



**ORKNEY**  
ISLANDS COUNCIL

# **Annual Accounts 2015-2016**



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## Management Commentary

### Introduction

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

This management commentary provides an explanation of the Annual Accounts and of the most significant matters reported in the Accounts, together with a summary of the financial outturn for the year ended 31 March 2016 and an overview of the Council's financial position going forward.

### Review of the Year

#### Local Taxation

Orkney Islands Council on 3 February 2015 agreed an estimated General Fund budget of £81.806M and under the Local Government Finance Act 1992 set Council Tax for Band D properties at £1,037 being the same level as for each financial year from 2007/08 to date. This was the second lowest Council Tax figure in Scotland being some £112 below the Scottish average.

Following confirmation of Scottish Government funding, the General Fund Revenue Budget for 2015/16 of £81.749M was reported to the Policy and Resources Committee on 15 April 2015. Since that date, additional revenue grant of £0.455M has been received from the Scottish Government with a final budget for the year of £82.204M.

On a comparable basis, the actual net cost of General Fund services amounted to some £82.341M, while sources of finance were realised at £82.341M, including a contribution of £3.760M from reserves. Overall, this represents no movement on General Fund non-earmarked balances and an increase on earmarked balances of £0.231M for the financial year ended 31 March 2016.

Council tax income contributed to this position, with Orkney Islands Council being one of the top local authorities for collection of council tax in Scotland, with a collection rate of 98.0% in year (97.8% for 2014/15).

#### Comprehensive Income and Expenditure Statement

The Comprehensive Income and Expenditure Statement on page 35 summarises the total costs of providing Council services and the income available to fund those services. This includes all activities associated with General Fund Services, the Housing Revenue Account and Harbour Authority.

General Fund Services are funded by government grant and council tax revenues and the Movement in Reserves Statement on page 34 shows the movement on General Fund Services in 2015/16 financial year.

The net cost of services provided by the Council for the year amounted to £94.038M, which after taking into account corporate financing and investment activities resulted in a deficit on the provision of services of £8.922M being realised for the Council as a whole.

Against an original budget to set aside £8.165M of useable reserves during the year, the Council had to draw on reserves by £2.362M representing an adverse variance of £10.527M, mainly attributable to unrealised losses on the Council's investment activities which have been recognised.

## Annual Accounts 2015-2016

Principal sources of finance were realised at £88.671M for the year, being Revenue Support Grant of £61.439M, Non-Domestic Rate Income of £9.490M, Council Tax Income of £7.879M and Capital Grants and Contributions of £9.863M.

Other Operating Expenditure for the year totalled £0.192M which is attributable to the loss on disposal of fixed assets.

After taking into account other comprehensive income of £25.622M, overall the activities of the Council returned a surplus of £16.700M to both useable and unusable reserves for the year.

The main source of this surplus can be attributed to £9.863M capital grants to fund capital spend, an actuarial gain of £24.599M on the Pension Fund, and £1.084M revaluation gains on fixed assets. These gains were offset by £13.740M depreciation on fixed assets and a corporate financing and investment loss of £3.363M being principally attributable to the Harbour Authority's Strategic Reserve Fund.

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

### Movement in Reserves.

During the year, Usable Reserves reduced from £237.115M to £234.815M, being a reduction of £2.300M.

Within this, General Fund Reserves amount to £21.185M, including earmarked balances.

Usable reserves include the Harbour Authority fund balance which reduced from £214.255M to £207.841M, being a reduction of £6.414M for the year.

### Net Worth of the Orkney Islands Council.

In financial terms, the Council remains in good health, with its net worth increasing from £519.612M to £536.312M for the financial year to 31 March 2016, being an increase of £16.700M or 3.2%. This movement was largely the result of actuarial gains on the Pension Fund less loss on revaluation of non-current assets and deficit on the provision of services.

As at 31 March 2016, Orkney Islands Council carried a debt of £40.0M, as part of its capital financing requirement.

### General Fund Reserves.

The Movement in Reserves statement shows an overall net decrease of £2.361M in usable reserves including General Fund Balances for the year, which can be analysed as follows:

	<b>Uncommitted Balances £000</b>	<b>Earmarked Balances £000</b>	<b>Total Balances £000</b>
Balances brought forward 1 April 2015	(5,267)	(15,687)	(20,954)
Increase in Balances 2015-16	(12,246)	(2,285)	(14,531)
Use of Balances 2015-16	12,246	2,054	14,300
<b>Balances carried forward 31 March 2016</b>	<b>(5,267)</b>	<b>(15,918)</b>	<b>(21,185)</b>

Existing policy is to make a substantial contribution from reserves each year to maintain the level of local authority services currently provided within the county, while keeping the council tax on or below the national average for all Scottish local authorities. The transfer of

these funds forms part of a medium term financial strategy, and is intended to stabilise the level of balances that are available to support General Fund Services and the Council Tax setting process, over the next five year period while recognising the Scottish Governments commitment to freeze the council tax at 2007/08 levels until 31 March 2017.

After taking into account funds earmarked for specific projects and other purposes, a balance of £5.267M remains available for general fund purposes, equivalent to 6.4% of General Fund budget for 2015-16. It is considered prudent for the Council to maintain a general fund balance at this level as a contingency for unforeseen events.

### Harbour Authority Account

The Harbour Authority generated a gain of £2.135M from its various harbour operations for the year, including the Scapa Flow Oil Port and Miscellaneous Piers and Harbours Account. However, investment activities through the Strategic Reserve Fund generated a loss of £2.963M for the year, after netting off grants and other investment expenditure.

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

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

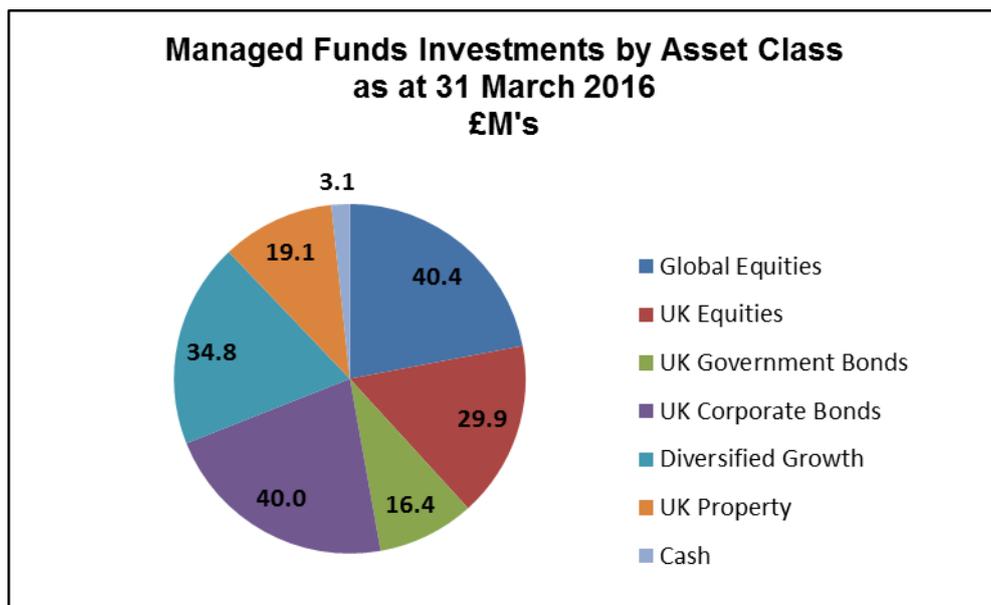
<b>Investments</b>	<b>Market Value £m</b>	<b>Fair Value %</b>
Managed Funds	183.682	97.28
Private Companies	3.310	1.75
Fishing Quota	1.808	0.96
Other	0.013	0.01
<b>Total</b>	<b>188.813</b>	<b>100.00</b>

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

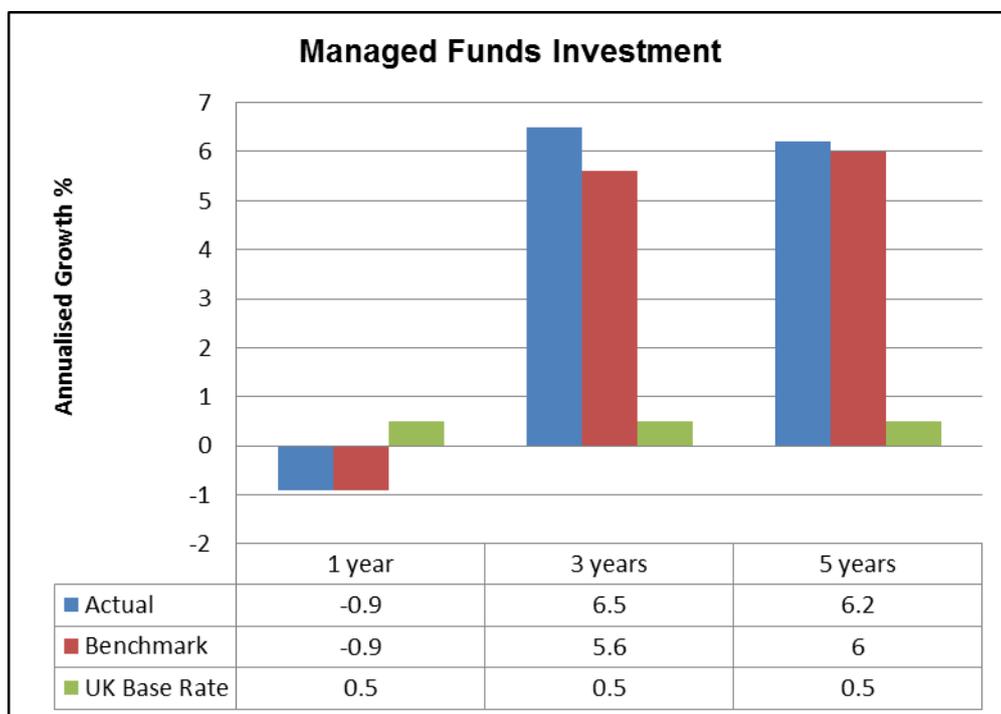
The Council aims to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of this Council is low in order to give priority to security of its investments. This is in keeping with the nature of the Council's Strategic Reserve Fund, which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

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

The undernoted pie chart shows the managed fund investments by asset class as at 31 March 2016:-



The performance of the managed funds investments for the Strategic Reserve Fund are measured on a rolling 3 year average, with the target mandate being to outperform the respective portfolio specific benchmark by a predetermined percentage ranging from 0.6% to 1.4%. The following table indicates how managed fund investments have collectively performed relative to benchmark as at 31 March 2016:



The Strategic Reserve Fund managed funds investments reduced to a total of £183.7M, representing a loss of 1.2% on the year, with further analysis provided at Note 16.

During the year the Council completed the transfer of funds across to two new pooled fund investment mandates. This allowed the Council to diversify into a UK Property Fund and a Diversified Growth Fund, as part of an agreed investment strategy to reduce exposure to Equities as an asset class. The above performance figures do not reflect transitional

arrangements maintained over this period as part of the implementation process for the revised investment strategy, or the subsequent UK Property and Diversified Growth investments, which have been held for less than 1 year.

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 £3.760M to support general fund services, £2.107M to support HRA services and the creation of an 'Available for Sale Financial Instrument' Reserve of £2.372M the net effect has been a reduction of £6.414M on the Harbour Authority Account Reserves for the year.

### Orkney College

The range of higher and further educational activities provided by the College returned a deficit of £0.417M for the year (deficit of £0.526M for 2014/15). Whilst a large proportion of this accounting deficit can be attributed directly to the requirement to account for the use of fixed assets, it is nevertheless a concern to note that for the third year in succession the Orkney College has not been able to generate sufficient income to be able to cover its operating costs and as a result has operated outwith approved budgetary controls.

After allowing for amounts required by statute and non-statutory proper accounting practice, the net effect of the Orkney College activities resulted in a further draw on reserves of £0.105M. However, with an opening reserve balance of £(0.005)M, the Orkney College had in effect started the financial year 2015/16 with a requirement to review its approved budget with a view to recovering a funding shortfall of £0.005M carried over from the previous financial year 2014/15.

While some improvements in the financial performance of the business units were evident during the past year, unfortunately this was more than offset by unplanned overspends on other project work. As a result, it has been necessary for the Council to make an additional financial contribution of £0.110M towards the activities of the Orkney College during financial year 2015/16 in order to cover this recurring shortfall.

A review of the financial arrangements of the Orkney College Business Units commenced during financial year 2015/16, and initial findings were reported to Monitoring and Audit Committee on 9 June 2016. The Business Units have contributed to the deficit for the College over the last 3 years. It is anticipated that this review process will be concluded during the new financial year, together with an agreed action plan setting out a range of specific actions for returning the Orkney College to its original financial objective which is to operate on a self-financing basis.

### Housing Revenue Account (HRA)

The HRA returned a deficit on its operations of £2.420M for 2015/16 (deficit £2.326M for 2014/15). After allowing for amounts required by statute and non-statutory proper accounting practice, and transfers to/from Reserves, the HRA achieved a surplus of £0.476M for the year in respect of reduced property costs, increased rental income and reduced loan debt repayment against a balanced budget (£0.000M as at 31 March 2015).

### Capital

The Council is able to regulate its own capital spending limits within a prudential framework recommended by the Chartered Institute of Public Finance and Accountancy and endorsed by the Scottish Government. Our performance confirms that actual capital spending of £15.077M, against an original planned capital investment of £27.208M, was managed within the overall "Prudential Framework" expenditure limits approved by Council. The Prudential

Framework indicators, which are outlined below, are important financial measures which support prudent decision making and assists in securing affordable and financially sustainable investment and borrowing activities undertaken by the Council.

The Council is progressing with a significant level of capital investment projects ongoing in relation to a £4.543M house build programme, together with the development of £1.000M of harbour infrastructure and £2.591M in respect of a Schools Investment programme.

In addition to these programmes the Council also invested £2.766M in roads and transport, £0.549M in leisure and cultural services, £0.147M in other housing, £0.382M in community social services, £0.104M in environmental services, £2.018M in other services and £0.906M in investment properties.

Funding of capital expenditure included £0.916M from revenue, £9.863M from government grants, £0.694M from the sale of assets and other receipts, and £2.112M from use of reserves.

It is however recognised that in setting an ambitious capital programme for financial year 2015/16, that this was not deliverable due to weaknesses in the forward planning process has resulted in a significant amount of programme slippage.

### Property, Plant and Equipment Assets

During 2015/16, the overall valuation of Property, Plant and Equipment assets owned by the Council reduced by £1.493M. Expenditure of £15.077M on new assets was partially offset by an annual depreciation charge of £13.740M.

### Service Changes

The Scottish Parliament in February 2014 passed the Public Bodies (Joint Working) (Scotland) Act 2014, which had significant implications for both local government and the NHS in Scotland. The legislation means changes to the law which requires Health Boards and Local Authorities to integrate their services with the objective of improving the health and wellbeing of people who use the health and social care services. The key changes were the integration of all adult community health and social care services within either a Partnership or a lead agency with effect from 1 April 2015.

The Orkney Integration Joint Board was established as a body corporate by order of Scottish Ministers with effect from 6 February 2016 and is responsible for the strategic planning of the functions delegated to it by the Council and the Health Board.

The Integrated Joint Board has its own governance arrangements and will produce its own annual accounts which will be consolidated in the Council's Group Accounts as a "joint venture".

### Group Accounts

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

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

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

The Integrated Joint Board has been included 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 effect of recognising the Council’s interests in subsidiaries and associates on a group basis is a decrease in net worth by £1.515M to £534.797M.

### **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 2015-2016 were approved by Council on 15 April 2015. The Council’s overall performance against these indicators provides a firm basis for the monitoring and control of capital investment and borrowing and for determining that it is prudent, affordable and financially sustainable. Certain headline indicators are sub-divided per recommended best practice into two programmes – housing and non-housing.

The key performance indicators are:

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

#### **1. Approved Limit**

The original "approved limit" for capital expenditure during 2015/16 was £27.208M. During the year further projects were added and removed from the Council’s Capital Programme, resulting in a revised limit of £23.630M. Since then, further delays have been identified in the delivery of the approved programme of capital works for financial year 2015/16, including for example late revisions to project specification and design together with unrealistic timescales resulting in projects being referred back to the relevant Service Committee for further consideration in some cases. As a result of this £4.300M has already been re-profiled into 2016/17 and we have identified that further slippage in the approved programme for 2015/16 will make it necessary to re-profile further budget into 2016/17 and again restate the approved limits in financial year 2016/17.

Re-profiling of any underspent capital budget into 2016/17 and onwards, will only take place on projects that are incomplete and still due to incur future costs. These projects will include those detailed at Note 18.

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

	Original Limit	Revised Limit	Actual
	£m	£m	£m
Non-HRA	19.482	13.871	10.463
HRA	7.726	5.459	4.543
<b>Total</b>	<b>27.208</b>	<b>19.330</b>	<b>15.006</b>

## 2. Capital Financing Requirement

The actual capital financing requirement for 2015-16 is well within the overall approved limit as a result of the under-spending outlined above. The out-turn capital financing requirement at the year-end compared to the approved limit is as follows:

	Approved Limit	Actual
	£m	£m
Non-HRA	6.153	0.228
HRA	3.566	1.497
<b>Total</b>	<b>9.719</b>	<b>1.725</b>

## 3. External Debt at the Year-end

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

	Borrowing Limits	Actual
	£m	£m
Aggregate external debt of the Council at 31 March 2016		40
Operational Boundary	60	
Authorised Limit	75	

## Long-term Borrowing

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

The borrowing strategy is prepared in accordance with the Code of Practice on Treasury Management in Local Authorities and with the Council utilising a borrowing facility from the Public Works Loan Board. Further details are provided at Note 16.

## Provisions, Contingencies and Write-offs

The Council has provided for eventualities which may have a material effect on the financial position of the Council. The reasons for the provisions made are outlined in Note 23.

As outlined at Note 8, the Council has also earmarked £15.918M for specific purposes.

The Council revalued non-current assets and recognised a net loss of £2.353M.

### **Net Pension Position**

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

The disclosure requirements for pension benefits under IAS19 are detailed in Notes 38 and 39. The appointed actuaries have confirmed an increase of £20.671M in their assessment of the funding level for the pension fund. This increase is principally due to the fact that the financial assumptions as at 31 March 2016 are more favourable than they were at 31 March 2015, largely the impact that an improved yield on high quality corporate bonds has had on the pension fund discount rate that is applied to pension liabilities over the medium to long term. The effect of this has been to reduce the assessed pension liability from £38.583M to £17.912M.

The assessment provides only a snapshot as at 31 March 2016 and necessarily changes on a day-to-day basis to reflect stock market movements in particular. The appointed actuaries remain of the view that the asset holdings of the Orkney Islands Council Pension Scheme and the contributions from employees and employers based on existing employers' contributions rates should provide sufficient security and income to meet future pension liabilities.

### **Events after the Balance Sheet Date**

The draft annual accounts were signed by the Head of Finance on 29 June 2016. Events taking place after this date have not been reflected in the financial statements. Material events between the balance sheet date and the date of signing have been considered and where necessary reflected in the financial statements.

The impact of the recent decision by the UK to leave the European Union (EU), following the EU Referendum vote on 23 June 2016, is likely to become clearer over the coming weeks and months.

To date, Article 50 has not been triggered and much will depend on the precise nature of our future relationship with the EU which is still to be negotiated and may still mean that some aspects of the Public Sector provision will continue to be influenced by the EU.

Early reactions included a slump across the FTSE 100 index upon the financial markets opening on the 24 June 2016, together with the pound hitting a 30 year low against the dollar. Since then markets have experienced a post-Brexit rebound including the impact of the devaluation in the pound. While this level of extreme volatility is expected to subside in the near term, the prospects of a reduction in UK GDP growth expectations are likely to weight on both equity markets and interest rates going forward.

The Council currently has limited exposure towards any EU grant funded projects, while the prospects of additional inflationary pressures will impact on the affordability of our capital programme.

Although not quantified at this time, it is considered that the value of the Council's portfolio of investments is likely to be adversely affected by these events, at least over the short to medium term.

### **Charitable Funds including Non-Charitable and Common Good Funds**

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

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

Overall, the Funds achieved a combined loss of £0.032M for the year.

The total net value of the funds decreased from £1.683M to £1.651M.

Copies of the annual accounts of the Charitable Funds are available on the Council website: <http://www.orkney.gov.uk/Service-Directory/S/budgets-and-accounting.htm>

### **Impact of Economic Climate**

#### Management of Treasury Risk

The past year has proved to be another difficult period for investors in general, with initial signs of an economic recovery quickly overtaken by a deterioration in the global growth outlook. Despite maintaining a diversified approach to managing the Council's portfolio of investments, volatility across the financial markets remained a significant feature of the year with the resultant loss in investor confidence leading to a fall in the value of investments as a whole.

While the Council remains cautiously optimistic on the long term outlook for the global economy, it is nevertheless recognised that some significant political and economic challenges remain to be addressed after the referendum vote to leave the EU.

#### Key Financial Risks

It is expected that the level of funding available to the Council will continue to fall in real terms for the foreseeable future. As a result, over the medium term, the Council will continue to plan for a reducing level of resources being available to support its activities. Additionally, it is also anticipated that significant cost pressures will persist beyond 2015-16 resulting from local demographics, the service requirements of the local population and the potential impact of Welfare Reform. The combination of these anticipated cost pressures, coupled with reduced government grant income presents significant challenges and financial risks for the Council over the medium term.

The Council has been proactive in its preparation for the anticipated reductions in grant funding and demand pressures. The budget and council tax levels for 2015/16 were approved on 3 February 2015. A one-year savings target of £0.540m was approved and achieved in 2015/16. The Council recognises that the financial challenge is one which will persist over the medium term and as a result the Council's medium term resource strategy identifies a funding gap of £9.5M over the period 2016/17 to 2019/20. The Council is therefore continuing to progress a range of work streams in order to facilitate this process for future years. A Change Programme team has been established to harness new

technologies and look towards innovative solutions to deliver service efficiencies. Working with services and other stakeholders, the programme team will focus on developing a range of options for change which will deliver recommendations for cost reductions and improvements through changes in business processes, efficiencies and better use of technology and innovation.

It is anticipated that the Council's Innovation Fund will promote the delivery of further efficiency savings, but it is recognised that the significance of the financial challenge will require further change in service provision in order that the Council maintains its financial stability moving forward and protects its ability to deliver the most important services in the future.

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

### Progress on Council Plan Targets

Orkney Islands Council's Council Plan 2013-2018 includes a total of 129 individual action points supporting the 33 targets and 7 priorities. A mid-term review of the Council Plan 2013-2018 was reported to Members in November 2015 and concluded that overall progress was positive taking into account the challenges faced, including capacity to deliver against what was felt to be a very ambitious plan. The review concluded that approximately 40% of the plan had been delivered.

