



Annual Accounts

2021 - 2022

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Management Commentary

The Management Commentary is intended to assist users in understanding the objectives and strategy of Orkney Islands Council, whilst demonstrating the stewardship of the public funds that support its mission and strategic priorities. It also provides a review of its business and financial performance throughout the year, summarising the position of the Council at the end of March 2022. It outlines the principal risks and uncertainties facing the Council and assesses the potential impact of those risks on future developments and performance. The financial position of the wider Council group is also presented, with the format and content of the Accounts prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom.

Orkney Islands Council

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



Who do we provide our services to?



Population 22,400

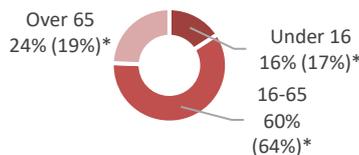
Male 49.8%

Female 50.2%

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

And who operate **1,500 businesses**

Age



Life Expectancy

Female 83.5 years (81.0 years)*

Male 80.1 years (76.8 years)*

*(Scottish Average, NRS)

What do we provide?

...1,802 employees (FTE) who...

Look after up to **111 people** in **4 Residential Care homes**



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

Teach and Support **3,165 pupils** in **24 Schools**



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



Collect waste from **14,261 properties**, maintain **986Km** of Roads and Infrastructure with **238 Council vehicles**.

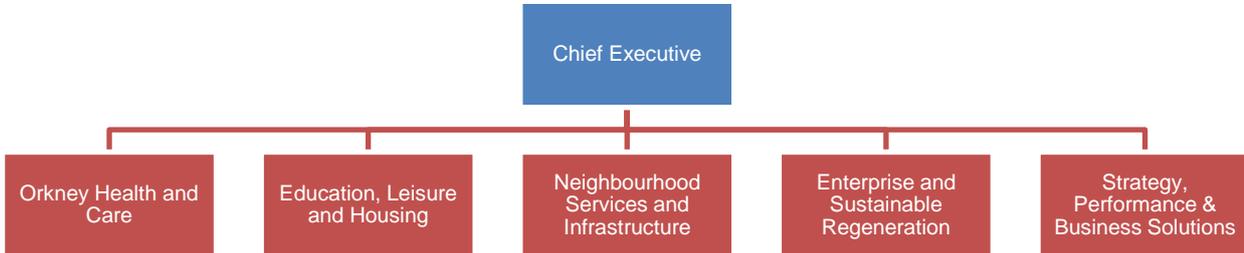
Provide **989 Council Houses**



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

Council Structure

During financial year 2021-22 a review of the Council's internal management structure was carried out, led by Interim Chief Executive, John Mundell. Phase 1 of the restructure resulted in the creation of 5 main Directorates as follows:



In order to improve the delivery of services and to address several pressure points, the respective management teams of each directorate then reviewed their own service areas, to ensure they were in a position to deliver the Council's priorities and ambitions going forward. The findings of this review process were then developed into Phase 2 of the restructure aimed at improving the corporate capacity of the Council, including the creation of over 70 new posts to address the fundamental shift in the expectations of customers, service users and staff in what they expect from Council services and how they transact with us.

Of the 72.34 full time equivalent posts to be established, 18% - or 13 jobs - are identified as modern apprenticeship, trainee or graduate trainee opportunities across a range of professional disciplines - representing a significant investment by the local authority in employment opportunities for young people looking to remain, live and work in Orkney.

This is the first step in implementing the commitment made by the Council to create opportunities for young people and the corporate leadership team is committed to identifying sustainable resources to continue this level of investment for future years.

In addition to providing employability opportunities this approach is intended to provide professional pathways that will attract, grow and retain new talent – the first step in the Council establishing itself as the 'employer of choice' locally.

These proposals were estimated to cost an additional £1.5M funded from the Council's General Fund and £1.79M funded from a combination of previously ring-fenced budgets and external funding sources and were duly agreed at the close of the last Council term. This represents significant investment by the Council aimed at ensuring the incoming Council could hit the ground running, secure in the knowledge that the staff resource that underpins the decisions we make was in its best possible shape.

Council Mission and Strategic Priorities

What are we aiming to achieve for Orkney?

The Orkney Partnership

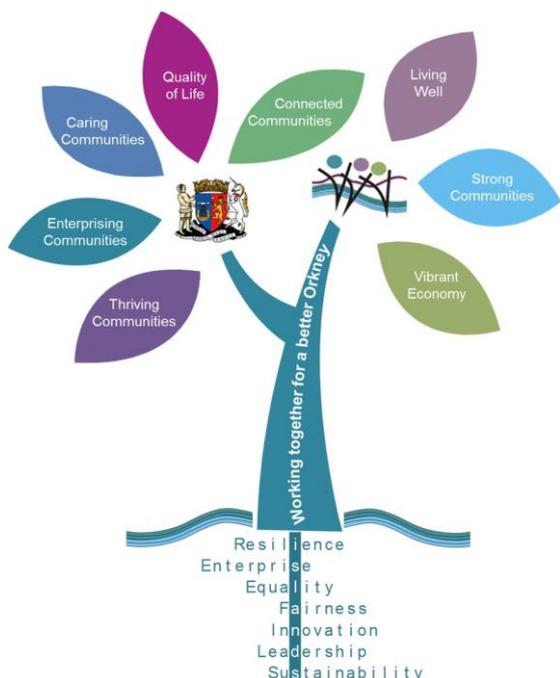
The Council works alongside four other lead agencies in Orkney to maintain and deliver Orkney's Community Plan. The Council, NHS



The Orkney Partnership

Working together for a better Orkney

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



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

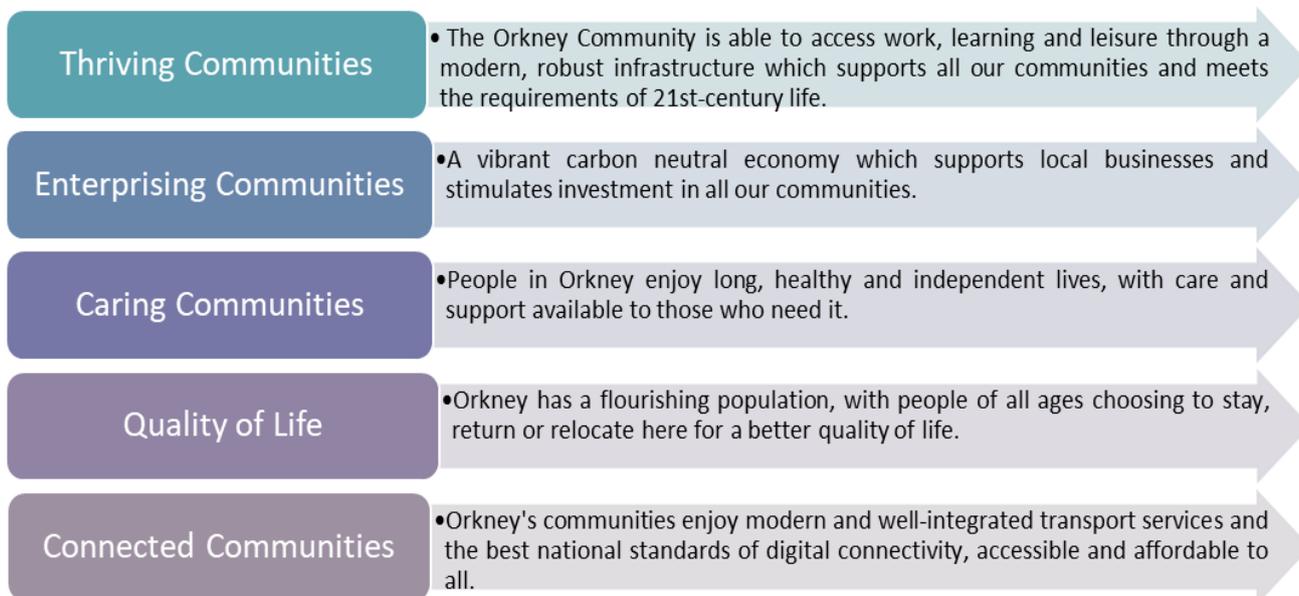
The Community Plan can be found at the following link: [Orkney Community Plan 2019-2022 incorporating the LOIP \(orkneycommunities.co.uk\)](https://orkneycommunities.co.uk)

The Council Plan

The Strategic Priorities at the core of the current Council Plan were influenced through the information gathered by Elected Members' public consultations during the last local government elections in 2017. The Council Plan also incorporates the priorities of both the Scottish and UK Governments as well as the core services which the Council provides on a day-to-day basis. The Plan, which runs from 2018-2023 also takes account of new duties arising from changes to legislation and recommendations by audit and inspection teams.

A new Council Plan is currently under development and will be consulted on, and to take into account the strategic aims of the new Council, following the elections in May 2022. It is hoped that the Council Plan for 2023-2028 will be presented for approval in November 2022.

