>Total Adjustments</b>	<b>23,890</b>	<b>2,669</b>	<b>2,167</b>	<b>(578)</b>	<b>(28,148)</b>

## Note 9 Transfer to or from General Fund Earmarked Balances and Other 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.

	Balance at 31 March 2021 £000	Transfers in 2021-2022 £000	Transfers out 2021-2022 £000	Balance at 31 March 2022 £000	Transfers in 2022-2023 £000	Transfers out 2022-2023 £000	Balance at 31 March 2023 £000
Repairs & Renewals Fund	10,234	623	(1,707)	9,150	252	(2,598)	6,804
<b>Revenue statutory fund</b>	<b>10,234</b>	<b>623</b>	<b>(1,707)</b>	<b>9,150</b>	<b>252</b>	<b>(2,598)</b>	<b>6,804</b>
Capital Fund	508	0	0	508	711	0	1,219
Capital Receipts Reserve	2,519	1,115	(1,693)	1,941	1,515	(1,410)	2,046
Capital Grants Unapplied	20	0	0	20	0	0	20
<b>Capital statutory funds</b>	<b>3,047</b>	<b>1,115</b>	<b>(1,693)</b>	<b>2,469</b>	<b>2,226</b>	<b>(1,410)</b>	<b>3,285</b>
<b>Total</b>	<b>13,281</b>	<b>1,738</b>	<b>(3,400)</b>	<b>11,619</b>	<b>2,478</b>	<b>(4,008)</b>	<b>10,089</b>

A Capital Fund is maintained for the replacement of property, plant and equipment in terms of Schedule 3 of the Local Government (Scotland) Act 1975 and includes unapplied capital receipts and grants.

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

## Ring-fenced elements of the General Fund Balance

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

	2021-2022				2022-2023		
	Balance at 31 March 2021 £000	Transfers in 2021-2022 £000	Transfers out 2021-2022 £000	Balance at 31 March 2022 £000	Transfers in 2022-2023 £000	Transfers out 2022-2023 £000	Balance at 31 March 2023 £000
<b>General Fund:</b>							
Covid Redeterminations Flexibility Fund	2,105	932	(1,106)	1,931	0	(1,799)	132
Business Support Fund	2,968	382	(554)	2,796	0	(1,209)	1,587
Orkney College	107	374	0	481	0	(481)	0
Local Works and Services Contingency Fund	115	0	(3)	112	0	(87)	25
Training Fund	231	0	(231)	0	0	0	0
Welfare Fund	4	0	(4)	0	0	0	0
Spend to Save Fund	730	0	(730)	0	0	0	0
Renewable Energy Fund	10,555	0	(617)	9,938	0	(2,948)	6,990
Recreation & Cultural Services Project Fund	65	0	0	65	0	(65)	0
Development Grants Fund	1,784	0	(128)	1,656	0	(409)	1,247
Sustainable Communities Fund	15	0	(15)	0	0	0	0
Capital Project Appraisal Fund	550	200	(12)	738	200	(215)	723
Crown Estate Fund	1,148	858	(109)	1,897	839	(178)	2,558
Workforce Management Fund	1,517	70	0	1,587	0	(342)	1,245
Outwith Orkney Placements Fund	853	788	(641)	1,000	585	(923)	662
Sustainable and Green Transport Fund	0	83	0	83	0	(27)	56
IJB GF Balances Fund	0	500	0	500		(500)	0
Islands Deal Fund	0	1,432	0	1,432	333	0	1,765
<b>Total General Fund Earmarked Reserves</b>	<b>22,747</b>	<b>5,619</b>	<b>(4,150)</b>	<b>24,216</b>	<b>1,957</b>	<b>(9,183)</b>	<b>16,990</b>

A review of the Council's Reserves Strategy during the year recognised £10.631M of earmarked General Fund balances which could be returned to non-earmarked balances. After taking into account these adjustments, a balance of £11.639M remains available for General Fund purposes, of which £9.2M was required to set a balanced budget for 2023/24.

## Note 10 Other Operating Expenditure

	2021-2022	2022-2023
	£000	£000
(Gains)/losses on the disposal of non-current assets	(681)	(37)
<b>Total</b>	<b>(681)</b>	<b>(37)</b>

## Note 11 Financing and Investment Income and Expenditure

	2021-2022	2022-2023
	£000	£000
Interest payable and similar charges	1,175	1,321
Pensions net interest cost	(330)	(371)
Interest receivable and similar income	(5,068)	19,363
Income and expenditure in relation to investment properties and changes in their fair value	(1,015)	(926)
Other investment income	791	797
<b>Total</b>	<b>(4,447)</b>	<b>20,184</b>

## Note 12 Taxation and Non-specific Grant Income

The Council credited the following taxation and non-specific grant income to the Comprehensive Income and Expenditure Statement during 2022-23.

	2021-2022	2022-2023
	£000	£000
Council Tax Income	10,092	10,572
NDR Redistribution	9,788	12,954
Non-ringfenced government grants	67,581	59,570
Capital Grants	7,400	10,771
<b>Total Taxation and Non-Specific Grant Income</b>	<b>94,861</b>	<b>93,867</b>

The Council credited the following grants to the Comprehensive Income and Expenditure Statement during 2022-23.

<b>Grant Income 2022-2023</b>	
<b>Credited to Taxation and Non-Specific Grant Income:</b>	<b>£000</b>
General Revenue Grant	59,570
Distribution of non-domestic rate pool	12,954
Council Tax	10,572
Capital Grants & contributions	10,771
<b>Total</b>	<b>93,867</b>
<b>Revenue grants credited to Services:</b>	<b>£000</b>
DWP – Housing Benefits Subsidy	2,840
Heritage Lottery Fund – North Isles Landscape Partnership	362
Scottish Government – Community Justice Social Work	319
Scottish Government – Cost of Living	1,288
Scottish Government – Early Learning and Childcare	2,213
Scottish Government – Energy Efficient Scotland	2,143
Scottish Government – General Capital Grant – Disabled Adaptions	155
Scottish Government – Islands Emergency Cost Crisis Fund	305
Scottish Government – Rural Communities LED Local Development Funding	115
Scottish Government – Scottish Attainment Challenge – Pupils Equity Funding	304
Scottish Government – Scottish Crown Estate Net revenue 2022-2023	839
Scottish Government – Teachers Pay Award	157
Scottish Government – Other	734
Sports Scotland – Active Schools and Community Hub	167
Transport Scotland – Orkney Islands Internal Ferry Services 2022-2023	13,402
Other	1,045
<b>Total</b>	<b>26,388</b>

## Note 13 Property, Plant and Equipment

Property, Plant & Equipment (PP&E)							
	Council Dwellings	Buildings	Vehicles, Plant & Equipment	Community Assets	PP&E Under Construction	Surplus Assets	Total PP&E
	£000	£000	£000	£000	£000	£000	£000
<b>Cost or Valuation</b>							
Balance as at 1 April 2022	72,176	268,987	47,633	6,075	9,804	1,049	405,724
<b>Adjusted opening balance</b>	<b>72,176</b>	<b>268,987</b>	<b>47,633</b>	<b>6,075</b>	<b>9,804</b>	<b>1,049</b>	<b>405,724</b>
Additions	660	2,795	2,605	239	14,719	0	21,018
Revaluation increases/(decreases) to Revaluation Reserve	3,101	19,747				12	22,860
Revaluation increases/(decreases) to Surplus or Deficit on the Provision of Services	(614)	(27,098)					(27,712)
Derecognition - Disposals		(714)	(1,437)	(335)			(2,486)
Reclassifications & Transfers		5,232	1,358	334	(6,189)		735
<b>Balance as at 31 March 2023</b>	<b>75,323</b>	<b>268,949</b>	<b>50,159</b>	<b>6,313</b>	<b>18,334</b>	<b>1,061</b>	<b>420,139</b>
<b>Depreciation and Impairment</b>							
Balance as at 1 April 2022	2,051	32,361	24,658	754	0	204	60,028
Adjusted opening balance	2,051	32,361	24,658	754	0	204	60,028
Annual Depreciation Charge			4,649			33	4,682
Depreciation written out on Revaluation taken to Surplus or Deficit on the Provision of Services	(2,051)	(32,288)					(34,339)
Derecognition - Disposals		(73)	(1,333)	(30)			(1,436)
<b>Balance as at 31 March 2023</b>	<b>0</b>	<b>0</b>	<b>27,974</b>	<b>724</b>	<b>0</b>	<b>237</b>	<b>28,935</b>
<b>Property, Plant and Equipment - Balance as at 31 March 2023</b>	<b>75,323</b>	<b>268,949</b>	<b>22,185</b>	<b>5,589</b>	<b>18,334</b>	<b>824</b>	<b>391,204</b>
<b>Infrastructure Assets - Balance as at 31 March 2023</b>							<b>79,548</b>
<b>Net Book Value as at 31 March 2023</b>							<b>470,752</b>
<b>Restated Property, Plant and Equipment- Balance as at 31 March 2022</b>	<b>70,125</b>	<b>236,626</b>	<b>22,975</b>	<b>5,321</b>	<b>9,804</b>	<b>845</b>	<b>345,696</b>
<b>Restated Infrastructure Assets- Balance as at 31 March 2022</b>							<b>80,890</b>
<b>Restated Net Book Value as at 31 March 2022</b>							<b>426,586</b>

Property, Plant & Equipment (PP&E)							
	Council Dwellings	Buildings	Vehicles, Plant & Equipment	Community Assets	PP&E Under Construction	Surplus Assets	Total PP&E
	£000	£000	£000	£000	£000	£000	£000
<b>Cost or Valuation</b>							
Balance as at 1 April 2021	64,743	210,989	44,395	5,590	11,191	1,360	338,268
<b>Adjusted opening balance</b>	<b>64,743</b>	<b>210,989</b>	<b>44,395</b>	<b>5,590</b>	<b>11,191</b>	<b>1,360</b>	<b>338,268</b>
Additions	0	2,194	2,259	485	6,120	0	11,058
Revaluation increases/(decreases) to Revaluation Reserve	3,389	55,824	0	0	(4)	0	59,209
Revaluation increases/(decreases) to Surplus or Deficit on the Provision of Services	(2,290)	0	0	0	4	0	(2,286)
Derecognition - Disposals	0	(20)	(326)	0	0	(311)	(657)
Derecognition - Other	0	0	0	0	0	0	0
Reclassifications & Transfers	6,334	0	1,305	0	(7,507)	0	132
<b>Balance 31 March 2022</b>	<b>72,176</b>	<b>268,987</b>	<b>47,633</b>	<b>6,075</b>	<b>9,804</b>	<b>1,049</b>	<b>405,724</b>
<b>Depreciation and Impairment</b>							
Balance as at 1 April 2021	0	18,755	21,105	754	72	204	40,890
Adjustments between cost/value & depreciation/impairment	0	0	0	0	0	0	0
Adjusted opening balance	0	18,755	21,105	754	72	204	40,890
Annual Depreciation Charge	1,942	6,587	3,808	0	0	34	12,371
Additional Depreciation Charge following Impairment Review	109	7,020	0	0	0	0	7,129
Derecognition - Disposals	0	(1)	(327)	0	0	(34)	(362)
Reclassifications & Transfers	0	0	72	0	(72)	0	0
<b>Balance as at 31 March 2022</b>	<b>2,051</b>	<b>32,361</b>	<b>24,658</b>	<b>754</b>	<b>0</b>	<b>204</b>	<b>60,028</b>
<b>Property, Plant and Equipment - Balance as at 31 March 2021</b>							
	<b>70,125</b>	<b>236,626</b>	<b>22,975</b>	<b>5,321</b>	<b>9,804</b>	<b>845</b>	<b>345,696</b>
<b>Infrastructure Assets - Balance as at 31 March 2021</b>							
							<b>80,890</b>
<b>Net Book Value as at 31 March 2021</b>							
							<b>426,586</b>
<b>Restated Property, Plant and Equipment - Balance as at 31 March 2020</b>							
	<b>64,743</b>	<b>192,234</b>	<b>23,290</b>	<b>4,836</b>	<b>11,119</b>	<b>1,156</b>	<b>297,378</b>
<b>Restated Infrastructure Assets - Balance as at 31 March 2020</b>							
							<b>82,778</b>
<b>Restated Net Book Value as at 31 March 2020</b>							
							<b>380,156</b>

## Statutory Override – Infrastructure Assets

The CIPFA/LASAAC Code of Practice for Local Authority Accounting in the United Kingdom (the Code) requires infrastructure assets to be measured using the historical cost measurement basis and carried at depreciated historical cost.

The Code requires that where a component of an asset is replaced, the carrying amount (net book value) of the old component shall be de-recognised to avoid double-counting.

Due to practical difficulties in applying component accounting for the recognition and derecognition of replaced components in infrastructure assets, largely due to limitations on the available data, most local authorities have been unable to comply with the requirement to assess the net book value of the replaced component and have therefore taken the approach that the replaced component has carrying value of zero.