The following are an example of some of the main action points:-

- **Improved Care Facilities in Orkney** – work is progressing on providing modern, fit for the future, residential care home facilities, with a new build in Stromness to replace St Peter's House, and a new build larger facility in Kirkwall as a replacement for St Rognvald House.;
- **A new Children's House** – the new Children's House is now operational;
- **Welfare Reform** – we have put into effect the administration of the Scottish Welfare Fund i.e. Crisis Grants and Community Care Grants;
- **Planning for growth in our communities** – programmes were developed to take forward a Local Development Plan and a new Development Plan Scheme was published during the year;
- **Embedding Orkney Health and Care – Governance Arrangements** – with our partners at NHS Orkney, we have agreed the Body Corporate model for the integration of health and social care, and have established our Integration Joint Board;
- **Local community participation** – the Council undertook to develop a feasibility study and business plan associated with the opportunities for Community Councils to play a greater role in providing some Council Services in their area. Link Officers have been established and are working closely with Community Councils to develop and improve Council services within pilot islands;
- **A skilled workforce** – the Council provided a number of work experience placements, modern apprenticeships and graduate traineeships, and appropriate places are being identified on an ongoing basis;

- **Helping our businesses to adapt and grow** – we have established a tourism marketing partnership programme and continue to engage with agricultural and fishing groups, and an independent strategic review of the Orkney tourism industry is in progress. However, the impact of recent EU policy and legislative change on primary industries is not yet known; and
- **Mitigating risk from flood and coastal erosion** –. The Flood Risk Management Plan is now close to completion, and will be ready for publication soon. Significant work has been undertaken on drainage infrastructure, and significant progress has been made towards the coastal flood protection scheme for Kirkwall.

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

- **Business Improvement District** – due to resources and conflicting priorities the Kirkwall BID initiatives are behind schedule;
- **Waste Management Solutions** – the agreement to release a project resource will facilitate the progress of the plans to replace the Chinglebraes facility;
- **Burial Ground Improvements** – progress on the 5-year plan to improve the burial grounds has been delayed due to issues with land acquisitions;
- **Local Housing Condition Survey 2015** – the work has been done but a final report is still to be completed and presented to Committee; and
- **Carbon Management Plan** – the project is behind schedule due to lack of technical resources.

The following Council Plan 2013-2018 targets were not transferred to the refreshed Council Delivery Plan 2015-2018, as they had either been reported as complete, or had been proposed for removal for a variety of reasons including merging actions where this was plausible without diluting the original intent, or actions that were felt to be of more operational nature;

- A new children's house;
- Support for independent living;
- Making use of resources to capture energy;
- Helping our businesses to adapt and grow;
- Questions we will be asking;
- Integrated Public Services;
- Embedding Orkney Health and Care.

The most recent monitoring report on the Council's Council Plan for 2013-2018 for the three months ending 31 March 2016, is available at the following link (Item 1):

<http://www.orkney.gov.uk/Council/C/policy-and-resources-committee-21-june-2016.htm>

### **Local Government Benchmarking Framework (LGBF)**

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

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

<http://scotland.mylocalcouncil.info/Data.aspx?id=S12000023andlang=en-GB>

### Other Sources of Reference

Orkney Islands Council also produces Annual Performance Reports. The report is in two parts, the first part showing the Council's current progress towards meeting the targets set out within the Council Plan 2013-2018 and the second part shows how well the Council performed against national LGBF indicators. The most recent Annual Performance report 2014/15 together with more detailed performance information can be found at the Performance Section of the Council's website, which can be found at:

<http://www.orkney.gov.uk/Service-Directory/Performance/annual-performance-reports.htm>

### Conclusion

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

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



**Councillor Steven Heddle**  
Council Convener  
29 September 2016



**Alistair Buchan**  
Chief Executive  
29 September 2016



**Gareth Waterson**  
Head of Finance  
29 September 2016

## Statement of Responsibilities for the Annual Accounts

### The Authority's Responsibilities

The authority is required to:

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

I confirm that these Annual Accounts were approved for signature by the Monitoring and Audit Committee at its meeting on 29 September 2016.

Signed on behalf of Orkney Islands Council



**Councillor Steven Heddle**

Council Convener

29 September 2016

## The Head of Finance's Responsibilities

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

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

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

The Head of Finance has also:

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

I certify that the financial statements give a true and fair view of the financial position of the local authority and its group at the reporting date and the transactions of the local authority and its group for the year ended 31 March 2016.



**Gareth Waterson, BAcc., CA**  
Head of Finance  
29 September 2016

## Annual Governance Statement

### Scope of Responsibility

Orkney Islands Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used 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 this accountability, Elected Members collectively and senior officers individually and collectively are responsible for putting in place proper arrangements for the governance of the Council's affairs, the stewardship of the resources at its disposal and the management of risk.

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

### 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 and its activities through which it accounts to, engages with and leads the community. 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.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Council policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

### The Governance Framework

In July 2012, the Council adopted its Local Code of Corporate Governance (Local Code) which is fully consistent with the principles and requirements of the CIPFA/SOLACE publications entitled, "Delivering Good Governance in Local Government: Framework".

In order to support the Local Code, it is essential that details of the principles, supporting principles and internal controls are fully documented and known to relevant officers and Elected Members. It is also essential that an annual self-assessment is carried out to establish the extent to which the Council meets the requirements of the Local Code and that where necessary action is taken to address any non-compliance.

The Local Code is underpinned by 6 Key Principles:-

1. Focussing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area;
2. Elected Members and officers working together to achieve a common purpose with clearly defined functions and roles;

## Annual Accounts 2015-2016

3. Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour;
4. Taking informed and transparent decisions which are subject to effective scrutiny and managing risk;
5. Developing the capacity and capabilities of Elected Members and officers to be effective;
6. Engaging with local people and other stakeholders to ensure robust public accountability.
7. The Council's Local Code of Corporate Governance can be found at the undernoted link:

[http://www.orkney.gov.uk/Files/Council/Corporate\\_Governance/Orkney\\_Islands\\_Council\\_Local\\_Code\\_of\\_Corporate\\_Governance.pdf](http://www.orkney.gov.uk/Files/Council/Corporate_Governance/Orkney_Islands_Council_Local_Code_of_Corporate_Governance.pdf)

We have developed a Corporate Strategic Plan 2013-18 (Council Plan) which sets out the priorities for Orkney within the overall mission statement of 'Working together for a better Orkney'. To achieve this, the Council has established 6 main priorities:-

1. Care and support for those who need it;
2. Promote successful, thriving communities;
3. Housing to meet the needs of Orkney's people;
4. A Low Carbon Orkney: Renewables, Energy and Opportunity;
5. Orkney's Economic Development;
6. Orkney's Transport Networks;

The Council Plan is available on the Council website at:

<http://www.orkney.gov.uk/Service-Directory/Performance/council-plan.htm>

Under the new Community Empowerment (Scotland) Act 2015, each community planning partnership must prepare and publish a Local Outcomes Improvement Plan. This replaces the former Single Outcome Agreement. The Orkney Community Plan incorporates Orkney's Local Outcomes Improvement Plan for 2015-2018.

This Community Plan has been produced by The Orkney Partnership as our commitment to the people of Orkney. It describes what we aim to achieve, working together in partnership, over and above what we could achieve as individual organisations. It encompasses our long term vision for Orkney, and some of the developments it describes will be part of our lives for decades to come.

<http://www.orkneycommunities.co.uk/COMMUNITYPLANNING/documents/orkney%20community%20plan/loip-2015-18--final.pdf>

The plan is also our Local Outcomes Improvement Plan with the Scottish Government. It sets out what we hope to achieve over the next three years and beyond as our contribution both to Orkney's local priorities and to the ambitions of the Scottish Government for the whole of Scotland.

Orkney Community Planning Partnership published its first community plan in 2003. With the islands' population standing at 19,245 in the 2001 census, our most pressing aim was to reverse the population decline of the previous century to ensure Orkney's survival and sustainability. Things have changed: by 2011 the population had reached 21,400 and in 2015 it was still continuing to rise. The growth in population in Orkney was significantly higher than the population growth for the Highlands and Islands or Scotland as a whole.

The Council's Strategic Planning, Performance and Risk Management Framework was fully reviewed and updated in March 2012.

Service Plans for all Council services for 2015/16 to 2018/19 were considered by Service Committees or the Policy and Resources Committee in June 2016 and will subsequently be updated annually.

Council Plan targets and actions are reported to the Senior and Corporate Management Team and Policy and Resources Committee every 6 months. Performance reports from all Services are reported to their respective management teams and service committees on a 6 monthly basis.

Our approach to risk management is well embedded, with a Corporate Risk Register supported by Service Risk Registers. An updated Risk Management Policy and Strategy 2014-2016 and Corporate Risk Register were approved by the Council in October 2014. The Risk Management Policy and Strategy is subject to a two yearly review which is due to commence shortly. The Action Plans for the Corporate Risk Register are reviewed 6 monthly and the register is updated by the Senior and Corporate Management Team annually. Review is based on high level service and strategic risks to the achievement of the Council's priority objectives. Service risk registers are included in all Service Plans and the operational services have well developed risk, business continuity and civil contingencies documentation and regular desktop exercises are carried out.

The Monitoring and Audit Committee continues to provide an effective scrutiny role, with the Chief Internal Auditor taking the lead in performing the work necessary to give assurance to the Committee that the Council has an effective system of internal control. The remit of the Monitoring and Audit Committee is set out in the Scheme of Administration and Delegation. All internal audit reports follow a rigorous and robust audit process set out in each report. The findings are evidence based. Managers are involved in the process to ensure ownership of the improvement plans from the outset.

The Internal Audit Section operates to the OIC Internal Audit Charter and audit manual which conforms to the Public Sector Internal Audit Standards. The Section undertakes an annual work programme based on an agreed audit strategy and formal assessments of risk that are reviewed regularly. The Chief Executive has ultimate responsibility for the provision of the Internal Audit Service to the Council. The Chief Internal Auditor reports to the Executive Director of Corporate Services and has free access to the Head of Finance, Chief Executive and Elected Members. The Chief Internal Auditor reports to the Monitoring and Audit Committee in her own name.

The Chief Internal Auditor has submitted her Internal Audit Annual Report and Assurance Statement for 2015/16 to the Monitoring and Audit Committee. The annual report invited the Monitoring and Audit Committee to note the report and assurance statement and that, subject to the following exclusions, in general there were adequate and effective controls operating in respect of the areas which were subject to audit review during 2015/16:-

- Integration of Health and Social Care – It was confirmed that good progress has been made in establishing the required governance, finance and monitoring arrangements required for the Integration Joint Board. There remain a number of matters which need to be addressed to strengthen the governance and financial arrangements in place for the Integration Joint Board and for the Council in delivering the commissioned services;
- Orkney College Research and Business Units (RBUs) - risks remain to achieving balanced budgets, the method of budgeting for income carried a high risk that assumed levels of income will not be realised, and plans for better budgetary income profiling and income timing need to be reviewed and realised;
- Fostering and Kinship Procedures - high priority issues were identified which concerned the policy and procedural documentation being out of date.

A calendar of Committee meetings is prepared annually along with deadlines for draft and “signed off” reports and dates for pre meetings. Minutes of all Committees are considered and approved by the General Meeting of the Council. Minutes of Sub Committees are considered by the relevant parent Service Committee. Professional advice is contained within the Committee Reports including any external advice received. Agendas, reports and minutes of Council meetings are published on the Council's website.

We have continued to enhance and strengthen our internal control environment through the updating and introduction of new policies, procedures and guidance. The Scheme of Administration and the Scheme of Delegation to Officers sets out delegations made to committees, sub committees and officers under the principle that decisions should be made at the lowest or most local level consistent with the nature of the issues involved. The Scheme of Administration and the Scheme of Delegation to Officers were updated and published following the review of the senior management and committee structures. A review of the Standing Orders was completed and reported to the Policy and Resources Committee on 24 June 2014. A review of governance arrangements will be reported to the Policy and Resources in June 2016. A further review of the Scheme of Administration and Scheme of Delegation to Officers will thereafter be undertaken and reported to the Policy and Resources Committee in late 2016, taking account of the review of governance arrangements.

The Financial Regulations and Contract Standing Orders are regularly reviewed and updated as required. A review of the Contract Standing Orders was conducted during the 2015/16 financial year and amended Contract Standing Orders was approved at the Policy and Resources Committee meeting held on 21 June 2016. A revision to the Financial Regulations giving additional delegation to the Head of Finance in respect of fully funded capital expenditure was recommended to the Council by the Policy and Resources Committee meeting of 17 February 2015.

Financial management and reporting is undertaken through the Integra finance system which includes general ledger, accounts payable, accounts receivable and banking services. The Council has well established and effective budget monitoring procedures with budgets devolved down to budget holder level. Exception reporting ensures that all significant budget variances are highlighted and dealt with on a monthly basis. In addition to this, Elected Member briefing reports are produced for each service committee every month which summarise the spend to budget position across each service function. These briefing reports have rolling action plans attached, with accountable officers clearly assigned to each

significant variance. Budget monitoring reports are also presented to Service Committees on a regular basis.

Financial planning continues to improve each year with the Council's budget setting process focussing on priorities, with financial resources reallocated through an open and transparent challenge process, initially within the Senior Management Team before full Elected Member participation. The budget setting process continues to play a pivotal role in ensuring that all officers and Elected Members are fully aware of the ongoing financial challenges that remain as government funding continues to reduce in real terms.

The Council recognises that the scope to adopt the previous approach to dealing with reduced grant funding through incremental year on year efficiency savings is reducing and will not be sufficient to deal with the scale of the cost reductions required, particularly over the 2-year period 2016/17 to 2017/18, where funding reductions are expected to be significant.

The 2012/13 annual audit report highlighted that the Council did not have a long term financial strategy in place which would align with Council priorities over the longer term. In response to this, a Change Programme team has been established to harness new technologies and look towards innovative solutions to deliver service efficiencies. By working with services and other stakeholders, the programme team is focused on developing a range of options for change which will deliver recommendations for cost reductions and improvements through changes in business processes, efficiencies and better use of technology and innovation. A medium term financial strategy was presented to the Policy and Resources Committee in June 2015.

The Council continues to show a good understanding of the financial challenges it faces, and had been proactive in preparing financial plans to manage budget reductions. The Council has a clear understanding of its costs and the impact of efficiency savings on service delivery. It also concluded that senior officials and Elected Members demonstrate ownership of financial plans which they scrutinise before approval.

We have a Code of Conduct for employees and Elected Members adhere to the nationally prescribed Code of Conduct for Elected Members, prepared by the Standards Commission.

The Council has adopted the SPSO (Scottish Public Services Ombudsman) Model Complaints Handling Procedure and complaints are reported to Council committees 6 monthly as part of the Planning, Performance and Risk Management Framework, with plans in place to report to committee on how the complaints have informed service improvements. Relevant staff received training through SPSO e-learning and attended training courses run by the SPSO in February 2016, with Elected Members trained by the Head of Legal Services.

The Council has adopted the Consultation and Engagement Guidelines issued by the Orkney Partnership, which include recommendations on feedback in accordance with national guidelines. This approved document is widely used by the Council to engage with the community on a range of issues.

<http://www.orkneycommunities.co.uk/COMMUNITYPLANNING/documents/community-engagement-guidelines-v2.1-july-2015.pdf>

For staff, Personal Development Plans are included as part of the Performance Review and Development (PRD) scheme. Services are gradually improving their appraisal/PRD completion performance targets, although we acknowledge the practical difficulties in

achieving 100%. Current statistics show an average completion rate of 82% by the target date, with the individual averages per Service ranging from 51% to 90%. Training courses are organised by the Learning and Development Service and are also available through the staff information portal and by email circular. The Council also has an e-learning system for delivery of relevant training.

A range of seminars and training events are organised for Elected Members and briefing notes are routinely prepared and distributed to provide Elected Members with up to date information on key strategic and operational issues. Within the Chief Executive's Service Plan there are actions identified to ensure that Elected Members have the skills, knowledge, experience and resources they need to perform their roles well, both as individuals and as a group.

Examples of training provided to Members during 2015/16 are shown below:

- Planning and Local Review;
- The Pension Fund;
- The Housing (Scotland) Act 2014;
- Understanding Treasury Management and Capital Finance; and
- Harbour Authority responsibilities

The Council's financial management arrangements were amended in January 2016 to comply with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government with the Head of Finance as Chief Financial Officer for the Council now reporting directly to the Chief Executive. The Head of Finance is a member of the Senior Management Team, is the Council's most senior adviser on all financial matters, is involved in the development of strategic and financial policy matters and directly reports to the Chief Executive and has direct access to Elected Members. For the year under review the Head of Finance was able to fulfil the requirements of the Chief Financial Officer's role through the arrangements which existed.

The Council is committed to ensuring that the section 95 officer has adequate authority and profile so that the importance of this role is not compromised, and needs to ensure that this arrangement is kept under review.

### **Review of Effectiveness**

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. An annual self-assessment process has been established against the Local Code of Corporate Governance. This process has been carried out across the Corporate Management Team and has identified any areas of non-compliance with the Local Code.

The review of effectiveness is informed by the work of the Corporate Management Team within the authority who have responsibility for the development and maintenance of the governance environment, the Chief Internal Auditor's annual report, and also by comments made by the external auditors and other review agencies and inspectorates. The Council's current process for self-assessment of the Local Code is "evidence led" in that it assesses whether the Council can demonstrate the examples of documentation and processes evidence listed by the CIPFA/SOLACE Framework as evidence of compliance with principles, supporting principles and detailed requirements of the Framework.

Corporate and Service Improvement Action Plans, which addressed areas of weakness and non-compliance with the Local Code of Corporate Governance, including those identified in

the Annual Governance Statement for 2014-15, were submitted to the Monitoring and Audit Committee on 26 November 2015.

In their Annual Report on the 2014/15 audit, Audit Scotland concluded that the council's current governance arrangements provide an appropriate framework for decision making, although these will need to be revised in response to health and social care integration.

There is a Local Area Network (LAN) for each council, comprising representatives of all the scrutiny bodies who engage with the council. The aim of the shared risk assessment process is to focus scrutiny activity where it is most needed and to determine the most proportionate scrutiny response over a three year period.

The LAN for the Council includes the following scrutiny bodies:-

1. Audit Scotland, the Council's external auditors;
2. Care Inspectorate (Social Care and Social Work Improvement Scotland);
3. Education Scotland; and
4. Scottish Housing Regulator.

The Local Scrutiny Plan (LSP) for the period 2016-17, published in March 2016, is based on the shared risk assessment carried out by the Local Area Network (LAN). The assessment process draws on a range of evidence with the aim of determining any scrutiny activity required and focusing this in the most proportionate way. The Local Scrutiny Plan for 2015/16 was reported to the Monitoring and Audit Committee on 16 April 2015.

The Chief Internal Auditor presented her Internal Audit Annual Report 2014/15 and Assurance Statement to the Monitoring and Audit Committee in June 2015. This provided an assurance statement on the effectiveness of the systems of internal control, corporate governance, and risk management, informed by Internal Audit's review work. In her opinion there were "adequate and effective controls operating in the areas subject to audit review", with the exception of those significant governance issues included below.

## Update on significant governance issues previously reported

It was reported in the 2014/15 Annual Governance Statement:-

1. Segregation of Duties – it was recognised across the Council that the small number of staff in certain areas continued to present difficulties in achieving adequate segregation of duties.

Update – the Council’s Pension Section increased its staffing complement from 1 full time equivalent (FTE) to 2.5 FTE during 2015/16. This has enhanced the capacity and will lead to a higher level of segregation of duties amongst staff and a better service provision.

2. Delivery of the Capital Programme - the Council has an ambitious capital programme which is challenging the level of project management and professional staff capacity to deliver to expected timeframes.

Update - The establishment of a capital projects team within Development and Infrastructure has been actioned; it has been agreed that the Audit Scotland checklist for major capital projects over £5M will be adopted; and post project evaluation and reporting has commenced.

3. Information Governance - there is a lack of awareness of data protection and information security best practice across some areas of the Council. There has been progress made in updating policy and procedures governing the use of information in compliance with the Data Protection Act 1998 and with the appointment of an Information Governance Officer there is additional capacity to drive improvements in this area.

Update – there has been a good deal of awareness raising activity on information governance matters with briefing notes by the Information Governance Officer widely distributed, the establishment of an information governance group; the upgrading of the Council’s records store and action taken to reduce old paper records in accordance with the Council records retention schedule together with a commitment to procure increased secure paper records destruction capacity during 2016/17.

Between 4 and 27 November 2015, Council staff, including staff based in schools, participated in the Audit Scotland Your Business @ Risk survey, a web based survey that helps audited bodies to assess their awareness of security issues, their role in reducing risk to the organisation and quickly assess procedural, cultural and ethical compliance risks that have the potential to undermine the effectiveness of their information governance policies.

4. Project Management – Internal Audit work carried out during the year identified that there were weaknesses in the project management for a major service change leading to an inefficient introduction of the new service.

Update - The Council has subsequently provided training in project management that was available to staff across the Council.

### Significant Governance Issues

Each Head of Service has reviewed the arrangements in his/her service area and certified their effectiveness by way of submission of individual Certificates of Assurance to their Executive Directors. The Executive Directors have reviewed these submissions, considered the overall arrangements across his/her Service, reflected on their effectiveness or otherwise, before submission of their own Certificates of Assurance to the Head of Finance. These Certificates of Assurance provided the basis for the draft Annual Governance Statement which was circulated for final discussion to the Corporate Management Team before ultimate sign-off by the Council Convener, the Chief Executive and the Head of Finance.

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

1. Data backup – a control weakness in the testing of recoverability of data backups from financial systems and file shares was identified. Back-ups are routinely taken but are not always successful and the ability to restore systems from back-up data had not been adequately tested or demonstrated.
2. Contract procedures in marine areas – steps are in hand with the Procurement team to implement improvements in order to ensure contract paperwork is fully in place prior to refit and emergency dockings of vessels.
3. Information Governance – notwithstanding the progress being made towards improving the Council's information governance arrangements, including the adoption of new policies and procedures and preparation of a Records Management Plan, there remains a lack of awareness of and implementation of best practice in certain aspects of information governance. The Audit Scotland Your Business @ Risk Survey identified a number of weaknesses that have been set out in an action plan to be addressed during 2016/17.
4. Workforce Management – the workforce and succession planning system and approach is being developed within the Council in order to ensure adequate and appropriately skilled staffing to meet future demand and provide a high quality service. Audit Scotland have identified that there is a risk that projected savings from the Change Programme review of workforce planning will not be realised.
5. Delivery of the Capital Programme – although improvements have been made the Council continues to have an ambitious capital programme which is challenging the capacity to deliver to expected timeframes, meaning there are on-going issues of slippage on the planned programme of works are on-gong. A new CPA process is being presented to the Members for approval in September 2016 and it is hoped that better information at this stage will alleviate some of the difficulties faced in the past.

## Conclusion

We consider the governance and internal control environment operating during 2015/16 to provide reasonable and objective assurance that any significant risks impacting on the achievement of our principal objectives will be identified and actions taken to avoid or mitigate their impact. Weaknesses and issues have been identified and these are set out above. Implementing the Improvement Action Plan is a priority and progress will be regularly reported to the Monitoring and Audit Committee.

Systems are in place to continually review and improve the governance and internal control environment. The annual review has shown that, with the exception of those items listed above, these arrangements are in place and operating as planned.

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and we will monitor and report on their implementation and operation as part of our next annual review.



**Alistair Buchan**  
Chief Executive  
29 September 2016



**Councillor Steven Heddle**  
Council Convener  
29 September 2016

## **Independent Auditor's Report**

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

I certify that I have audited the financial statements of Orkney Islands Council and its group for the year ended 31 March 2016 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the group and authority-only Movement in Reserves Statements, Comprehensive Income and Expenditure Statements, Balance Sheets, and Cash Flow Statements, Charitable and Non Charitable Trust Funds, Common Good Fund, the authority-only Housing Revenue Account income and expenditure statement, the Movement on the Housing Revenue Account statement, the Council Tax Income Account, the Non Domestic Rates Account, the Harbour Authority Revenue Account income and expenditure statement, the Movement on the Harbour Authority Revenue Account statement, the Orkney College Revenue Account income and expenditure statement, the Movement on the Orkney College Revenue Account statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 (the 2015/16 Code).