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



The full Council Plan which details the Council's top priorities and projects to achieve them can be found at the following link: [Council Plan 2018 - 2023 \(orkney.gov.uk\)](http://orkney.gov.uk/council-plan-2018-2023).

How do we achieve the objectives?

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

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



The Council Delivery Plan is the mechanism which acts to guide the work of services responsible for the delivery of the Council's priorities over the remaining years of the Council Plan. The Delivery Plan includes a total of 81 key actions and projects supporting the 29 priorities under the Council's 5 Strategic Priority Themes.

The Council is currently making improvements to the way it monitors performance to help ensure that it is aware of how well it is doing and where it must improve the quality of service, customer experiences and Best Value in line with Good Practice. The Performance section of this Commentary reports on the Council's performance in terms of delivery of these priorities and ambitions.

Looking back over 2021-22

COVID-19

Throughout 2021-22, the focus continued to be recovery from the COVID-19 pandemic whilst still working from home where possible, in-line with Scottish Government guidelines. This has continued to impact on the progress of the Council Plan as the Council continued to prioritise the delivery of essential services, in the face of escalating cases of COVID-19 both in the community and within the staffing workforce. In February 2022 the Orkney infection levels were over twice the Scottish average, causing disruption in two care settings, multiples schools and other Council establishments. This situation was managed in the main by the individual service continuity plans but, on some occasions, it was necessary to close the schools due to lack of staff.

The Council continued to hold meetings on-line, given the high prevalence of COVID-19 in Orkney and in line with Scottish Government guidance. However, in September 2021, the Council reviewed governance arrangements to support the decision making of the Council, in recognition of changes to legislation in respect of public access to Council meetings which were due to take effect from 1 October 2021 and determined that, subject to Scottish Government guidance being in place at the time, in-person Council meetings should resume in the Chamber but limiting the number of attendees. At the same time the temporary amendment to the governance arrangements to allow meetings to be held at short notice was also withdrawn and it was agreed that the technological equipment in the Council Chamber be upgraded to facilitate the holding of blended meetings. Following the local elections on 5 May, all meetings have now returned to in-person in the Chamber, with the option to join remotely, if requested and at the discretion of the Chair subject to certain conditions being met.

In December 2021, the Council approved the allocation of one-off funding towards the following series of projects considered to provide excellent recovery prospects from the COVID-19 pandemic utilising additional government funding received in financial year 2021-22 to meet the additional costs of operation and to compensate for income lost as a result of the impact of the COVID-19 pandemic.

COVID-19 Recovery Projects	£
Cultural Fund Recovery Funding	300,000
Housing Grants	300,000
Local Works and Services Fund	240,000
Schools Furniture and Fittings	400,000
Windows 11	400,000
Schools IT Equipment	500,000
Corporate IT Equipment	500,000
Play Park Equipment Renewal Fund	500,000
Cursiter Quarry Salt Barn	500,000
Footpath, Core Path and Cycleway Improvements	500,000
Islands and Rural Housing Fund	500,000
Roads Surface Water – ditching and offlets	500,000
Orkney Library Ground Source Heat Pump	500,000
Tourism Infrastructure Fund	500,000
Plant and Vehicles	500,000
Boiler and Plant Replacement	600,000
Kirkwall Town Centre Regeneration	1,000,000
Total Funding Allocation	8,240,000

Highlights

Our People Our Plan

Our People Our Plan was launched in October 2021 by the Interim Chief Executive to celebrate the Council's successes but also to look at what the Council now needs to focus on going forward, and how we can develop and improve. The Our People Our Plan programme is aimed at involving all Managers at Orkney Islands Council and focusses on the delivery of 7 key priorities, as follows:

1. Delivery Model – Our delivery model for the future is clearly defined, effective, appropriately resourced and understood by all.
2. Inspiring Culture – We have an organisational culture that inspires and enables our people to excel and builds capacity.
3. Drive Innovation – We drive innovation and outstanding performance through inspiring people to excel and builds our capacity.
4. Stimulate Economic Recovery – We stimulate economic recovery by accelerating the council's social housing new build programme.
5. Improve Connectivity – We improve digital and transport connectivity and enable economic growth by facilitating the delivery of 21st century infrastructure.
6. Strategic Development – We will enable economic sustainability and prosperity by investing in strategic asset development such as renewable energy projects.
7. Enable Full Potential – We will work alongside each other to improve the care, support and protection of all our service users to enable everyone's full potential.

Priorities 1 to 3 have an internal focus and are designed to develop people and performance. Specific activity includes the design of a new delivery model - including a senior management restructure and effective workforce planning; work on developing an inspiring culture which will enable staff to excel and build capacity; and driving innovation to improve processes and change our approach to performance management.

Priorities 4 to 7 are outwards focused with an emphasis on improving life for everyone in Orkney and supporting economic growth. This includes accelerating investment in affordable housing, improving connectivity – both digital and transport, and pursuing investment in green energy and harbour infrastructure. Priority 7 specifically addresses the vital need to improve the quality-of-care services for children and adults to enable their full potential.

The process to deliver Priority 1 commenced immediately with Phase 1 of an internal management restructure including Corporate Directors, Heads of Service and Service Manager level being approved by the Council in December 2021. Work then began on reviewing the services that sit under those management tiers and the staff resource, or corporate capacity, needed to deliver on these identified priorities. This Phase 2 review of the management restructure was duly approved by the Council in March 2022 and will lead to the creation of more than 70 new posts across all Services.

Islands Deal

The Islands Deal is a joint initiative between the three island Councils (Orkney, Shetland and the Western Isles) supported by the Scottish and UK Governments, which is modelled on the lines of a City or Regional Deal but with elements unique to the islands. Consisting of 18 projects, clustered across three interconnecting themes: Leading the way to a low carbon future; World Class visitor destinations; Supporting growth and future industries and Thriving sustainable communities. The Deal will capitalise on our islands' unique assets and opportunities to place us at the forefront of the transition to net zero, strengthen key existing industry sectors and develop new industries for the future.



The Heads of Terms for the Islands Growth Deal was signed on 17 March 2021, securing a £100M investment from the Scottish and UK Governments, with an expected £235M of additional partner funding being contributed from private, public and academic sectors. The Islands Deal is one of many strands of activity in helping achieve our strategic priorities of an Enterprising Community and Connected Community.

The Islands Growth Deal Joint Committee, which will oversee the Growth Deal, consists of two elected members from each of the island councils and will require a significant level of support from all three islands authorities and partner organisations if they are to be successful.

In December 2021 the Joint Committee approved the submission of Outline Business Cases for a further four projects to the UK and Scottish Government for the following projects:

- ShellVolution, which will support significant expansion in the mussel farming sector in Shetland and throughout Scotland.
- The TalEntEd Islands Programme, which will create opportunities for education, skills, entre and intrapreneurship and commercialisation, supporting the increase in sustainable 'green' jobs across all three island groups.
- Scapa Flow Future Fuels Hub, which will enable the supply and distribution of low and net zero fuels to be established in Orkney.
- The second phase of the Orkney Research and Innovation Campus (ORIC2) at Stromness, enhancing existing facilities and creation of new spaces to further enable academic and commercial activity, collaboration, and business incubation.

Finance and Performance

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

The Strategic Reserve Fund, held as part of the Harbour Authority Account, has been applied to supplement the General Fund services as part of an agreed medium-term financial strategy. For the financial year 2021-22 it was agreed that £7.470M from the Strategic Reserve Fund be used as a funding source to supplement the General Fund Services revenue budget. The purpose and strategy of the Strategic Reserve Fund is detailed under the Harbour Authority Account section.

Revenue Expenditure

General Fund

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

The revenue outturn position was reported to the Policy & Resources Committee on 20 September 2022.

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

Note 7 provides a reconciliation of the £29.810M of accounting adjustments that are made to the net expenditure chargeable to the Fund Balances to arrive at the amounts in the CIES.

	General Fund Outturn					Annual Accounts	
	Approved Budget £000	Budget movements throughout the financial year £000	Revised Budget £000	Actual Net Expenditure £000	Variance £000	Accounting Adjustments £000	Net Expenditure per the Annual Accounts £000
2021-2022							
Education	35,951	2,363	38,314	37,462	(852)	10,955	48,417
Cultural and Recreation	4,279	579	4,858	5,048	190	2,798	7,846
Community Social Services	20,699	1,638	22,337	22,337	0	5,610	27,947
Roads and Transportation	11,167	749	11,916	12,789	873	3,902	16,691
Environmental Services	3,870	(15)	3,855	3,896	41	1,011	4,907
Other Services	15,241	1,157	16,398	13,321	(3,077)	1,805	15,126
Housing Revenue Account	0	0	0	(27)	(27)	3,068	3,041
Harbour Authority	125	(125)	0	24	24	1,299	1,323
Non-Distributed Cost	0	0	0	0	0	105	105
Net Cost of Service	91,332	6,346	97,678	94,850	(2,828)	30,553	125,403
Other Income and Expenditure	(93,622)	(5,151)	(98,773)	(99,245)	(472)	(743)	(99,988)
Deficit/(Surplus) For Year	(2,290)	1,195	(1,095)	(4,395)	(3,300)	29,810	25,415

Explanations of major spend and variances throughout the year

Education – Reduced expenditure on staff costs due to vacancies not being filled.