Auditors have raised concerns that there may be a lack of evidence to support this assumption and without a resolution there is a significant risk that Local Authority financial statements could be subject to a qualified audit opinion.

CIPFA/LASAAC have yet been unable to find a way forward that will satisfy both audit concerns and the requirement for high quality financial reporting.

The Scottish Government has therefore put a statutory intervention in place, applicable to 31 March 2024, to allow time for a permanent solution to be developed within the Code.

The Council has applied both statutory overrides for infrastructure assets, as follows:

- Statutory Override 1: For accounting periods commencing from 1 April 2021 until 31 March 2024, a local authority is not required to report the gross cost and accumulated depreciation for infrastructure assets.
- Statutory Override 2: For accounting periods commencing from 1 April 2021 until 31 March 2024 the carrying amount to be derecognised in respect of a replaced part of an infrastructure asset is to be taken to be and accounted for as a nil amount. No subsequent adjustment shall be made to the carrying amount of the asset with respect to that part.

The valued of Infrastructure assets is as follows:

	2021-2022	2022-2023
	£000	£000
<b>Net carrying amount as at 1 April</b>	82,778	80,890
Add: Additions	1,590	1,916
Add: Reclassifications & Transfers	0	455
Add: Derecognition – Disposals	0	11
Less: Derecognition – Disposals	0	(61)
Less: Depreciation	(3,478)	(3,663)
Balance as at 31 March	<b>80,890</b>	<b>79,548</b>

## Note 14 Investment Properties

The following items of income and expense have been accounted for in the “financing and investment income and expenditure” line in the Comprehensive Income and Expenditure Statement:

	2021-2022	2022-2023
	£000	£000
Rental income from investment property	(1,078)	(1,131)
Direct operating expenses arising from investment property	327	290
Net (Gain)/Loss included in Financing & Investment Income in the CIES	<b>(751)</b>	<b>(841)</b>
Changes in Fair Value of Investment Properties	(207)	(4)
	<b>(958)</b>	<b>(845)</b>

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

	2021-2022	2022-2023
	£000	£000
<b>Balance at start of the year</b>	<b>19,800</b>	<b>20,649</b>
Additions:		
Purchases	646	50
Disposals	(4)	(284)
Net gains/losses from fair value adjustments	207	4
Transfers:		
To/from Property, Plant and Equipment	0	(1,190)
Other changes	0	0
<b>Balance at end of the year</b>	<b>20,649</b>	<b>19,229</b>

## 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 18 for details of these.)

	Long-Term		Current	
	2021-2022	2022-2023	2021-2022	2022-2023
	£000	£000	£000	£000
<b>Investments</b>				
Financial assets at fair value other comprehensive income	9,220	4,919	0	0
Financial assets at Cost	0	1,268		
Financial assets at fair value through profit and loss	0	0	270,898	245,649
<b>Total investments</b>	<b>9,220</b>	<b>6,187</b>	<b>270,898</b>	<b>245,649</b>
<b>Debtors</b>				
Financial assets carried at amortised cost	2,906	5,174	11,781	9,140
<b>Total Debtors</b>	<b>2,906</b>	<b>5,174</b>	<b>11,781</b>	<b>9,140</b>
<b>Borrowings</b>				
Financial liabilities at amortised cost	30,057	30,028	5,408	339
<b>Total borrowings</b>	<b>30,057</b>	<b>30,028</b>	<b>5,408</b>	<b>339</b>
<b>Creditors</b>				
Financial liabilities carried at amortised costs	0	0	18,283	21,795
<b>Total creditors</b>	<b>0</b>	<b>0</b>	<b>18,283</b>	<b>21,795</b>

The Council also holds a long-term investment in the Orkney Research and Innovation Campus. For the year ended 31 March 2023, the gross value of this investment was £3.355M (£3.355M at 31 March 2022) with an impairment loss of £2.499M bringing the net asset value of the investment to £0.856M. The impairment loss is due to the decrease in the value of the property, plant and equipment as a result in the revaluation exercise and relates to the fact the research campus is currently under development.

The Debtors and Creditors figures above do not include Council Tax and Non-Domestic Rates as they are not considered to be Financial Instruments.

### Fair value of financial instruments

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

- Subsequent to initial recognition, financial assets held principally for strategic purposes and not for trading continue to be carried in the Balance Sheet at Fair Value Other Comprehensive Income.
- Subsequent to initial recognition, loans and receivables and financial liabilities at amortised cost are carried in the Balance Sheet at amortised cost, using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability.
- Financial assets stated at Fair Value through Profit or Loss, are held for trading with any gains or losses recognised through the profit or loss account.

Financial instruments include the following investments held as part of the Strategic Reserve Fund on the Harbour Authority Account:

Investments	Market Value	Fair Value
	£000	%
Managed Funds	245,649	97.54
Private Companies	2,374	0.94
Fishing Quota	3,800	1.51
Other	13	0.01
<b>Total</b>	<b>251,836</b>	<b>100.00</b>

As at the 31 March 2023, as part of the transitioning arrangements to the revised investment strategy, the Fund had remaining contractual commitments to invest up to £0.9M in the new mandate to Private Debt. The drawdown of this commitment will be funded from within the Fund's portfolio of investments.

The fair value hierarchy of financial instruments can be summarised as follows:

	Quoted Market Price Level 1 £000	Using Observable Inputs Level 2 £000	With Significant Unobservable Inputs Level 3 £000	Total £000
<b>Value as at 31 March 2023</b>				
Financial assets at fair value through profit and loss	93,215	88,065	64,369	245,649
Financial assets at fair value other comprehensive income	0	3,800	263	4,063
Financial Assets at Cost			1,268	1,268
Loans and receivables at amortised cost	0	2,931	0	2,931
<b>Total Financial Assets</b>	<b>93,215</b>	<b>94,796</b>	<b>65,900</b>	<b>253,911</b>
Financial liabilities at fair value through profit and loss	0	0	0	0
Financial liabilities at amortised cost	0	30,057	0	30,057
<b>Total Financial Liabilities</b>	<b>0</b>	<b>30,057</b>	<b>0</b>	<b>30,057</b>
<b>Total Financial Instruments</b>	<b>93,215</b>	<b>64,739</b>	<b>65,900</b>	<b>223,854</b>
<b>Net Investments Assets (Fair Value)</b>	<b>93,215</b>	<b>64,739</b>	<b>65,900</b>	<b>223,854</b>

	Quoted Market Price Level 1 £000	Using Observable Inputs Level 2 £000	With Significant Unobservable Inputs Level 3 £000	Total £000
<b>Value as at 31 March 2022</b>				
Financial assets at fair value through profit and loss	106,917	109,875	54,106	270,898
Financial assets at fair value other comprehensive income	0	3,527	4,797	8,324
Loans and receivables at amortised cost	0	2,735	0	2,735
<b>Total Financial Assets</b>	<b>106,917</b>	<b>116,137</b>	<b>58,903</b>	<b>281,957</b>
Financial liabilities at fair value through profit and loss	0	0	0	0
Financial liabilities at amortised cost	0	35,086	0	35,086
<b>Total Financial Liabilities</b>	<b>0</b>	<b>35,086</b>	<b>0</b>	<b>35,086</b>
<b>Total Financial Instruments</b>	<b>106,917</b>	<b>81,051</b>	<b>58,903</b>	<b>246,871</b>
<b>Net Investments Assets (Fair Value)</b>	<b>106,917</b>	<b>81,051</b>	<b>58,903</b>	<b>246,871</b>

Loans and receivables include both loans advanced to local developers on commercial terms as well as loans advanced in support of economic development initiatives on interest free terms, otherwise more commonly known as soft loans. Loans to local developers, include a loan to Orkney Islands Property Development Limited of £0.754M, and housing loans to individuals where a specific entitlement criteria has been met. The risk of default is considered to be low for these financial instruments on the basis that security has been taken over the underlying assets. As such, the expected credit loss associated with loans to developers on commercial terms is not material and no impairment has been applied.

A portfolio of historic loans issued on interest free or below commercial terms in support of economic development opportunities have been discounted to reflect the effective interest rate. With the interest free loan typically being advanced for 20 years and with repayment only due upon maturity these loans are viewed as moderate risk. As such, an impairment has been applied using the simplified lifetime expected credit loss methodology. The movement on the portfolio of soft loans has been summarised as follows:

	2021-2022	2022-2023
	£000	£000
<b>Balance as at 1 April</b>	244	304
Add: Advances in year	0	0
Less: Loans repaid	(75)	(33)
Less: Loans written off	0	0
Add: Expected credit loss movement	135	13
Add: Fair value movement	0	14
<b>Balance as at 31 March</b>	<b>304</b>	<b>298</b>

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

Financial liabilities carried at contract amount are short term creditors (see Note 20).

### 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".

	Financial Liabilities Measured at Amortised Cost £000	2022-2023			
		Financial Assets			Total £000
		At Amortised Cost £000	At Fair Value Other Comprehensive Income £000	At Fair Value through Profit and Loss £000	
Interest expense (including finance lease interest)	940	0	0	0	<b>940</b>
Losses on derecognition	0	0	0	436	<b>436</b>
Losses on revaluation	0	0	0	45,892	<b>45,892</b>
Impairment losses	0	(13)	0	0	<b>(13)</b>
Fee expense	108	16	0	923	1,047
<b>Total expenses in (surplus) or deficit on the Provision of Services</b>	<b>1,048</b>	<b>3</b>	<b>0</b>	<b>47,251</b>	<b>48,302</b>
Interest income	(250)	(182)	0	0	<b>(432)</b>
Interest income accrued on impaired financial assets	0	(5)	0	0	<b>(5)</b>
Gains on revaluation	0	0	0	(26,469)	<b>(26,469)</b>
Dividend income	0	0	(226)	(3,371)	<b>(3,597)</b>
Other income	0	(10)	0	(1,948)	<b>(1,958)</b>
Gains on derecognition	0	0	0	(1,930)	<b>(1,930)</b>
<b>Total income in (surplus) or deficit on the Provision of Services</b>	<b>(250)</b>	<b>(197)</b>	<b>(226)</b>	<b>(33,718)</b>	<b>(34,391)</b>
Gains on revaluation	0	0	(853)	0	<b>(853)</b>
Losses on revaluation	0	0	2,152	0	2,152
<b>(Surplus) or deficit on revaluation of available-for-sale financial assets (in other comprehensive income and expenditure)</b>	<b>0</b>	<b>0</b>	<b>1,299</b>	<b>0</b>	<b>1,299</b>
<b>Net (gain)/loss for the year (in the total comprehensive income and expenditure)</b>	<b>798</b>	<b>(194)</b>	<b>1,073</b>	<b>13,533</b>	<b>15,210</b>

## 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 2023 of 1.28% to 4.28% for loans from the Public Works Loans Board and 5.2% for other loans receivable and payable, based on new lending rates for equivalent loans at that date
- No early repayment or impairment is recognised
- Where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

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

	2021-2022		2022-2023	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
Financial liabilities	35,086	39,621	30,057	21,822
<b>Total</b>	<b>35,086</b>	<b>39,621</b>	<b>30,057</b>	<b>21,822</b>

The fair value of the financial liabilities is higher than the carrying amount because the Authority's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the prevailing rates at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31 March 2023) arising from a commitment to pay interest to lenders above current market rates.

	2021-2022		2022-2023	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
Long-term debtors less provision	2,906	2,969	2,893	2,942
<b>Total</b>	<b>2,906</b>	<b>2,969</b>	<b>2,893</b>	<b>2,942</b>

The fair value of assets exceeded the carrying amount because the Authority's portfolio of investments includes a number of fixed rate loans where the interest rate receivable is higher than the prevailing rates at the Balance Sheet date.

The nature and extent of risks arising from Financial Instruments are detailed in Note 35.