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

#### **Respective responsibilities of the Head of Finance and auditor**

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

#### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of the council and its group and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Finance; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the Annual Accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

### **Opinion on financial statements**

In my opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2015/16 Code of the state of the affairs of the council and its group as at 31 March 2016 and of the income and expenditure of the council and its group for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2015/16 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.

### **Opinion on other prescribed matters**

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014; and
- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which I am required to report by exception**

I am required to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- the Annual Governance Statement has not been prepared in accordance with Delivering Good Governance in Local Government.

I have nothing to report in respect of these matters.



Stephen Boyle CPFA  
Assistant Director (Audit Services)  
Audit Scotland  
4th Floor, South Suite  
The Athenaeum Building  
8 Nelson Mandela Place  
Glasgow  
G2 1BT

30 September 2016

## 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 Convener 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 Convener of the Council, the Civic Head, Senior Councillors or Councillors. The Convener of the Council and the Civic Head cannot be the same person for the purposes of payment of remuneration. A senior councillor is a councillor who holds a significant position of responsibility in the Council's political management structure.

The salary that is to be paid to the Leader of the Council is set out in the Regulations. For 2015-16 the salary for the Leader of Orkney Islands Council is £27,878. The Regulations permit the council to remunerate one Civic Head. The regulations set out the maximum salary that may be paid to that Civic Head. Council policy is to pay at the national maximum.

The Regulations also set out the remuneration that may be paid to senior councillors and the total number of senior councillors the Council may have. The maximum yearly amount that may be paid to a Senior Councillor is 75 per cent of the total yearly amount payable to the Leader of the Council. The total yearly amount payable by the council for remuneration of all of its Senior Councillors shall not exceed £169,353. The Council is able to exercise local flexibility in the determination of the precise number of Senior Councillors and their salary within these maximum limits. The Council policy in 2015-16 was to pay four Committee Chairs £19,654 each and three Committee Chairs £17,771 each.

In 2015-16 Orkney Islands Council had 7 senior councillors excluding the Convener and Vice Convener and the remuneration paid to these 7 councillors totalled £131,929. The Regulations also permit the Council to pay contributions or other payments as required to the Local Government Pension Scheme in respect of those councillors who elect to become councillor members of the pension scheme.

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

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

## **2. Remuneration Policy for Senior Employees**

The salary of senior employees is set by reference to national arrangements. The Scottish Joint Negotiating Committee (SJNC) for Local Authority Services sets the salaries for the Chief Executives of Scottish local authorities. Circular CO/146 sets the amount of salary for the Chief Executive of Orkney Islands Council for the period 2015 to 2016. Salaries of the Corporate Directors and Heads of Service are also based on Circular CO/146.

Other benefits received by senior employees include car mileage allowance.

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

## **3. Remuneration of Senior Employees**

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

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

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

The term “remuneration” means gross salary, fees and bonuses, allowances and expenses and compensation for loss of employment. The table below outlines the remuneration details for senior employees, including prior year figures. The table shows the relevant amounts, before tax and other deductions, due to, or receivable by, each of the persons named for the year to 31 March 2016, whether or not those amounts were actually paid to, or received by, those persons within that period.

## Annual Accounts 2015-2016

2014-2015	Senior Employees					2015-2016
Total	Name	Post held	Salary, Fees and Allowances	Expenses Allowance Chargeable to UK Income Tax	Scottish Referendum Election Payment	Total
£			£	£	£	£
105,898	Alistair Buchan	Chief Executive	102,417	25	2,500	104,942
13,121	Leslie Manson	Executive Director of Education, Leisure & Housing Services (Full year equivalent: £87,662) (Note 1)	0	0	0	0
52,876	Wilfred Weir	Executive Director of Education, Leisure & Housing Services (Full year equivalent: £85,895) (Note 1)	87,120	0	0	87,120
85,882	Gavin Barr	Executive Director Development & Infrastructure	86,863	54	0	86,917
85,867	Gillian Morrison	Executive Director of Corporate Services	87,120	0	0	87,120
75,048	Gareth Waterson	Head of Finance/Section 95 Officer	72,914	30	2,050	74,994
65,206	Fraser Bell	Head of Legal Services (Full year equivalent: £66,187) (Note 2)	0	0	0	0
0	Gavin Mitchell	Head of Legal Services (Full year equivalent: £66,187) (Note 2)	25,442	0	0	25,442
67,373	Dawn Sherwood	Head of IT and Support Services	58,537	0	2,315	60,852
80,325	Caroline Sinclair	Chief Social Work Officer	83,828	0	0	83,828
<b>631,596</b>	<b>Total</b>		<b>604,241</b>	<b>109</b>	<b>6,865</b>	<b>611,215</b>

Note 1: Leslie Manson retired from the post of Executive Director of Education, Leisure and Housing on the 9 May 2014. Wilfred Weir was appointed to this post with effect from 4 August 2014.

Note 2: Fraser Bell left his post of Head of Legal Services on the 13 July 2015. Gavin Mitchell was appointed to this post with effect from 28 October 2015.

#### 4. Remuneration of Senior Councillors

Under the regulations, remuneration disclosures are to be made for the Convener, 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 2016, whether or not those amounts were actually paid to, or received by, those persons within that period.

2014-2015	Convener and Senior Councillors			2015-2016
Total	Name	Position held	Salary, Fees and Allowances	Total
£			£	£
19,452	Janice Annal	Chair (Education, Leisure & Housing) (Note 1)	17,189	17,189
19,452	Rob Crichton	Chair (Planning)	19,645	19,645
20,693	James Foubister	Vice Convener	20,900	20,900
27,590	Steven Heddle	Convener	27,866	27,866
19,452	Harvey Johnston	Chair (Education, Leisure & Housing) (Note 1)	19,766	19,766
17,588	Russ Madge	Vice Chair (Orkney Health & Care)	19,343	19,343
17,588	John Richards	Chair (Licensing Sub-committee)	17,763	17,763
17,588	Graham Sinclair	Chair (Board of Orkney Ferries)	17,763	17,763
19,452	James Stockan	Chair (Development & Infrastructure)	19,645	19,645
19,452	David Tullock	Chair (Monitoring & Audit)	19,645	19,645
<b>198,307</b>	<b>Total</b>		<b>199,525</b>	<b>199,525</b>

Note 1: Harvey Johnston was elected as Chair of Education, Leisure and Housing on the 14 May 2015

Note 2: Timing differences in payroll processing has resulted in small differences between the actual payments and the figures disclosed as salaries in note 1 of this remuneration report.

## 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 (but with a minimum of age 65). If the State Pension Age changes in the future then this change will also apply to a member's normal pension age in the Local Government Pension Scheme.

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

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

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

The pension entitlements for Senior Employees and Senior Councillors for the year to 31 March 2016 are shown in the following table, together with the contribution made by the Council to each individual's pension during the year.

Senior Employees						
Name	Post held	Accrued pension benefits as at 31 March 2016		Change in accrued pension benefits since 31 March 2015		Pension contributions made by Orkney Islands Council during 2015-2016
		Pension £	Lump Sum £	Pension £	Lump Sum £	
Alistair Buchan	Chief Executive	39,067	79,247	2,624	1,062	22,452
Wilfred Weir	Executive Director of Education, Leisure & Housing Services	2,733	0	1,792	0	18,644
Gavin Barr	Executive Director Development & Infrastructure	13,845	10,042	1,958	150	19,276
Gillian Morrison	Executive Director of Corporate Services	37,561	81,191	2,312	1,212	18,644
Gareth Waterson	Head of Finance/Section 95 Officer	27,165	49,917	2,338	1,101	15,604
Fraser Bell	Head of Legal Services	5,378	0	437	0	4,577
Gavin Mitchell	Head of Legal Services	519	0	519	0	5,445
Dawn Sherwood	Head of IT and Support Services	14,574	20,313	1,525	304	13,925
Caroline Sinclair	Chief Social Work Officer	21,181	32,780	2,928	2,272	17,796
<b>Total</b>		<b>162,023</b>	<b>273,490</b>	<b>16,433</b>	<b>6,101</b>	<b>136,363</b>

Note 1: Caroline Sinclair's benefits are for the period to 5 February 2016.

Convener and Senior Councillors						
Name	Post held	Accrued pension benefits as at 31 March 2016 or date of cessation		Change in accrued pension benefits since 31 March 2015		Pension contributions made by Orkney Islands Council during 2015-2016
		Pension	Lump Sum	Pension	Lump Sum	
		£	£	£	£	
Janice Annal	Chair (Education, Leisure & Housing)	3,570	1,345	706	18	3,679
Rob Crichton	Chair (Planning)	3,006	1,261	441	19	4,204
James Foubister	Vice Convener	3,830	1,654	811	27	4,473
Steven Heddle	Convener	3,292	1,576	610	24	5,963
Harvey Johnston	Chair (Education, Leisure & Housing)	1,386	0	446	0	4,230
Russ Madge	Vice Chair (Orkney Health & Care)	2,969	2,307	434	35	4,139
John Richards	Chair (Licensing Sub-committee)	1,217	0	376	0	3,801
Graham Sinclair	Chair (Board of Orkney Ferries)	3,069	1,566	404	24	3,801
James Stockan	Chair (Development & Infrastructure)	21,188	55,807	719	855	4,204
David Tullock	Chair (Monitoring & Audit)	2,744	1,107	521	31	4,204
<b>Total</b>		<b>46,271</b>	<b>66,623</b>	<b>5,468</b>	<b>1,033</b>	<b>42,698</b>

Note 1: All senior employees and councillors shown in the tables above are members of the Local Government Pension Scheme (LGPS).

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

## 6. Councillors' Remuneration

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

2014-2015 £000		2015-2016 £000
377	Salaries	379
17	Mileage	16
1	Conferences and Courses	1
35	Travel Costs	34
13	Subsistence	12
6	Other Allowances and Expenses	5
(14)	Reimbursed Costs	(14)
<b>435</b>	<b>Total</b>	<b>433</b>

The annual return of Councillors' salaries and expenses for 2015/16 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:

[www.orkney.gov.uk/Council/Councillors/Councillors-Record-of-Claims.htm](http://www.orkney.gov.uk/Council/Councillors/Councillors-Record-of-Claims.htm).

## 7. Remuneration of Employees

The following table gives a statement of the number of employees whose remuneration, excluding pension contributions, was in excess of £50,000 during 2015-2016, in bands of £5,000. This information includes those senior employees who are subject to the fuller disclosure requirements in the tables above.

2014-2015 Number of employees	Remuneration band	2015-2016 Number of employees
1	£105,000 to £109,999	0
0	£100,000 to £104,999	1
0	£95,000 to £99,999	0
0	£90,000 to £94,999	1
2	£85,000 to £89,999	6
5	£80,000 to £84,999	1
1	£75,000 to £79,999	1
2	£70,000 to £74,999	3
3	£65,000 to £69,999	2
6	£60,000 to £64,999	11
9	£55,000 to £59,999	12
16	£50,000 to £54,999	14
<b>45</b>		<b>52</b>

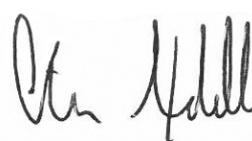
## 8. Exit Packages

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	
	2014-2015	2015-2016	2014-2015	2015-2016	2014-2015	2015-2016	2014-2015	2015-2016
							£000	£000
£0 - £19,999	0	0	0	3	0	3	0	5
£20,000 - £39,999	0	0	0	0	0	0	0	0
£40,000 - £79,999	0	0	0	0	0	0	0	0
£80,000 - £99,999	0	0	0	0	0	0	0	0
£100,000 - £149,999	0	0	0	0	0	0	0	0
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3</b>	<b>0</b>	<b>3</b>	<b>0</b>	<b>5</b>



**Alistair Buchan**  
Chief Executive  
29 September 2016



**Councillor Steven Heddle**  
Council Convener  
29 September 2016

## Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the council, analysed into usable reserves (those reserves that can be applied to fund expenditure or to reduce local taxation) and unusable reserves. The surplus or deficit on the provision of services line shows the true economic cost of providing the council's services, more details of which are shown in the comprehensive income and expenditure statement. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax-setting and dwellings rent-setting purposes. The net increase or (decrease) before transfers to other statutory reserves line shows the statutory General Fund Balance and the Housing Revenue Account Balance before any discretionary transfers to or from the other statutory reserves of the council. Additional information to support these movements can be found in Notes 24 and 25 to these accounts:

	General Fund Balance	Capital Fund	HRA Balance	Harbour Reserves	Capital Grants Unapplied	Renewals and Repairs Fund	Total Usable Reserves	Total Unusable Reserves	Total Reserves of the Authority
	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Balance as at 1 April 2014</b>	<b>23,768</b>	<b>508</b>	<b>0</b>	<b>196,784</b>	<b>20</b>	<b>2,917</b>	<b>223,997</b>	<b>263,566</b>	<b>487,563</b>
<b>Movement in reserves during the year</b>									
Surplus or (deficit) on the provision of services	(9,360)	0	(380)	24,089	0	0	14,349	0	14,349
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	0	17,700	17,700
<b>Total Comprehensive Income and Expenditure</b>	<b>(9,360)</b>	<b>0</b>	<b>(380)</b>	<b>24,089</b>	<b>0</b>	<b>0</b>	<b>14,349</b>	<b>17,700</b>	<b>32,049</b>
Adjustments between accounting basis & funding basis under regulations (Note 7)	1,334	0	272	(2,837)	0	0	(1,231)	1,231	0
<b>Net Increase/(Decrease) before Transfers to Earmarked Reserves Statutory and Other Reserves</b>	<b>(8,026)</b>	<b>0</b>	<b>(108)</b>	<b>21,252</b>	<b>0</b>	<b>0</b>	<b>13,118</b>	<b>18,931</b>	<b>32,049</b>
Transfers to or (from) earmarked reserves Statutory and Other Reserves	2,779	0	108	(3,781)	0	894	0	0	0
<b>Increase/(Decrease) in Year</b>	<b>(5,247)</b>	<b>0</b>	<b>0</b>	<b>17,471</b>	<b>0</b>	<b>894</b>	<b>13,118</b>	<b>18,931</b>	<b>32,049</b>
<b>Balance as at 31 March 2015</b>	<b>18,521</b>	<b>508</b>	<b>0</b>	<b>214,255</b>	<b>20</b>	<b>3,811</b>	<b>237,115</b>	<b>282,497</b>	<b>519,612</b>
<b>Movement in reserves during the year</b>									
Surplus or (deficit) on provision of services	(6,221)	0	(2,465)	(236)	0	0	(8,922)	0	(8,922)
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	0	25,622	25,622
<b>Total Comprehensive Income and Expenditure</b>	<b>(6,221)</b>	<b>0</b>	<b>(2,465)</b>	<b>(236)</b>	<b>0</b>	<b>0</b>	<b>(8,922)</b>	<b>25,622</b>	<b>16,700</b>
Adjustments between accounting basis & funding basis under regulations (Note 7)	6,399	0	607	(384)	0	0	6,622	(6,622)	0
<b>Net Increase/(Decrease) before Transfers to Earmarked Reserves Statutory and Other Reserves</b>	<b>178</b>	<b>0</b>	<b>(1,858)</b>	<b>(620)</b>	<b>0</b>	<b>0</b>	<b>(2,300)</b>	<b>19,000</b>	<b>16,700</b>
Transfers to or (from) earmarked reserves Statutory and Other Reserves	2,486	0	2,334	(5,794)	0	974	0	0	0
<b>Increase/(Decrease) in Year</b>	<b>2,664</b>	<b>0</b>	<b>476</b>	<b>(6,414)</b>	<b>0</b>	<b>974</b>	<b>(2,300)</b>	<b>19,000</b>	<b>16,700</b>
<b>Balance as at 31 March 2016</b>	<b>21,185</b>	<b>508</b>	<b>476</b>	<b>207,841</b>	<b>20</b>	<b>4,785</b>	<b>234,815</b>	<b>301,497</b>	<b>536,312</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.

	Notes	2014-2015			2014-15 Restated			2015-2016		
		£000	£000	£000	£000	£000	£000	£000	£000	£000
		Expenditure	Income	Net	Expenditure	Income	Net	Expenditure	Income	Net
Central Services		4,064	(301)	3,763	4,064	(301)	3,763	4,770	(384)	4,386
Cultural and Recreation		5,691	(879)	4,812	5,691	(879)	4,812	6,923	(885)	6,038
Education		34,107	(1,251)	32,856	34,107	(1,251)	32,856	35,737	(1,258)	34,479
Roads and Transportation		16,328	(217)	16,111	16,328	(217)	16,111	17,138	(366)	16,772
Housing Revenue Account		5,532	(3,206)	2,326	5,532	(3,206)	2,326	5,777	(3,357)	2,420
Harbour Authority		8,656	(7,400)	1,256	8,656	(7,400)	1,256	12,066	(14,201)	(2,135)
Housing Services		5,554	(4,110)	1,444	5,554	(4,110)	1,444	6,166	(4,493)	1,673
Social Care		24,949	(5,020)	19,929	24,949	(5,020)	19,929	25,437	(4,940)	20,497
Planning and Development		3,872	(1,252)	2,620	3,872	(1,252)	2,620	4,140	(1,056)	3,084
Environmental Services		4,297	(845)	3,452	4,297	(845)	3,452	4,782	(1,022)	3,760
Corporate & Democratic Core		2,840	(14)	2,826	2,840	(14)	2,826	3,060	0	3,060
Non Distributed Costs		0	0	0	0	0	0	0	4	4
<b>(Surplus)/Deficit on Continuing Operations</b>		<b>115,890</b>	<b>(24,495)</b>	<b>91,395</b>	<b>115,890</b>	<b>(24,495)</b>	<b>91,395</b>	<b>125,996</b>	<b>(31,958)</b>	<b>94,038</b>
Other Operating Expenditure	9			215			215			192
Financing and Investment Income and Expenditure	10			(21,668)			(19,235)			3,363
Taxation and Non-Specific Grant Income: Other	11			(86,724)			(86,724)			(88,671)
<b>(Surplus)/Deficit on Provision of Services</b>				<b>(16,782)</b>			<b>(14,349)</b>			<b>8,922</b>
Surplus on revaluation of non current assets	12			(14,388)			(14,388)			(1,084)
(Surplus)/Deficit on revaluation of available for sale financial assets	25			0			(2,433)			61
Remeasurement of the net Pension Fund Liability/(Assets)	39			(879)			(879)			(24,599)
<b>Other Comprehensive Income and</b>				<b>(15,267)</b>			<b>(17,700)</b>			<b>(25,622)</b>
<b>Total Comprehensive Income and Expenditure</b>				<b>(32,049)</b>			<b>(32,049)</b>			<b>(16,700)</b>

## Balance Sheet as at 31 March 2016

The balance sheet shows the value as at 31 March 2016 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 2015 £000	Restated 31 March 2015 £000	31 March 2016 £000
Property, Plant & Equipment	12	348,158	348,158	348,045
Heritage Assets	15	912	912	912
Investment Property	13	23,385	23,385	21,987
Intangible Assets	14	32	32	12
Long Term Investments	16	0	5,192	5,131
Long Term Debtors	16	2,260	2,260	1,981
<b>Long Term Assets</b>		<b>374,747</b>	<b>379,939</b>	<b>378,068</b>
Short Term Investments	16	193,918	188,726	183,682
Inventories	17	665	665	687
Short Term Debtors	19	7,652	7,652	6,717
Cash and Cash Equivalents	20	39,553	39,553	40,057
Assets held for sale	21	822	822	860
<b>Current Assets</b>		<b>242,610</b>	<b>237,418</b>	<b>232,003</b>
Short Term Borrowing	16	538	538	5,542
Short Term Creditors	22	15,822	15,822	12,503
<b>Current Liabilities</b>		<b>16,360</b>	<b>16,360</b>	<b>18,045</b>
Provisions	23	2,802	2,802	2,802
Long Term Borrowing	16	40,000	40,000	35,000
Other Long Term Liabilities	39	38,583	38,583	17,912
<b>Long Term Liabilities</b>		<b>81,385</b>	<b>81,385</b>	<b>55,714</b>
<b>Net Assets</b>		<b>519,612</b>	<b>519,612</b>	<b>536,312</b>
Usable reserves	24	239,548	237,115	234,815
Unusable Reserves	25	280,064	282,497	301,497
<b>Total Reserves</b>		<b>519,612</b>	<b>519,612</b>	<b>536,312</b>

The unaudited accounts were issued on 29 June 2016 and the audited accounts were authorised for issue on 29 September 2016.



**Gareth Waterson, BAcc., CA**  
Head of Finance  
29 September 2016

## Cash Flow Statement

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

	Notes	2014-2015 £000	2015-2016 £000
<b>Net surplus or (deficit) on the provision of services</b>		14,349	(8,922)
Adjustment to surplus or deficit on the provision of services for noncash movements	26	(6,709)	14,884
Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	26	951	1,167
<b>Net Cash flows from Operating activities</b>	26	<b>8,591</b>	<b>7,129</b>
<b>Net Cash flows from Investing Activities</b>	27	<b>(6,118)</b>	<b>(5,458)</b>
<b>Net Cash flows from Financing Activities</b>	28	<b>(951)</b>	<b>(1,167)</b>
<b>Net increase or decrease in cash and cash equivalents</b>		<b>1,522</b>	<b>504</b>
Cash and cash equivalents at the beginning of the reporting period		<b>38,031</b>	<b>39,553</b>
<b>Cash and cash equivalents at the end of the reporting period</b>		<b>39,553</b>	<b>40,057</b>

## Notes to the Core Financial Statements

### Note 1 Summary of Significant Accounting Policies

The Financial Statements for the year ended 31 March 2016 have been prepared in accordance with proper accounting practice as per section 12 of the Local Government in Scotland Act 2003. Proper accounting practice comprises the Code of Practice on Local Authority Accounting in the United Kingdom (the Accounting Code) and the Service Reporting Code of Practice (SeRCOP), supported by International Financial Reporting Standards and recommendations made by the Local Authority (Scotland) Accounts Advisory Committee (LASAAC). They are designed to give a true and fair view of the financial performance and position of the Council and comparative figures for the previous financial year are provided. There are no significant departures from these recommendations.

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

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

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

### Best Value Reporting

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

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

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

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

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

## **Accruals of Expenditure and Income**

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

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

## **Cash and Cash Equivalents**

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

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

### **Charges for the Use of Assets**

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

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

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

### **Charities**

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

### **Contingent Assets and Liabilities**

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

### **Employee Benefits**

#### Benefits payable during employment

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

#### Termination benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision

to accept voluntary redundancy. They are charged on an accruals basis to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to either terminating the employment of an officer or making an offer to encourage voluntary redundancy. The Council is only demonstrably committed to a termination when it has a detailed formal plan for the termination and it is without realistic possibility of withdrawal.

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

### Post-employment benefits

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

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

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

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

The Notes to the Core Financial Statements provide further information.