Roads and Transport – Winter maintenance costs for 2021-22 were high. Quarries had supply issues during the year that prevented them from making their planned surplus.

Other Services – Underspend on Corporate Contingency funds and on loan charges due to slippage on the planned delivery of the capital programme.

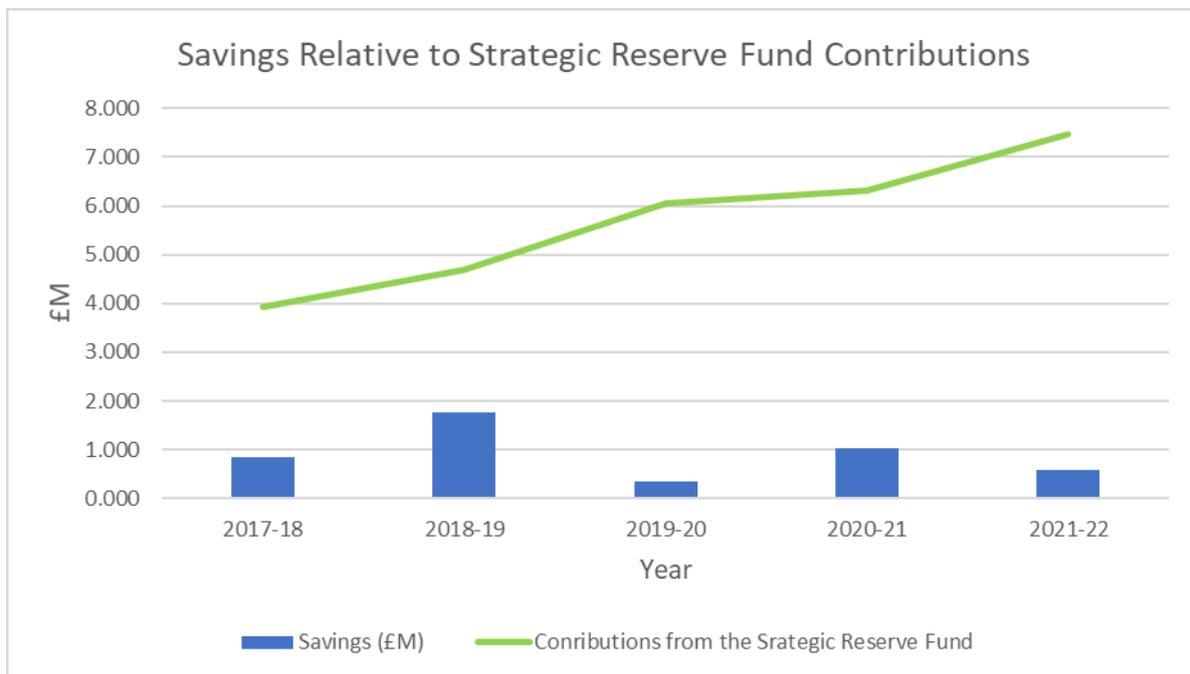
Overall, the additional cost pressures associated with the maintaining the provision of Council Services, while COVID-19 restrictions were still in place for most of the year, were more than offset by underspends on staff costs as most Services experienced as a higher-than-normal level of vacancies throughout the year.

Principal sources of finance



Savings

As government funding continues to reduce in real terms, the Council recognises the financial challenges that come with the ongoing reduction in resources. The graph below shows the level of savings that Orkney Islands Council has delivered over the last five years and also the contributions taken from the Strategic Reserve Fund over the same period. It is projected in the Council's 10-year Long Term Financial Plan that the Council will face a best-case scenario cumulative funding gap of £23.6M over this period, with a worst-case scenario of £145.6M, with the most likely scenario at £65.7M. This includes a planning assumption that the financial contributions from the Strategic Reserve Fund will be maintained over this period. The ongoing budget reductions highlight that the current approach of only using financial contributions from the Strategic Reserve Fund to supplement the General Fund is unsustainable in the long-term. This is compounded further by the unknown rate and level of the recovery from COVID-19 over the medium and long-term. The Council has developed a Medium-Term Resource Strategy and Long-Term Financial Plan which aims to ensure the sustainability, feasibility and practicalities of the Council's spending plans and investment over the longer term.



Reserves

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

The Movement in Reserves statement shows an overall net increase of £2.734M in usable reserves.

After taking into account those funds earmarked for specific projects and purposes, a balance of £10.044M remains available for General Fund purposes, equivalent to 11% of budgeted expenditure.

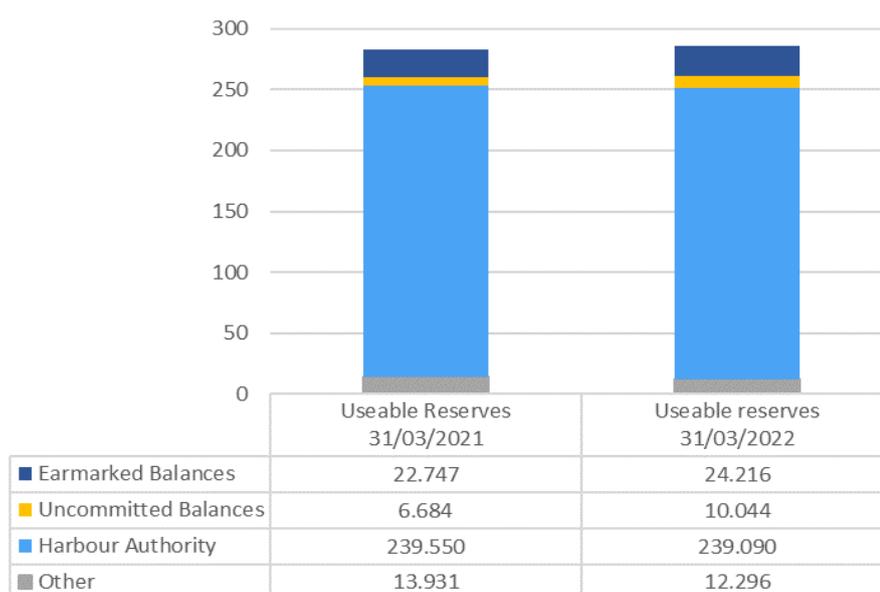
The higher than target level of unearmarked reserves in the current financial year is indicative of the risks and uncertainty that the Council continues to face as it supports the provision of essential services and plans for the recovery from COVID-19.

A review of the Council's Reserves Strategy during the year set a target for the unearmarked General Fund balances at 3% of budgeted expenditure. It also recognised a need to allocate £4.002M of General Fund balances towards specific purposes, including an allocation of resources to priority projects such as the Islands Deal and setting the General Fund revenue budget for financial year 2022-23. This has reduced the available General Fund balance to £6.042M, equivalent to 6.5% of budgeted expenditure.

As inflationary pressures built up towards the end of financial year 2021-22 and are forecast to rise further throughout financial year 2022-23, it was felt prudent to put on hold the practice of accelerating debt repayments, carrying forward the underspend of £3.359M on General Fund Services to provide the additional flexibility needed to manage these recurring pressures going forward. This also in part recognised the effect that recurring slippage on the capital programme has had on the Councils' capital financing requirement.

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

The graph below summarises the Movements on the Reserves for 2021-22:

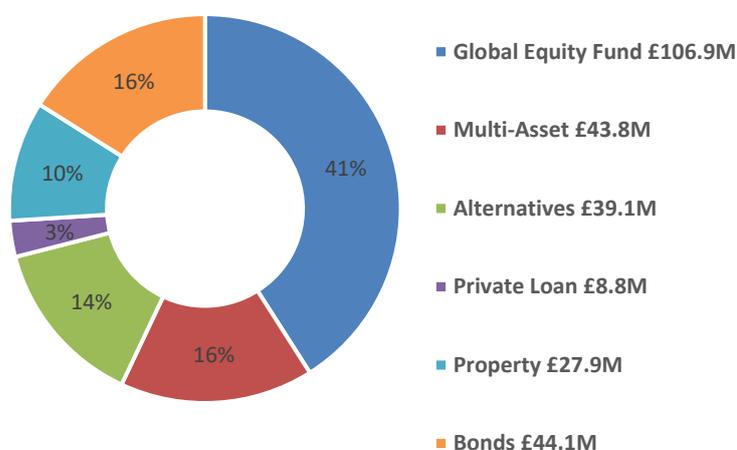


Harbour Authority Account

The Harbour Authority Account is made up of 3 separate ring-fenced operations under Miscellaneous Pier and Harbours, Scapa Flow Oil Port and the Strategic Reserve Fund. Overall, the Harbour Authority generated a loss of £1.323M from income on its harbour activities due to the ongoing COVID-19 restrictions limiting the number of cruise liners that visited Orkney in summer 2021. The Scapa Flow Oil Port achieved a break-even position, with the surplus on operations transferred to the Strategic Reserve Fund. Investment activities through the Strategic Reserve Fund generated a gain of £5.966M for the year and after netting off grants and other investment expenditure there was an overall loss on the Harbour Authority Account was £0.460M.