## Note 16 Inventories

	2021-2022	2022-2023
	£000	£000
Stocks and Stores	2,418	3,052
<b>Total</b>	<b>2,418</b>	<b>3,052</b>

## Note 17 Short-term Debtors

	2021-2022	2022-2023
	£000	£000
NDR & Council Tax	1,442	1,248
Rents	581	332
Value Added Tax	858	737
Trade Debtors	8,900	7,093
<b>Total</b>	<b>11,781</b>	<b>9,410</b>

## Note 18 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.

	2021-2022	2022-2023
	£000	£000
Cash and Bank balances	81	76
Short Term Investments (considered to be Cash Equivalents)	18,000	3,000
Short Term Deposits (considered to be Cash Equivalents)	4,619	7,173
<b>Total</b>	<b>22,700</b>	<b>10,249</b>

## Note 19 Assets Held for Sale

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

	Current	
	2021-2022	2022-2023
	£000	£000
<b>Balance outstanding at start of year</b>	<b>741</b>	<b>474</b>
<b>Assets newly classified as held for sale:</b>	0	0
Transferred from/(to) Non-Current Assets during year	0	0
Revaluation gains/(losses) taken to surplus or deficit on the provision of services	0	0
Revaluation gains/(losses) other	0	0
Assets sold cost	(135)	(94)
Other disposals	(132)	0
<b>Balance outstanding at year-end</b>	<b>474</b>	<b>380</b>

## Note 20 Short-term Creditors

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

	2021-2022	2022-2023
	£000	£000
Council Tax	0	15
HRA	11	25
Accumulated Absences	2,687	3,398
Receipts in Advance	994	695
Trade Creditors	11,320	15,776
Other	3,271	1,886
<b>Total Short-Term Creditors</b>	<b>18,283</b>	<b>21,795</b>

## Note 21 Provisions

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

	Balance as at 1 April 2022 Restated	Increase in provision during year	Utilised during year	Unused Amounts Reversed	Interest earned	Balance as at 31 March 2023
	£000	£000	£000	£000	£000	£000
<b>Long Term Provisions</b>	0	0	0	0	0	0
<b>Current Provisions</b>	32,168	6,078	0	0	0	38,246
	<b>32,168</b>	<b>6,078</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>38,246</b>

A provision of £36.567M has been set aside to provide for the future cost that will be incurred by the Council in respect of the decommissioning of the Flotta Oil Terminal. The provision is updated annually by RPI for the effects of inflation.

## Note 22 Reserves

### Usable reserves

Useable 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 useable reserves during the year are outlined in the Movement in Reserves statement.

2021-2022		2022-2023
£000		£000
34,260	General Fund Balance	28,491
677	Housing Revenue Account Balance	503
1,961	Capital Receipts Reserve	2,066
508	Other Statutory Funds	1,219
239,090	Harbours	211,678
9,150	Repairs and Renewals Fund	6,804
<b>285,646</b>	<b>Total useable reserves</b>	<b>250,761</b>

### Unusable Reserves

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

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

## Summary of Unusable Reserves

	2021-2022	2022-2023
	£000	£000
Capital Adjustment Account	244,898	258,293
Financial Instrument Adjustment Account	(33)	(24)
Revaluation Reserve	151,389	172,076
Pensions Reserve	20,760	131,501
Available for Sale Financial Instruments Reserve	3,621	2,322
Employee Statutory Adjustment Account	(2,687)	(3,398)
<b>Total Unusable Reserves</b>	<b>417,948</b>	<b>560,770</b>

### 1. Movement in the year: Revaluation Reserve

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

	2021-2022	2022-2023
	£000	£000
<b>Balance at 1 April</b>	95,459	151,389
Upward revaluation of assets	59,209	22,860
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	<b>59,209</b>	<b>22,860</b>
Difference between fair value and historical cost depreciation	(3,279)	(2,173)
Revaluation balances on assets scrapped or disposed of	0	0
<b>Balance at 31 March</b>	<b>151,389</b>	<b>172,076</b>

### 2. Movement in the year: Capital Adjustment Account

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

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

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

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

	2021-2022		2022-2023	
	£000	£000	£000	£000
<b>Balance at 1 April</b>		<b>254,549</b>		<b>244,898</b>
<b>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement</b>				
Charges for depreciation and impairment of non-current assets	(23,002)		(8,380)	
Revaluation losses on Property, Plant and Equipment	(2,286)		6,627	
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	(433)		(1,478)	
		<b>(25,721)</b>		<b>(3,231)</b>
Adjusting amounts written out of the Revaluation Reserve		3,279		2,173
<b>Net written out amount of the cost of non-current assets consumed in the year</b>		<b>(22,442)</b>		<b>(1,058)</b>
<b>Capital financing applied in the year:</b>				
Use of the Capital Receipts Reserve to finance new capital expenditure	1,693		1,410	
Use of the Major Repairs Reserve to finance new capital expenditure	0		0	
Loans Lease principal repayments	0		0	
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	7,400		10,771	
Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	2,267		2,746	
Capital expenditure charged against the General Fund and HRA balances	1,224		(478)	
		<b>12,584</b>		<b>14,449</b>
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		207		4
<b>Balance at 31 March</b>		<b>244,898</b>		<b>258,293</b>

### 3. Movement in the year: Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments, and for bearing losses or benefiting from gains in accordance with statutory provisions. The Council uses the Financial Instruments Adjustment Account to manage “soft loans” that were on the Council’s Balance Sheet at 31 March 2007. Soft loans are loans advanced by the Council at nil or below prevailing interest rates. Generally accepted accounting practices require that the discounted interest rate is recognised as a reduction in the fair value of the loan, with the difference being debited to the Comprehensive Income and Expenditure Statement as service expenditure. However, statutory arrangements [or regulations] require that, for soft loans on the Council’s Balance Sheet at 31 March 2023, the reduction in value and corresponding charge to be reversed, so that there is no impact on the General Fund Balance.

	2021-2022	2022-2023
	£000	£000
<b>Balance at 1 April</b>	<b>(31)</b>	<b>(33)</b>
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	(2)	9
<b>Balance at 31 March</b>	<b>(33)</b>	<b>(24)</b>

#### 4. Movement in the year: Pension Reserve

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

	2021-2022	2022-2023
	£000	£000
<b>Balance at 1 April</b>	<b>24,246</b>	<b>20,760</b>
Remeasurement of the net Pension Fund liability/(asset)	11,715	124,522
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	(23,014)	(22,057)
Employers Pensions contributions and direct payments to pensioners payable in the year	7,813	8,276
<b>Balance at 31 March</b>	<b>20,760</b>	<b>131,501</b>

#### 5. Movement in the year: Employee Statutory Adjustment Account

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

	2021-2022	2022-2023
	£000	£000
<b>Balance at 1 April</b>	<b>(2,672)</b>	<b>(2,687)</b>
Amounts accrued at the end of the current year	(15)	(711)
<b>Balance at 31 March</b>	<b>(2,687)</b>	<b>(3,398)</b>

#### 6. Movement in the year: Financial Instruments Revaluation Reserve

Formerly known as the Available for Sale Financial Instruments Reserve, this reserve has been reclassified as the Financial Instruments Revaluation Reserve in accordance with IFRS 9 with effect from 1 April 2018. The Financial Instruments Revaluation Reserve contains the gains made by the Authority arising from increases in the value of its investments held principally for strategic purposes and not held for trading, that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are:

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

	2021-2022	2022-2023
	£000	£000
<b>Balance at 1 April</b>	<b>3,378</b>	<b>3,621</b>
Upward revaluation of investments	298	0
Downward revaluation of investments not charged to the Surplus/Deficit on the Provision of Services	(55)	(1,299)
<b>Balance at 31 March</b>	<b>3,621</b>	<b>2,322</b>

## Note 23 Trading Operations

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

	2021-2022			2022-2023		
	Expenditure	Income	Net Expenditure / (Income)	Expenditure	Income	Net Expenditure / (Income)
Orkney College	6,791	(6,000)	791	6,320	(5,523)	797
<b>Total</b>	<b>6,791</b>	<b>(6,000)</b>	<b>791</b>	<b>6,320</b>	<b>(5,523)</b>	<b>797</b>

## Note 24 Agency Services

The Council is required by legislation to provide a collection service for Scottish Water whereby it collects water and waste charges in conjunction with collection of Council Tax. The legislation stipulates the minimum amount Scottish Water must pay by way of commission for this service. For 2022-23 the value of this service amounted to £0.064M (2021-22 £0.064M).

The Council collects Non-Domestic Rates on behalf of the Scottish Government. For 2022-23 £10.528M was collected (2021-22 £8.938M).

## Note 25 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 were as follows:

	2021-2022	2022-2023
	£000	£000
Orkney Islands Council	200	224
Charities	1	1
<b>Total</b>	<b>201</b>	<b>225</b>

## Note 26 Capital Grant Receipts in Advance

The Council has received no capital grants in advance of need during 2022-23.

## Note 27 Related Parties

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

### Scottish Government

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

### Companies and Joint Boards

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

### Councillors and Officers

- The Council can on occasion transact with individuals or businesses that are owned by Elected Members or employees, but these are neither considered to be material by value or by nature.
- All Elected Members and senior officers are required to declare any related party interests in a formal Register of Interests, which is available for inspection upon request.

### Pension Fund

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

	2021-2022			2022-2023		
	Receipts £000	Payments £000	Debtor/ (Creditor) £000	Receipts £000	Payments £000	Debtor/ (Creditor) £000
<b>Scottish Government</b>						
Revenue Grants – being payments made in support of Revenue Expenditure	67,581	0	0	59,413	0	0
Capital Grants – being payments made in support of Capital Expenditure	7,400	0	0	10,720	0	0
<b>Companies and Joint Boards</b>						
Orkney Towage Company Limited – being payments made for the provision of Towage Services	7	0	0	0	0	0
Orkney Ferries Limited – being payments made in support of the Ferry Services	0	12,613	602	0	13,402	987
Pickaquoy Centre Trust – being payments for provision of Leisure Services	234	1,068	(171)	296	873	6
Orkney and Shetland Valuation Joint Board – being payments of annual requisition to Joint Boards	0	419	9	0	479	17
Orkney Integrated Joint Board – being payments of the annual contribution into the Joint Board arrangement between OIC and NHS Orkney	0	22,337	40	0	0	0
<b>Orkney Islands Pension Fund</b>						
Being Payments of employers contributions in respect of employees	0	8,071	0	0	8,718	0

## Note 28 Capital Expenditure and Capital Financing

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

Capital Expenditure and Capital Financing	2021-2022	2022-2023
	£000	£000
Opening Capital Financing Requirement	<b>37,493</b>	<b>38,203</b>
Property, Plant and Equipment	12,648	22,934
Investment Properties	646	50
Intangible Assets	0	53
	<b>13,294</b>	<b>22,257</b>
<b>Sources of Finance</b>		
Capital receipts	(1,693)	(1,410)
Government grants and other contributions	(7,400)	(10,771)
<b>Sums set aside from revenue:</b>		
Direct revenue contributions:		
General	(500)	0
HRA	(385)	0
Harbours	(339)	478
Loans fund principal	(2,267)	(2,746)
	<b>(12,584)</b>	<b>(14,449)</b>
<b>Closing Capital Finance Requirement</b>	<b>38,203</b>	<b>46,011</b>
<b>Explanation of movements in year</b>		
Increase in underlying need to borrow (unsupported by government financial assistance)	710	7,808
<b>Increase/(decrease) in Capital Financing Requirement</b>	<b>710</b>	<b>7,808</b>

At 31 March 2023 the Council had commitments on capital contracts for projects of £10.458M. This expenditure will be funded from a combination of government grants, external borrowing, income from the sale of assets and contributions from revenue budgets.

The following significant contracts for capital investment have been entered into by Orkney Islands Council and extend beyond 31 March 2023:

Project Name	Purpose	Approx. Value £000	Anticipated Completion
New Kirkwall Care Facility	New Build	9,780	31 October 2024
St Andrews School	Extension and Upgrade	565	30 September 2023
Cursiter Quarry Extension	Extension	113	31 December 2023
<b>Overall Total</b>		<b>10,458</b>	

Similar commitments at 31 March 2022 were £2.786M.

## Note 29 Leases

### Orkney Islands Council as Lessee

#### Operating Leases

The Council has acquired properties by entering into operating leases.

The expenditure charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was £0.214M (2021-22 £0.196M).

Future minimum payments are set out below:

	2021-2022	2022-2023
	Land and Buildings £000	Land and Buildings £000
Minimum lease rentals payable:		
No later than 1 year	198	199
Later than 1 year and no later than 5 years	540	504
Later than 5 years	2,333	2,228
	<b>3,071</b>	<b>2,931</b>

### Orkney Islands Council as Lessor

#### Operating Leases

The Council leases out property 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 £1.309M (2021-22 £1.269M). No contingent rents were recognised.

Future minimum lease income is set out in the following table:

	2021-2022	2022-2023
	Land and Buildings £000	Land and Buildings £000
Minimum lease rentals receivable:		
No later than 1 year	1,404	1,381
Later than 1 year and no later than 5 years	3,145	2,993
Later than 5 years	11,155	11,219
	<b>15,704</b>	<b>15,593</b>

## Note 30 Impairment Losses

The Code requires disclosure by class of assets of the amounts for impairment losses and impairment reversals charged to the Surplus or Deficit on the Provision of Services and to Other Comprehensive Income and Expenditure. These disclosures are consolidated in Notes 13 and 19 reconciling the movement over the year in the Property, Plant and Equipment, Intangible, Heritage and Assets Held for Sale balances.

## Note 31 Capitalisation of Borrowing Costs

The Council does not capitalise its borrowing costs.