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

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

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

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

### **Prior Period Adjustments**

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

A prior period adjustment has been made to reflect the reclassification of a number of financial instruments that were formerly shown as short-term investments in the balance sheet and classed as 'fair value through profit and loss'. These assets, particularly the investment in fishing quota and Hammars Hill Energy Limited, should have been shown as long-term investments. The impact of this change in the prior year is a decrease in usable reserves of £2.433m with a matching increase in unusable reserves, creating an 'Available for Sale Financial Instruments' Reserve.

### **Financial Instruments**

#### Financial Assets

Financial assets are classified into two types:

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

#### Loans and Receivables

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

However, the Authority has made a number of loans to voluntary organisations at less than market rates (soft loans). When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting

in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

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

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

### For Profit or Loss Assets

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

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

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

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

### Financial Liabilities

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

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

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

### Loans Fund

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

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

### **Foreign Currency Translation**

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

### **Government Grants and other Contributions**

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

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

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

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

### **Intangible Assets**

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

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

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

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

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

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

## **Inventories**

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

## **Investment Property**

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

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

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

## **Leases**

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

### Operating Leases (Council as lessor)

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

### Operating Leases (Council as lessee)

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

## Overheads and Central Support Costs

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

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

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

## Property, Plant and Equipment

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

### Recognition

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

### Measurement

Assets are initially measured at cost, comprising:

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

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

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

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made

conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

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

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

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

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

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

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

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

### Fair Value Measurement

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

- in the principal market for the asset or liability, or

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

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

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

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

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

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

### Impairment

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

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

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

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

### Disposals

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale. Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

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

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

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

### Depreciation

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

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

Depreciation is calculated on the following bases:

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

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

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

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been

chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

### **Heritage Assets**

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

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

### **Provisions, Contingent Liabilities and 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.

## **Service Expenditure analysis and Segment reporting**

The Comprehensive Income and Expenditure Statement is presented in accordance with the CIPFA Service Reporting Code of Practice, and the analysis of service income and expenditure is based on this Code. However, decisions taken about resource allocation are taken by the Council on the basis of financial information analysed across services. These reports are prepared on a different basis from the accounting policies used in the financial

statements Note 28 details the income and expenditure of the Council's main services as recorded in budget monitoring reports throughout the year.

## VAT

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

## Note 2 Accounting Standards Issued but not yet adopted

The Code requires the disclosure of information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the following new or amended standards within the 2016/17 Code:

- Amendments to IAS19 Employee Benefits (Defined Benefit Plans: Employee Contributions)
- Amendment to IFRS11 Joint Arrangements (Accounting for Acquisition of Interests in Joint Ventures)
- Amendment to IAS16 Property, Plant and Equipment and IAS38 Intangible Assets (Clarification of Acceptable methods of Depreciation and Amortisation)
- Amendment to IAS1 Presentation of Financial Statements (Disclosure Initiative)
- The changes to the format of the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement and the introduction of the new Expenditure and Funding Analysis
- The changes to the format of the Pension Fund Account and Net Assets Statement

The Code requires implementation from 1 April 2016 and there is therefore no impact on the 2015/16 financial statements.

The 2016/17 Code of Practice on Local Government Accounting in the United Kingdom has introduced changes, which will take effect from 1 April 2016, to measure the Highways Network Asset at current value, i.e. Depreciated Replacement Cost. The new Highways Network Asset will effectively replace large elements of the current Infrastructure Asset category within Property, Plant and Equipment which is currently valued at historic cost.

This change will ensure that the Highways Network Asset is reflected at the true economic value and operational cost of the substantial resources held and maintained by local authorities. Transitional arrangements will apply such that the accounting policies will be implemented on a retrospective basis from 1 April 2016. However, there will be no requirement to restate the preceding year's figures.

The resultant financial impact on the Council's balance sheet is expected to be a substantial increase in the valuation of Highways Network Asset at around £877M. When compared against the Council's existing balance sheet of £536M this represents an increase of 163%.

## Note 3 Critical Judgements in Applying Accounting Policies

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

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

### Note 4 Assumptions made about the Future

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

The items in the Council's Balance Sheet as at 31 March 2016 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>	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Authority will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for Property, Plant and Equipment would increase by £1.943M for every year that useful lives had to be reduced.
<b>Pensions Liability</b>	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £29.067M. The impact of the change of various assumptions is shown in note 39.
<b>Debt Impairment</b>	At 31 March 2016, the Council had a balance for trade debtors of £6.717M. A review of significant balances suggested that an impairment of doubtful debts of 25.3% (£1.701M) was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient.	If collection rates were to deteriorate, an increase of 10% of the amount of the impairment of doubtful debts would require an additional £0.672M to be set aside as an allowance.

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

### Note 5 Material Items of Income and Expenditure

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

## Note 6 Events after the Balance Sheet Date

The Head of Finance, being the officer responsible for the Council's financial affairs, signed the Draft Annual Accounts on 29 June 2016. 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 2016, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

## Note 7 Adjustment between Accounting Basis and Funding Basis Under Regulations

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

2015-2016	Usable Reserves				
	General Fund Balance £000	Housing Revenue Account £000	Harbour Reserves £000	Capital Receipts Reserve £000	Movement in Unusable Reserves £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	7,798	1,392	4,500	0	(13,690)
Amortisation of Intangible Assets	20	0	0	0	(20)
Revaluation losses on Property Plant and Equipment	2,945	2,249	(2,732)	0	(2,462)
Movements in the Market Value of Investment Properties	0	0	11	0	(11)
Capital grants and contributions	(8,193)	(527)	(1,143)	0	9,863
Revenue expenditure funded from capital under statute	0	0	0	0	0
Carrying amount of non current assets sold	1,056	376	41	0	(1,473)
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>					
Statutory Provision for the Financing of Capital Investment	(486)	(391)	(499)	0	1,376
Capital expenditure charged against the General Fund and HRA balances	(173)	(2,088)	(768)	0	3,029
<b>Adjustments involving the Capital Receipts Reserve:</b>					
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	0	(694)	694
Proceeds From Sale of Non Current Assets	(262)	(431)	(1)	694	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	(40)	0	40
<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 39)	10,682	81	718	0	(11,481)
Employer's pensions contributions and direct payments to pensioners payable in the year	(7,030)	(54)	(472)	0	7,556
<b>Adjustment involving the Unequal Pay Back Pay Adjustment Account:</b>					
Amount by which amounts charged for Equal Pay claims to the Comprehensive Income and Expenditure Statement are different from the cost of settlements chargeable in the year in accordance with statutory requirements	0				0
<b>Adjustment involving the Accumulating Compensated Absences Adjustment Account</b>					
Adjustments in relation to Short-term compensated absences	41	0	1	0	(42)
<b>Total Adjustments</b>	<b>6,398</b>	<b>607</b>	<b>(384)</b>	<b>0</b>	<b>(6,621)</b>

2014-2015	Usable Reserves				
	General Fund Balance £000	Housing Revenue Account £000	Harbour Reserves £000	Capital Receipts Reserve £000	Movement in Unusable Reserves £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	8,565	1,514	2,020	0	(12,099)
Amortisation of Intangible Assets	18	0	0	0	(18)
Revaluation losses on Property Plant and Equipment	595	1,785	41	0	(2,421)
Movements in the Market Value of Investment Properties	0	0	(2,539)	0	2,539
Capital grants and contributions	(6,401)	(2,545)	(1,027)	0	9,973
Revenue expenditure funded from capital under statute	0	0	0	0	0
Carrying amount of non current assets sold	305	227	116	0	(648)
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>					
Statutory Provision for the Financing of Capital Investment	(3,361)	(446)	(459)	0	4,266
Capital expenditure charged against the General Fund and HRA balances	(1,812)	(137)	(1,183)	0	3,132
<b>Adjustments involving the Capital Receipts Reserve:</b>					
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	0	(433)	433
Proceeds From Sale of Non Current Assets	(270)	(153)	(10)	433	0
<b>Adjustment involving the Major Repairs Reserve:</b>					
Use of the Major Repairs Reserve to finance new capital expenditure	0	0	0	0	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	(43)	0	43
<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 39)	10,029	78	709	0	(10,816)
Employer's pensions contributions and direct payments to pensioners payable in the year	(6,561)	(51)	(463)	0	7,075
<b>Adjustment involving the Accumulating Compensated Absences Adjustment Account</b>					
Adjustments in relation to Short-term compensated absences	227	0	1	0	(228)
<b>Total Adjustments</b>	<b>1,334</b>	<b>272</b>	<b>(2,837)</b>	<b>0</b>	<b>1,231</b>

## Note 8 Transfer to or from Earmarked and Other Statutory Reserves

This note sets out the amounts set aside from the General Fund Balance in statutory reserves established under Schedule 3 of the Local Government (Scotland) Act 1975 to provide financing for specific areas of expenditure, and the amounts transferred back from these funds to meet General Fund expenditure in 2015-2016.

	2014-2015			Balance at 31 March 2015 £000	2015-2016		
	Balance at 31 March 2014 £000	Transfers out 2014-2015 £000	Transfers in 2014-2015 £000		Transfers out 2015-2016 £000	Transfers in 2015-2016 £000	Balance at 31 March 2016 £000
Repairs & Renewals Fund	2,917	(230)	1,124	3,811	(46)	1,020	4,785
<b>Revenue statutory funds</b>	<b>2,917</b>	<b>(230)</b>	<b>1,124</b>	<b>3,811</b>	<b>(46)</b>	<b>1,020</b>	<b>4,785</b>
Capital Fund	508	0	0	508	0	0	508
<b>Capital statutory funds</b>	<b>508</b>	<b>0</b>	<b>0</b>	<b>508</b>	<b>0</b>	<b>0</b>	<b>508</b>
<b>Total</b>	<b>3,425</b>	<b>(230)</b>	<b>1,124</b>	<b>4,319</b>	<b>(46)</b>	<b>1,020</b>	<b>5,293</b>

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

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

### Ring-fenced elements of the General Fund Balance

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

	2014-2015			Balance at 31 March 2015 £000	2015-2016		
	Balance at 31 March 2014 £000	Transfers in 2014-2015 £000	Transfers out 2014-2015 £000		Transfers in 2015-2016 £000	Transfers out 2015-2016 £000	Balance at 31 March 2016 £000
<b>General Fund:</b>							
Devolved School Management Fund	144	0	(40)	104	0	(6)	98
Orkney College	122	0	(127)	(5)	5	0	0
SIP Life Cycle Fund	795	623	0	1,418	571	0	1,989
Training Fund	374	0	0	374	0	(20)	354
Care Facility Fund	421	0	0	421	0	0	421
Energy Efficiency Fund	102	0	(23)	79	12	0	91
Innovation Fund	1,704	1,000	(511)	2,193	573	(199)	2,567
Renewable Energy Fund	4,983	20	(1,274)	3,729	0	(131)	3,598
Recreation & Cultural Services Project Fund	300	45	(65)	280	25	(76)	229
Development Grants Fund	2,391	0	(318)	2,073	0	(537)	1,536
Sustainable Communities Fund	27	33	0	60	0	(40)	20
Roads Project Fund	353	0	(123)	230	0	(17)	213
Pathfinder Project Fund	1,537	0	(149)	1,388	0	(90)	1,298
Outwith Orkney Placements Fund	1,874	41	(1,066)	849	1,039	(850)	1,038
Welfare Fund	14	9	0	23	0	(19)	4
Local Works & Services Contingency Fund	0	200	0	200	0	(22)	178
Insurance Fund	0	1,006	0	1,006	15	0	1,021
Bellwin Scheme Fund	0	160	0	160	0	0	160
Workforce Management Fund	0	1,000	0	1,000	0	0	1,000
Portal Development Fund	0	105	0	105	45	(47)	103
<b>Total General Fund</b>	<b>15,141</b>	<b>4,242</b>	<b>(3,696)</b>	<b>15,687</b>	<b>2,285</b>	<b>(2,054)</b>	<b>15,918</b>
<b>Total Earmarked Reserves</b>	<b>15,141</b>	<b>4,242</b>	<b>(3,696)</b>	<b>15,687</b>	<b>2,285</b>	<b>(2,054)</b>	<b>15,918</b>

The unallocated balance of £5.267 million is approximately 6.4% of the Council's annual running costs.

**Note 9 Other Operating Expenditure**

	2014-2015 £000	2015-2016 £000
(Gains)/losses on the disposal of non current assets	215	192
	<b>215</b>	<b>192</b>

**Note 10 Financing and Investment Income and Expenditure**

	2014-2015 £000	2015-2016 £000
Interest payable and similar charges	1,349	1,468
Pensions net interest cost	1,581	1,277
Interest receivable and similar income	(19,767)	648
Income and expenditure in relation to investment properties and changes in their fair value	(2,919)	(398)
Other investment income	521	368
<b>Total</b>	<b>(19,235)</b>	<b>3,363</b>

**Note 11 Taxation and Non-specific Grant Income**

The council credited the following taxation and non-specific grant income to the comprehensive income and expenditure statement during 2015-2016.

	2014-2015 £000	2015-2016 £000
Council Tax Income	7,749	7,879
NDR Redistribution	9,604	9,490
Non-ringfenced government grants	59,398	61,439
Capital Grants	9,973	9,863
<b>Total Taxation and Non-Specific Grant Income</b>	<b>86,724</b>	<b>88,671</b>

## Note 12 Property, Plant and Equipment

Property, Plant & Equipment (PP&E)								
	Council Dwellings	Buildings	Infra-structure Assets	Vehicles, Plant & Equipment	Community Assets	PP&E Under Construction	Surplus Assets	Total PP&E
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Cost or Valuation</b>								
Balance as at 1 April 2015	45,039	204,634	141,373	38,106	4,531	8,397	1,639	<b>443,719</b>
Adjustments between cost/value & depreciation/impairment	17	(81)	9	1,824	0	(1)	111	<b>1,879</b>
Adjusted opening balance	<b>45,056</b>	<b>204,553</b>	<b>141,382</b>	<b>39,930</b>	<b>4,531</b>	<b>8,396</b>	<b>1,750</b>	<b>445,598</b>
Additions (Note 34)	207	1,470	2,299	2,731	175	8,034	0	<b>14,916</b>
Revaluation increases/(decreases) to Revaluation Reserve	(23)	1,072	3	0	0	0	0	<b>1,052</b>
Revaluation increases/(decreases) to Surplus or Deficit on the Provision of Services	(2,219)	(623)	(295)	0	0	0	(31)	<b>(3,168)</b>
Derecognition - Disposals	(343)	0	0	(840)	0	0	(100)	<b>(1,283)</b>
Derecognition - Other	0	(443)	0	0	0	(163)	0	<b>(606)</b>
Reclassifications & Transfers	4,765	5,475	19	357	244	(8,788)	(754)	<b>1,318</b>
Reclassified to Held for Sale	0	0	0	0	0	0	(296)	<b>(296)</b>
<b>Balance as at 31 March 2016</b>	<b>47,443</b>	<b>211,504</b>	<b>143,408</b>	<b>42,178</b>	<b>4,950</b>	<b>7,479</b>	<b>569</b>	<b>457,531</b>
<b>Depreciation and Impairment</b>								
Balance as at 1 April 2015	4,227	6,041	55,881	28,122	906	270	114	<b>95,561</b>
Adjustments between cost/value & depreciation/impairment	21	8	(4)	1,782	0	1	23	<b>1,831</b>
Adjusted opening balance	4,248	6,049	55,877	29,904	906	271	137	<b>97,392</b>
Depreciation Charge	1,460	5,942	3,932	2,337	35	0	14	<b>13,720</b>
Depreciation written out on Revaluation taken to Surplus or Deficit on the Provision of Services	(37)	(595)	(37)	0	0	0	(9)	<b>(678)</b>
Derecognition - Disposals	(37)	0	0	(825)	0	0	(24)	<b>(886)</b>
Derecognition - Other		(26)				(8)		<b>(34)</b>
Reclassifications & Transfers	29	62	0	185	0	(263)	(41)	<b>(28)</b>
<b>Balance as at 31 March 2016</b>	<b>5,663</b>	<b>11,432</b>	<b>59,772</b>	<b>31,601</b>	<b>941</b>	<b>0</b>	<b>77</b>	<b>109,486</b>
<b>Net Book Value</b>								
<b>Balance as at 31 March 2016</b>	<b>41,780</b>	<b>200,072</b>	<b>83,636</b>	<b>10,577</b>	<b>4,009</b>	<b>7,479</b>	<b>492</b>	<b>348,045</b>
<b>Balance as at 31 March 2015</b>	<b>40,812</b>	<b>198,593</b>	<b>85,492</b>	<b>9,984</b>	<b>3,625</b>	<b>8,127</b>	<b>1,525</b>	<b>348,158</b>

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Property, Plant & Equipment (PP&E)								
	Council Dwellings	Buildings	Infra-structure Assets	Vehicles, Plant & Equipment	Community Assets	PP&E Under Construction	Surplus Assets	Total PP&E
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Cost or Valuation</b>								
Balance as At 1 April 2014	43,349	174,423	129,569	38,424	4,530	16,415	1,639	<b>408,349</b>
Adjustments between cost/value & depreciation/impairment	0	(59)	0	0	0	(28)	0	<b>(87)</b>
Adjusted Opening Balance	<b>43,349</b>	<b>174,364</b>	<b>129,569</b>	<b>38,424</b>	<b>4,530</b>	<b>16,387</b>	<b>1,639</b>	<b>408,262</b>
Additions (Note 34)	244	4,119	1,394	1,670	1	9,119	0	<b>16,547</b>
Revaluation increases/(decreases) to Revaluation Reserve	(65)	14,428	0	0	65	0	0	<b>14,428</b>
Revaluation increases/(decreases) to Surplus or Deficit on the Provision of Services	(1,795)	(1,468)	0	(1,824)	0	0	0	<b>(5,087)</b>
Derecognition - Disposals	(163)	(122)	0	(164)	0	(70)	0	<b>(519)</b>
Reclassifications & Transfers	3,469	13,313	10,410	0	(65)	(17,039)	0	<b>10,088</b>
<b>At 31 March 2015</b>	<b>45,039</b>	<b>204,634</b>	<b>141,373</b>	<b>38,106</b>	<b>4,531</b>	<b>8,397</b>	<b>1,639</b>	<b>443,719</b>
<b>Depreciation and Impairment</b>								
Balance as at 1 April 2014	2,841	1,820	52,078	28,101	1,372	490	78	<b>86,780</b>
Adjustments between cost/value & depreciation/impairment	(35)	118	4	(179)	0	(429)	0	<b>(521)</b>
Adjusted opening balance	2,806	1,938	52,082	27,922	1,372	61	78	<b>86,259</b>
Depreciation Charge	1,441	4,995	3,799	2,181	(466)	258	36	<b>12,244</b>
Depreciation written out on Revaluation taken to Surplus or Deficit on the Provision of Services	0	(842)	0	(1,824)	0	0	0	<b>(2,666)</b>
Impairment losses/reversals to Surplus or Deficit on the Provision of Services	(9)	(98)	0	0	0	0	0	<b>(107)</b>
Derecognition - Disposals	(11)	(1)	0	(157)	0	0	0	<b>(169)</b>
Reclassifications & Transfers	0	49	0	0	0	(49)	0	<b>0</b>
<b>At 31 March 2015</b>	<b>4,227</b>	<b>6,041</b>	<b>55,881</b>	<b>28,122</b>	<b>906</b>	<b>270</b>	<b>114</b>	<b>95,561</b>
<b>Net Book Value</b>								
<b>Balance as at 31 March 2015</b>	<b>40,812</b>	<b>198,593</b>	<b>85,492</b>	<b>9,984</b>	<b>3,625</b>	<b>8,127</b>	<b>1,525</b>	<b>348,158</b>
<b>Balance as at 31 March 2014</b>	<b>40,508</b>	<b>172,603</b>	<b>77,491</b>	<b>10,323</b>	<b>3,158</b>	<b>15,925</b>	<b>1,561</b>	<b>321,569</b>

## Revaluations

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

2015-2016	Council Dwellings £000	Investment Properties £000	Buildings £000	Infra-structure Assets £000	Vehicles, Plant & Equipment £000	Community Assets £000	Intangible Assets £000	PP&E Under Construction £000	Surplus Assets £000	Total Assets £000
Historic Cost	0	0	0	83,636	10,577	4,009	12	7,479	492	106,205
<b>NBV of assets valued at:</b>										
31 March 2012	37,576	0	0	0	0	0	0	0	0	37,576
31 March 2013	2,696	23,090	0	0	0	0	0	0	0	25,786
31 March 2014	236	7,026	172,603	0	0	0	0	0	0	179,865
31 March 2015	355	(6,731)	25,535	0	0	0	0	0	0	19,159
31 March 2016	917	(1,398)	1,934	0	0	0	0	0	0	1,453
<b>Total</b>	<b>41,780</b>	<b>21,987</b>	<b>200,072</b>	<b>83,636</b>	<b>10,577</b>	<b>4,009</b>	<b>12</b>	<b>7,479</b>	<b>492</b>	<b>370,044</b>

## Note 13 Investment Properties

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

	31-Mar-15 £000	31-Mar-16 £000
Rental income from investment property	(1,284)	(1,263)
Direct operating expenses arising from investment property	805	804
'Net Gain/Loss included in Financing & Investment Income in the CIES'	<b>(479)</b>	<b>(459)</b>
Proceeds from sale	(10)	(15)
Carrying amount of investment properties sold	109	65
(Surplus)/deficit on sale of Investment Properties:	<b>99</b>	<b>50</b>
Changes in Fair Value of Investment Properties	(2,539)	11
	<b>(2,919)</b>	<b>(398)</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:

	31-Mar-15 £000	31-Mar-16 £000
<b>Balance at start of the year</b>	<b>30,116</b>	<b>23,385</b>
Additions:		
- Purchases	1,327	161
Disposals	(109)	(65)
Net gains/losses from fair value adjustments	2,539	(11)
Transfers:		
-to/from Property, Plant and Equipment	(10,488)	(1,483)
<b>Balance at end of the year</b>	<b>23,385</b>	<b>21,987</b>

## Note 14 Intangible Assets

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

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

	2014-2015		2015-2016	
	Other Assets £000	Total £000	Other Assets £000	Total £000
<b>Balance at start of year:</b>				
Gross carrying amounts	2,157	2,157	2,157	2,157
Accumulated amortisation	(2,107)	(2,107)	(2,125)	(2,125)
Net carrying amount at start of year	50	50	32	32
Additions:				
	50	50	32	32
Amortisation for the period	(18)	(18)	(20)	(20)
Net carrying amount at end of year	32	32	12	12
Comprising:				
Gross carrying amounts	2,157	2,157	2,157	2,157
Accumulated amortisation	(2,125)	(2,125)	(2,145)	(2,145)
	32	32	12	12

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

## Note 15 Heritage Assets

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

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

2014-2015 Total £000		2015-2016 Total £000
912	<b>Restated Cost or valuation at start of year</b>	912
0	Additions	0
0	Revaluation gains (losses) other	0
<b>912</b>	<b>Cost or Valuation at year-end</b>	<b>912</b>

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

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

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

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

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

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

The following collections are held:-

### **Archaeology**

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

### **Social History**

The social history collection is categorised as follows:-

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

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

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

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

### **Orkney Archives Collection**

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

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

The Council has recognised 166 Heritage Assets that are considered to have a significant value in the Asset Register for 2015/16.