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

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

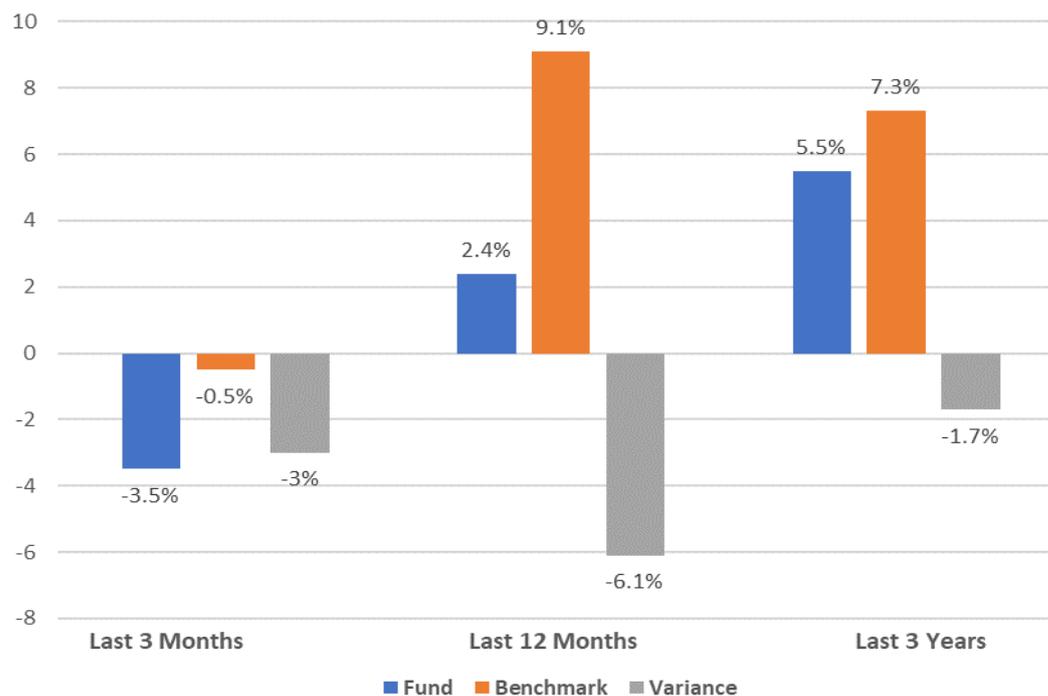


The Council aims to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of this Council is low in order to give priority to security of its investments. This is in keeping with the nature of the Council's Strategic Reserve Fund, which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

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

The performance of the Strategic Reserve Fund externally managed fund investments is measured against a range of indices reflecting the weighting or concentration of individual asset classes within the approved investment strategy with a target to outperform the aggregate benchmark over a rolling 3-year period. The following table indicates how managed fund investments have collectively performed relative to benchmark as at 31 March 2022:

Managed Funds Investment - Performance summary



The Strategic Reserve Fund managed fund investments increased to a total of £270.898M, representing a gain of 2.4% on the year, with further analysis provided at Note 15.

After allowing for amounts required by statute and non-statutory proper accounting practice, including the use of reserves during the year, which included net contributions of £7.470M to support General Fund services, the net effect has been a reduction of £0.460M on the Harbour Authority Account Reserves for the year.

Housing Revenue Account (HRA)

The HRA returned a loss on its operations of £3.041M which can largely be attributed to depreciation of fixed assets (surplus £3.632M for 2020-21). After allowing for accounting for fixed assets and employee pension benefits, accelerated debt repayment and transfers to/from Reserves, the HRA achieved a surplus position of £0.027M for the year resulting in a balance of £0.677M as at 31 March 2022 (£0.650M as at 31 March 2021).

Orkney College

The range of higher and further educational activities provided by the College returned a deficit of £0.784M for the year (deficit of £0.511M for 2020-21). A large proportion of this accounting deficit can be attributed directly to the requirement to account for fixed assets and employee pension benefits. On a funding basis, the net effect of the Orkney College activities resulted in a surplus of £0.375M for the year resulting in a balance of £0.481M as at 31 March 2022 (£0.106M as at 31 March 2022).

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. As the OIJB carries a material level of reserves this has now been included as a joint venture within the Group Accounts on the basis that the parties have joint equal rights to the net assets.

Capital Expenditure

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

£13.294M Actual capital expenditure incurred in 2021/22

£4.582M Underspend due to expenditure not meeting the profile assumed in the capital programme

Projects with the largest capital spend in 2021/22:



Investing in Education £2.873M



Investing in Roads, Transport and Infrastructure £2.583M



Investing in Housing £2.067M



Investing in Social Care £0.172M



Investing in Plant and Vehicles £1.070M



Investing in IT £0.446M



Investing in Museums £1.573M



Other £2.510M

Funding of the Capital Programme:

£5.087M General Capital Grant

£2.976M Borrowing

£0.766M Specific Grants

£1.224M Funded from Revenue Contributions

£1.547M Other Capital Grants

£1.693M Capital Receipts

It is recognised that in setting an ambitious capital programme, it was not deliverable due to weaknesses in the forward planning process, and this has resulted in a significant amount of capital programme slippage in previous years. Slippage is defined as capital projects which have not progressed in accordance with provisions made within the capital programme – this has been further compounded during the last 2 financial year by the reduced construction activity as a result of COVID-19 pandemic, including further shortages and delays with delivery of materials during 2021-22. Although there can be positive consequences of slippage this is recognised as a weakness on the basis that these delays are likely to result in higher costs for the council to deliver the approved capital programme.

Performance against Prudential Framework Indicators

The Prudential Code for Capital Finance in Local Authorities allows greater local flexibility for investment decisions that are informed and supported by a suite of performance indicators. The indicators for 2021-22 were approved by Council on 16 February 2021. The Council's overall performance against these indicators provides a firm basis for the monitoring and control of capital investment and borrowing and for determining that it is prudent, affordable, and financially sustainable.

The key performance indicators are:

Prudential Indicator	Original Limit	Actuals	Commentary
Approved limit for capital expenditure	£17.876M	£13.294M	The maximum that the Council may spend on capital investments during the year.
Capital financing requirement	£7.097M	£2.976M	The Council's aggregate capital expenditure that is yet to be financed.
Aggregate external debt as at 31 March 2022		£35.087M	
Operational boundary	£65.000M		The upper limit for the aggregate external borrowing need.
Authorised limit	£75.000M		The upper limit of aggregate external borrowing that is affordable and prudent.

Treasury Management

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

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

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

Balance Sheet

The Balance Sheet represents a snapshot of Orkney Islands Council's overall financial position as at 31 March 2022. It brings together the year-end balances of all the Council's accounts and presents money owed to and by the Council, assets owned and the reserves at the level of Reserves Council's disposal.



In financial terms, the Council remains in good health, however its net worth has increased from £657.841M to £703.594M for the financial year to 31 March 2022, being an increase of £45.753M or minus 6.95%.

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

Long term assets – The reduction reflects the depreciation charged in the current year which was not impacted by any rolling programme of revaluations, with only Investment properties revalued during this financial year.