## **Note 32 Pension Schemes Accounted as Defined Contribution Schemes**

There are currently two occupational pension schemes for teachers in Scotland, the Scottish Teachers' Superannuation Scheme (STSS) and the Scottish Teachers' Pension Scheme 2015 (STPS 2015). These schemes are administered by the Scottish Public Pensions Agency on behalf of Scottish Ministers. Both are defined benefit schemes, but, as it is not possible to identify each participating Council's share of the underlying liabilities on a consistent and reasonable basis both schemes are accounted for as if they were defined contribution schemes. Employer contributions are set on the basis of periodic reviews by the Government Actuary. The Council's rate of contribution as an employer increased to 23% from 17.2% on 1 September 2019. The employee rate is tiered and ranges from 7.2% to 11.9%. The Council paid £3.665M (£3.345M in 2021-22) of employer contributions to the Scottish Public Pensions Agency during 2022-23. £0.258M of expenditure (£0.271M in 2021-22) was charged to service revenue accounts during 2022-23 in respect of "added years" pension enhancement termination benefits, representing 1.62% of employees' pensionable pay (1.86% in 2021-22).

## **Note 33 Defined Benefit Pension Schemes**

### **Participation in pension schemes**

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

The Council participates in two pension schemes:

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

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

### **Transactions relating to post-employment benefits**

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

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

2021-2022		2022-2023
£000		£000
<b>Comprehensive Income and Expenditure Statement</b>		
<i>Cost of Services:</i>		
23,239	Current service cost	22,428
105	Past service cost including curtailments	0
<i>Included within financing and investment income and expenditure</i>		
(330)	Net Interest Expense	(371)
<b>23,014</b>	<b>Total of LGPS post-employment benefits charged to the surplus or deficit on the provision of services</b>	<b>22,057</b>
<i>Included within other comprehensive income and expenditure:</i>		
(2,444)	Changes in demographic assumptions	(3,387)
(32,942)	Changes in financial assumptions	(184,454)
333	Other experience	22,696
23,338	Return on assets excluding amounts included in net interest	40,623
<b>(11,715)</b>	<b>Remeasurement of the net Pension Fund Liability/(Assets)</b>	<b>(124,522)</b>
<b>Movement in reserves statement:</b>		
<i>Adjustment between accounting and funding basis under regulations:</i>		
(23,014)	Reversal of net changes made to surplus or deficit on the provision of services for post-employment benefits in accordance with code	(22,057)
11,715	Reversal of re-measurement of net defined benefit liability	124,522
<b>Actual amounts charged against the General Fund balance for pensions in the year:</b>		
7,813	Employer contributions and direct payments in the year	8,276
<b>(3,486)</b>	<b>Net charge to the general Fund Summary</b>	<b>110,741</b>

## Pension Assets and Liabilities recognised in the Balance Sheet

	2021-2022	2022-2023
	£000	£000
Fair Value of scheme assets	(469,337)	(442,913)
Fair value of liabilities	448,577	311,412
<b>Council's share of deficit or (surplus) in the scheme</b>	<b>(20,760)</b>	<b>(131,501)</b>

## Asset and Liabilities in Relation to Post-Employment Benefits

Reconciliation of Movements in the Fair Value of Scheme Assets:

2021-2022		2022-2023
£000		£000
<b>(481,638)</b>	<b>Opening balance at 1 April</b>	<b>(469,337)</b>
(9,640)	Interest Income	(12,684)
<i>Cashflows:</i>		
(2,592)	Member contributions	(2,794)
(7,333)	Employer contributions	(7,813)
(480)	Contributions in respect of unfunded benefits	(463)
8,528	Benefits paid: other	9,092
480	Benefits paid: unfunded	463
<i>Remeasurements:</i>		
23,338	Return on Plan Assets, excl. net interest expense	40,623
<b>(469,337)</b>	<b>Closing balance at 31 March</b>	<b>(442,913)</b>

## Reconciliation of Present Value of the Scheme Liabilities:

2021-2022		2022-2023
£000		£000
449,781	Present Value of Funded Liabilities	441,928
7,611	Present Value of Unfunded Liabilities	6,649
<b>457,392</b>	<b>Opening balance at 1 April</b>	<b>448,577</b>
23,239	Current service cost	22,428
105	Past service cost including curtailments	0
9,310	Interest Cost	12,313
	<i>Cashflows:</i>	
2,592	Member contributions	2,794
(8,528)	Estimated benefits paid: other	(9,092)
(480)	Estimated benefits paid: unfunded	(463)
	<i>Remeasurements:</i>	
(2,444)	Changes in demographic assumptions	(3,387)
(32,942)	Changes in financial assumptions	(184,454)
333	Other experience	22,696
<b>448,577</b>		<b>311,412</b>
441,928	Present Value of Funded Liabilities	306,044
6,649	Present Value of Unfunded Liabilities	5,368
<b>448,577</b>	<b>Closing balance at 31 March</b>	<b>311,412</b>

## Analysis of Pension Fund's Assets

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

2021-2022			2022-2023	
£000			£000	
<b>Equities:</b>				
64,936	14%	Consumer	62,272	14%
51,726	11%	Manufacturing	21,592	5%
6,350	1%	Energy and Utilities	6,083	1%
56,684	12%	Financial Institutions	52,794	12%
37,503	8%	Health and Care	40,404	9%
59,258	13%	Information Technology	24,374	5%
0	0%	Other	55,787	13%
<b>Debt Security</b>				
40,542	9%	UK Government	30,940	7%
23,949	5%	<b>Private Equity:</b>	38,662	9%
<b>Investment Funds and Unit Trusts:</b>				
105,815	22%	Equities	85,146	19%
19,558	4%	Infrastructure	21,253	5%
3,016	1%	<b>Cash and Cash Equivalents:</b>	3,606	1%
<b>469,337</b>	<b>100%</b>	<b>Total Assets</b>	<b>442,913</b>	<b>100%</b>

## Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in the future years dependent on assumptions about mortality rates, salary levels, etc. The estimates are based on the latest full valuation of the Fund at 31 March 2020, projected forward to 31 March 2023. 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, and the Council's share of the Pension Fund's defined benefit obligation (scheme liabilities) and scheme assets. The mortality assumptions are based on lives aged 45 and 65 at the latest Fund valuation date and not the balance sheet date:

2021-2022		2022-2023
2.70%	Discount rate for defined benefit obligation	4.75%
3.70%	Rate of increase in salaries	3.45%
3.20%	Rate of increase in pensions	2.95%
Mortality assumptions: <i>Longevity at age 65 for current pensioners</i>		
21.3	Men	20.9
23.7	Women	23.4
<i>Longevity at age 65 for future pensioners</i>		
22.9	Men	22.5
25.9	Women	25.6
Commutation assumptions – percentage of the maximum additional tax-free cash (per HM Revenue & Customs limits) converted from annual pensions into retirement lump sum:		
50%	For pre- April 2009 service	50%
75%	For post- April 2009 service	75%

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

Changes in assumptions as at 31 March 2023:	Approximate increase to Employer	Approximate Monetary Amount
	%	£000
0.1% decrease in Real Discount Rate	2%	6,053
1 year increase in member life expectancy	4%	12,456
0.1% increase in the Salary Increase Rate	0%	585
0.1% increase in the Pension Increase Rate	2%	5,558

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

### Impact on the Authority's Cash Flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The Council has agreed a strategy with the scheme's actuary to maintain a funding level of 100% over the next 20 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed as at 31 March 2023.

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

The Authority anticipates paying £7.813M in contributions to the scheme in 2023-24.

### Statutory Accounts

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

## **Note 34 Contingent Liabilities**

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

### **Former Landfill and Quarry Sites Re-instatement**

The Council is responsible under environmental and planning legislation for the ongoing monitoring, and if required maintenance and reinstatement of current and former landfill and quarry sites. The Quarries Working Group meets on a regular basis to discuss the former landfill and quarry sites, with a view to making decisions on how best to proceed with maintenance, reinstatement or disposal. The working group is made up of officers from Neighbourhood Services, Planning and Community Services, Property Asset Management and Facilities and Finance.

As at 31 March 2023, no financial provision has been made however the Council recognises that a contingent liability in respect of future reinstatement of current and former landfill and quarry sites operated by the Council may arise as a result of this work however the timing of liabilities in respect of current and former landfill and quarry sites is uncertain and the associated costs cannot be reliably estimated at this time.

### **Grant Funding Conditions**

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

### **Merchant Navy Officers Pension Fund (MNOFF)**

The MNOFF is closed to new members and closed to future accrual from 31 March 2016 when contributing members were transferred to the Ensign Retirement Plan (for the MNOFF). The MNOFF is a multiple employer scheme, and the Council is unable to identify its share of the underlying assets and liabilities. As at the last full valuation in 2021 the Fund had a surplus of £58M which was an improvement from the 2018 deficit position of £73M. The Trustees of the Fund may in future request deficit contributions depending on the results of future actuarial valuations of the Fund as at 31 March 2024.

The Trustee must carry out a full actuarial valuation at least every three years to assess the scheme's funding level. The next MNOFF Actuarial Valuation will refer to the three-year period ending 31 March 2024.

In the intervening years the Trustee will obtain annual actuarial reports on developments affecting the Fund's assets and technical provisions.

### **Orkney Islands Council Pension Fund**

Following recent legal judgements, the funding valuation position as at 31 March 2021 include an allowance for full Guaranteed Minimum Pension equalisation (indexation) treatment. A further ruling on Guaranteed Minimum Pension historical transfers is unlikely to be significant in terms of impact on the pension obligations. An allowance for the estimated impact of the McCloud judgement is also included within the funding valuation positions noted above. Whilst there is still uncertainty surrounding the potential remedy to the Goodwin judgement the approximate impact is likely to be minimal, therefore there has been no adjustment applied to the valuation.

The results of the 2017 cost cap were finalised in 2021-22 and suggest no changes to employer contribution rates recently certified and put in place by the LGPS administering authority from 1 April 2021.

### **National Care Service**

Following recent legal judgements, Scottish Ministers will be allowed to transfer social care responsibility from local authorities to a new, national service. This could include adult and children's services, as well as areas such as justice social work. The Council recognises that, should any transfers occur, a change in funding valuation in respect of current and future sites operated by the Council will arise as a result, however the timing of any transfer is unknown and the impact on funding valuations cannot be reliably estimated at this time.

## Note 35 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.

The risk is minimised through the Annual Investment Strategy, which can be found at the following link: [Annual Investment Strategy 2022-2023](#)

### Credit Risk Management Practices

The Council's credit risk management practices are set out on pages 58 to 63 of the Annual Investment Strategy. 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. During the year the authority has a policy of not lending more than 25% 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.

2022-2023	Amount at	Adjustment	Estimated
	31 March	for Market	maximum
	2023	Conditions at	exposure to
	£000	31 March	default and
		2023	uncollectability
		%	at 31 March
			2023
			£000
Deposits with financial institutions and local authorities	10,173		
Customers (sundry income)	4,318	52.41	2,263
<b>Total</b>	<b>14,491</b>		<b>2,263</b>

The following significant inputs, assumptions and estimation techniques have been used in calculating impairment loss allowances:

The Authority has assessed each category of financial asset in order to determine if an impairment loss is required. Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrowers could default on their obligation. The authority has used reasonable and supportable information available for each financial instrument in order to determine the loss allowance model. Considered in this determination is also the credit status of the instrument on initial recognition, if available, together with an assessment of general economic conditions and whether the credit risk has increased significantly since initial recognition. Forward-looking information has been incorporated into the determination of any movement in fair value.

During the reporting period changes were made to the estimation technique in respect of the provision for bad debt, with the previous aged analysis provision replaced by a risk-based approach to assess the probability of default by debtor.

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 allow credit for customers such that of the £4.318M debtors balance, £2.027M is less than one month old, leaving a balance of £1.123M that is past its due date for payment. The past due but not impaired amounts can be analysed by age as follows:

2021-2022		2022-2023
£000		£000
494	Less than three months	311
68	Three to six months	156
166	Six months to one year	100
754	More than one year	556
<b>1,482</b>	<b>Sundry income debtors balance</b>	<b>1,123</b>

During the year the impairment loss allowance on overdue sundry income debtors increased by £0.010M, being a decrease from £1.173M to £1.183M.

### Amounts Arising from Expected Credit Losses

The Authority has adopted the simplified approach for expected credit losses allowances. There have been no loss allowances recognised during the year and no expected credit losses realised.

### 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 2023 the outstanding value of loans advanced by the Council was £1.762M (£1.554M as at 31 March 2022).