## Note 16 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 20 for details of these.)

	Long-term			Current		
	01 April 2014 £000	31 March 2015 £000	31 March 2016 £000	01 April 2014 £000	31 March 2015 £000	31 March 2016 £000
<b>Investments</b>						
Available-for-sale financial assets	4,642	5,192	5,131		0	0
Financial assets at fair value through profit and loss	0	0	0	169,433	188,726	183,682
<b>Total investments</b>	<b>4,642</b>	<b>5,192</b>	<b>5,131</b>	<b>169,433</b>	<b>188,726</b>	<b>183,682</b>
<b>Debtors</b>						
Loans and receivables	3,427	2,260	1,981	0	0	0
Financial assets carried at contract amounts	0	0	0	8,144	7,652	6,717
<b>Total Debtors</b>	<b>3,427</b>	<b>2,260</b>	<b>1,981</b>	<b>8,144</b>	<b>7,652</b>	<b>6,717</b>
<b>Borrowings</b>						
Financial liabilities at amortised cost	30,000	40,000	35,000	10,450	538	5,542
<b>Total borrowings</b>	<b>30,000</b>	<b>40,000</b>	<b>35,000</b>	<b>10,450</b>	<b>538</b>	<b>5,542</b>
Financial liabilities carried at contract amount	0	0	0	11,407	15,822	12,503
<b>Total creditors</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>11,407</b>	<b>15,822</b>	<b>12,503</b>

### Fair value of financial instruments

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

- Subsequent to initial recognition, available-for-sale financial assets continue to be carried in the balance sheet at fair value.
- Subsequent to initial recognition, loans and receivables and financial liabilities at amortised cost are carried in the balance sheet at amortised cost, using the effective interest rate method. The effective interest rate is the rate that exactly discount estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability.

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

Investments	Market Value £m	Fair Value %
Managed Funds	183.682	97.28
Private Companies	3.310	1.75
Fishing Quota	1.808	0.96
Other	0.013	0.01
<b>Total</b>	<b>188.813</b>	<b>100.00</b>

Loans and receivables include loans to local developers, including a loan to Orkney Islands Property Development Limited of £1.021 million, loans to fishing boats and housing loans to individuals where a specific entitlement criteria has been met.

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

Financial liabilities carried at contract amount are short term creditors (see Note 22)

#### 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".

	2015-2016				
	Financial liabilities at amortised cost	Financial Assets: loans and receivables	Available-for-sale financial assets	At fair value through profit and loss	Total
	£000	£000	£000	£000	£000
Interest expense (including finance lease interest)	1,445	0	0	0	1,445
Losses on derecognition	0	0	0	2,483	2,483
Impairment losses	0	42	0	0	42
Fee expense	40	7	0	997	1,044
<b>Total expense in (surplus) or deficit on the Provision of Services</b>	<b>1,485</b>	<b>49</b>	<b>0</b>	<b>3,480</b>	<b>5,014</b>
Interest income	(295)	(53)	0	0	(348)
Interest income accrued on impaired financial assets	0	(40)	0	0	(40)
Dividend Income	0	0	(221)	(5,095)	(5,316)
Other income	0	(1)	0	(311)	(312)
Gains on derecognition	0	0	0	(6,046)	(6,046)
<b>Total income in (Surplus) or Deficit on the Provision of Services</b>	<b>(295)</b>	<b>(94)</b>	<b>(221)</b>	<b>(11,452)</b>	<b>(12,062)</b>
Gains on revaluation	0	0	0	(1,167)	(1,167)
Losses on revaluation	0	0	0	11,535	11,535
<b>(Surplus) or deficit arising on revaluation of available-for-sale financial assets (in other comprehensive income and expenditure)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>10,368</b>	<b>10,368</b>
<b>Net (gain)/loss for the year (in the total comprehensive income and expenditure)</b>	<b>1,190</b>	<b>(45)</b>	<b>(221)</b>	<b>2,396</b>	<b>3,320</b>

	2014-2015				
	Financial liabilities measured at amortised cost	Financial Assets: loans and receivables	Available-for-sale assets	At Fair Value through Profit and Loss	Total
	£000	£000	£000	£000	£000
Interest expense (including finance lease interest)	1,305	0	0	0	1,305
Losses on derecognition	0	0	0	701	701
Reductions in fair value	-	-	-	0	0
Impairment losses	0	14	304	0	318
Fee expense	43	5	0	607	655
<b>Total expense in (surplus) or deficit on the Provision of Services</b>	<b>1,348</b>	<b>19</b>	<b>304</b>	<b>1,308</b>	<b>2,979</b>
Interest income	(261)	(63)	0	0	(324)
Interest income accrued on impaired financial assets	0	(43)	0	0	(43)
Dividend Income	0	0	(103)	(4,617)	(4,720)
Other income	0	0	0	(367)	(367)
Gains on derecognition	0	0	0	(5,582)	(5,582)
<b>Total income in (Surplus) or Deficit on the Provision of Services</b>	<b>(261)</b>	<b>(106)</b>	<b>(103)</b>	<b>(10,566)</b>	<b>(11,036)</b>
Gains on revaluation	0	0	0	(11,816)	(11,816)
Losses on revaluation	0	0	0	0	0
Amounts recycled to the Surplus or Deficit on the Provision of Services after impairment	0	0	0	0	0
<b>(Surplus) or deficit arising on revaluation of available-for-sale financial assets (in other comprehensive income and expenditure)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(11,816)</b>	<b>(11,816)</b>
<b>Net (gain)/loss for the year (in the total comprehensive income and expenditure)</b>	<b>1,087</b>	<b>(87)</b>	<b>201</b>	<b>(21,074)</b>	<b>(19,873)</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 2016 of 2.72% to 4.28% for loans from the PWLB and 5.5% for other loans receivable and payable, based on new lending rates for equivalent loans at that date
- No early repayment or impairment is recognised
- Where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

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

	31/03/15		31/03/16	
	Carrying amount	Fair value	Carrying amount	Fair value
	£000	£000	£000	£000
Financial liabilities	40,000	45,793	40,000	46,591

The fair value of the liabilities is higher than the carrying amount because the Authority's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the prevailing rates at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31 March 2016) arising from a commitment to pay interest to lenders above current market rates.

	31/03/15		31/03/16	
	Carrying amount £000	Fair value £000	Carrying amount £000	Fair value £000
Long-term debtors less provision	2,260	2,260	1,981	1,981

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

The nature and extent of risks arising from Financial Instruments are detailed in Note 41.

### Note 17 Inventories

	2014-2015 £000	2015-2016 £000
Stocks and Stores	665	687
<b>Total</b>	<b>665</b>	<b>687</b>

### Note 18 Construction Contracts

The following significant contracts for capital investment have been entered into by Orkney Islands Council and extend beyond 31 March 2016:

Project Name	Purpose	Approx Value £000	Anticipated Completion
Scapa Link Road	Construction of new road	1,046	May 2016
House Build Programme - Phase 2	Construction of new HRA properties	592	Aug 2016
New Evie Primary School	Construction of new primary school	1,204	Sept 2016
Airfield Infrastructure	Construction of new airfields buildings	642	Jan 2017

### Note 19 Short-term Debtors

	2014-2015 £000	2015-2016 £000
NDR & Council Tax	665	566
Rents	401	373
Value Added Tax	1,142	431
Trade debtors	5,396	5,338
NHS Bodies	48	9
<b>Total</b>	<b>7,652</b>	<b>6,717</b>

## Note 20 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.

	2014-2015 £000	2015-2016 £000
Cash and Bank balances	82	424
Short Term Investments (considered to be Cash Equivalents)	33,000	34,000
Short Term Deposits (considered to be Cash Equivalents)	6,471	5,633
<b>Total</b>	<b>39,553</b>	<b>40,057</b>

## Note 21 Assets Held for Sale

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

	Current	
	31-Mar-15 £000	31-Mar-16 £000
<b>Balance outstanding at start of year</b>	<b>1,047</b>	<b>822</b>
<b>Assets newly classified as held for sale:</b>		
Additions	57	166
Transferred from /(to) Non-Current Assets during year	0	296
Revaluation gains/(losses) other	(40)	32
Impairment Losses	(39)	(17)
<b>Assets declassified as held for sale:</b>		
Assets sold cost	(189)	(439)
Other Disposals	(14)	0
<b>Balance outstanding at year-end</b>	<b>822</b>	<b>860</b>

## Note 22 Short-term Creditors

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

	2014-2015 £000	2015-2016 £000
NHS Bodies	0	4
Council Tax	121	101
HRA	304	61
Accumulated Absences	2,473	2,515
Receipts in advance	298	317
Trade creditors	9,909	7,646
Other	2,717	1,859
<b>Total Short Term Creditors</b>	<b>15,822</b>	<b>12,503</b>

## Note 23 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 2015 £000	Increase in provision during year £000	Utilised during year £000	Unused Amounts Reversed £000	Interest earned £000	Balance as at 31 March 2016 £000
Other	2,802	0	0	0	0	2,802
	<b>2,802</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2,802</b>
<b>Current Provisions</b>	0	0	0	0	0	0
<b>Long Term Provisions</b>	2,802	0	0	0	0	2,802
	<b>2,802</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2,802</b>

### Other

A provision of £2.802M has been identified as the Council's Section 75 debt in respect of the Merchant Navy Officers Pension Fund (MNOFF) - Post 78 Section. A Section 75 debt was triggered when the last active member retired and no active members of the Pension Fund were directly employed by the Council. As at 31 March 2016 a formal request for this amount has yet to be received from the MNOFF. The Council has been negotiating a withdrawal from the MNOFF which would require the Council to guarantee the future liabilities of both Orkney Towage Company Limited and Orkney Ferries Limited to the MNOFF but this would avoid payment of the Section 75 debt.

The Policy and Resources Committee recommended that the integration of the Orkney Towage Company Ltd into the Council be implemented, post April 2016, subject to the closure of the MNOFF to future accrual. Therefore the withdrawal agreement is hoped to reach a final conclusion during 2016/17.

## Note 24 Usable Reserves

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

31 March 2015 £m		31 March 2016 £m
18.521	General Fund Balance	21.185
0.000	Housing Revenue Account Balance	0.476
0.020	Capital Receipts Reserve	0.020
0.508	Other Statutory Funds	0.508
214.255	Harbours	207.841
3.811	Repairs and Renewals Fund	4.785
<b>237.115</b>	<b>Total usable reserves</b>	<b>234.815</b>

## Note 25 Unusable Reserves

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

1. 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.
2. Adjustment accounts that deal with situations where income and expenditure are recognised according to statutory regulations against the General Fund Balance and the Housing Revenue Account Balance on a different basis from that expected by generally accepted accounting practices. These adjustment accounts will carry either a debit balance (showing that the council is required by statute to fund its expenditure more slowly than accounting standards would expect) or a credit balance (where the council has set resources aside under statute earlier than accounting standards require). The adjustment accounts effectively offset the General Fund Balance and the Housing Revenue Account Balance to give the council more or less spending power in the short term than proper accounting practices would allow. The adjustment accounts comprise the Capital Adjustment Account, the Financial Instruments Adjustment Account, the Pension Reserve and the Employee Statutory Adjustment Account.

### Summary of unusable reserves

	31 March 2015 £000	31 March 2016 £000
Capital Adjustment Account	235,997	236,265
Financial Instruments Adjustment Account	(151)	(110)
Revaluation Reserve	85,274	83,397
Pensions Reserve	(38,583)	(17,912)
Available for Sale Financial Instruments Reserve	2,433	2,372
Employee Statutory Adjustment Account	(2,473)	(2,515)
<b>Total Unusable Reserves</b>	<b>282,497</b>	<b>301,497</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.

	31 March 2015 £000	31 March 2016 £000
<b>Balance at 1 April</b>	73,508	85,274
Upward revaluation of assets	14,388	1,084
<b>Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services</b>	<b>14,388</b>	<b>1,084</b>
Difference between fair value and historical cost depreciation	(2,370)	(2,651)
Revaluation balances on assets scrapped or disposed of	(252)	(310)
<b>Balance at 31 March</b>	<b>85,274</b>	<b>83,397</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 7 provides details of the source of all the transactions posted to the Capital Adjustment Account, apart from those involving the Revaluation Reserve.

	31 March 2015		31 March 2016	
	£000	£000	£000	£000
<b>Balance at 1 April</b>		<b>228,218</b>		<b>235,997</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	(12,117)		(13,710)	
Revaluation losses on Property, Plant and Equipment	(2,421)		(2,462)	
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	(396)		(1,163)	
		<b>(14,934)</b>		<b>(17,335)</b>
Adjusting amounts written out of the Revaluation Reserve		2,370		2,652
<b>Net written out amount of the cost of non-current assets consumed in the year</b>		<b>(12,564)</b>		<b>(14,683)</b>
<b>Capital financing applied in the year:</b>				
Use of the Capital Receipts Reserve to finance new capital expenditure	433		694	
Use of the Major Repairs Reserve to finance new capital expenditure	0		0	
Loans Lease principal repayments	4,266		1,376	
Application of grants to capital financing from the Capital Grants Unapplied Account	9,973		9,863	
Capital expenditure charged against the General Fund and HRA balances	3,132		3,029	
		<b>17,804</b>		<b>14,962</b>
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		2,539		(11)
<b>Balance at 31 March</b>		<b>235,997</b>		<b>236,265</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 2007, the reduction in value and corresponding charge to be reversed, so that there is no impact on the General Fund Balance.

	31 March 2015 £000	31 March 2016 £000
<b>Balance at 1 April</b>	<b>(194)</b>	<b>(151)</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	43	41
<b>Balance at 31 March</b>	<b>(151)</b>	<b>(110)</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 shortfall in the benefits earned by past and current employees. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	31 March 2015 £000	31 March 2016 £000
<b>Balance at 1 April</b>	<b>(35,721)</b>	<b>(38,583)</b>
Remeasurement of the net Pension Fund liability/(asset)	879	24,599
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	(10,816)	(11,484)
Employers Pensions contributions and direct payments to pensioners payable in the year	7,075	7,556
<b>Balance at 31 March</b>	<b>(38,583)</b>	<b>(17,912)</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.

	31 March 2015 £000	31 March 2016 £000
<b>Balance at 1 April</b>	<b>(2,245)</b>	<b>(2,473)</b>
Amounts accrued at the end of the current year	(228)	(42)
<b>Balance at 31 March</b>	<b>(2,473)</b>	<b>(2,515)</b>

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

The Available for Sale Financial Reserve contains the gains made by the Authority arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are:

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

	31 March 2015 £000	31 March 2016 £000
<b>Balance at 1 April</b>	<b>0</b>	<b>2,433</b>
Upward revaluation of investments	2,433	49
Downward revaluation of investments not charged to the Surplus/Deficit on the Provision of Services	0	(110)
<b>Balance at 31 March</b>	<b>2,433</b>	<b>2,372</b>

**Note 26 Cash Flow Statement - Operating Activities**

	2014-2015 £000	2015-2016 £000
<b>Adjustment to surplus or deficit on the provision of services for noncash movements</b>		
Depreciation and Impairment losses	12,099	13,690
Revaluation Gains	2,421	2,462
Amortisation (included with depreciation above)	18	20
(Increase)/Decrease in Stock	49	(22)
(Increase)/Decrease in Debtors	1,709	147
Increase/(Decrease) in impairment provision for bad debts	(142)	0
Increase/(Decrease) in Creditors	3,427	(1,652)
Movements in the Pension Reserve not relating to actuarial changes	3,741	3,928
Carrying amount of non-current assets sold	648	1,473
Investment Income not involving movement of cash	(20,007)	1,533
Contributions to Other Reserves/Provisions	(8,133)	(6,706)
Movement in value of investment properties-included above in impairment & downward revaluations (& non-sale de-recognitions)	(2,539)	11
	<b>(6,709)</b>	<b>14,884</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)	33,762	56,294
Proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)	(32,811)	(55,127)
	<b>951</b>	<b>1,167</b>

**Note 27 Cash Flow Statement - Investing Activities**

	2014-2015 £000	2015-2016 £000
Purchase of PP&E, investment property and intangible assets	18,045	15,077
Purchase of Short Term Investments (not considered to be cash equivalents)	(547)	162
Other Payments for Investing Activities	368	114
Proceeds from the sale of PP&E, investment property and intangible assets	(433)	(694)
Capital Grants and Contributions Received	(10,854)	(8,797)
Other Receipts from Investing Activities	(461)	(404)
<b>Net Cash flows from Investing Activities</b>	<b>6,118</b>	<b>5,458</b>

**Note 28 Cash Flow Statement - Financing Activities**

	2014-2015 £000	2015-2016 £000
Cash receipts from Short and Long Term Borrowing	(10,000)	0
Other Receipts form Financing Activities	(361)	(294)
Repayment of Short and Long Term borrowing	10,000	0
Other payments for Financing Activities	1,312	1,461
<b>Net Cash flows from Financing Activities</b>	<b>951</b>	<b>1,167</b>

## Note 29 Amounts Reported for Resource Allocation Decisions

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

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

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

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

Service Area income and expenditure analysis 2015-16	Education	Leisure & Cultural	Community Social Services	Roads	Transport	Environ. Services	Housing Revenue Account	Harbours	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Fees, charges & other income	684	633	2,184	109	28	1,000	3,357	14,147	22,142
Government grants	209	14	73	0	30	7	0	0	333
Other grants & contributions	703	344	3,389	111	228	127	2,334	54	7,290
<b>Total Income</b>	<b>1,596</b>	<b>991</b>	<b>5,646</b>	<b>220</b>	<b>286</b>	<b>1,134</b>	<b>5,691</b>	<b>14,201</b>	<b>29,765</b>
Employee expenses	20,708	1,881	15,716	(487)	981	523	309	2,997	42,628
Other service expenses	10,114	2,963	7,092	4,110	8,826	3,453	3,979	10,350	50,887
Support service recharges	954	509	1,024	335	226	323	308	322	4,001
<b>Total Expenditure</b>	<b>31,776</b>	<b>5,353</b>	<b>23,832</b>	<b>3,958</b>	<b>10,033</b>	<b>4,299</b>	<b>4,596</b>	<b>13,669</b>	<b>97,516</b>
<b>Net Expenditure</b>	<b>30,180</b>	<b>4,362</b>	<b>18,186</b>	<b>3,738</b>	<b>9,747</b>	<b>3,165</b>	<b>(1,095)</b>	<b>(532)</b>	<b>67,751</b>

Service Area income and expenditure analysis 2014-15	Education	Leisure & Cultural	Community Social Services	Roads	Transport	Environ. Services	Housing Revenue Account	Harbours	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Fees, charges & other income	684	559	2,078	103	38	830	3,206	7,377	14,875
Government grants	220	71	237	0	5	15	0	0	548
Other grants & contributions	649	314	3,521	146	58	0	218	1,287	6,193
<b>Total Income</b>	<b>1,553</b>	<b>944</b>	<b>5,836</b>	<b>249</b>	<b>101</b>	<b>845</b>	<b>3,424</b>	<b>8,664</b>	<b>21,616</b>
Employee expenses	19,690	1,812	15,484	0	836	539	298	2,678	41,337
Other service expenses	9,555	2,930	6,876	3,946	8,481	3,458	2,157	3,978	41,381
Support service recharges	950	441	1,043	228	208	236	455	340	3,901
<b>Total Expenditure</b>	<b>30,195</b>	<b>5,183</b>	<b>23,403</b>	<b>4,174</b>	<b>9,525</b>	<b>4,233</b>	<b>2,910</b>	<b>6,996</b>	<b>86,619</b>
<b>Net Expenditure</b>	<b>28,642</b>	<b>4,239</b>	<b>17,567</b>	<b>3,925</b>	<b>9,424</b>	<b>3,388</b>	<b>(514)</b>	<b>(1,668)</b>	<b>65,003</b>

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

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

	2014-2015 £m	2015-2016 £m
Net expenditure in the Service Analysis	65.003	67.751
Net expenditure of services and support services not included in the Analysis	16.558	12.824
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	16.065	17.244
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	(6.231)	(3.781)
<b>Cost of Services</b>	<b>91.395</b>	<b>94.038</b>

## Reconciliation to subjective analysis of income and expenditure

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

2015-2016	Service Analysis £000	Services and Support Services not in Analysis £000	Amounts not reported to management for decision making £000	Amounts not included in I&E £000	Cost of Services £000	Corporate Amounts £000	Total £000
Government Grants	333	4,303	0	0	4,636	72,579	77,215
Other Grants, Reimbursements & Contributions	6,918	2,785	0	0	9,703	1,495	11,198
Rents & Lettings	4,142	372	0	0	4,514	1,235	5,749
Sales	1,193	41	0	0	1,234	124	1,358
Investment Income	0	0	0	0	0	(1,104)	(1,104)
Interest & Loans	56	0	0	0	56	280	336
Fees & Charges	16,751	1,653	0	0	18,404	1,134	19,538
Miscellaneous Income	372	167	(6,930)	0	(6,391)	322	(6,069)
Apportioned Income	0	(2,472)	0	0	(2,472)	0	(2,472)
Capital Grants & Contributions	0	0	0	0	0	9,863	9,863
Income from Council Tax	0	0	0	0	0	7,909	7,909
<b>Total Income</b>	<b>29,765</b>	<b>6,849</b>	<b>(6,930)</b>	<b>0</b>	<b>29,684</b>	<b>93,837</b>	<b>123,521</b>
Staff Costs	42,627	11,953	2,603	0	57,183	3,322	60,505
Property Costs	10,388	1,359	0	0	11,747	1,030	12,777
Supplies & Services	3,347	1,608	0	0	4,955	1,537	6,492
Transport Costs	4,739	241	0	0	4,980	102	5,082
Administration Costs	1,102	1,336	0	0	2,438	102	2,540
Apportioned Costs	4,001	(7,758)	0	0	(3,757)	226	(3,531)
Third Party Payments	16,787	1,265	0	0	18,052	65	18,117
Transfer Payments	2,193	5,834	0	0	8,027	33	8,060
Miscellaneous Expenditure	9,134	3,248	(9,850)	0	2,532	(31)	2,501
Finance and Capital Charges	3,198	587	0	(3,781)	4	1,659	1,663
Depreciation and Impairment	0	0	17,561	0	17,561	(793)	16,768
Gain or Loss on Disposal of Fixed Assets	0	0	0	0	0	192	192
Accounting for Pensions	0	0	0	0	0	1,277	1,277
<b>Total expenditure</b>	<b>97,516</b>	<b>19,673</b>	<b>10,314</b>	<b>(3,781)</b>	<b>123,722</b>	<b>8,721</b>	<b>132,443</b>
<b>(Surplus) or deficit on the provision of services</b>	<b>67,751</b>	<b>12,824</b>	<b>17,244</b>	<b>(3,781)</b>	<b>94,038</b>	<b>(85,116)</b>	<b>8,922</b>

2014-2015	Directorate Analysis £000	Services and Support Services not in Analysis £000	Amounts not reported to management for decision making £000	Amounts not included in I&E £000	Cost of Services £000	Corporate Amounts £000	Total £000
Government Grants	548	4,315	0	0	4,863	70,672	75,535
Other Grants, Reimbursements & Contributions	5,874	4,276	0	0	10,150	1,326	11,476
Rents & Lettings	3,969	352	0	0	4,321	1,231	5,552
Sales	1,231	40	0	0	1,271	123	1,394
Investment Income	0	0	0	0	0	19,866	19,866
Interest & Loans	42	0	0	0	42	219	261
Fees & Charges	9,633	1,612	0	0	11,245	1,263	12,508
Miscellaneous Income	319	107	(9,719)	0	(9,293)	373	(8,920)
Apportioned Income	0	(2,344)	0	0	(2,344)	0	(2,344)
Capital Grants & Contributions	0	0	0	0	0	9,973	9,973
Income from Council Tax	0	0	0	0	0	7,797	7,797
<b>Total Income</b>	<b>21,616</b>	<b>8,358</b>	<b>(9,719)</b>	<b>0</b>	<b>20,255</b>	<b>112,843</b>	<b>133,098</b>
Staff Costs	41,336	11,480	2,269	0	55,085	3,278	58,363
Property Costs	9,064	1,255	0	0	10,319	1,058	11,377
Supplies & Services	3,383	1,571	0	0	4,954	1,189	6,143
Transport Costs	4,405	232	0	0	4,637	112	4,749
Administration Costs	1,041	1,346	0	0	2,387	120	2,507
Apportioned Costs	3,902	(7,732)	0	0	(3,830)	311	(3,519)
Third Party Payments	15,166	955	0	0	16,121	80	16,201
Transfer Payments	1,989	5,696	0	0	7,685	34	7,719
Miscellaneous Expenditure	5,266	4,941	(10,215)	0	(8)	(70)	(78)
Finance and Capital Charges	1,067	5,172	0	(6,231)	8	1,484	1,492
Depreciation and Impairment	0	0	14,292	0	14,292	(2,293)	11,999
Gain or Loss on Disposal of Fixed Assets	0	0	0	0	0	215	215
Accounting for Pensions	0	0	0	0	0	1,581	1,581
<b>Total expenditure</b>	<b>86,619</b>	<b>24,916</b>	<b>6,346</b>	<b>(6,231)</b>	<b>111,650</b>	<b>7,099</b>	<b>118,749</b>
<b>(Surplus) or deficit on the provision of services</b>	<b>65,003</b>	<b>16,558</b>	<b>16,065</b>	<b>(6,231)</b>	<b>91,395</b>	<b>(105,744)</b>	<b>(14,349)</b>

### Note 30 Trading Operations

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

### Note 31 Agency Services

The Council is required by legislation to provide a collection service for Scottish Water whereby it collects water and waste charges in conjunction with collection of Council Tax. The legislation stipulates the minimum amount Scottish Water must pay by way of commission for this service. For 2015/16 the value of this service amounted to £0.062M (2014/15 £0.065M).