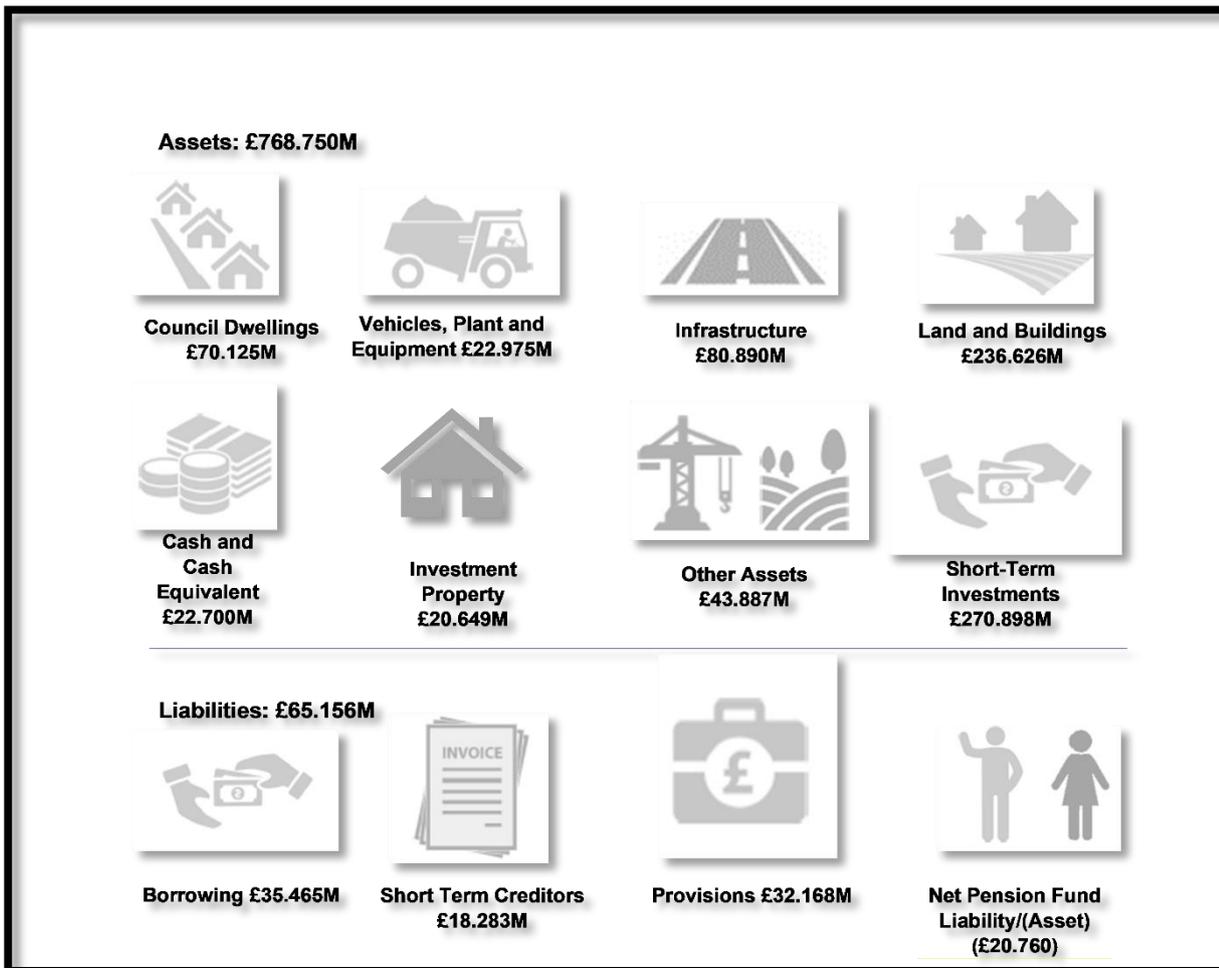
Current assets – The increase is mainly due to a gain in the value of externally managed investments of the Strategic Reserve Fund, which has offset a large reduction in cash balances at the balance sheet date

Current liabilities – The increase is mainly due to £5M due to be repaid to the PWLB within 12 months moving from a long-term liability to a current liability.

Usable Reserves – the increase on usable reserves can be attributed to the increase on both earmarked and unearmarked reserves.

Unusable Reserves – the increase on unusable reserves can be attributed to the impairment review that was carried out on non-current assets, with a large increase in values attributed to the effect of increased material prices on the assets held on a depreciated replacement cost basis.

Details of Assets and Liabilities



Key Financial Ratios

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

Financial Indicator	2020-21	2021-22	Commentary
Reserves			
Uncommitted General Fund reserve as a proportion of Annual Budgeted Net Expenditure	12.9%	6.5%	This reflects the level of funding available to manage financial risk/unplanned expenditure and is considered sufficient.
Increase/(Decrease) in the Uncommitted General Fund Balance	(2.100M)	(0.642M)	Reflects the extent to which the Council is using its Uncommitted General Fund Reserve.
Council Tax			
In-year Collection Rate	96.3%	93.8%	Reflects the Council’s effectiveness in collection of Council Tax debt and financial management. Due to COVID-19, debt recovery has been suspended for the financial year 2020-21 and 2021-22 which has resulted in a reduction in collection.

Ratio of Council Tax Income to Overall Level of Funding	12.0%	11.5%	Reflects the Council's capacity to vary expenditure by raising Council Tax income, a principle source of finance within the Local Authority control.
Financial Management			
Actual Outturn Compared to Budgeted Expenditure	100%	97.1%	How closely expenditure compares to the budget is a reflection of the effectiveness of financial management. The indicator is based on the format of budget monitoring as reported throughout the year.
Actual Contribution to/(from) Unallocated General Fund Balance compared to Budget	(2.4%)	3.7%	
Debt/Long-term Borrowing			
Ratio of Financing Cost to Net Revenue Stream:			These two ratios indicate the scale of financing costs compared with the level of funding available to the Council.
General Fund	0.4%	2.2%	
HRA	12.0%	31.3%	

Group Accounts

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

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

The Orkney Integration Joint Board and the Orkney Research and Innovation Campus are included as "joint ventures". The effect of recognising the Council's interests in subsidiaries and associates on a group basis is a decrease in net worth of £1.779M to £701.815M.

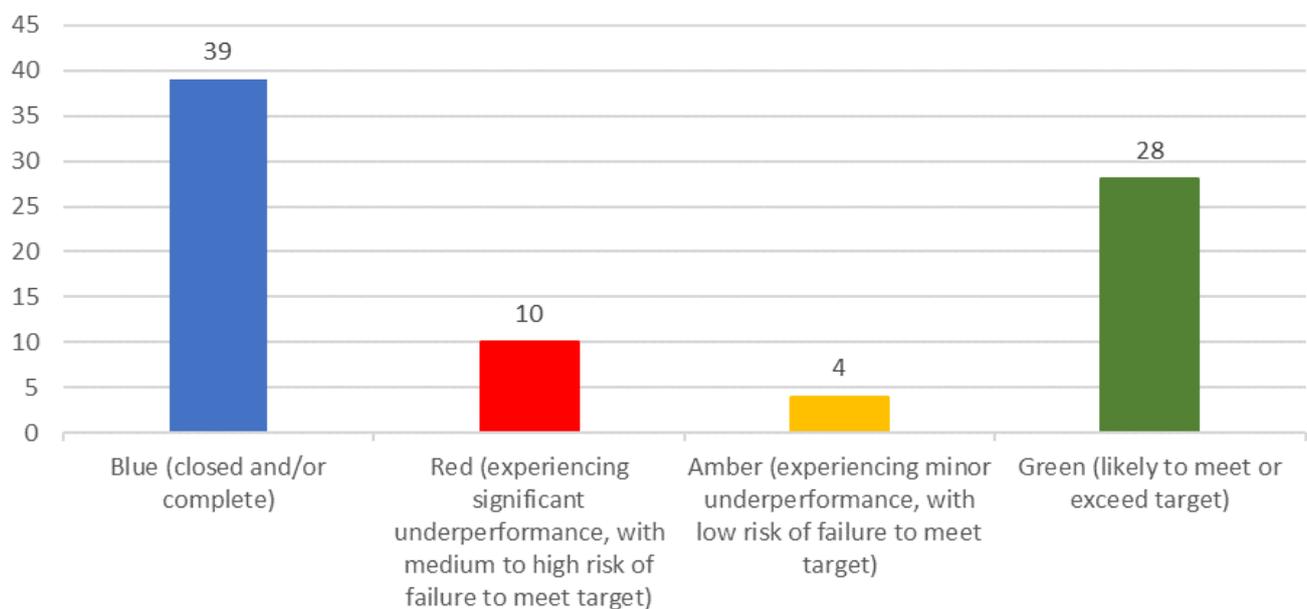
Council Plan Targets, Outcomes and Planned Actions

The table below summarises some of the 81 action points contained within the Council's Delivery Plan that have been progressed during this financial year. The first section shows the action points that have been progressed to completion during 2021-22, followed by a section on some of those that are experiencing underperformance or are at risk of not meeting their target. The planned actions to mitigate this risk are also included. Whilst the focus during 2021-22 was still to continue essential services, planned action in the coming financial year will be to continue progressing the outstanding actions in the current Council plan and seek to deliver the desired outcomes for the Community.