### 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.

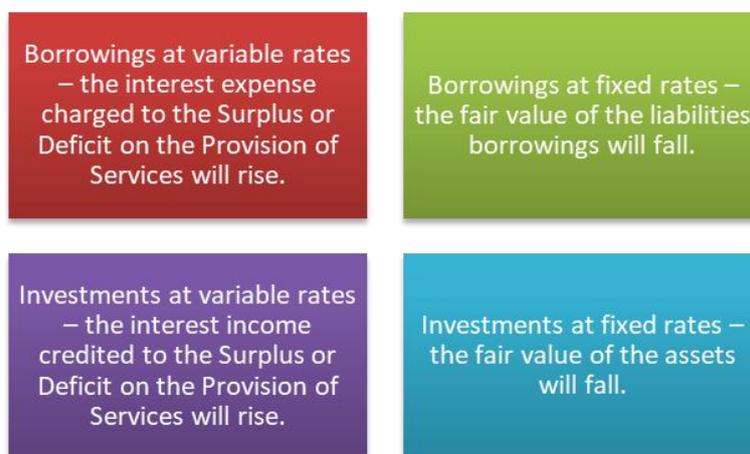
The maturity analysis of the principal element of borrowing is as follows:

	2021-2022	2022-2023
	£000	£000
Less than one year	29	29
Between one and two years	29	29
Between two and five years	5,028	0
More than five years	30,000	30,000
	<b>35,086</b>	<b>30,058</b>

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

The authority's investment strategy aims to manage interest rate risk by maintaining a number of discrete investment portfolios which are managed by external fund managers. The separation of equities, multi-asset and bond investments in this way effectively minimises the Council's exposure to interest rate movements. The risk of loss remains with the authority. In the longer term, the Scottish Government regularly reviews the level of grant support it provides to local authorities, 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, with all other variables held constant.

	2021-2022	2022-2023
	£000	£000
Increase in interest receivable on variable rate investments	226	102
Impact on Surplus or Deficit on the Provision of Services	<b>226</b>	<b>102</b>
Decrease in fair value of variable rate investment assets	441	398
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)	7,246	3,707

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 £255.672M of investments as at 31 March 2023 in the form of equities, multi-asset and bonds, including £3.420M in a local wind energy company. The authority is consequently exposed to losses arising from movement in the price of the shares.

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

These clearly defined shares are mainly classified as Fair Value through Profit or Loss with the investment in the local wind energy company and fishing quota classified as Fair Value Other Comprehensive Income, meaning that all movements in price will impact directly on the income and expenditure statement. A general shift of 5% in the general price of shares (positive or negative) would have resulted in a £12.748M gain or loss being recognised in the income and expenditure statement.

## Market risk: foreign exchange risk

As part of the portfolio of £255.672M of investments, the authority held £72.779M of investments in the form of global equities and multi-assets pooled funds.

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 Fair Value through Profit or Loss, meaning that all movements in price will impact directly on the income and expenditure statement. A general shift of 5% in the general price of shares (positive or negative) would have resulted in a £3.639M gain or loss being recognised in the income and expenditure statement.

## Note 36 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 2023 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 1 below.

## Summary Income and Expenditure Statement

2021-2022		2022-2023		
		Registered	Non-	Total
		Charitable	Registered	
£000		Trusts	Trusts	£000
	Income			
(9)	Interest on Investments etc.	(1)	(24)	(25)
	<b>Expenditure</b>			
21	General expense	9	17	26
<b>12</b>	<b>(Surplus)/ Deficit for the Year</b>	<b>8</b>	<b>(7)</b>	<b>1</b>

Balance Sheet as at 31 March 2023

31 March 2022		Note	31 March 2023		
			Registered Charitable Trusts	Non-Registered Trusts	Total
			£000	£000	£000
704	Short-term Deposits with Orkney Islands Council		42	670	712
(2)	Current Liabilities		(1)	(2)	(3)
<b>702</b>	<b>Total Assets less Liabilities</b>		<b>41</b>	<b>668</b>	<b>709</b>
	<b>Represented by</b>				
702	Trust Fund Balances		41	668	709
<b>702</b>	<b>Total Net Worth</b>		<b>41</b>	<b>668</b>	<b>709</b>

## 1. Registered as Charities

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

Orkney Educational Trust (OET)	SC044607
William Orkney Reid's Bursary Fund	SC044607

## 2. Trust Fund Balances

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

	£000
<b>Orkney Educational Trust</b>	
Various bursary awards to promote further education opportunities, sports, visual arts, music and drama	35
<b>William Orkney Reid's Bursary Fund</b>	
To assist the education of any promising pupils at Kirkwall Grammar School	6
<b>Total</b>	<b>41</b>

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

## Note 37 Common Good Fund

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

The assets of the Fund are the properties of these former Burghs and monies are invested with the Council's Loans Fund. The Fund's main expenditure is incurred in respect of the maintenance of properties and the provision of grants to local organisations, while the Fund's income is derived from property rentals and interest generated on investments.

2021-2022		2022-2023
£000		£000
	<b>Income</b>	
(37)	Interest on Investments etc.	(39)
(54)	Transfer to revaluation	0
	<b>Expenditure</b>	
39	General Expenditure	32
<b>(52)</b>	<b>(Surplus)/ Deficit for the Year</b>	<b>(7)</b>

31 March 2022	Balance Sheet	31 March 2023		
Total		Stromness	Kirkwall	Total
£000		£000	£000	£000
	<b>Investments</b>			
308	Property	36	270	306
169	Heritage Assets	0	169	169
225	Capital Deposits	50	175	225
<b>702</b>	<b>Total Long-Term Assets</b>	<b>86</b>	<b>614</b>	<b>700</b>
440	Loans Fund Deposits	129	320	449
<b>440</b>	<b>Current Assets</b>	<b>129</b>	<b>320</b>	<b>449</b>
0	Less Current Liabilities	0	0	0
<b>440</b>	<b>Net Current Assets</b>	<b>129</b>	<b>320</b>	<b>449</b>
<b>1,142</b>	<b>Net Assets</b>	<b>215</b>	<b>934</b>	<b>1,149</b>
	<b>Represented by:</b>			
224	Capital Reserve	50	175	225
467	Revenue Reserve	130	344	474
451	Revaluation Reserve	35	415	450
<b>1,142</b>	<b>Accumulated Funds</b>	<b>215</b>	<b>934</b>	<b>1,149</b>

## Housing Revenue Account

### Housing Revenue Account income and expenditure statement

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

2021-2022		2022-2023	
£000		£000	£000
	<i>Expenditure:</i>		
1,914	Repairs and maintenance	1,878	
799	Supervision and management	824	
4,331	Depreciation and impairment of non-current assets	(1,392)	
10	Increase or (decrease) in the allowance for bad debts	11	
7,054			1,321
	<i>Income:</i>		
(3,966)	Dwelling rents	(4,129)	
(47)	Other income	(43)	
(4,013)			(4,172)
<b>3,041</b>	<b>Net cost of HRA services as included in the comprehensive income and expenditure statement</b>		<b>(2,851)</b>
	<i>HRA share of the operating income and expenditure included in the comprehensive income and expenditure statement</i>		
(488)	Capital grants	(881)	
0	(Gain) or loss on sale of HRA non-current assets	(3)	
343	Interest payable and similar charges	333	
(1)	Pensions interest cost and expected return on pensions assets	(2)	
(146)			(553)
<b>2,895</b>	<b>(Surplus) or deficit for the year on HRA services</b>		<b>(3,404)</b>

### 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.

2021-2022		2022-2023			
£000		£000	£000	£000	£000
(650)	Balance on the HRA at the end of the previous year				(677)
2,895	(Surplus) or deficit for the year on the HRA income and expenditure statement			(3,404)	
	<i>Adjustments between accounting basis and funding basis under regulations:</i>				
0	Reverse out gain or (loss) on sale of HRA non-current assets		3		
	<i>HRA share of contributions to or (from) the Pension Reserve:</i>				
(144)	Reverse out net charges made for post-employment benefits in accordance with IAS19	(135)			
49	Pensions cost chargeable for the year in accordance with statutory provisions: employer's contributions payable to Orkney Islands Council Pension Fund	51			
(95)	HRA share of contributions to or (from) the Pension Reserve		(84)		
385	Capital expenditure funded by the HRA		0		
	<i>Transfer to or (from) the Capital Adjustment Account:</i>				
(4,331)	Reverse out depreciation and impairment gains on non-current assets	1,392			
488	Reverse out credits made for capital grants	881			
884	Loans fund principal contribution from the HRA	1,386			
(2,574)	Transfer to or (from) the Capital Adjustment Account		3,659		
(2,669)	Total of adjustments between accounting basis and funding basis under regulations			3,578	
<b>226</b>	<b>Net (increase) or decrease before transfers to or from reserves</b>			<b>174</b>	
(253)	Transfers to or (from) reserves			0	
<b>(27)</b>	<b>(Increase) or decrease in the year on the HRA</b>				<b>174</b>
<b>(677)</b>	<b>Balance on the HRA at the end of the current year</b>				<b>(503)</b>

## 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 994 dwellings during 2022-23 (989 in 2021-22). The following shows an analysis of these dwellings by type.

Number at 31 March 2022 (Restated)	Type of dwelling	Number at 31 March 2023
27	One-apartment	28
385	Two-apartment	383
319	Three-apartment	321
240	Four-apartment	243
15	Five-apartment	16
3	Six-apartment	3
<b>989</b>	<b>Total</b>	<b>994</b>

## **2. The amount of rent arrears**

At 31 March 2023 total rent arrears amounted to £0.562M (£0.586M at 31 March 2022). This is 13.62% of the total value of rental income at 31 March 2023.

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

In the financial year 2022-23 the rental bad debt provision has increased by £0.010M (£0.014M increase during 2021-22). The provision to cover the potential loss of income stands at £0.183M at 31 March 2023. This is 4.42% of the total value of rents at that date.

## **4. The total value of uncollectable void rents**

The total value of uncollectable void rents for Council dwellings that were not let during the year was £0.054M (£0.054M during 2021-22).

## 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.

2021-2022		2022-2023
£000		£000
12,748	Gross council tax levied	13,315
(855)	Council Tax Reduction Scheme	(915)
(1,568)	Other discounts and reductions	(1,644)
(176)	Write-off of uncollectable debts and allowance for impairment	(120)
(57)	Adjustment to previous years’ council tax	(64)
<b>10,092</b>	<b>Transfer to the General Fund</b>	<b>10,572</b>

### 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 2022-23 was £1,244.73 (£1,208.48 in 2021-22).

A discount of 25% on the Council Tax is made where there are fewer than two residents in 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

2022-2023							
Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H
£829.82	£968.12	£1,106.43	£1,244.73	£1,635.44	£2,022.69	£2,437.60	£3,049.59

## Calculation of the council tax base

2022-2023	Number of dwellings	Number of exemptions	Disabled relief	Discounts of 25%	Discounts of 50%	Council Tax Reduction	Total equivalent dwellings	Ratio to Band D	Band D equivalents
@	0	0	10	(1)	0	(5)	4	200/360	2
Band A	2,365	(280)	9	(270)	(47)	(338)	1,439	240/360	959
Band B	2,925	(171)	10	(313)	(31)	(340)	2,080	280/360	1,618
Band C	2,476	(97)	(4)	(206)	(29)	(176)	1,964	320/360	1,746
Band D	1,897	(34)	(1)	(123)	(16)	(75)	1,648	360/360	1,648
Band E	1,532	(15)	(13)	(66)	(9)	(15)	1,414	473/360	1,858
Band F	368	(5)	(5)	(11)	(1)	(5)	341	585/360	554
Band G	23	0	0	(0)	(0)	0	23	705/360	45
Band H	6	(1)	0		0	0	5	882/360	12
<b>Total</b>	<b>11,592</b>	<b>(603)</b>	<b>6</b>	<b>(990)</b>	<b>(133)</b>	<b>(954)</b>	<b>8,918</b>		<b>8,442</b>

Class 17 and 24 dwellings	0
<b>Sub-total</b>	<b>8,442</b>
Provision for non-payment and future award of discounts and reliefs	(31)
<b>Council tax base</b>	<b>8,411</b>

@ 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.

2021-2022		2022-2023
£000		£000
14,588	Gross rates levied	14,767
(5,295)	Reliefs and other deductions	(4,040)
(42)	Write-offs of uncollectable debts and allowance for impairment	(72)
<b>9,251</b>	<b>Net non-domestic rate income</b>	<b>10,655</b>
(313)	Adjustment to previous years' non-domestic rates	(127)
850	Contribution (to) or from the national non-domestic rate pool	2,426
<b>9,788</b>	<b>Transfer to comprehensive income and expenditure statement</b>	<b>12,954</b>

### The nature and amount of each rate fixed

The non-domestic rates charge for each subject is determined by the rateable value placed upon it by the Assessor, multiplied by the rate per pound (the "rate poundage"). The national non-domestic rates poundage is set each year by the Scottish Ministers. For 2022-23 the charge was 49.0 pence in the pound. From 1 April 2017 the Scottish Government amended the existing Small Business Bonus Scheme (SBBS). Under the SBBS properties with a rateable value up to and including £15,000 are entitled to a 100% reduction in their business rates. Properties with a rateable value of between £15,001 and £18,000 receive a 25% reduction. Additionally, a business with two or more properties with a combined rateable value of £35,000 are eligible to qualify for relief of 25% on individual properties with a rateable value of £18,000 or less.

For properties with a rateable value over £51,000 but less than £95,000 a supplement of 1.3 pence in the pound was added as per the Non-Domestic Rates (Levying) (Scotland) Regulations 2020. For properties with a rateable value over £95,000 the supplement was 2.6 pence in the pound.