The Council collects Non-Domestic Rates on behalf of the Scottish Government. For 2015/16 £9.490M was collected (2014/15 £9.604M).

**Note 32 External Audit Costs**

Fees payable to Audit Scotland in respect of external audit services undertaken in accordance with Audit Scotland's Code of Audit Practice in 2015/16 were as follows:-

	<b>2014-2015</b> £000	<b>2015-2016</b> £000
Orkney Islands Council	190	186
Charities	2	2
	<b>192</b>	<b>188</b>

**Note 33 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). Grants received from the Scottish Government are set out in the subjective analysis in Note 29 on amounts reported for resource allocation decisions.

Companies and Joint Boards

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

Councillors' and Officers

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

All elected councillors' and senior officers are required to declare any related party interests in a formal Register of Interests, which are 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 in respect of the membership of the pension fund by council employees.

	2014-2015			2015-2016		
	Receipts £m	Payments £m	Debtor / (Creditor) £m	Receipts £m	Payments £m	Debtor / (Creditor) £m
<b>Scottish Government</b>						
Revenue Grants Being payments made in support of Revenue Expenditure	59.398	0.000	0.000	61.439	0.000	0.000
Capital Grants Being payments made in support of Capital Expenditure	9.217	0.000	0.000	9.862	0.000	0.000
<b>Companies and Joint Boards</b>						
Orkney Towage Company Limited Being payments made for the provision of Towage Services	1.190	0.771	3.425	1.623	2.103	3.120
Orkney Ferries Limited Being payments made in support of the Ferry Services	0.023	7.041	0.705	0.000	7.342	0.600
Pickaquooy Centre Trust	0.332	0.840	0.003	0.319	0.870	(0.033)
Orkney and Shetland Valuation Joint Board Being payments of annual requisition to Joint Boards	0.000	0.274	0.024	0.000	0.321	0.025
<b>Orkney Islands Pension Fund</b>						
Being payments of employers contributions in respect of employees	0.000	6.533	(0.904)	0.000	6.990	0.000

## Note 34 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	2014-2015 £000	2015-2016 £000
Opening Capital Financing Requirement	<b>36,540</b>	<b>36,610</b>
Property, Plant and Equipment	16,547	14,916
Investment Properties	1,327	161
	<b>17,874</b>	<b>15,077</b>
<b>Sources of finance</b>		
Capital receipts	(433)	(694)
Government grants and other contributions	(9,973)	(9,863)
<b>Sums set aside from revenue:</b>		
Direct revenue contributions:		
General	(1,812)	(173)
HRA	(137)	(2,088)
Harbours	(1,183)	(768)
Loans fund principal	(4,266)	(1,376)
	<b>(17,804)</b>	<b>(14,962)</b>
<b>Closing Capital Finance Requirement</b>	<b>36,610</b>	<b>36,725</b>
<b>Explanation of movements in year</b>		
Increase in underlying need to borrow (unsupported by government financial assistance)	70	115
<b>Increase/(decrease) in Capital Financing Requirement</b>	<b>70</b>	<b>115</b>

At 31 March 2016 the Council had commitments on capital contracts for projects of £3.484M million. This expenditure will be funded from a combination of government grants, external borrowing, and income from selling assets and contributions from revenue budgets.

## Note 35 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 £0.117m (2014/15 £0.116m).

Future minimum payments are set out below:-

	2014-2015	2015-2016
	Land and buildings £000	Land and buildings £000
Minimum lease rentals payable:		
No later than 1 year	116	117
Later than 1 year and no later than 5 years	397	399
Later than 5 years	2,485	2,408
	<b>2,998</b>	<b>2,924</b>

### Orkney Islands Council as Lessor

#### Operating Leases

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

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

The total value of rental income recognised during the period was £1.518m (2014/15 £1.650m). No contingent rents were recognised.

Future minimum lease income is set out below:-

	2014-2015	2015-2016
	Land and buildings £000	Land and buildings £000
Minimum lease rentals receivable:		
No later than 1 year	1,650	1,518
Later than 1 year and no later than 5 years	4,301	4,335
Later than 5 years	17,361	16,621
	<b>23,312</b>	<b>22,474</b>

### **Note 36 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 12, 14, 15 and 21 reconciling the movement over the year in the Property, Plant and Equipment, Intangible, Heritage and Assets Held For Sale balances.

### **Note 37 Capitalisation of Borrowing Costs**

The Council does not capitalise its borrowing costs.

## **Note 38 Pension Schemes Accounted as Defined Contribution Schemes**

The Scottish Teachers' Superannuation Scheme is a contributory pension scheme administered and regulated by the Scottish Public Pensions Agency (an executive agency of the Scottish Government) on behalf of the Scottish Ministers. The Scottish Teachers' Superannuation Scheme is a defined benefit scheme but, as it is not possible to identify each participating council's share of the underlying liabilities on a consistent and reasonable basis, the Scottish Teachers' Superannuation Scheme is accounted for as if it were a defined contribution scheme. Employer contributions are set on the basis of periodic reviews by the Government Actuary. The council's rate of contribution as employer increased from 14.9% to 17.2% on 1 September 2015 (14.9% in 2014-2015) and the employee rate is tiered and ranges from 6.4% to 11.6% (6.4% to 11.6% in 2014-2015). The council paid £1.955 million (£1.730 million in 2014-2015) for employer's contributions to the Scottish Public Pensions Agency. £0.314 million of expenditure (£0.316 million in 2014-2015) was charged to service revenue accounts in respect of "added years" pension enhancement termination benefits, representing 2.61% of employees' pensionable pay (2.72% in 2014-2015).

## **Note 39 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:

2014-2015 £m		2015-2016 £m
<b>Comprehensive Income and Expenditure Statement</b>		
<i>Cost of Services:</i>		
9.235	Current service cost	10.203
0.000	Past service cost including curtailments	0.004
<i>Included within financing and investment income and expenditure:</i>		
1.581	Net Interest Expense	1.277
<b>10.816</b>	<b>Total of LGPS post-employment benefits charged to the surplus or deficit on the provision of services</b>	<b>11.484</b>
<i>Included within other comprehensive income and expenditure:</i>		
(2.825)	Changes in demographic assumptions	0.000
28.631	Changes in financial assumptions	(26.771)
(1.177)	Other experience	(2.750)
(25.508)	Return on assets excluding amounts included in net interest	4.922
<b>(0.879)</b>	<b>Remeasurement of the net Pension Fund Liability/(Assets)</b>	<b>(24.599)</b>
<b>Movement in reserves statement:</b>		
<i>Adjustments between accounting and funding basis under regulations:</i>		
(10.816)	Reversal of net charges made to surplus or deficit on the provision of services for post-employment benefits in accordance with the code	(11.484)
0.879	Reversal of re-measurement of net defined benefit liability	24.599
<b>Actual amount charged against the General Fund balance for pensions in the year:</b>		
7.075	Employer contributions and direct payments payable in the year	7.556
<b>(2.862)</b>	<b>Net charge to the General Fund Summary</b>	<b>20.671</b>

### Pension Assets and Liabilities recognised in the Balance Sheet

	31 March 2015 £m	31 March 2016 £m
Fair value of scheme assets	236.021	242.389
Fair value of scheme liabilities	(274.604)	(260.301)
<b>Council's share of (deficit) or surplus in the scheme</b>	<b>(38.583)</b>	<b>(17.912)</b>

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

Reconciliation of Movements in the Fair Value of Scheme Assets:

<b>2014-2015</b> <b>£000</b>		<b>2015-2016</b> <b>£000</b>
<b>198.693</b>	<b>Opening balance at 1 April</b>	<b>236.021</b>
8.606	Interest Income	7.611
<i>Cashflows:-</i>		
1.886	Member contributions	1.982
6.479	Employer contributions	6.959
0.596	Contributions in respect of unfunded benefits	0.597
(5.151)	Benefits paid: other	(5.262)
(0.596)	Benefits paid: unfunded	(0.597)
<i>Remeasurements:-</i>		
25.508	Return on Plan Assets, excl. net interest expense	(4.922)
<b>236.021</b>	<b>Closing balance at 31 March</b>	<b>242.389</b>

Reconciliation of Present Value of the Scheme Liabilities:

<b>2014-2015</b> <b>£m</b>		<b>2015-2016</b> <b>£m</b>
224.767	Present Value of Funded Liabilities	265.145
9.647	Present Value of Unfunded Liabilities	9.459
<b>234.414</b>	<b>Opening balance at 1 April</b>	<b>274.604</b>
9.235	Current service cost	10.203
0.000	Past service cost including curtailments	0.004
10.187	Interest cost	8.888
<i>Cashflows:-</i>		
1.886	Member contributions	1.982
(5.151)	Estimated benefits paid: other	(5.262)
(0.596)	Estimated benefits paid: unfunded	(0.597)
<i>Remeasurements:-</i>		
(2.825)	Changes in demographic assumptions	0.000
28.631	Changes in financial assumptions	(26.771)
(1.177)	Other experience	(2.750)
<b>274.604</b>		<b>260.301</b>
265.145	Present Value of Funded Liabilities	251.742
9.459	Present Value of Unfunded Liabilities	8.559
<b>274.604</b>	<b>Closing balance at 31 March</b>	<b>260.301</b>

## Analysis of Pension Fund's Assets

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

2014-2015 £m			2015-2016 £m	
<b>Equities:</b>				
46.369	20%	Consumer	49.702	21%
38.428	16%	Manufacturing	32.594	13%
10.628	5%	Energy and Utilities	7.202	3%
45.915	19%	Financial Institutions	50.399	21%
11.357	5%	Health and Care	10.729	4%
18.425	8%	Information Technology	19.342	8%
0.000	0%	Other	0.000	0%
0.000	0%	<b>Bonds:</b>	0.000	0%
0.000	0%	<b>Private Equity:</b>	0.000	0%
0.000	0%	<b>Property:</b>	0.000	0%
<b>Investment Funds and Unit Trusts:</b>				
29.162	12%	Equities	31.123	13%
33.751	14%	Bonds	33.991	14%
0.000	0%	<b>Derivatives:</b>	0.000	0%
1.986	1%	<b>Cash and Cash Equivalents:</b>	7.307	3%
<b>236.021</b>	<b>100%</b>	<b>Total Assets</b>	<b>242.389</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 following table shows the principal assumptions used by Hymans Robertson LLP, the Fund's independent actuaries, to estimate the council's post-employment benefits transactions for 2015-2016, and the council's share of the Pension Fund's defined benefit obligation (scheme liabilities) and scheme assets as at 31 March 2016:

31 March 2015		31 March 2016
3.20%	Discount rate for defined benefit obligation	3.50%
4.30%	Rate of increase in salaries	4.20%
2.40%	Rate of increase in pensions	2.20%
Mortality assumptions:		
Longevity at age 65 for current pensioners:		
22.4 years	Men	22.4 years
23.8 years	Women	23.8 years
Longevity at age 65 for future pensioners:		
25 years	Men	25 years
27 years	Women	27 years
Commutation assumptions - percentage of the maximum additional tax-free cash (per HM Revenue & Customs limits) converted from annual pension into retirement lump sum:		
50%	for pre-April 2009 service	50%
75%	for post-April 2009 service	75%

The estimation of the defined benefit obligation is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes to the assumptions occurring at the end of the reporting period

and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. In practice this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method.

Change in assumptions as at 31 March 2016:	Approximate increase to Employer %	Approximate Monetary Amount £m
0.5% decrease in Real Discount Rate	11%	29.067
1 year increase in member life expectancy	3%	7.809
0.5% increase in the Salary Increase Rate	4%	11.170
0.5% increase in the Pension Increase Rate	7%	17.263

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 achieve 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 2017.

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

The Authority anticipates paying £6.434m in contributions to the scheme in 2016/2017.

The weighted average duration of the defined benefit obligation for scheme members was 19.9 years in 2015/16.

### Statutory Accounts

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

### Note 40 Contingent Liabilities

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

The Council is responsible under environmental and planning legislation for the ongoing monitoring and if required maintenance and reinstatement of current and former landfill and quarry sites. As at 31 March 2016, no financial provision has been made in respect of the future reinstatement of these landfill or quarry sites. However, work has commenced to commission a review into the management of quarries and landfill sites with a view to establishing policy on developing exit strategies for redundant assets that are not suitable for sale or redevelopment. The council recognises that a contingent liability in respect of current and former landfill and quarry sites operated by the council may arise as a result of this work. 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.

There may be claims submitted against the Council in relation to a judgement by the European Court of Justice on holiday pay. The judgement was that all pay elements intrinsically linked to the performance of the tasks being carried out under the terms of the contract of employment should be included in the calculation of holiday pay. The actual cost and timing of any claims cannot be estimated with reasonable accuracy and consequently no specific provision has been made in the financial statements in respect of any such claims. Guidance on this issue is being developed by COSLA which will allow the full financial impact to be assessed.

The Council receives grant income from Historic Environment Scotland (HES) in respect of planning, environmental and heritage projects being undertaken. The standard conditions for grants received apply for period of 5 years after the end of the financial year in which the final instalment of the grant is paid. This means that HES, as the Grantor, can reclaim grant payments should the standard conditions of the grant be breached during this 5-year period. In the last 5 financial years the Council has received a total of £995,340 in respect of grant payments from HES.

The Council's risk register includes one pension risk relating to participation of its subsidiaries, Orkney Towage Company Ltd and Orkney Ferries Ltd in the Merchant Navy Officers Pensions Fund (MNOFF). The MNOFF is closed to future accrual from 1 April 2016, therefore if either of the Council subsidiaries cease to exist before a withdrawal arrangement has been finalised the Council could become liable to the MNOFF for the immediate payment of a share of the deficit on the fund (a so called Section 75 debt) estimated at £13m.

### **Note 41 Nature and Extent of Risks Arising from Financial Instruments**

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

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

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

#### Credit Risk

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

Deposits are not made with banks and financial institutions unless they are rated independently with minimum score of A1/P1/F1 short term debt ratings with Moody's,

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Standard and Poors or Fitch. The authority has a policy of not lending more than £25M 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.

2015-2016	Amount at 31 March 2016	Historical experience of non-payment adjusted for market conditions at 31 March 2016	Adjustment for Market Conditions at 31 March 2016	Estimated maximum exposure to default and uncollectability at 31 March 2016
		£m	%	%
Deposits with financial institutions and local authorities	39.633	0.000	0.000	0.000
Customers (sundry income)	8.418	5.000	20.210	1.701
<b>Total</b>	<b>48.051</b>			<b>1.701</b>

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

The Authority does not generally allow credit for customers, such that £2.315M of the £4.587M balance is past its due date for payment. The past due but not impaired amount can be analysed by age as follows:

31 March 2015		31 March 2016
£m		£m
0.266	Less than three months	0.523
0.172	Three to six months	0.144
0.155	Six months to one year	0.121
1.405	More than one year	1.526
<b>1.998</b>	<b>Sundry income debtors balance</b>	<b>2.314</b>

### 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 2016 the outstanding value of loans advanced by the council was £0.239 million (£0.215 million as at 31 March 2015).

### Liquidity risk

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

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

	31/03/15 £m	31/03/16 £m
Between one and two years	5	5
Between two and five years	10	5
More Than 5 Years	25	25
	<b>40</b>	<b>35</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 at variable rates – the interest expense charged to the Surplus or Deficit on the Provision of Services will rise
- borrowings at fixed rates – the fair value of the liabilities borrowings will fall
- investments at variable rates – the interest income credited to the Surplus or Deficit on the Provision of Services will rise
- investments at fixed rates – the fair value of the assets will fall

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

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

To illustrate the notional impact of changes in interest rates upon the council, the following table shows the financial effect if rates had been 1% higher during 2015-2016, with all other variables held constant.

	31/03/15 £000	31/03/16 £000
Increase in interest receivable on variable rate investments	(395)	(396)
<b>Impact on Surplus or Deficit on the Provision of Services</b>	<b>(395)</b>	<b>(396)</b>
Decrease in fair value of fixed rate investment assets	818	1,855
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)	14	15

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 £188.813M of investments as at 31 March 2016 in the form of equity shares and bonds, including £3.310M in a local wind energy company. The authority is consequently exposed to losses arising from movement in the price of the shares.

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

These clearly defined shares are all classified as 'for profit or sale', meaning that all movements in price will impact directly on the income and expenditure statement. A general shift of 5% in the general price of shares (positive or negative) would have resulted in a £9.441M gain or loss being recognised in the income and expenditure statement.

Market risk: foreign exchange risk

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

## Note 42 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 2016 and how these balances were invested is also detailed. Orkney Islands Council administers these Funds and separately accounts for them. They do not form part of the Council's single entity balance sheet, although under s222 of the Local Government (Scotland) Act 1973, the property of the Trust Funds "vest[s] in" the relevant local authority. However they are included in the annual accounts of the Council as a note to the core financial statements.

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

### Summary Income and Expenditure Statement

2014-2015 £000		2015-2016		
		Registered Charitable Trusts £000	Non Registered Trusts £000	Total £000
<b>Income</b>				
(59)	Interest on Investments etc.	(1)	(30)	(31)
<b>Expenditure</b>				
96	General Expenditure	24	43	67
<b>37</b>	<b>(Surplus)/Deficit for the Year</b>	<b>23</b>	<b>13</b>	<b>36</b>

### Balance Sheet as at 31 March 2016

31 March 2015 £000		Note	31 March 2016		
			Registered Charitable Trusts £000	Non Registered Trusts £000	Total £000
833	Short-term Deposits with Orkney Islands Council		100	674	774
(37)	Current Liabilities		(2)	(12)	(14)
<b>796</b>	<b>Total Assets less Liabilities</b>		<b>98</b>	<b>662</b>	<b>760</b>
<b>Represented by</b>					
796	Trust Fund Balances		98	662	760
<b>796</b>	<b>Total Net Worth</b>	(ii)	<b>98</b>	<b>662</b>	<b>760</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 OSCR. The Council has prepared Charities SORP compliant financial statements on a receipts and payments basis for submission to OSCR.

Orkney Educational Trust (OET)	SC044607	County Home Comforts Fund	SC044607
Sheriff Thoms Bequest	SC044607	St Peter's House Comforts Fund	SC044607
Baron Stewart Moncrieff's	SC044607	Queens Own Highlanders	SC044607
Frances Taylor's Bequest	SC044607	Lord Lieutenants Orkney Relief Fund	SC044607
William Orkney Reid's Bursary Fund	SC044607	Mrs Flett's Bequest	SC044607
Baikie Bursary	SC044607		

The trustees made an application to the Office of the Scottish Charity Regulator (OSCR) for approval of a re-organisation scheme to transfer the assets of the Orkney Educational Trust to the Orkney Islands General Charitable Trust (OICGCT), a registered Scottish charity (SC044607). The aim of the re-organisation is intended to obtain greater administration efficiencies and reduced costs as a result of synergy obtained from the reorganisation. Approval of the reorganisation was granted by OSCR on 16 June 2015. The transfer of assets was completed on 31 January 2016, and the OET fell under the remit of the OICGCT from this date. OET has been removed from the OSCR charities register.

## 2. Trust Fund Balances

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

<b>£000</b>	
<b>Orkney Educational Trust</b> Various bursary awards made to individuals for further education opportunities, and in the promotion of sport, visual arts, music and drama.	49
<b>Sheriff Thoms Bequest</b> The restoration of St Magnus Cathedral.	19
<b>William Orkney Reid's Bursary Fund</b> To assist the education of any promising pupils of Kirkwall Grammar School.	11
<b>County Home Comforts Fund</b> To promote the social welfare and comfort of residents of the County Home subsequently renamed as St Rognvald's House, Kirkwall, Orkney.	0
<b>St Peter's House Comforts Fund</b> To promote the social welfare and comfort of residents of St Peters House, Stromness, Orkney.	7
<b>Others</b> For various purposes including the upkeep of lairs, financial assistance to poor and infirm persons, the provision of prizes to school pupils, and other charitable activities.	12
<b>Total</b>	<b>98</b>

Copies of the annual accounts of the Charitable Funds are available on the Council website: <http://www.orkney.gov.uk/Service-Directory/S/budgets-and-accounting.htm>

## Note 43 Common Good Fund

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

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

<b>2014-2015</b>		<b>2015-2016</b>
<b>Total</b>		<b>Total</b>
<b>£000</b>		<b>£000</b>
<b>Income</b>		
(33)	Interest on Investments etc.	(34)
(219)	Transfer to revaluation reserve	0
<b>Expenditure</b>		
30	General Expenditure	30
<b>(222)</b>	<b>(Surplus)/Deficit for the Year</b>	<b>(4)</b>

31 March 2015 Total £000	Balance Sheet	31 March 2016		
		£000	£000	Total £000
	<b>Investments</b>	<b>Stromness</b>	<b>Kirkwall</b>	
246	Property	35	209	244
224	Capital Deposits	50	174	224
<b>Total Long Term</b>				
<b>Current Assets</b>				
417	Loans Fund Deposit	75	346	421
0	<b>Less Current Liabilities</b>	0	0	0
<b>Net Current Assets</b>				
<b>887</b>	<b>Net Assets</b>	<b>160</b>	<b>729</b>	<b>889</b>
<b>Represented by:</b>				
224	Capital Reserve	50	174	224
444	Revenue Reserve	76	372	448
219	Revaluation Reserve	34	183	217
<b>887</b>	<b>Accumulated Funds</b>	<b>160</b>	<b>729</b>	<b>889</b>

## NOTES

### Accounting Policies

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

The last revaluation of the Common Good Fund properties took place in financial year 2014/15.