Actions progressed during the year	
“Commissioned Provision” opportunities for education and care	
A service to meet the needs of those currently on the edge of care by the establishment of a partnership framework identifying partnerships, approved providers and details of services provided, along with a commissioning protocol for the framework.	
Establish Crown Estates Marine Management Pilot Status	
The pilot scheme is now established, and recruitment is complete, allowing this function and income to be transferred to a dedicated professional Marine Planning Service.	
Public Bus Services	
There are now new contracts in place and new buses have arrived. This has allowed for more integrated and better-connected communities, with improved access to services and business/tourism opportunities through better transport integration.	
Supported Accommodation Services	
The new Learning Disability Core and Cluster was operational from December 2021, with all tenants moved in by the end of January 2022, resulting in an improved service delivery model that creates additional capacity and is more cost effective.	
Waste Management	
The Stage 2 Capital Project Appraisal in respect of the proposed Integrated Waste Facility, identifying additional options for waste/recycling in Orkney has been approved, subject to the availability of Scottish Government funding.	
Recycling and Waste Reduction	
Education and awareness raising around single use plastics is now standard within the Council and reflects the proposed Scottish Government legislation banning the use of those items. The climate change officer has also taken on consideration of these issues as part of their role.	
Actions experiencing underperformance	Planned Action 2021-22 onwards
Digital Connectivity	
Details of the Scottish Government’s Reaching 100 broadband scheme have been released. The project is running late and will not deliver superfast broadband to all premises in Orkney.	The Council continues to lobby Government, is developing an Orkney Digital Strategy and will consider additional measures to support the roll out of gigabit capable broadband in all premises in Orkney. The Council is now working with a consultant to establish all options with a view to moving this forward. It is likely this action will require to be included in the next plan but will only include what is in Council control.
Inter Isles Strategic Transport Appraisal Guidance strategic business cases	
The outline business case is progressing with a draft report presented to the Senior Management Team in October 2021 who have raised some concern. A seminar with Elected Members took place in January 2022, with a report subsequently coming forward to Development and Infrastructure committee in February 2022.	Development and Infrastructure Committee in February 2022 approved the appointment of a project officer. During 2022/23 recruitment will take place and work will continue on the delivery of a final business case for improvements to the transport links in islands.

Day Care Services	
The review and redesign of the approach to day care services for adults has been delayed due to staffing capacity issues within Orkney Health and Care and as a result of delays in progress on the capital project to replace St Rognvalds House.	Service redesign will continue in due course when capacity allows and in line with the replacement for St Rognvald House.
Policy and Provision for School Staffing, Curriculum and Financial Management	
The review of the policy and provision for staffing, curriculum and financial management to ensure resources are more effectively targeted at “raising the bar and closing the gap” have been delayed to due staff shortage.	Staffing policy is to be linked to the new Devolved School Management policy and guidance, with a new anticipated date for completion in August 2022.

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



Local and National Statutory Performance Indicators 2020-21

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

The Council has mapped the LGBF indicators against the OIC target outcomes and priorities in the Council Plan. The most recent LGBF performance data is for the year ending 31 March 2021 as the councils do not receive this information until the following year.

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

Looking ahead

Factors affecting future development and plans

At the forefront of factors affecting the future developments and plans of the Council is the ongoing recovery from the COVID-19 pandemic. The areas of the local economy that continue to be affected are the building, manufacturing, and servicing sectors with issues surrounding material delays, shortages of supplies and shortages of staff resources affecting all those sectors during 2021-22. The income from the cruise industry continued to be reduced significantly during the summer of 2021, however this situation is forecast to improve considerably during 2022-23.

The Council also faces difficulties arising from an ageing population resulting in increased demand on services, and the challenges for some in accessing essential services in our remote and rural communities. These pressures are met alongside increasingly stringent financial circumstances facing the Council as a result of real term cuts in core Government grant allocations and heightened regulatory requirements.

Internal factors having the most significant influence include the ongoing workforce planning challenges surrounding recruitment and retention of employees, to ensure there are adequate resources of skilled staff to meet the demands of services. The Corporate Workforce Plan for 2019-2022, approved in April 2019, is a mechanism designed to meet these challenges as is the restructure which was agreed in 2021-22 which will lead to the creation of over 70 new posts at OIC to ensure delivery of services at the level expected by the community.

The Independent Review into Adult Social Care (IRASC) in Scotland published its report on 3 February 2021, recommended the establishment of a National Care Service (NCS), with Scottish Ministers being accountable for the delivery of health and social care services. The Scottish Government then undertook a public consultation on the proposals from 9 August 2021 until 2 November 2021, with feedback from the consultation process used to develop new legislation. The National Care Service (Scotland) Bill was introduced to Parliament on 20 June 2022.

Introduction of the NCS has the potential to be the biggest public sector reform in Scotland for decades, affecting the planning, commissioning, procurement and delivery of social care support and services. Integration Joint Boards and public bodies are being asked to review their Strategic Commissioning plans, portfolio of social care contracts and pending procurement process and take action now to support a transition to an NCS. Considerations include how to integrate with the National Health Service (NHS); implications for the NHS; impact of proposals on equality groups and others, including businesses and island communities the local community. The Scottish Government intends to establish a National Care Service by the end of the Parliamentary term.

The Orkney Harbours Masterplan Phase 1 was approved in April 2020 with work underway to develop plans for a proposed deep-water quay in Scapa and the extension of Hatston Pier. These projects represent the first steps in a review of the Harbour Authority assets to create a base for innovation and the move away from fossil fuels, while continuing to generate revenue and job opportunities for the community. The Scapa Deep Water Quay proposal has been included in the Islands Deal list of projects that has received a funding commitment from the Scottish and UK governments.

Principal risks and uncertainties facing the Council

The oversight of risk and financial monitoring is the responsibility of the Chief Executive, the Corporate Directors and the Heads of Service, as Chief Officers. The Council has a risk management policy and strategy, which is reviewed biennially, and is designed to support the identification, evaluation and mitigation of risks which may impact on the Council's ability to meet its objectives. The Corporate Risk Register is reviewed and updated every six months, following evaluation by the Corporate Leadership Team of the principal risks facing the Council and consideration of the means by which those risks can be controlled. It is also reported to Council every year and can be found on the Corporate Risk Register

The following risks have been identified as the most significant and uncertain to the Council:

Council services – inability to maintain services and meet changing demands

This is due to many combined factors including reduced funding, increased cost of essential service delivery as a result of COVID-19 which may persist for an indeterminate period. Income streams that seemed secure have completely stopped and may take a long time to recover and a lack of capacity in both Council staffing to deliver the capital programme as well as a lack of capacity in the local contracting market to carry out the projects. The mitigating actions for this risk include:

- ownership of the Budget Setting Process by the Extended Corporate Leadership Team with openness and transparency around the identification of potential areas for re-provisioning of services.
- an agreed programme of budget savings and efficiencies; delivery of the budget savings will be monitored within Services and reported to Policy and Resources Committee.
- acknowledgement of reality with the focus on continuation of the delivery of minimum Statutory Provision versus Statutory with Discretion, Non-Statutory but Essential or Discretionary Expenditure whilst having regard to the Council Priorities.
- improved project planning with much longer lead in times and additional capacity within the Neighbourhood Services and Infrastructure to manage the capital programme.

Failure to secure agreement with Scottish Government on appropriate funding arrangements to deliver the Scottish Ferries Plan in relation to ferry and terminal replacement for Orkney

The Ferry and Terminal replacement programme is currently unfunded with ageing infrastructure. The risk is that the Ferries reach the end of service life with no solution in place, and with annual revenue costs that are unaffordable. This is likely to result in a reduction in lifeline provisions for the community that will fall below the Scottish Ferries Plan standards. The mitigating actions for this risk include:

- ongoing dialogue with the Scottish Government emphasising the difficulties of a small authority providing the range of public services within reduced budgets across a wide and diverse geographical area.
- working with COSLA and Transport Scotland has seen the rationalisation of local authority ferry funding with Ferries Grant Aided Expenditure (GAE) moved within the finance settlement to be a specific grant in 2022-23 which means between fare income and specific grant, the revenue costs should be fully funded in 2022-23.
- continuing to seek additional specific funding sources to protect lifeline services in Orkney and its outlying communities to ensure they are not significantly disaffected.

Inability to sustain and enhance economic opportunities

Commercial sectors are vulnerable to market forces and changing national and international economic circumstances. Orkney also has an ageing population leading to a range of challenges and opportunities in managing the impact of this demographic shift in terms of service provision. There is a risk that the Council fails to support a diverse economy or ensure community benefits arise from developing industries or secure long-term benefits from the renewables sector. The mitigating actions for this risk include:

- where unavoidable pressures are identified these are managed through an allocated 'contingency' or capacity within the Development and Infrastructure Directorate given positive trading performance.

- to ensure the delivery of approved plans is achieved, there has been additional investment in people resources in roads, waste, fleet and soon to be the quarry and property team (as part of workload analysis and mini restructuring).
- to ensure the size and scale of the capital programme is realistic in terms of affordability, pace and thereby resources, members have agreed the 2018 to 2023 programme. This considers the Council's internal and external people resource, contractor capacity and how it is funded (internally or externally, noting island deal possibilities).