Analysis of Orkney Islands Council's rateable values:

2022-2023		£000	£000
Rateable value at 1 April 2022:	Commercial	8,714	
	Industrial and Freight Transport	4,873	
	Others	15,860	
			<b>29,447</b>
Running roll (full-year rateable value)			4,006
<b>Rateable value at 31 March 2023</b>			<b>33,453</b>
Wholly exempt subjects			(437)
<b>Net rateable value at 31 March 2023</b>			<b>33,016</b>

## Harbour Authority Account

### Harbour Authority Revenue Account income and expenditure statement

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

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

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

The prime objective for the managed fund investments is to maintain or increase their value in real terms over time, after allowing for disbursements or spending commitments on the Strategic Reserve Fund. To achieve this, external fund managers are incentivised to outperform the financial markets for their respective mandates, in order to meet the targets set by the Council.

2021-2022		2022-2023		
£000		£000	£000	£000
Net		Expenditure	Income	Net
(221)	Scapa Flow Oil Port	9,505	(7,745)	1,760
1,544	Miscellaneous Piers and Harbours	10,896	(10,273)	623
<b>1,323</b>		<b>20,401</b>	<b>(18,018)</b>	<b>2,383</b>
<b>1,323</b>	<b>Net cost of Harbour Services as included in the comprehensive income and expenditure statement</b>			<b>2,383</b>
<i>Harbours share of the operating income and expenditure included in the comprehensive income and expenditure statement:</i>				
0	Capital Grants			(424)
(732)	(Gain) or loss on sale of Harbour Authority assets			(749)
755	Interest payable and similar charges			823
(5,966)	Harbours Investment (Gain)/loss			19,319
(19)	Pensions interest cost and expected return on pensions assets			(32)
<b>(4,639)</b>	<b>(Surplus) or deficit for the year on Harbour Authority</b>			<b>21,320</b>

### 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.

2021-2022		2022-2023		
£000		£000	£000	£000
(239,550)	Balance on the Harbour Authority at the end of the previous year			(239,090)
(4,639)	(Surplus) or deficit for the year on the Harbour income and expenditure statement			21,320
	<i>Adjustments between accounting basis and funding basis under regulations:</i>			
(2)	Difference between any other item of income and expenditure determined in accordance with the Code and determined in accordance with statutory Harbour requirements		9	
732	Reverse out gain or (loss) on sale of Harbour non-current assets		749	
<i>Harbour share of contributions to or (from) the Pension Reserve:</i>				
(1,915)	Reverse out net charges made for post-employment benefits in accordance with IAS19	(1,885)		
650	Pensions cost chargeable for the year in accordance with statutory provisions: employer's contributions payable to Orkney Islands Council Pension Fund	708		
(1,265)	Harbour share of contributions to or (from) the Pension Reserve		(1,177)	
(1)	Harbour share of contributions to or (from) the Employee Statutory Adjustment Account		(5)	
339	Capital expenditure funded by the Harbour Authority		(478)	
<i>Transfer to or (from) the Capital Adjustment Account:</i>				
(3,093)	Reverse out depreciation and impairment losses on non-current assets	(3,094)		
0	Reverse out credits made for capital grants	424		
1,123	Loans fund principal contribution from the Harbour Authority	1,050		
(1,970)	Transfer to or (from) the Capital Adjustment Account		(1,620)	
(2,167)	Total of adjustments between accounting basis and funding basis under regulations			(2,522)
<b>(6,806)</b>	<b>Net (increase) or decrease before transfers to or from reserves</b>			<b>18,798</b>
7,266	Contributions to/(from) General Fund Services		8,614	
0	Contributions to/(from) Housing Revenue Account House Build Programme		0	
7,266	Transfers to or (from) reserves:			8,614
<b>460</b>	<b>(Increase) or decrease in the year on the Harbour Authority</b>			<b>27,412</b>
<b>(239,090)</b>	<b>Balance on the Harbour authority at the end of the current year</b>			<b>(211,678)</b>

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

	Balance as at 1 April 2021	2021-2022		Balance as at 31 March 2022	Transfers in 2022-2023	2022-2023	
		Transfers in 2021-2022	Transfers out 2021-2022			Transfers out 2022-2023	Balance as at 31 March 2023
<b>Harbour Balances</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Strategic Reserve Fund	215,896	7,114	(7,689)	215,321	1,593	(28,469)	188,445
Flotta Terminal Decline & Decommissioning Fund	6,497	1,164	(1,164)	6,497	4,399	(5,322)	5,574
Conservation Fund	194	1	0	195	3	0	198
Talented Performers Fund	62	0	0	62	1	0	63
Travel Fund	105	0	0	105	2	0	107
Fisheries Fund	0	0	0	0	0	0	0
Orkney Memorial Fund	461	1	0	462	8	(36)	434
Talented Young Persons Fund	12	0	(1)	11	0	(2)	9
Miscellaneous Piers Reserve Fund	7,204	0	(24)	7,180	185	0	7,365
Renewable Energy Fund	9,119	138	0	9,257	226	0	9,483
<b>Harbour Fund Balances</b>	<b>239,550</b>	<b>8,418</b>	<b>(8,878)</b>	<b>239,090</b>	<b>6,417</b>	<b>(33,829)</b>	<b>211,678</b>

## Orkney College Account

### Orkney College Revenue Account income and expenditure statement

Orkney Islands Council provides further and higher education provision through the Orkney College using a devolved Board of Management arrangement with a dedicated College Management Sub-Committee under the remit of the Education, Leisure and Housing Service. 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.

2021-2022		2022-2023	
£000		£000	£000
<i>Expenditure:</i>			
4,909	Staff Costs	5,105	
430	Property Costs	522	
516	Supplies & Services	760	
49	Transport Costs	78	
120	Administration Costs	98	
94	Apportioned Costs	117	
689	Depreciation and impairment of non-current assets	(362)	
(16)	Provision for Bad Debts	2	
6,791			6,320
<i>Income:</i>			
(4,150)	Grants	(3,992)	
(1,726)	Fees & Charges	(1,351)	
(124)	Other income	(180)	
(6,000)			(5,523)
<b>791</b>	<b>Net cost of Orkney College services as included in the comprehensive income and expenditure statement</b>		<b>797</b>
<i>Orkney College share of the operating income and expenditure included in the comprehensive income and expenditure statement:</i>			
0	Capital Grants		(17)
(7)	Pensions interest cost and expected return on pensions assets		(13)
<b>784</b>	<b>(Surplus) or deficit for the year on Orkney College</b>		<b>767</b>

## 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.

2021-2022		2022-2023			
£000		£000	£000	£000	£000
(106)	Balance on the College at the end of the previous year				(481)
784	(Surplus) or deficit for the year on the College income and expenditure statement			767	
<i>Adjustments between accounting basis and funding basis under regulations:</i>					
	College share of contributions to or (from) the Pension Reserve:				
(758)	Reverse out net charges made for post-employment benefits in accordance with IAS19	(750)			
257	Pensions cost chargeable for the year in accordance with statutory provisions: employer's contributions payable to Orkney Islands Council Pension Fund	281			
(501)	College share of contributions to or (from) the Pension Reserve		(469)		
12	College share of contributions to or (from) the Employee Statutory Adjustment Account		(61)		
19	Capital expenditure funded by the College		0		
	Transfer to or (from) the Capital Adjustment Account:				
0	Reverse out credits made for capital grants	17			
(689)	Reverse out depreciation and impairment losses on non-current assets	366			
(689)	Transfer to or (from) the Capital Adjustment Account		383		
(1,159)	Total of adjustments between accounting basis and funding basis under regulations			(147)	
<b>(375)</b>	<b>Net (increase) or decrease before transfers to or from reserves</b>			<b>620</b>	
0	Transfers to or (from) reserves			0	
<b>(375)</b>	<b>(Increase) or decrease in the year on the College</b>				<b>620</b>
<b>(481)</b>	<b>Balance on the College at the end of the current year</b>				<b>139</b>

## Group Accounts

### Statement of Group Accounting Policies

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

Authorities are required to prepare a full set of group accounts in addition to their own Council's accounts where they have a material interest in such entities. The group Financial Statements to 31 March 2023 represents the consolidation of the balances and transactions of the Council, its subsidiaries, associate and joint ventures.

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

### Combining Entities

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

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

To comply with the Code, the Council has identified one company, Orkney Ferries Limited, where the Council holds 100% of the shares and has a "controlling interest" – this is termed a "subsidiary". In accordance with the definition of 'control', the Council has included the results of the Pickaquooy Centre Trust which are reported as a "subsidiary" on the basis that the Council has power over the investee; exposure, or rights, to variable returns from its involvement with the investee; and the ability to use its power over the investee to affect the amount of the investor's returns.

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

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

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

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

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

Name of Combining Entity	Method of Accounting	2021-2022	2022-2023
		%	%
Hammars Hill Energy Ltd	Equity Method	28	28
Orkney Integration Joint Board	Equity Method	50	50
Orkney Research and Innovation Campus	Equity Method	50	50

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

### **Basis of Consolidation and Going Concern**

In line with the principles contained within the Code, the Group Financial Statement for the year ended 31 March 2023 has been prepared on the basis of a full consolidation of the financial transactions and balances of the Council and its subsidiaries.

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

The effect of inclusion of the above bodies on the Group Balance Sheet is to increase both Reserves and Net Assets by £3.778M representing the Council's share of the net liabilities in these entities.

The above subsidiary, associate and joint ventures consider it appropriate that their Annual Accounts should follow the "going concern" basis of accounting.

## Group Movement in Reserves

### For the Year Ended 31 March 2023

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

	General Fund Balance £000	HRA Balance £000	Other Reserves £000	Harbour Reserves £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000	Authority's share of subsidiaries & associates £000	Total Group Reserves £000
<b>Balance as at 1 April 2022</b>	<b>(34,260)</b>	<b>(677)</b>	<b>(11,619)</b>	<b>(239,090)</b>	<b>(285,646)</b>	<b>(417,948)</b>	<b>(703,594)</b>	<b>1,779</b>	<b>(701,815)</b>
(Surplus) or deficit on provision of services	111,554	(2,851)	0	2,383	<b>111,086</b>	0	<b>111,086</b>	1,571	<b>112,657</b>
Other Comprehensive Expenditure and Income	(92,104)	(553)	0	18,937	<b>(73,720)</b>	(146,083)	(219,803)	(7,128)	(226,931)
<b>Total Comprehensive Expenditure and Income</b>	<b>19,450</b>	<b>(3,404)</b>	<b>0</b>	<b>21,320</b>	<b>37,366</b>	(146,083)	(108,717)	<b>(5,747)</b>	(114,274)
<b>Net (Increase)/Decrease before Transfers</b>	<b>19,450</b>	<b>(3,404)</b>	<b>0</b>	<b>21,320</b>	<b>37,366</b>	<b>(146,083)</b>	<b>(108,717)</b>	<b>(5,747)</b>	<b>(114,274)</b>
Adjustments between accounting basis and funding basis under regulations	(3,432)	3,578	(105)	(2,522)	<b>(2,481)</b>	2,481	0	0	0
<b>Net (Increase)/Decrease before Transfers to Earmarked Reserves</b>	<b>16,018</b>	<b>174</b>	<b>(105)</b>	<b>18,798</b>	<b>34,885</b>	<b>(143,602)</b>	<b>(108,717)</b>	<b>(5,747)</b>	<b>(114,274)</b>
Transfers (to) / from Earmarked Reserves	(10,249)	0	1,635	8,614	0	0	0	0	0
<b>(Increase) / Decrease in Year</b>	<b>5,769</b>	<b>174</b>	<b>1,530</b>	<b>27,412</b>	<b>34,885</b>	<b>(143,602)</b>	<b>(108,717)</b>	<b>(5,747)</b>	<b>(114,274)</b>
<b>Balance as at 31 March 2023</b>	<b>(28,491)</b>	<b>(503)</b>	<b>(10,089)</b>	<b>(211,678)</b>	<b>(250,761)</b>	<b>(561,550)</b>	<b>(812,311)</b>	<b>(3,968)</b>	<b>(816,089)</b>