## 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.

2014-2015 £m		2015-2016	
		£m	£m
	<i>Expenditure:</i>		
1.609	Repairs and maintenance	1.492	
0.618	Supervision and management	0.640	
3.299	Depreciation and impairment of non-current assets	3.641	
0.006	Increase or (decrease) in the allowance for bad debts	0.004	
5.532			5.777
	<i>Income:</i>		
(3.155)	Dwelling rents	(3.327)	
(0.016)	Non-dwelling rents	(0.008)	
(0.035)	Other income	(0.022)	
(3.206)			(3.357)
<b>2.326</b>	<b>Net cost of HRA services as included in the comprehensive income and expenditure statement</b>		<b>2.420</b>
	<i>HRA share of the operating income and expenditure included in the comprehensive income and expenditure statement:</i>		
(2.545)	Capital Grants	(0.527)	
0.074	(Gain) or loss on sale of HRA non-current assets	(0.055)	
0.514	Interest payable and similar charges	0.618	
0.011	Pensions interest cost and expected return on pensions assets	0.009	
(1.946)			0.045
<b>0.380</b>	<b>(Surplus) or deficit for the year on HRA services</b>		<b>2.465</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.

2014-2015 £m		2015-2016			
		£m	£m	£m	£m
0.000	Balance on the HRA at the end of the previous year				0.000
0.380	(Surplus) or deficit for the year on the HRA income and expenditure statement			2.465	
	<i>Adjustments between accounting basis and funding basis under regulations:</i>				
(0.074)	Reverse out gain or (loss) on sale of HRA non-current assets		0.055		
	HRA share of contributions to or (from) the Pension Reserve:				
(0.078)	Reverse out net charges made for post-employment benefits in accordance with IAS19	(0.081)			
0.051	Pensions cost chargeable for the year in accordance with statutory provisions: employer's contributions payable to Orkney Islands Council Pension Fund	0.054			
(0.027)	HRA share of contributions to or (from) the Pension Reserve		(0.027)		
0.000	HRA share of contributions to or (from) the Employee Statutory Adjustment Account		0.000		
0.137	Capital expenditure funded by the HRA		2.088		
	Transfer to or (from) the Capital Adjustment Account:				
(3.299)	Reverse out depreciation and impairment gains on non-current assets	(3.641)			
2.545	Reverse out credits made for capital grants	0.527			
0.446	Loans fund principal contribution from the HRA	0.391			
(0.308)	Transfer to or (from) the Capital Adjustment Account		(2.723)		
(0.272)	Total of adjustments between accounting basis and funding basis under regulations			(0.607)	
<b>0.108</b>	<b>Net (increase) or decrease before transfers to or from reserves</b>			<b>1.858</b>	
0.108	Transfers to or (from) reserves			2.334	
<b>0.000</b>	<b>(Increase) or decrease in the year on the HRA</b>				<b>0.476</b>
<b>0.000</b>	<b>Balance on the HRA at the end of the current year</b>				<b>0.476</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 938 dwellings during 2015-2016 (911 in 2014-2015) after allowing for 35 new build additions, no purchases and 8 sales. The following shows an analysis of these dwellings by type.

2014-2015 Number at 31 March 2015	Type of dwelling	2015-2016 Number at 31 March 2016
31	One-apartment	31
313	Two-apartment	336
306	Three-apartment	311
246	Four-apartment	243
14	Five-apartment	16
1	Six-apartment	1
<b>911</b>	<b>Total</b>	<b>938</b>

**2. The amount of rent arrears**

At 31 March 2016 total rent arrears amounted to £0.202M (£0.201M at 31 March 2015). This is 6.1% of the total value of rents due at 31 March 2016.

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

In the financial year 2015-2016 the rental bad debt provision has decreased by £0.005M (£0.018M increase during 2014-2015). The provision to cover the potential loss of income stands at £0.053M at 31 March 2016. This is 1.6% of the total value of rents due at that date.

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

The total value of uncollectable void rents for Council dwellings that were not let during the year was £0.050M (£0.044M during 2014-2015).

## 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.

2014-2015 £m		2015-2016 £m
9.941	Gross council tax levied	10.067
(0.755)	Council Tax Reduction Scheme	(0.733)
(1.352)	Other discounts and reductions	(1.384)
(0.061)	Write-off of uncollectable debts and allowance for impairment	(0.029)
(0.024)	Adjustment to previous years’ council tax	(0.042)
<b>7.749</b>	<b>Transfer to the General Fund</b>	<b>7.879</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 2015-2016 was £1,037 (unchanged from 2014-15).

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

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

### Annual council tax charges

2015-2016							
Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H
£691.33	£806.56	£921.78	£1,037.00	£1,267.44	£1,497.89	£1,728.33	£2,074.00

## Calculation of the council tax base

2015-2016	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	7	(1)	0	(3)	3	(5/9)	1
Band A	2,492	(276)	8	(275)	(148)	(353)	1,448	(6/9)	965
Band B	2,845	(132)	7	(276)	(94)	(316)	2,034	(7/9)	1,582
Band C	2,305	(76)	(5)	(178)	(65)	(176)	1,805	(8/9)	1,604
Band D	1,711	(37)	(5)	(99)	(39)	(68)	1,463	(9/9)	1,463
Band E	1,241	(20)	(9)	(50)	(18)	(15)	1,129	(11/9)	1,379
Band F	278	(3)	(3)	(7)	(4)	(2)	259	(13/9)	374
Band G	22	(1)	0	(1)	0	0	20	(15/9)	33
Band H	4	0	0	0	0	0	4	(18/9)	8
<b>Total</b>	<b>10,898</b>	<b>(545)</b>	<b>0</b>	<b>(887)</b>	<b>(368)</b>	<b>(933)</b>	<b>8,165</b>		<b>7,410</b>

Class 17 and 24 dwellings	0
<b>Sub-total</b>	<b>7,410</b>
Provision for non-payment and future award of discounts and reliefs	(32)
<b>Council tax base</b>	<b>7,378</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.

2014-2015 £m		2015-2016 £m
12.457	Gross rates levied	12.824
(3.606)	Reliefs and other deductions	(3.625)
(0.027)	Write-offs of uncollectable debts and allowance for impairment	(0.035)
<b>8.824</b>	<b>Net non-domestic rate income</b>	<b>9.164</b>
(0.203)	Adjustment to previous years' non-domestic rates	(0.028)
<b>0.983</b>	<b>Contribution (to) or from the national non-domestic rate pool</b>	<b>0.354</b>
<b>9.604</b>	Transfer to comprehensive income and expenditure statement	<b>9.490</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 2015-2016 the charge was 48.0 pence in the pound. From 1 April 2010 the Scottish Government amended the existing Small Business Bonus Scheme (SBBS). Under the SBBS properties with a rateable value up to and including £10,000 are entitled to a 100% reduction in their business rates. Properties with a rateable value of between £10,001 and £12,000 receive a 50% reduction and properties with a rateable value of between £12,001 and £18,000 receive a 25% reduction. This allows a business with two or more properties with a combined rateable value of under £35,000 to qualify for relief. The relief is 25% for properties with an individual rateable value less than £18,000. For properties with a rateable value over £35,000 a supplement of 1.3 pence in the pound was added as per the Non-domestic Rates (Levying) (Scotland) Regulations 2014 as amended.

Analysis of Orkney Islands Council's rateable values:

2015-2016		£m	£m
Rateable value at 1 April 2015:	commercial	7.177	
	industrial and freight transport	4.342	
	others	14.488	
			<b>26.007</b>
Running roll (full-year rateable value)			0.275
<b>Rateable value at 31 March 2016</b>			<b>26.282</b>
Wholly exempt subjects			0.423
<b>Net rateable value at 31 March 2016</b>			<b>26.705</b>

## Harbour Authority Account

### Harbour Authority Revenue Account income and expenditure statement

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

2014-2015 £m Net		2015-2016		
		£m Expenditure	£m Income	£m Net
1.286	Scapa Flow Oil Port	4.568	(8.357)	(3.789)
(0.030)	Miscellaneous Piers and Harbours	7.498	(5.844)	1.654
<b>1.256</b>		<b>12.066</b>	<b>(14.201)</b>	<b>(2.135)</b>
<b>1.256</b>	<b>Net cost of Harbour Services as included in the comprehensive income and expenditure statement</b>			<b>(2.135)</b>
	<i>Harbours share of the operating income and expenditure included in the comprehensive income and expenditure statement:</i>			
(1.027)	Capital Grants			(1.143)
0.106	(Gain) or loss on sale of Harbour Authority assets			0.040
0.373	Interest payable and similar charges			0.430
(24.901)	Harbours Investment Income			2.963
0.104	Pensions interest cost and expected return on pensions assets			0.080
<b>(24.089)</b>	<b>(Surplus) or deficit for the year on Harbour Authority</b>			<b>0.235</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.

2014-2015 £m		2015-2016			
		£m	£m	£m	£m
(196.784)	Balance on the Harbour Authority at the end of the previous year				(214.255)
(24.089)	(Surplus) or deficit for the year on the Harbour income and expenditure statement			0.236	
	<i>Adjustments between accounting basis and funding basis under regulations:</i>				
0.043	Difference between any other item of income and expenditure determined in accordance with the Code and determined in accordance with statutory Harbour requirements		0.040		
(0.106)	Reverse out gain or (loss) on sale of Harbour non-current assets		(0.040)		
	Harbour share of contributions to or (from) the Pension Reserve:				
(0.709)	Reverse out net charges made for post-employment benefits in accordance with IAS19	(0.718)			
0.463	Pensions cost chargeable for the year in accordance with statutory provisions: employer's contributions payable to Orkney Islands Council Pension Fund	0.472			
(0.246)	Harbour share of contributions to or (from) the Pension Reserve		(0.246)		
(0.001)	Harbour share of contributions to or (from) the Employee Statutory Adjustment Account		(0.001)		
1.183	Capital expenditure funded by the Harbour Authority		0.768		
	Transfer to or (from) the Capital Adjustment Account:				
0.478	Reverse out depreciation and impairment losses on non-current assets	(1.779)			
1.027	Reverse out credits made for capital grants	1.143			
0.459	Loans fund principal contribution from the Harbour Authority	0.499			
1.964	Transfer to or (from) the Capital Adjustment Account		(0.137)		
2.837	Total of adjustments between accounting basis and funding basis under regulations			0.384	
<b>(21.252)</b>	<b>Net (increase) or decrease before transfers to or from reserves</b>			<b>0.620</b>	
3.781	Transfers to or (from) reserves			5.794	
<b>(17.471)</b>	<b>(Increase) or decrease in the year on the Harbour Authority</b>				<b>6.414</b>
<b>(214.255)</b>	<b>Balance on the Harbour authority at the end of the current year</b>				<b>(207.841)</b>

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

	2014-2015			Balance as at 31 March 2015	2015-2016		Balance as at 31 March 2016
	Balance as at 1 April 2014	Transfers out 2014-2015	Transfers in 2014-2015		Transfers out 2015-2016	Transfers in 2015-2016	
<b>Harbour Balances</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Strategic Reserve Fund	139.837	(6.565)	23.040	156.312	(8.636)	3.944	151.620
Flotta Terminal Decline & Decommissioning Fund	34.365	(1.195)	0.101	33.271	0.000	0.133	33.404
Conservation Fund	0.189	(0.005)	0.001	0.185	0.000	0.002	0.187
Talented Performers Fund	0.061	0.000	0.000	0.061	0.000	0.000	0.061
Travel Fund	0.100	0.000	0.001	0.101	0.000	0.000	0.101
Fisheries Fund	7.098	0.000	0.161	7.259	(0.330)	0.199	7.128
Orkney Memorial Fund	0.619	(0.029)	0.004	0.594	(0.033)	0.004	0.565
Talented Young Persons Fund	0.019	(0.002)	0.000	0.017	0.000	0.000	0.017
Miscellaneous Piers Reserve Fund	5.375	(0.098)	1.403	6.680	0.000	0.124	6.804
Renewable Energy Fund	9.121	0.000	0.654	9.775	(2.042)	0.221	7.954
<b>Harbour Fund Balances</b>	<b>196.784</b>	<b>(7.894)</b>	<b>25.365</b>	<b>214.255</b>	<b>(11.041)</b>	<b>4.627</b>	<b>207.841</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. 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.

2014-2015		2015-2016	
		£m	£m
	<i>Expenditure:</i>		
3.278	Staff Costs	3.322	
0.456	Property Costs	0.410	
0.593	Supplies & Services	0.508	
0.112	Transport Costs	0.127	
0.119	Administration Costs	0.101	
0.077	Apportioned Costs	0.065	
0.274	Depreciation and impairment of non-current assets	0.245	
(0.006)	Provision for Bad Debts	0.001	
4.903			4.779
	<i>Income:</i>		
(2.895)	Grants	(3.011)	
(1.350)	Fees & Charges	(1.245)	
(0.137)	Other income	(0.155)	
(4.382)			(4.411)
<b>0.521</b>	<b>Net cost of Orkney College services as included in the comprehensive income and expenditure statement</b>		<b>0.368</b>
	<i>Orkney College share of the operating income and expenditure included in the comprehensive income and expenditure statement:</i>		
(0.059)	Capital Grants		0.000
0.064	Pensions interest cost and expected return on pensions assets		0.049
<b>0.526</b>	<b>(Surplus) or deficit for the year on Orkney College</b>		<b>0.417</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.

2014-2015 £m		2015-2016			
		£m	£m	£m	£m
(0.122)	Balance on the College at the end of the previous year				0.005
0.526	(Surplus) or deficit for the year on the College income and expenditure statement			0.417	
	<i>Adjustments between accounting basis and funding basis under regulations:</i>				
	College share of contributions to or (from) the Pension Reserve:				
(0.443)	Reverse out net charges made for post-employment benefits in accordance with IAS19	(0.438)			
0.290	Pensions cost chargeable for the year in accordance with statutory provisions: employer's contributions payable to Orkney Islands Council Pension Fund	0.288			
(0.153)	College share of contributions to or (from) the Pension Reserve		(0.150)		
(0.031)	College share of contributions to or (from) the Employee Statutory Adjustment Account		0.011		
0.000	Capital expenditure funded by the College		0.072		
	Transfer to or (from) the Capital Adjustment Account:				
0.059	Reverse out credits made for capital grants	0.000			
(0.274)	Reverse out depreciation and impairment losses on non-current assets	(0.245)			
(0.215)	Transfer to or (from) the Capital Adjustment Account		(0.245)		
(0.399)	Total of adjustments between accounting basis and funding basis under regulations			(0.312)	
<b>0.127</b>	<b>Net (increase) or decrease before transfers to or from reserves</b>			<b>0.105</b>	
0.000	Transfers to or (from) reserves			(0.110)	
<b>0.127</b>	<b>(Increase) or decrease in the year on the College</b>				<b>(0.005)</b>
<b>0.005</b>	<b>Balance on the College at the end of the current year</b>				<b>(0.000)</b>

## Group Accounts

### Statement of Group Accounting Policies

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

Authorities are required to prepare a full set of group accounts in addition to their own Council's accounts where they have a material interest in such entities. The group Financial Statements to 31 March 2016 represents the consolidation of the balances and transactions of the Council, its subsidiaries, associate and joint venture.

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

The single entity statements for the year ended 31 March 2016 are the first financial statements prepared in accordance with FRS 102. The date of transition to FRS 102 for Orkney Towage Company, Orkney Ferries and the Pickaquoy Centre Trust was 1 April 2014, and for Hammars Hill was 1 January 2015. Adoption of the new standard has led to restatement of the 2014/15 figures in the Group Financial Statements.

The accounting policies of all group members are now materially the same as those of the single entity.

### Combining Entities

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

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

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

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

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

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

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

Name of Combining Entity	Method of Combining	2014-2015 %	2015-2016 %
Hammars Hill Energy Ltd	Equity Method	28	28
Orkney Integrated Joint Board	Equity Method	0	50

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

### Basis of Combination and Going Concern

In line with the principles contained within the Code, the Group Financial Statement for the year ended 31 March 2016 has been prepared on the basis of a full consolidation of the financial transactions and balances of the Council and its subsidiaries.

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

For each of the subsidiaries, the Council has a share in a net liability. The negative balances arise from the Loss on Activities and inclusion of liabilities related to the defined benefit pension schemes as required by IAS 19 (i.e. their pension liability to pay retirement benefits in the long term).

During the financial year, as a result of the adoption of FRS 102, Orkney Towage Company, Orkney Ferries and Pickaquoy Centre Trust have restated the figures in their Financial Statements for 2014/15 and therefore in the group accounts prior year comparatives have been revised where relevant.

The 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; 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 effect of inclusion of the above bodies on the Group Balance Sheet is to reduce both Reserves and Net Assets by £4.664 million representing the Council’s share of the net liabilities in these entities.

## Annual Accounts 2015-16

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

During the year, the Board members of Orkney Towage Company Ltd agreed a plan to transfer the trade and assets of the company to its parent, the Council. From April 2016, the Towage Company shall provide staff services and bare-boat hire to the Council under the terms of a new service level agreement. The new agreement will remain in place until such time as all of its assets, liabilities and personnel have been transferred to the Council. It is expected that the transfer will be completed prior to 31 March 2017.

The financial statements of Orkney Towage Company Ltd have not been prepared on the going concern basis, but have been prepared on the ‘break-up’ basis of accounting. Fixed assets have been re-classified as current tangible assets and recognised at the lower of their cost and net realisable value. Provisions for liabilities have been recognised as current liabilities.

## Group Movement in Reserves

## For The Year Ended 31 March 2016

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	HRA Balance	Other Reserves	Harbour Reserves	Total Usable Reserves	Unusable Reserves	Total Authority Reserves	Authority's share of subsidiaries & associates	Total Reserves Attributable to Authority	Total Group Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Restated Balance at 1 April 2015</b>	<b>18,521</b>	<b>0</b>	<b>4,339</b>	<b>214,255</b>	<b>237,115</b>	<b>282,497</b>	<b>519,612</b>	<b>(2,193)</b>	<b>517,419</b>	<b>517,419</b>
Movement in reserves during the year	0	0	0	0	0	0	0	0	0	0
Surplus or (deficit) on provision of services	(6,221)	(2,465)	0	(236)	(8,922)	0	(8,922)	(1,812)	(10,734)	(10,734)
Other Comprehensive Expenditure and Income	0	0	0	0	0	25,622	25,622	2,490	28,112	28,112
<b>Total Comprehensive Expenditure and Income</b>	<b>(6,221)</b>	<b>(2,465)</b>	<b>0</b>	<b>(236)</b>	<b>(8,922)</b>	<b>25,622</b>	<b>16,700</b>	<b>678</b>	<b>17,378</b>	<b>17,378</b>
Adjustments between Group accounts and Authority accounts	0	0	0	0	0	0	0	0	0	0
<b>Net Increase / Decrease before Transfers</b>	<b>(6,221)</b>	<b>(2,465)</b>	<b>0</b>	<b>(236)</b>	<b>(8,922)</b>	<b>25,622</b>	<b>16,700</b>	<b>678</b>	<b>17,378</b>	<b>17,378</b>
Adjustments between accounting basis & funding basis under regulations	6,399	607	0	(384)	6,622	(6,622)	0	0	0	0
<b>Net Increase / Decrease before Transfers to Earmarked Reserves</b>	<b>178</b>	<b>(1,858)</b>	<b>0</b>	<b>(620)</b>	<b>(2,300)</b>	<b>19,000</b>	<b>16,700</b>	<b>678</b>	<b>17,378</b>	<b>17,378</b>
Transfers to / from Earmarked Reserves	2,486	2,334	974	(5,794)	0	0	0	0	0	0
<b>Increase / Decrease in Year</b>	<b>2,664</b>	<b>476</b>	<b>974</b>	<b>(6,414)</b>	<b>(2,300)</b>	<b>19,000</b>	<b>16,700</b>	<b>678</b>	<b>17,378</b>	<b>17,378</b>
Adjustment for investment in Hammars Hill	0	0	0	0	0	0	0	0	0	0
<b>Balance as at 31 March 2016</b>	<b>21,185</b>	<b>476</b>	<b>5,313</b>	<b>207,841</b>	<b>234,815</b>	<b>301,497</b>	<b>536,312</b>	<b>(1,515)</b>	<b>534,797</b>	<b>534,797</b>

	General Fund Balance	HRA Balance	Other Reserves	Harbour Reserves	Total Usable Reserves	Unusable Reserves	Total Authority Reserves	Authority's share of subsidiaries & associates	Total Reserves Attributable to Authority	Total Group Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Restated Balance at 1 April 2014</b>	<b>23,768</b>	<b>0</b>	<b>3,445</b>	<b>196,784</b>	<b>223,997</b>	<b>263,566</b>	<b>487,563</b>	<b>(2,022)</b>	<b>485,541</b>	<b>485,541</b>
Opening balance adjustment due to adoption of FRS102	0	0	0		0	0	0	(128)	(128)	(128)
<b>Restated opening balance at 31 March 2014</b>	<b>23,768</b>	<b>0</b>	<b>3,445</b>	<b>196,784</b>	<b>223,997</b>	<b>263,566</b>	<b>487,563</b>	<b>(2,150)</b>	<b>485,413</b>	<b>485,413</b>
Surplus or (deficit) on provision of services	(9,360)	(380)	0	24,089	14,349	0	14,349	(851)	13,498	13,498
Other Comprehensive Expenditure and Income	0	0	0	0	0	17,700	17,700	4	17,704	17,704
<b>Total Comprehensive Expenditure and Income</b>	<b>(9,360)</b>	<b>(380)</b>	<b>0</b>	<b>24,089</b>	<b>14,349</b>	<b>17,700</b>	<b>32,049</b>	<b>(847)</b>	<b>31,202</b>	<b>31,202</b>
Adjustments between Group accounts and Authority accounts	0	0	0	0	0	0	0	0	0	0
<b>Net Increase / Decrease before Transfers</b>	<b>(9,360)</b>	<b>(380)</b>	<b>0</b>	<b>24,089</b>	<b>14,349</b>	<b>17,700</b>	<b>32,049</b>	<b>(847)</b>	<b>31,202</b>	<b>31,202</b>
Adjustments between accounting basis & funding basis under regulations	1,334	272	0	(2,837)	(1,231)	1,231	0	0	0	0
<b>Net Increase / Decrease before Transfers to Earmarked Reserves</b>	<b>(8,026)</b>	<b>(108)</b>	<b>0</b>	<b>21,252</b>	<b>13,118</b>	<b>18,931</b>	<b>32,049</b>	<b>(847)</b>	<b>31,202</b>	<b>31,202</b>
Transfers to / from Earmarked Reserves	2,779	108	894	(3,781)	0	0	0	0	0	0
<b>Increase / Decrease in Year</b>	<b>(5,247)</b>	<b>0</b>	<b>894</b>	<b>17,471</b>	<b>13,118</b>	<b>18,931</b>	<b>32,049</b>	<b>(847)</b>	<b>31,202</b>	<b>31,202</b>
<b>Balance as at 31 March 2015</b>	<b>18,521</b>	<b>0</b>	<b>4,339</b>	<b>214,255</b>	<b>237,115</b>	<b>282,497</b>	<b>519,612</b>	<b>(2,997)</b>	<b>516,615</b>	<b>516,615</b>
Adjustment for Investment in Hammars Hill	0	0	0	0	0	0	0	804	804	804
<b>Restated Opening Balance at 1 April 2015</b>	<b>18,521</b>	<b>0</b>	<b>4,339</b>	<b>214,255</b>	<b>237,115</b>	<b>282,497</b>	<b>519,612</b>	<b>(2,193)</b>	<b>517,419</b>	<b>517,419</b>