Pandemic

The spread of a pandemic virus is likely to significantly hamper the ability of the Council to perform its statutory function and could lead to the cessation of non-urgent and elective work, inability to provide certain services, delays to capital programme and affect the ability to successfully resolve emergency incidents. The mitigating actions for this risk include:

- ongoing monitoring of workforce to give early indication of potential issues.
- Business Continuity Plans.
- redeployment to move staff from non-critical areas to more front-line roles.
- amended operational procedures to reflect physical distancing and enhanced hygiene requirements to control/minimise spread of the virus within ongoing operational activities.
- consideration of issues within Strategic, Tactical and Operational environments.
- positive staff leadership.
- continued use and development of remote and flexible working to encourage retention of key staff and inclusion of staff in the re-design of operations.

Conclusion

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

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



Councillor James Stockan

Leader

17 November 2022



John W Mundell, OBE

Interim Chief Executive

17 November 2022



Gareth Waterson, BAcc., CA

Corporate Director of
Enterprise and Sustainable
Regeneration

17 November 2022

Statement of Responsibilities for the Annual Accounts

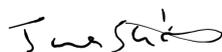
The Authority's Responsibilities

The authority is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that the proper officer of the authority has responsibility for the administration of those affairs (section 95 of the Local Government (Scotland) Act 1973). In this authority, that officer is the Corporate Director of Enterprise and Sustainable Regeneration.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Ensure the Annual Accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014) and the Local Authority (Capital Finance and Accounting) (Scotland) (Coronavirus) Amendment Regulations 2022 (the 2022 Regulations), and so far as is compatible with that legislation, in accordance with proper accounting practices (section 12 of the Local Government in Scotland Act 2003).
- Approve the Annual Accounts for signature.

I can confirm that these annual accounts were approved for signature by the Monitoring and Audit Committee at its meeting on 17 November 2022.

Signed on behalf of Orkney Islands Council.



Councillor James Stockan
Leader

17 November 2022

The Chief Finance Officer's Responsibilities

The Corporate Director of Enterprise and Sustainable Regeneration is responsible for the preparation of the authority's Annual Accounts in accordance with proper practices as required by legislation and as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (the Accounting Code).

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

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

The Chief Finance Officer has also:

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

I certify that the financial statements give a true and fair view of the financial position of the local authority and its group at the reporting date and the transactions of the local authority and its group for the year ended 31 March 2022.



Gareth Waterson, BAcc., CA

Corporate Director of Enterprise
and Sustainable Regeneration

17 November 2022

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

Reporting on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the annual accounts of Orkney Islands Council and its group for the year ended 31 March 2022 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the group and council only Movement in Reserves Statements, Comprehensive Income and Expenditure Statements, Balance Sheets, Cash Flow Statements, the council-only Housing Revenue Account, Council Tax Income Account, Non-Domestic Rates Account, Harbour Authority Account, Orkney College Account and notes to the core financial statements, including summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards, as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (the 2021/22 Code).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2021/22 Code of the state of affairs of the council and its group as at 31 March 2022 and of the income and expenditure of the council and its group for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2021/22 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I was appointed under arrangements approved by the Accounts Commission on 10 April 2017. The period of total uninterrupted appointment is six years. I am independent of the council and its group in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the council. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern basis of accounting

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

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

These conclusions are not intended to, nor do they, provide assurance on the current or future financial sustainability of the council and its group. However, I report on the council's arrangements

for financial sustainability in a separate Annual Audit Report available from the Audit Scotland website.

Risks of material misstatement

I report in my Annual Audit Report the most significant assessed risks of material misstatement that I identified and my judgements thereon.

Responsibilities of the Corporate Director of Enterprise and Sustainable Regeneration and Monitoring and Audit Committee for the financial statements

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- obtaining an understanding of the applicable legal and regulatory framework and how the council and its group is complying with that framework;
- identifying which laws and regulations are significant in the context of the council and its group;
- assessing the susceptibility of the financial statements to material misstatement, including how fraud might occur; and
- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

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

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

degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Reporting on other requirements

Opinion prescribed by the Accounts Commission on the audited part of the Remuneration Report

I have audited the part of the Remuneration Report described as audited. In my opinion, the audited part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

Other information

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

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

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

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

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

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003; and
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

Matters on which I am required to report by exception

I am required by the Accounts Commission to report to you if, in my opinion:

- adequate accounting records have not been kept; or

- the financial statements and the audited part of the Remuneration Report are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- there has been a failure to achieve a prescribed financial objective.

I have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

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

Use of my report

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Gillian Woolman

Gillian Woolman MA FCA CPFA

Audit Scotland
4th Floor
102 West Port
Edinburgh
EH3 9DN

17 November 2022

Annual Governance Statement

Scope of Responsibility

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

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

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

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

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

Purpose of the Governance Framework

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

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

The Governance Framework

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

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

The foundation of the Council's integrity is its culture. The Council's culture is demonstrated through the



leadership, behaviour, openness and mutual respect of its Elected Members and Chief Officers. It is evidenced by its adoption of a range of robust structures, systems and procedures including:

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

Governance Principle B - Ensuring openness and comprehensive stakeholder engagement

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

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

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

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

- The Strategic Priorities have been carefully considered in relation to their intended outcomes and impact on the community and provide the basis for [The Council Plan 2018-2023](#).
- The [Council Delivery Plan](#) contains actions arising from the Council's response to the recommendations of the Accounts Commission contained in the Best Value Assurance Report published in December 2017.
- The Islands (Scotland) Act 2018 (the Act) introduced a statutory requirement for Island Communities Impact Assessments (ICIA) under Section 8 of the Act. A relevant authority must prepare an island communities impact assessment in relation to a policy, strategy or service which, in the authority's opinion, is likely to have an effect on an island community which is significantly different from its effect on other communities (including other island communities) in the area in which the authority exercises its functions.

- [Performance Monitoring Reports](#), with progress on the actions contained within the Delivery Plan, are reported to the Council every six months, in accordance with the Council's performance management framework.
- In February 2018, the Policy and Resources Committee recommended that a revised [Sustainable Procurement Policy](#) The Council's Sustainable Procurement policy is detailed in the Procurement Strategy and Council's Contract Standing Orders. Before undertaking a Tendering exercise, the Relevant Council Officer is required to take into account the social, economic and environmental impacts of the proposed Contract and whether the Contract will contribute to the achievement of sustainable development in accordance with the Sustainable Procurement Duty. An update to the Sustainable Procurement policy was recommended for approval by the Policy and Resources Committee in June 2021.

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

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

- The budget setting process continues to play a pivotal role in supporting progress towards the key outcomes.
- A medium-term resource strategy was developed to establish the framework for the Council to set a balanced budget over the period 2017-2022. The strategy includes a general recognition that either new sources of income will need to be identified or further consideration will have to be given to delivering spending reductions over the medium-to-long term, given the requirement for continued and significant budget reductions and that use of reserves to balance the budget can only be a short-term solution.
- A Long-Term Financial Plan for the years 2018-2019 to 2029-2030 was approved by the Council in February 2019 and addresses the financial sustainability of the Council in the longer term in light of the difficult financial climate and continuing economic uncertainty.
- Improvement and Performance support a portfolio of approved projects and facilitate the coordination of the Corporate Leadership Team's (CLT) improvement agenda. This is scrutinised through quarterly update reports produced for the CLT and an annual report, which is scrutinised by CLT, prior to presentation to Policy and Resources Committee. The focus of these reports is around the benefits of the projects and the measurement of outcomes.
- The Improvement Service has produced a special benchmarking report for Orkney with key comparative performance information which is used in the planning process for delivery of Council services.
- Established committee structures, Members Seminars and briefings from the CLT furnish Elected Members with an extensive volume of information on both the availability of resources and options for future service delivery, enabling informed decisions to be made.
- Operational Service plans which detail the projects and activities through which the Council Plan key strategic priorities are to be actioned.
- A sustainable procurement policy which demonstrates social value and makes reference to modern slavery.

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

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

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

- Elected Members and senior officers are provided with a range of support services to ensure that they have the necessary knowledge and skills to be fully effective.
- Access to complementary support services provided by the Improvement Service, the Scottish Government and other agencies.
- Improvement Service notebooks given to Elected Members to guide them on the support available and how to navigate the Improvement Service website.
- A range of seminars and training events are organised on an on-going basis for Elected Members to attend.
- Briefing notes are routinely prepared and distributed to provide the Members with up-to-date information on key strategic and operational issues.
- Induction Programme and information relating to empowering communities for Elected Members.
- The expansion of the audio casting of meetings.
- The introduction of hybrid meetings allowing Elected Members the opportunity to attend meetings and training events via Microsoft Teams.
- A [Communication Strategy](#) is in place which provides an overall strategic direction for managing the Council's communications activities
- A Continuous Professional Development Framework for Elected Members is administered by the Improvement Service however, participation is voluntary.
- The use of an Employee Review and Development Framework to ensure performance of staff in a consistent way across all Services, building a culture where everyone should know what is expected of them and are aware of the competencies and the behaviours required.
- Staff Personal Development Plans are included as part of the Employee Review and Development Scheme, with the aim to get the best from the Council's staff and help them achieve their full potential by identifying training needs and addressing ways of meeting them.
- The Chief Executive has a robust 360-degree annual appraisal and review process which is facilitated by SOLACE.
- Access to training for employees through professional bodies to which employees belong and through external training opportunities.
- The development and implementation of an online modular training facility called iLearn, which staff can access both at work and home.
- The Corporate [Workforce Plan](#) 2019-2022 was approved in April 2019, and places greater emphasis on workforce planning, including succession planning.
- The Best Value Assurance Report recognised the stable, effective leadership strongly focussed on doing what is right for Orkney's communities.
- A Political Engagement Strategy is in place with the purpose of enhancing and integrating the Council's political engagement in respect of its key strategic priorities.
- During 2021-22 the Council launched Our People Our Plan which was split into seven projects aimed at improving the Council's leadership and organisational capacity, to energise staff, and improve confidence across our communities and our stakeholders.
- The work on Our People Our Plan resulted in Phase 1 and Phase 2 of a restructure being approved during 2021-22. Phase 1 covered the tiers down to Service Manager level and Phase 2 covered a review of the Council's operating model. Phase 2 included approval of the creation of 72.34 new posts to enhance capacity to deliver Council services.