	General Fund Balance £000	HRA Balance £000	Other Reserves £000	Harbour Reserves £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000	Authority's share of subsidiaries & associates £000	Total Group Reserves £000
<b>Balance as at 1 April 2021</b>	<b>(29,431)</b>	<b>(650)</b>	<b>(13,281)</b>	<b>(239,550)</b>	<b>(282,912)</b>	<b>(374,929)</b>	<b>(657,841)</b>	<b>3,129</b>	<b>(654,712)</b>
(Surplus) or deficit on provision of services	121,039	3,041	0	1,323	<b>125,403</b>	<b>0</b>	<b>125,403</b>	190	<b>125,593</b>
Other Comprehensive Expenditure and Income	(93,881)	(146)	0	(5962)	<b>(99,989)</b>	(71,167)	<b>(171,156)</b>	(1,540)	<b>(172,696)</b>
<b>Total Comprehensive Expenditure and Income</b>	<b>27,158</b>	<b>2,895</b>	<b>0</b>	<b>(4,639)</b>	<b>25,414</b>	<b>(71,167)</b>	<b>(45,753)</b>	<b>(1,350)</b>	<b>(47,103)</b>
<b>Net (Increase)/Decrease before Transfers</b>	<b>27,158</b>	<b>2,895</b>	<b>0</b>	<b>(4,639)</b>	<b>25,414</b>	<b>(71,167)</b>	<b>(45,753)</b>	<b>(1,350)</b>	<b>(47,103)</b>
Adjustments between accounting basis and funding basis under regulations	(23,890)	(2,669)	578	(2,167)	<b>(28,148)</b>	28,148	<b>0</b>	0	<b>0</b>
<b>Net (Increase)/Decrease before Transfers to Earmarked Reserves</b>	<b>3,268</b>	<b>226</b>	<b>578</b>	<b>(6,806)</b>	<b>(2,734)</b>	<b>(43,019)</b>	<b>(45,753)</b>	<b>(1,350)</b>	<b>(47,103)</b>
Transfers (to) / from Earmarked Reserves	(8,097)	(253)	1,084	7,266	<b>0</b>	<b>0</b>	<b>0</b>	0	<b>0</b>
<b>(Increase) / Decrease in Year</b>	<b>(4,829)</b>	<b>(27)</b>	<b>1,662</b>	<b>460</b>	<b>(2,734)</b>	<b>(43,019)</b>	<b>(45,753)</b>	<b>(1,350)</b>	<b>(47,103)</b>
<b>Balance as at 31 March 2022</b>	<b>(34,260)</b>	<b>(677)</b>	<b>(11,619)</b>	<b>(239,090)</b>	<b>(285,646)</b>	<b>(417,948)</b>	<b>(703,594)</b>	<b>1,779</b>	<b>(701,815)</b>

## Group Comprehensive Income and Expenditure Statement for the year ended 31 March 2023

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

	Notes	2021-2022			2022-2023		
		£000	£000	£000	£000	£000	£000
		Expenditure	Income	Net	Expenditure	Income	Net
Cultural and Recreation		11,654	(3,713)	7,941	13,003	(4,010)	8,993
Education		52,130	(3,713)	48,417	42,457	(3,750)	38,707
Roads and Transportation		27,517	(10,731)	16,786	30,553	(16,744)	13,809
Housing Revenue Account		7,054	(4,013)	3,041	1,321	(4,172)	(2,851)
Harbour Authority		16,910	(15,588)	1,322	20,401	(18,018)	2,383
Housing Services		6,438	(4,550)	1,888	7,429	(5,773)	1,656
Orkney Health & Care		58,979	(31,032)	27,947	66,056	(35,198)	30,858
Planning and Development		5,365	(2,400)	2,965	6,102	(1,735)	4,367
Environmental Services		6,169	(1,262)	4,907	7,072	(1,478)	5,594
Other Services		14,371	(4,097)	10,274	13,650	(4,509)	9,141
Non-Distributed Costs		105	0	105	0	0	0
<b>(Surplus)/Deficit on Continuing Operations</b>		<b>206,692</b>	<b>(81,099)</b>	<b>125,593</b>	<b>208,044</b>	<b>(95,387)</b>	<b>112,657</b>
Other Operating Expenditure				(745)			(84)
Financing and Investment Income and Expenditure				(3,828)			20,190
Taxation and Non-Specific Grant Income: Other				(94,861)			(93,867)
Associates and Joint Ventures accounted for on an equity basis	6			(1,917)			2,194
<b>Group (Surplus) or Deficit</b>				<b>24,242</b>			<b>41,090</b>
(Surplus) or deficit on revaluation of non-current assets				(59,209)			(22,860)
(Surplus)/Deficit on revaluation of available for sale financial assets at fair value through Other Comprehensive Income and Expenditure				(243)			1,299
Actuarial gains/losses on pension assets/liabilities				(11,893)			(133,803)
<b>Other Comprehensive Income and Expenditure</b>				<b>(71,345)</b>			<b>(155,364)</b>
<b>Total Comprehensive Income and Expenditure (Surplus)/Deficit</b>				<b>(47,103)</b>			<b>(114,274)</b>

## Group Balance Sheet as at 31 March 2023

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

	31 March 2022	31 March 2023
	£000	£000
Property, Plant & Equipment	426,845	471,017
Heritage Assets	912	912
Investment Property	20,649	19,229
Intangible Assets	206	224
Long Term Investments	5,865	2,832
Long Term Debtors	2,906	5,174
Other Long Term Assets	19,755	139,432
Investments in associates and joint ventures	5,052	1,985
<b>Long Term Assets</b>	<b>482,190</b>	<b>640,805</b>
Short Term Investments	267,864	242,229
Inventories	2,613	3,245
Short Term Debtors	10,713	10,224
Cash and Cash Equivalents	25,706	11,907
Assets held for sale	474	380
<b>Current Assets</b>	<b>307,370</b>	<b>267,985</b>
Short Term Borrowing	5,408	339
Short Term Creditors	19,612	23,587
<b>Current Liabilities</b>	<b>25,020</b>	<b>23,926</b>
Provisions	32,668	38,746
Long Term Borrowing	30,057	30,028
<b>Long Term Liabilities</b>	<b>62,725</b>	<b>68,774</b>
<b>Net Assets</b>	<b>701,815</b>	<b>816,090</b>
Group Reserves	701,815	816,279
<b>Total Reserves</b>	<b>701,815</b>	<b>816,089</b>

The unaudited accounts were issued on 30 June 2023.

The audited accounts were authorised for issue on 29 November 2023.



**Gareth Waterson, BAcc., CA**

Corporate Director of Enterprise and Sustainable Regeneration

08 December 2023

## Group Cash Flow Statement at 31 March 2023

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

	2021-2022	2022-2023
	£000	£000
<b>Net surplus or (deficit) on the provision of services</b>	(24,242)	(40,900)
Adjustment to surplus or deficit on the provision of services for non-cash movements	16,750	17,169
Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	1,155	1,626
<b>Net Cash flows from Operating activities</b>	<b>(6,337)</b>	<b>(22,105)</b>
<b>Net Cash flows from Investing Activities</b>	<b>(3,355)</b>	<b>13,557</b>
<b>Net Cash flows from Financing Activities</b>	<b>(1,856)</b>	<b>(5,251)</b>
<b>Net Cash flows from Taxation</b>	<b>0</b>	<b>0</b>
<b>Net increase or decrease in cash and cash equivalents</b>	<b>(11,548)</b>	<b>(13,799)</b>
Cash and cash equivalents at the beginning of the reporting period	37,254	25,706
<b>Cash and cash equivalents at the end of the reporting period</b>	<b>25,706</b>	<b>11,907</b>

### Analysis of Adjustments to Surplus/Deficit on the Provision of Services

	2021-2022	2022-2023
	£000	£000
<b>Adjustment to surplus or deficit on the provision of services for non-cash movements</b>		
Depreciation	23,026	8,421
Impairment & downward revaluation (& non-sale de-recognition)	2,286	(6,627)
(Increase)/Decrease in Stock	(737)	(632)
(Increase)/Decrease in Debtors	(2,175)	3,251
(Increase)/Decrease in Creditors	484	3,806
Payments to Pension Fund	15,592	14,126
Carrying amount of non-current assets sold	436	1,476
Investment Income not involving movement of cash	(8,247)	11,972
Contributions to Other Reserves/Provisions	(13,637)	(18,655)
Movement in value of investment properties-included above in Impairment & downward revaluations (& non-sale de-recognition)	(207)	(4)
Tax refund	(95)	0
	<b>16,726</b>	<b>17,134</b>
<b>Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities</b>		
Purchase of short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)	13,405	24,521
Proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)	(12,250)	(22,895)
	<b>1,155</b>	<b>1,626</b>

## Cash Flow from Investing Activities

	2021-2022	2022-2023
	£000	£000
Purchase of PP&E, investment property and intangible assets	12,476	22,906
Purchase of Short-Term Investments (not considered to be cash equivalents)	0	0
Purchase of Long-Term Investments	6,275	(10,343)
Other Payments for Investing Activities	(537)	1,829
Proceeds from the sale of PP&E, investment property and intangible assets	(1,116)	(1,519)
Proceeds from Short Term Investments (considered to be cash equivalents)	(6,088)	(12,446)
Proceeds from Long Term Investments	37	(2,003)
Capital Grants and Contribution Received	(8,037)	(10,571)
Other Receipts from Investing Activities	345	269
<b>Net Cash flows from Investing Activities</b>	<b>3,355</b>	<b>(11,878)</b>

## Cash Flow from Financing Activities

	2021-2022	2022-2023
	£000	£000
Cash receipts from Short- and Long-Term borrowing	0	0
Other Receipts from Financing Activities	(668)	(237)
Repayment of Short- and Long-Term borrowing	28	5,029
Other payments for Financing Activities	2,496	459
<b>Net Cash flows from Financing Activities</b>	<b>1,856</b>	<b>5,251</b>

# Notes to the Financial Statements

## For the Year Ended 31 March 2023

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

### 1. Disclosure of Differences with Main Statement of Accounting Policies

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

#### Group Income and Expenditure Statement

##### Retirement Benefits

In common with Orkney Islands Council, the subsidiaries participate in the Council's Pension Scheme. This is explained within the Council's Financial Statements Notes 32 and 33. The subsidiaries have accounting policies for pensions accounting that are consistent with those of the Council.

##### Value Added Tax

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

##### Proceeds from Disposals of Fixed Assets

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

#### Group Balance Sheet

##### Valuation of Fixed Assets

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

##### Stock

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

### 2. Combining Entities

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

## **Orkney Towage Company Limited**

Orkney Towage Company Ltd was incorporated in 1976 to operate tugs within Scapa Flow Oil Port and around the Orkney Islands. The Council had a controlling interest in the company, and it has therefore historically been included in the group accounts as a subsidiary.

In 2016 the Council approved the integration of Orkney Towage Company Limited into the Council. The tangible assets and staff were transferred to the Council by 1 April 2018 with towage operations now being undertaken by the Council.

A Flexible Apportionment Arrangement for Orkney Towage Company Ltd was concluded with the MNOF in December 2021 with the Council now standing in place of the company in respect of any future pension liability to the MNOF. A final dividend of £7,018.96 was paid to the Council by Orkney Towage Company Limited in January 2022 and an application for striking off was accepted by Companies House on 1 February 2022. The company was dissolved on 26 April 2022.

## **Orkney Ferries Limited**

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

The net assets of the company at 31 March 2023 were £6.482M compared to net liabilities of £0.380M at 31 March 2022. There was a gain of £6.862M before taxation for the period to 31 March 2023 compared to a loss of £0.093M to 31 March 2022. In 2022-23, Orkney Islands Council contributed £13.402M or 83.4% of the company's income. Orkney Ferries is deficit funded, whereby, any surpluses or deficits earned by the Company will be repaid to or recovered from the Council. No dividend payments were due to, or received by, the Council in respect of its investment.

The latest set of audited accounts is for the year to 31 March 2023. Copies of these accounts can be obtained from Orkney Islands Council, School Place, Kirkwall, Orkney, KW15 1NY.

## **Pickaquooy Centre Trust**

The Pickaquooy Centre Trust is a charitable trust formed in 1999 and is registered in Scotland. Its principal place of business is The Pickaquooy Centre, Muddisdale Loan, Kirkwall KW15 1LR. The Trust provides leisure facilities within Orkney Islands Council's area to the general public. The objectives of the Trust are to provide facilities for recreation, sport, cultural and other leisure activities for the benefit of the community in Orkney. Any surplus generated by the charity is applied solely to its continuation and development. Councillors hold 5 of the 12 seats on the board, with each trustee entitled to one vote.

In 2022-23, Orkney Islands Council contributed £0.792M or 29.9% of the company's income and its share of the year-end net assets of £0.826M (2021-22 net liabilities of £0.061M) is included in the Group Balance Sheet.

The latest set of audited accounts is for the year to 31 March 2023. When available, copies of these accounts can be obtained from The Pickaquooy Centre, Muddisdale Loan, Kirkwall KW15 1LR.

## **Hammars Hill Energy Ltd**

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

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

The latest set of audited accounts is for the year to 31 December 2022. Copies of these accounts can be obtained from Hammars Hill Energy Ltd, Savisgarth, Evie KW17 2PQ.