## Group Comprehensive Income and Expenditure Statement for the year ended 31 March 2016

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	2014-2015			Restated 2014-2015			2015-2016		
		£000	£000	£000	£000	£000	£000	£000	£000	£000
		Expenditure	Income	Net	Expenditure	Income	Net	Expenditure	Income	Net
Central Services		4,064	(301)	3,763	4,064	(301)	3,763	4,770	(384)	4,386
Cultural and Recreation		7,782	(2,854)	4,928	7,797	(2,854)	4,943	7,932	(1,790)	6,142
Education		34,107	(1,251)	32,856	34,107	(1,251)	32,856	35,737	(1,258)	34,479
Roads and Transportation		26,164	(9,930)	16,234	25,919	(9,930)	15,989	19,823	(3,048)	16,775
Housing Revenue Account		5,532	(3,206)	2,326	5,532	(3,206)	2,326	5,777	(3,357)	2,420
Harbour Authority		11,463	(9,190)	2,273	11,462	(9,190)	2,272	12,066	(14,201)	(2,135)
Housing services		5,554	(4,110)	1,444	5,554	(4,110)	1,444	6,166	(4,493)	1,673
Community Social Services		24,949	(5,020)	19,929	24,949	(5,020)	19,929	25,437	(4,940)	20,497
Planning and Development		3,872	(1,252)	2,620	3,872	(1,252)	2,620	4,140	(1,056)	3,084
Environmental Services		4,297	(845)	3,452	4,297	(845)	3,452	4,782	(1,022)	3,760
Corporate and democratic core		2,840	(14)	2,826	2,840	(14)	2,826	3,060	0	3,060
Non distributed costs		0	0	0			0	0	4	4
<b>Surplus/Deficit on Continuing Operations</b>	<b>5</b>	<b>130,624</b>	<b>(37,973)</b>	<b>92,651</b>	<b>130,393</b>	<b>(37,973)</b>	<b>92,420</b>	<b>129,690</b>	<b>(35,545)</b>	<b>94,145</b>
Surplus or Deficit on Discontinued Operations				0			0			1,749
Other Operating Expenditure				214			215			162
Financing and Investment Income and Expenditure	<b>7</b>			(21,886)			(19,202)			3,419
Taxation and Non-Specific Grant Income				(86,724)			(86,724)			(88,671)
Associates and Joint Ventures accounted for on an equity basis	<b>6</b>			(206)			(206)			(101)
Tax Expense				(1)			(1)			31
<b>Group(Surplus) or Deficit</b>				<b>(15,952)</b>			<b>(13,498)</b>			<b>10,734</b>
Surplus or deficit on revaluation of non-current assets				(14,388)			(14,388)			(1,084)
Surplus or deficit on revaluation of available for sale financial assets				0			(2,433)			61
Actuarial gains / losses on pension assets / liabilities				(724)			(883)			(27,089)
<b>Other Comprehensive Income and Expenditure</b>				<b>(15,112)</b>			<b>(17,704)</b>			<b>(28,112)</b>
<b>Total Comprehensive Income and Expenditure</b>	<b>8</b>			<b>(31,064)</b>			<b>(31,202)</b>			<b>(17,378)</b>

**Group Balance Sheet As At 31 March 2016**

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the group. The net assets of the group (assets less liabilities) are matched by the reserves held by the group. Group Reserves have two categories of underlying other reserves. The first category is usable reserves, the second category is those that the authority is not able to use to provide services and the final category is the group's share in the reserves of its consolidated subsidiaries and associate. Further details relating to these categories can be found on page 38 to 93.

	31 March 2015	Movement	Restated 31 March 2015	31 March 2016
	£000		£000	£000
Property, Plant & Equipment	351,144	13	351,131	348,337
Heritage Assets	912	0	912	912
Investment Property	23,385	0	23,385	21,987
Intangible Assets	32	0	32	12
Long Term Debtors	2,260	0	2,260	1,981
Long Term Investments	0	(5,192)	5,192	5,131
Investments in associates and joint ventures	1,421	0	1,421	1,412
<b>Long Term Assets</b>	<b>379,154</b>	<b>(5,179)</b>	<b>384,333</b>	<b>379,772</b>
Short Term Investments	190,498	5,192	185,306	180,372
Inventories	927	0	927	912
Short Term Debtors	4,315	(3,120)	7,435	6,974
Cash and Cash Equivalents	41,285	0	41,285	42,137
Assets held for sale	822	0	822	1,586
<b>Current Assets</b>	<b>237,847</b>	<b>2,072</b>	<b>235,775</b>	<b>231,981</b>
Short Term Borrowing	538	0	538	5,542
Short Term Creditors	17,320	138	17,182	14,450
Provisions	0	0	0	31
Capital Grants Receipts in Advance	0	0	0	0
<b>Current Liabilities</b>	<b>17,858</b>	<b>138</b>	<b>17,720</b>	<b>20,023</b>
Long Term Creditors	53	0	53	30
Provisions	2,802	0	2,802	2,802
Long Term Borrowing	40,000	0	40,000	35,000
Other Long Term Liabilities	42,114	0	42,114	19,101
Long Term Investments in Associates	0	0	0	0
<b>Long Term Liabilities</b>	<b>84,969</b>	<b>0</b>	<b>84,969</b>	<b>56,933</b>
<b>Net Assets</b>	<b>514,174</b>	<b>(3,245)</b>	<b>517,419</b>	<b>534,797</b>
Group Reserves	514,174	(3,245)	517,419	534,797
<b>Total Reserves</b>	<b>514,174</b>	<b>(3,245)</b>	<b>517,419</b>	<b>534,797</b>

The unaudited accounts were issued on 29 June 2016 and the audited accounts were authorised for issue on 29 September 2016.



**Gareth Waterson, BAcc., CA**  
Head of Finance  
29 September 2016

**Group Cash Flow Statement at 31 March 2016**

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

	Notes	2014-2015 £000	Restated 2014-2015 £000	2015-2016 £000
<b>Net surplus or deficit on the provision of services</b>		15,526	13,162	(10,734)
Adjustment to surplus or deficit on the provision of services for noncash movements	11	(7,580)	(5,067)	17,233
Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	11	951	951	1,167
<b>Net Cash flows from Operating Activities</b>		<b>8,897</b>	<b>9,046</b>	<b>7,666</b>
<b>Net Cash flows from Investing Activities</b>	12	<b>(6,168)</b>	<b>(6,289)</b>	<b>(5,657)</b>
<b>Net Cash flows from Financing Activities</b>	13	<b>(974)</b>	<b>(974)</b>	<b>(1,188)</b>
<b>Net Cash flows from Taxation</b>		<b>(1)</b>	<b>0</b>	<b>31</b>
<b>Net increase or decrease in cash and cash equivalents</b>		<b>1,754</b>	<b>1,783</b>	<b>852</b>
Cash and cash equivalents at the beginning of the reporting period		39,502	39,502	41,285
<b>Cash and cash equivalents at the end of the reporting period</b>		<b>41,256</b>	<b>41,285</b>	<b>42,137</b>

## Notes to the Financial Statements

### For the Year Ended 31 March 2016

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

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

The financial statements in the Group Accounts of Orkney Islands Council are prepared in accordance with the accounting policies set out on pages 38 to 53 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 on pages 82 to 86. 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 and Expenditure Statement in a separate line. In the case of proceeds for the Council's assets, these are taken to the Usable Capital Receipts Reserve. Amounts in respect of Council assets are appropriated to the Capital Adjustment Account. For the share of proceeds for associates, these are taken instead to the Group.

#### Group Balance Sheet

##### Valuation of Fixed Assets

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

For the year to 31 March 2016 the assets of the Orkney Towage Company Ltd. have been valued at the lower of their cost and net realisable value, using the 'break-up' accounting basis.

##### Depreciation

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

Depreciation is charged in full in the year of acquisition and no charge made in the year of disposal. Depreciation is charged using either the reducing balance method or the straight

line method. The difference in methods does not have a material effect on the results of the Group given the levels of assets held out with the Council.

## **Stock**

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

## **2. Combining Entities**

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

### **Orkney Towage Company Limited**

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

During the year, the Board members of Orkney Towage Company Ltd agreed a plan to transfer the trade and assets of the company to its parent, the Council. From April 2016, the Towage Company shall provide staff services and bare-boat hire to the Council under the terms of a new service level agreement. The new agreement will remain in place until such time as all of its assets, liabilities and personnel have been transferred to the Council. It is expected that the transfer will be completed prior to 31 March 2017.

The net liabilities of the company as at 31 March 2016 were £2.072M compared to £0.690M at 31 March 2015. The loss before taxation for the period to 31 March 2016 was (£1.796M) compared to a loss of (£1.057M restated) for the period to 31 March 2015. In 2015-16, Orkney Islands Council contributed £2.103M or 92% of the company's turnover. No dividend payments were due to, or received by, the Council in respect of its investment.

The company made a loss on disposal of leasehold assets of £1.270M.

No loan advances were made from the Council to the company during 2015/16.

The latest set of audited accounts is for the year to 31 March 2016. Copies of these accounts can be obtained from Orkney Islands Council, School Place, Kirkwall, Orkney, KW15 1NY.

### **Orkney Ferries Limited**

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

Councillors and Council Officials hold all 5 seats on the board, with each director entitled to one vote.

The net liability of the company at 31 March 2016 was £0.830M compared to £2.457M at 31 March 2015. There was no profit or loss before taxation for the period to 31 March 2016 and £0.009M to 31 March 2015 restated. In 2015/16, Orkney Islands Council contributed £7.432M or 73% of the company's income. Orkney Ferries is deficit funded, where by, any surpluses or deficits earned by the Company will be repaid to, or recovered from the Council. No dividend payments were due to, or received by, the Council in respect of its investment.

The latest set of audited accounts is for the year to 31 March 2016. Copies of these accounts can be obtained from Orkney Islands Council, School Place, Kirkwall, Orkney, KW15 1NY.

### **Pickaquoy Centre Trust**

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

In 2015/16, Orkney Islands Council contributed £0.854M or 40.1% of the company's income and its share of the year-end net assets of £0.257M (2014/15 net liabilities £0.167M restated) are included in the Group Balance Sheet.

The latest set of audited accounts is for the year to 31 March 2016. When available, copies of these accounts can be obtained from The Pickaquoy Centre, Muddisdale Loan, Kirkwall KW15 1LR.

### **Hammars Hill Energy Ltd**

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

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

The latest set of audited accounts is for the year to 31 December 2015. Copies of these accounts can be obtained from Hammars Hill Energy Ltd, Savigarth, Evie KW17 SPQ.

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

Council's Share of Hammars Hill Energy Ltd	2014-2015 28.00% £m	2015-2016 28.00% £m
Turnover	0.521	0.599
Profit/(Loss) before tax	0.474	0.356
Interest Payable/Receivable	0.005	0.000
Taxation	(0.078)	(0.072)
<b>Profit/(Loss) after tax</b>	<b>0.396</b>	<b>0.284</b>
Fixed Assets	1.382	1.298
Current Assets	0.311	0.377
Liabilities due within one year	(0.156)	(0.139)
Liabilities due after one year or more	(0.117)	(0.124)
<b>Net Assets / Liabilities</b>	<b>1.420</b>	<b>1.412</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.

In the inaugural year of the OIJB, the Financial Statements have been prepared to show transactions occurring between the dates of establishment of the OIJB being 6 February 2016 to 31 March 2016. The expenditure was £26k and the income was £25k resulting in net expenditure of £0.3k. The balance sheet consisted of short term debtors of £5k and short term creditors of £5k, with total reserves of £0.3k.

Therefore the Council share of 50% of the OIJB in 2015/16 was nil.

### 3. Financial Impact of Consolidation

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

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

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

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

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

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

	2014-2015			2014-2015 Restated			2015-2016		
	£000 Expenditure	£000 Income	£000 Net	£000 Expenditure	£000 Income	£000 Net	£000 Expenditure	£000 Income	£000 Net
Roads and Transportation	9,836	(9,713)	123	9,591	(9,713)	(122)	10,027	(10,024)	3
Harbour Authority	2,807	(1,790)	1,017	2,806	(1,790)	1,016	0	0	0
Cultural, environmental, regulatory and planning services *	2,091	(1,975)	116	2,106	(1,975)	131	2,271	(2,167)	104
<b>Total</b>	<b>14,734</b>	<b>(13,478)</b>	<b>1,256</b>	<b>14,503</b>	<b>(13,478)</b>	<b>1,025</b>	<b>12,298</b>	<b>(12,191)</b>	<b>107</b>

\* 2014/15 figures are restated amounts due to the single entity bodies adopting accounting standard FRS 102 during 2015/16.

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

	2014-2015	2015-2016
	Net Income Expenditure £000	Net Income Expenditure £000
Associate accounted for on an equity basis	(206)	(101)
<b>Total</b>	<b>(206)</b>	<b>(101)</b>

\* 2014/15 figures are restated amounts due to the single entity bodies adopting accounting standard FRS 102 during 2015/16.

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

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

	2014-2015	Restated 2014-2015	2015-2016
Subsidiaries	£000	£000	£000
Interest Expense	0	0	23
Interest Income	(8)	(8)	(6)
Pension Interest	(210)	41	39
<b>Total Group Entities</b>	<b>(218)</b>	<b>33</b>	<b>56</b>

\* 2014/15 figures are restated amounts due to the single entity bodies adopting accounting standard FRS 102 during 2015/16.

## 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)

	2014-2015	Restated 2014-2015	2015-2016
	£000	£000	£000
<b>Deficit/ (Surplus) for the year on the Authority Income and Expenditure Statement</b>	(32,049)	(32,049)	(16,700)
Deficit/(Surplus) for the year attributable to group entities	985	847	(678)
Deficit/ (Surplus) for the year on the Group Income and Expenditure Statement	<b>(31,064)</b>	<b>(31,202)</b>	<b>(17,378)</b>

## 9. Pension Costs

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

	31 March 2015 Total £000	Council £000	Group Entities £000	31 March 2016 Total £000
Fair Value of Employer Assets	259,174	242,389	23,970	266,359
Present value of funded liabilities	(291,692)	(251,742)	(25,034)	(276,776)
<b>Net (Under)/Overfunding in Funded Plans</b>	<b>(32,518)</b>	<b>(9,353)</b>	<b>(1,064)</b>	<b>(10,417)</b>
Present Value of Unfunded Liabilities	(9,596)	(8,559)	(125)	(8,684)
<b>Net Asset/(Liability)</b>	<b>(42,114)</b>	<b>(17,912)</b>	<b>(1,189)</b>	<b>(19,101)</b>

## **10. Other Pension Costs**

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

### **Merchant Navy Officers Pension Plan (MNOPP)**

Some employees from Orkney Towage contribute to this defined contribution pension plan. The employer contribution rate is 6%. Contributions payable in the year amounted to £4,217.

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

The MNOFP is closed to new members however some existing employees may qualify to contribute to the MNOFP, a defined benefit scheme, with contribution rates of between 12.2% and 20.0%. The Council, Orkney Towage and Orkney Ferries made company contributions to this fund totalling £131,376 in the year. It is a multiple employer scheme and the company is unable to identify its share of the underlying assets and liabilities. As at the last full valuation, reported in March 2012, the pre-78 (old) section of MNOFP had a surplus of assets over liabilities, while the post-78 (new) section had a deficit. The trustees of the new section may in future request further deficit contributions depending on the results of future actuarial valuations of the fund.

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

Some employees may qualify to contribute to the MNRPF, a defined benefit scheme, with a contribution rate of 11.9%. Orkney Ferries made company contributions to this fund of £1,395 in the year. It is a multiple employer scheme and the group is unable to identify its share of the underlying assets and liabilities. As at the last full valuation in March 2011, the MNRPF had a deficit of assets over liabilities of £212M. The trustees have requested deficit contributions from each employer, and the company has made additional contributions. The additional contributions are subject to change, dependent on the results of future actuarial valuations of the fund.

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

	2014-2015 £000	Restated 2014-2015 £000	2015-2016 £000
<b>Adjustment to surplus or deficit on the provision of services for noncash movements</b>			
Depreciation	12,877	12,877	14,484
Impairment & downward revaluations (& non-sale de-recognition)	2,439	2,439	2,482
(Increase)/Decrease in Stock	114	114	15
(Increase)/Decrease in Debtors	1,921	1,872	(329)
Increase/(Decrease) in impairment provision for bad debts	(142)	(142)	0
Increase/(Decrease) in Creditors	3,727	3,846	(983)
Payments to Pension fund	3,944	3,916	3,978
Carrying amount of non-current assets sold	652	651	2,748
Investment Income not involving the movement of cash	(22,440)	(19,968)	1,533
Contributions to Other Reserves/Provisions	(8,133)	(8,133)	(6,706)
Movement in value of investment properties-included above in Impairment & downward revaluations (& non-sale de-recognition)	(2,539)	(2,539)	11
	<b>(7,580)</b>	<b>(5,067)</b>	<b>17,233</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)	33,762	33,762	56,294
Proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)	(32,811)	(32,811)	(55,127)
	<b>951</b>	<b>951</b>	<b>1,167</b>

**12. Cash Flow from Investing Activities**

	2014-2015 £000	Restated 2014-2015 £000	2015-2016 £000
Purchase of PP&E, investment property and intangible assets	18,112	18,112	15,176
Purchase of Short Term Investments (not considered to be cash equivalents)	(547)	(547)	162
Other Payments for Investing Activities	368	368	114
Proceeds from the sale of PP&E, investment property and intangible assets	(434)	(435)	(694)
Proceeds from Long Term Investments	(16)	0	102
Capital Grants and Contributions Received	(10,854)	(10,854)	(8,797)
Other Receipts from Investing Activities	(461)	(355)	(406)
<b>Net Cash flows from Investing Activities</b>	<b>6,168</b>	<b>6,289</b>	<b>5,657</b>

**13. Cash Flow from Financing Activities**

	<b>2014-2015</b>	<b>Restated</b>	<b>2015-2016</b>
	<b>£000</b>	<b>2014-2015</b>	<b>£000</b>
		<b>£000</b>	<b>£000</b>
Cash Receipts from Short and Long Term Borrowing	(10,000)	(10,000)	0
Other Receipts from Financing Activities	(367)	(361)	(297)
Cash payments for the reduction of the outstanding liability	0	23	
Repayment of Short and Long Term Borrowing	10,000	10,000	0
Other payments for Financing Activities	1,312	1,312	1,485
<b>Net Cash flows from Financing Activities</b>	<b>945</b>	<b>974</b>	<b>1,188</b>

## Glossary of Terms

### Aaa Fitch Rating

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

### Aa Fitch Rating

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

### A Fitch Rating

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

### Accounting Period

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

### Accruals

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

### Actuarial Gains And Losses

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

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

### Asset

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

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

### Audit of Accounts

An independent examination of the Authority's financial affairs.

### Balance Sheet

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

### **Borrowing**

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

### **Budget**

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

### **Capital Expenditure**

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

### **Capital Financing**

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

### **Capital Programme**

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

### **Capital Receipt**

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

### **Claw-Back**

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

### **CIPFA**

The Chartered Institute of Public Finance and Accountancy

### **Collection Fund**

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

### **Community Assets**

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

### **Comprehensive Income And Expenditure Statement**

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

## **Consistency**

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

## **Contingent Asset**

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

## **Contingent Liability**

A contingent liability is either:

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

## **Corporate And Democratic Core**

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

## **Creditor**

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

## **Current Service Cost (Pensions)**

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

## **Debtor**

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

## **Defined Benefit Pension Scheme**

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

## **Depreciation**

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

### **Discretionary Benefits (Pensions)**

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

### **Equity**

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

### **Events After The Balance Sheet Date**

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

### **Expected Return on Pension Assets**

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

### **Fair Value**

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

### **Finance Lease**

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

### **Going Concern**

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

### **Government Grants**

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

### **Housing Benefits**

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

### **Housing Revenue Account (HRA)**

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

### **Impairment**

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

### **Infrastructure Assets**

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

### **Intangible Assets**

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

### **Interest Cost (Pensions)**

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

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

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

### **Liability**

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

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

### **Liquid Resources**

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

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

### **Long-Term Contract**

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

### **Materiality**

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

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

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

### **Net Book Value**

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

### **Net Debt**

The Authority's borrowings less cash and liquid resources.

### **Non-Distributed Costs**

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

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

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

### **Non-Operational Assets**

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

### **Operating Lease**

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

### **Operational Assets**

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

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

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

### **Pension Scheme Liabilities**

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

### **Precept**

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

### **Prior Year Adjustment**

Material adjustments applicable to previous years arising from changes in accounting policies or from the correction of fundamental errors. This does not include normal recurring corrections or adjustments of accounting estimates made in prior years.

## **Provision**

An amount put aside in the accounts for future liabilities or losses which are certain or very likely to occur but the amounts or dates of when they will arise are uncertain.

## **Public Works Loan Board (PWLB)**

A Central Government Agency, which provides loans for one year and above to authorities at interest rates only slightly higher than those at which the government can borrow itself.

## **Rateable Value**

The annual assumed rental of a hereditament, which is used for NNDR purposes.

## **Related Parties**

There is a detailed definition of related parties in FRS 8. For the Council's purposes related parties are deemed to include the Authority's members, the Chief Executive, its Directors and their close family and household members.

## **Related Party Transactions**

The Statement Of Recommended Practice requires the disclosure of any material transactions between the Authority and related parties to ensure that stakeholders are aware when these transactions occur and the amount and implications of such.

## **Remuneration**

All sums paid to or receivable by an employee and sums due by way of expenses allowances (as far as those sums are chargeable to UK income tax) and the money value of any other benefits. Received other than in cash. Pension contributions payable by the employer are excluded.

## **Reserves**

The accumulation of surpluses, deficits and appropriations over past years. Reserves of a revenue nature are available and can be spent or earmarked at the discretion of the Authority. Some capital reserves such as the fixed asset restatement account cannot be used to meet current expenditure.

## **Residual Value**

The net realisable value of an asset at the end of its useful life.

## **Retirement Benefits**

All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment.

## **Revenue Expenditure**

The day-to-day expenses of providing services.

## **Revenue Expenditure Capitalised Under Statute (REFCUS)**

Expenditure which ordinarily would be revenue, but is statutorily defined as capital. Examples of REFCUS include grants of a capital nature to voluntary organisations and back pay expenditure capitalised under Secretary of State Direction

**Revenue Support Grant**

A grant paid by Central Government to authorities, contributing towards the general cost of their services.

**Stocks**

Items of raw materials and stores an authority has procured and holds in expectation of future use. Examples are consumable stores, raw materials and products and services in intermediate stages of completion.

**Temporary Borrowing**

Money borrowed for a period of less than one year.

**Trust Funds**

Funds administered by the Authority for such purposes as prizes, charities, specific projects and on behalf of minors.

**Useful Economic Life (UEL)**

The period over which the Authority will derive benefits from the use of a fixed asset.



**ORKNEY**  
**ISLANDS COUNCIL**

Finance Services, School Place, Kirkwall, Orkney, KW15 1NY.  
Telephone: 01856873535 Fax: 01856876158.

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