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

Council's Share of Hammars Hill Energy Ltd	2021-2022 28.00% £000	2022-2023 28.00% £000
Turnover	452	585
Profit/(Loss) before tax	192	295
Taxation	(38)	(57)
<b>Profit/(Loss) after tax</b>	<b>154</b>	<b>238</b>
Fixed Assets	838	774
Current Assets	469	599
Liabilities due within one year	(82)	(138)
Liabilities due after one year or more	(112)	(106)
<b>Net Assets/Liabilities</b>	<b>1,113</b>	<b>1,129</b>
Contingent Liabilities	None	None
Capital Commitments	None	None

### Orkney Integration Joint Board

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

The OIJB Financial Statements have been prepared to show transactions occurring between 1 April 2022 to 31 March 2023. The expenditure was £77.695M and the income was £74.472M resulting in net surplus of £3.223M. The balance sheet consisted of short-term debtors of £2.901M and short-term creditors of £0M, with total reserves of £2.901M. This surplus has been classed as earmarked balances and accounted for on a 50% equity basis by OIC. This means a total of £1.451M has been included in the total reserves of the Group Accounts.

The latest set of audited accounts is for the year to 31 March 2023. Copies of these accounts can be obtained from Orkney Islands Council, School Place, Kirkwall, Orkney, KW15 1NY.

### Orkney Research and Innovation Campus

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

The ORIC Financial statements have been prepared to show transactions occurring between 1 April 2022 to 31 March 2023. The expenditure was £0.444M and the income was £0.047M resulting in net expenditure of £0.043M which included an impairment of £0.094M on the valuation of Fixed Assets

under construction. The net assets as at 31 March 2023 were £1.711M. Bringing the total investment in ORIC up to £3.355M.

The latest set of audited accounts is for the year to 31 March 2023. Copies of these accounts can be obtained from Orkney Islands Council, School Place, Kirkwall, Orkney, KW15 1NY.

### 3. Financial Impact of Consolidation

The effect of inclusion of the above bodies on the Group Balance Sheet is to increase both Reserves and Net Assets by £3.778M representing the Council's share of the net liabilities in these entities.

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

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

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

### 5. Surplus/Deficit on Continuing Operations of Subsidiaries

The inclusion of Orkney Ferries Limited and the Pickaquoy Centre Trust had the following effect on the Authority's Services income and expenditure, accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

	2021-2022			2022-2023		
	£000	£000	£000	£000	£000	£000
	Expenditure	Income	Net	Expenditure	Income	Net
Roads and Transportation	2,629	(2,536)	93	3,583	(2,668)	915
Cultural, environmental, regulatory and planning services	2,739	(2,646)	93	3,249	(2,593)	656
<b>Total</b>	<b>5,368</b>	<b>(5,182)</b>	<b>186</b>	<b>6,832</b>	<b>(5,261)</b>	<b>1,571</b>

## 6. Share of Operating Results of Associates and Joint Ventures

	2021-2022	2022-2023
	Net (Income) / Expenditure £000	Net (Income) / Expenditure £000
Associate and Joint Venture accounted for on an equity basis	(1,917)	(2,004)
<b>Total</b>	<b>(1,917)</b>	<b>(2,004)</b>

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

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

	2021-2022	2022-2023
Subsidiaries	£000	£000
Interest Expense	0	0
Interest Income	0	(13)
Pension Interest	619	19
<b>Total Group Entities</b>	<b>619</b>	<b>6</b>

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

	2021-2022	2022-2023
	£000	£000
<b>Deficit/(Surplus) for the year on the Authority Income and Expenditure Statement</b>	<b>(45,753)</b>	<b>(103,707)</b>
Deficit/(Surplus) for the year attributable to group entities	(1,350)	(5,747)
Deficit/(Surplus) for the year on the Group Income and Expenditure Statement	<b>(47,103)</b>	<b>(109,454)</b>

## 9. Pension Costs

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

	2021-2022			2022-2023
	Total £000	Council £000	Group Entities £000	Total £000
Fair Value of Employer Assets	(503,570)	(438,662)	(31,421)	(470,083)
Present value of funded liabilities	483,723	311,412	23,490	334,902
<b>Net (under)/overfunding in Funded Plans</b>	<b>(19,847)</b>	<b>(127,250)</b>	<b>(7,931)</b>	<b>(135,181)</b>
Present value of unfunded liabilities	92	0	0	0
<b>Net (asset)/liability</b>	<b>(19,755)</b>	<b>(127,250)</b>	<b>(7,931)</b>	<b>(135,181)</b>

## **10. Other Pension Costs**

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

### **Ensign Retirement Plan**

Some employees from Orkney Ferries Limited and the Council contribute to this defined contribution pension plan. Contribution rates of 10% and 20% of pensionable salary are payable by employees and employers, respectively. Contributions payable in the year amounted to £55,162.

### **Merchant Navy Officers Pension Fund (MNOFF)**

The MNOFF is closed to new members and closed to future accrual from 31 March 2016 when contributing members were transferred to the Ensign Retirement Plan (for the MNOFF). The MNOFF is a multiple employer scheme and the Council is unable to identify its share of the underlying assets and liabilities. As at the last full valuation in 2021 the Fund had a surplus of £58M which was an improvement from the 2018 deficit position of £73M. The Trustees of the Fund may in future request deficit contributions depending on the results of future actuarial valuations of the Fund.

The Trustee must carry out a full actuarial valuation at least every three years to assess the scheme's funding level. The next MNOFF Actuarial Valuation will refer to the three-year period ending 31 March 2024. Following a period of consultation with the MNOFF's participating employers, the final valuation results will be agreed by the Board towards the end of 2024 and communicated to members and employers early in 2025.

### **Merchant Navy Rating Pension Fund (MNRPF)**

Some employees may qualify for membership of the MNRPF, a defined benefit scheme which closed to future accrual on 31 May 2001. For qualifying employees in the scheme Employers make contributions at the rate of 2% to provide for revaluation of benefits up to the date of retirement. 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 2020, the MNRPF had a deficit of £96M which included a reserve figure of £70M for an unresolved court case. The trustees have indicated that they will not be seeking additional deficit contributions from participating employers at the present time.

# Glossary of Terms

## **AAA Fitch Rating**

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

## **AA Fitch Rating**

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

## **A Fitch Rating**

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

## **Accounting Period**

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

## **Accruals**

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

## **Actuarial Gains and Losses**

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

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

## **Asset**

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

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

## **Audit of Accounts**

An independent examination of the Authority's financial affairs.

## **Balance Sheet**

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

## **Borrowing**

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

## **Budget**

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

## **Capital Expenditure**

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

## **Capital Financing**

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

**Capital Programme**

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

**Capital Receipt**

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

**Claw-Back**

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

**CIPFA**

The Chartered Institute of Public Finance and Accountancy

**Collection Fund**

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

**Community Assets**

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

**Comprehensive Income and Expenditure Statement**

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

**Consistency**

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

**Contingent Asset**

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

**Contingent Liability**

A contingent liability is either:

- A possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Authority's control; or
- A present obligation arising from past events where it is not probable that a transfer of economic benefits will be required, or the amount of the obligation cannot be measured with sufficient reliability.

**Corporate and Democratic Core**

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

**Creditor**

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

**Current Service Cost (Pensions)**

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

**Debtor**

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

**Defined Benefit Pension Scheme**

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

**Depreciation**

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

**Discretionary Benefits (Pensions)**

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

**Equity**

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

**Events after the Balance Sheet Date**

Events after the Balance Sheet date are those events, favourable or unfavourable, that occur between the Balance Sheet date and the date when the Statement of Accounts is authorised for issue.

**Expected Return on Pension Assets**

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

**Fair Value**

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

**Finance Lease**

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

**Going Concern**

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

**Government Grants**

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

**Housing Benefits**

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

**Housing Revenue Account (HRA)**

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

**Impairment**

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

**Infrastructure Assets**

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

**Intangible Assets**

An intangible (non-physical) item may be defined as an asset when access to the future economic benefits it represents is controlled by the reporting entity. This Authority's intangible assets comprise computer software licences.

**Interest Cost (Pensions)**

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

### **Investments (Pension Fund)**

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

### **Liability**

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

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

### **Liquid Resources**

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

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

### **Long-Term Contract**

A contract entered into for the design, manufacture or construction of a single substantial asset or the provision of a service (or a combination of assets or services which together constitute a single project), where the time taken to substantially complete the contract is such that the contract activity falls into more than one accounting period.

### **Materiality**

The concept that the Annual Accounts should include all amounts which, if omitted, or mis-stated, could be expected to lead to a distortion of the financial statements and ultimately mislead a user of the accounts.

### **Minimum Revenue Provision (MRP)**

The minimum amount which must be charged to the revenue account each year in order to provide for the repayment of loans and other amounts borrowed by the Authority.

### **Net Book Value**

The amount at which fixed assets are included in the Balance Sheet, i.e., their historical costs or current value less the cumulative amounts provided for depreciation.

### **Net Debt**

The Authority's borrowings less cash and liquid resources.

### **Non-Distributed Costs**

These are overheads for which no user now benefits and as such are not apportioned to services.

### **Non-Domestic Rates (NDR)**

The Non-Domestic Rate is a levy on businesses, based on a national rate in the pound set by central government and multiplied by the assessed rateable value of the premises they occupy. In England it is collected by the Authority on behalf of itself, central government and major preceptors. In Scotland it is collected by the Authority on behalf of central government and then redistributed back to support the cost of services.

### **Non-Operational Assets**

Fixed assets held by the Authority but not directly occupied, used or consumed in the delivery of services. Examples are investment properties, assets under construction or assets surplus to requirements pending sale or redevelopment.

### **Operating Lease**

A lease where the ownership of the fixed asset remains with the lessor.

### **Operational Assets**

Fixed assets held and occupied, used or consumed by the Authority in the pursuit of its strategy and in the direct delivery of those services for which it has either a statutory or discretionary responsibility.

### **Past Service Cost (Pensions)**

For a defined benefit pension scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to retirement benefits.

**Pension Scheme Liabilities**

The liabilities of a defined benefit pension scheme for outgoings due after the valuation date. Scheme liabilities measured during the projected unit method reflect the benefits that the employer is committed to provide for service up to the valuation date.

**Precept**

The levy made by precepting authorities by billing authorities, requiring the latter to collect income from Council Tax on their behalf.

**Prior Year Adjustment**

Material adjustments applicable to previous years arising from changes in accounting policies or from the correction of fundamental errors. This does not include normal recurring corrections or adjustments of accounting estimates made in prior years.

**Provision**

An amount put aside in the accounts for future liabilities or losses which are certain or very likely to occur but the amounts or dates of when they will arise are uncertain.

**Public Works Loan Board (PWLB)**

A Central Government Agency, which provides loans for one year and above to authorities at interest rates only slightly higher than those at which the government can borrow itself.

**Rateable Value**

The annual assumed rental of a hereditament, which is used for National Non-Domestic Rate purposes.

**Related Parties**

There is a detailed definition of related parties in FRS 8. For the Council's purposes related parties are deemed to include the Authority's members, the Chief Executive, its Directors and their close family and household members.

**Related Party Transactions**

The Statement of Recommended Practice requires the disclosure of any material transactions between the Authority and related parties to ensure that stakeholders are aware when these transactions occur and the amount and implications of such.

**Remuneration**

All sums paid to or receivable by an employee and sums due by way of expenses allowances (as far as those sums are chargeable to UK income tax) and the money value of any other benefits received, other than in cash. Pension contributions payable by the employer are excluded.

**Reserves**

The accumulation of surpluses, deficits and appropriations over past years. Reserves of a revenue nature are available and can be spent or earmarked at the discretion of the Authority. Some capital reserves such as the fixed asset restatement account cannot be used to meet current expenditure.

**Residual Value**

The net realisable value of an asset at the end of its useful life.

**Retirement Benefits**

All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment.

**Revenue Expenditure**

The day-to-day expenses of providing services.

**Revenue Expenditure Capitalised Under Statute (REFCUS)**

Expenditure which ordinarily would be revenue but is statutorily defined as capital. Examples of REFCUS include grants of a capital nature to voluntary organisations and back pay expenditure capitalised under Secretary of State Direction.

**Revenue Support Grant**

A grant paid by Central Government to authorities, contributing towards the general cost of their services.

**Stocks**

Items of raw materials and stores an authority has procured and holds in expectation of future use. Examples are consumable stores, raw materials and products and services in intermediate stages of completion.

**Temporary Borrowing**

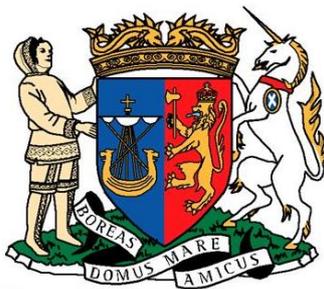
Money borrowed for a period of less than one year.

**Trust Funds**

Funds administered by the Authority for such purposes as prizes, charities, specific projects and on behalf of minors.

**Useful Economic Life (UEL)**

The period over which the Authority will derive benefits from the use of a fixed asset.



# ORKNEY

---

## ISLANDS COUNCIL

Finance Services, School Place, Kirkwall, Orkney, KW15 1NY

Telephone: 01856 873535 Fax: 01856 876158

[www.orkney.gov.uk](http://www.orkney.gov.uk)