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

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

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

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

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

The Monitoring and Audit Committee provide:

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

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

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

- Council business is conducted through an established cycle of committee meetings held in public, unless exempt under statutory provision,
- Principle committee meetings are audio-cast live, with recordings available thereafter for download from the Council's public website.
- Agenda and associated reports are issued to the relevant Elected Members and chief officers, and to the public via the Council's website.
- Committee reports follow consistency with a corporate style including the purpose of the report, information relevant to the matter under consideration, a conclusion and recommendations proposed.

- Minutes of meeting are prepared, and once approved are also publicised on the Council website.
- Statutory returns that follow prescribed layouts.
- Newsletters which target specific groups.
- Consultation documents which contain basic information designed to prompt initial interest in particular services and projects.
- The adoption of the Scottish Public Services Ombudsman - Model Complaints Handling Procedure, with [Council Compliments and Complaints](#) reported to the ECLT on a quarterly basis, Service Committees on a 6-monthly basis and an annual report submitted to Monitoring and Audit Committee.
- Adoption of the Consultation and Engagement Guidelines issued by the Orkney Partnership, which includes recommendations on feedback in accordance with national guidelines.

Review of Effectiveness of Governance Arrangements

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

- The Council and its committees - monitor governance arrangements throughout the year.
- The Corporate Leadership Team - overall responsibility for the development and maintenance of the governance environment.
- The Extended Corporate Leadership Team – assist the CLT in keeping the governance under review whilst acting with the wider objectives of the Council in mind to ensure resources are effectively deployed to achieve local and national outcomes.
- The Corporate Director of Enterprise and Sustainable Regeneration – the Council’s most senior adviser on all financial matters.
- The Chief Social Worker – required to, in the discharge of the Council’s statutory social work duties, produce an annual report on all statutory, governance and leadership functions of the role.
- Internal Audit – a professional and objective internal audit service in accordance with the Local Authority Accounts (Scotland) Regulations 2014. The service conforms to the standards and practices set out in the Public Sector Internal Audit Standards.
- External Auditors, review bodies, agencies and inspectorates – who come together as a Local Area Network to determine any scrutiny activity required which feeds into the National Scrutiny Plan.
- During financial year 2021-22 the Council continued to hold meetings on-line, given the high prevalence of COVID-19 in Orkney and in line with Scottish Government guidance.
- On 15 September 2021, the Council considered governance arrangements to support decision making of the Council, in light of legislative amendments in respect of public access to Council meetings which were due to take effect from 1 October 2021. The Council resolved that, subject to Scottish Government guidance in place at the time, in-person Council meetings should resume in the Chamber but limiting the number of attendees. The temporary amendment to the governance arrangements to allow meetings to be held at short notice was also withdrawn. It was also agreed to update the technological equipment in the Chamber to facilitate blended meetings and this work has now been completed.
- From 16 May 2022, all meetings have now returned to in-person in the Chamber, with the option to join remotely, if requested and at the discretion of the Chair.
- On 21 June 2022, the Policy and Resources Committee will consider a further report on governance arrangements, specifically in relation to policy and protocols for blended meetings.

The 2021-22 self-assessment of the Council’s Local Code of Corporate Governance was reviewed by the CLT on 18 May 2022 and the Council’s degree of compliance with each principle in the Local

Code was graded in accordance with the CIPFA Framework as “3 – fully compliant with the requirement”.

The 2021-22 self-assessment did not generate any scores of 1 or 2. However, in the course the exercise, service management team identified a number of updates and improvements which could be made to existing corporate governance arrangements. All of these actions were incorporated into the Local Code of Corporate Governance Improvement Action Plan for 2022-23 which was submitted to, and approved by, the Monitoring and Audit Committee on 9 June 2022 and subsequently included in the Council’s Pentana performance management system.

Internal Audit and Monitoring and Audit Committee

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

The internal audit plan for financial year 2021-2022 included core financial systems testing, other systems operating within services, annual audits, corporate reviews, computer audit and follow up on a quarterly basis of all recommended improvement actions.

The Chief Internal Auditor provides an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control. It is the opinion of the Chief Internal Auditor, on the basis of the audit work performed in 2021-22, that the Council has a framework of controls in place that provides adequate assurance regarding the organisation’s governance framework, related internal controls, and the management of key risks. The actions identified during the audit work carried out did not impact on the overall governance arrangements of the Council.

The Chief Internal Auditor confirmed that there were no fraud issues reported to the Council’s external auditors in financial year 2021-22.

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

Integration Joint Board

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

Significant Governance Issues

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

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

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

Significant Governance Issue	Potential Impact	Mitigating actions currently in place	Proposed Action
Workforce Capacity			
Workforce Management and Planning	Inability to recruit to senior management and/or technical positions. Higher level of turnover in staffing along with a loss of knowledge and experience. Lack of resilience and capacity to deal with change, maintain current service levels and deliver on Council priorities.	Review of corporate management structure. Develop OPOP programme of leadership training and development. Provision of additional staff resources in key areas, noting that this will take some time to implement.	Progress to be monitored and reviewed by CLT
Resource Pressures			
The impact of Covid on normal service delivery for financial year 2022-23.	Greater likelihood of staff absences through ill health, and loss of income through fees and charges as customer confidence takes time to return.	Budget monitoring and reporting arrangements.	Position to be reviewed by CLT
Financial Pressures			
With inflation now forecast to exceed 10% (CPI) for financial year 2022-23, Heads of Service are going to find it more challenging to operate from within approved budgets.	Increase in cost of utilities. Increased likelihood of adverse budget variances and potential for overspends.	Budget monitoring and reporting arrangements. Review market trends in advance of renewal of fixed term utilities contracts and feed into budget setting process.	Position to be reviewed by CLT

Significant Governance Issue	Potential Impact	Mitigating actions currently in place	Proposed Action
The 2021 Internal Audit on the Financial Planning and Budget Setting Process recognised that the Council's long-term financial strategy identified a cumulative funding gap of between £23.6M and £145.6M based on a range of optimistic to pessimistic assumptions.	Settlements in future are hugely uncertain and prone to a substantial level of volatility, whilst opportunities for efficiency savings are becoming more limited and service pressures are continuing to grow.	The annual budget setting process looks at all areas of growth and any potential savings that can be made. The Council also prepare an annual reserves strategy which considers the use of reserves to support the budget setting process.	Consider the options for long term savings and produce detailed savings plans to address the forecasted funding gap.
Capital Slippage			
Slippage on the capital programme.	Greater than expected Covid related uncertainty surrounding supply chains leading to increased costs and longer delivery times. Additional cost pressures and slippage against approved timelines for delivery of capital projects.	Budget monitoring and reporting arrangements, along with submission of revised CPA's where necessary.	Capital Programme Board and CLT to keep under review
Quarry Service			
Stock Values	Increased stock values following the additional stone purchases made to bridge the gap in supply prior to the Quarry Extension project being completed has resulted in trading deficits in the short-term.	The imported stone will continue to be sold until the appointed contractors have enabled the earthworks on site and stocks have been used.	Stock value reductions will be reflected in the 2022/23 annual accounts and onwards.
Scottish Government Settlement			
The permanent addition or baselining of grant funding streams into the Local Government finance settlement by Scottish Government to support the delivery of national initiatives.	Other movements in the Grant Added Expenditure (GAE) indicators act to offset any additional grant funds that are added to the individual Service indicators (otherwise known as baselined) at a national level, such that no increase in grant funding is realised at a local level.	Carry forward of any underspends from previous financial year redeterminations.	Engage with Scottish Government and CoSLA. Position to be reviewed by CLT

Update on significant governance issues previously reported

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

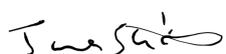
Prior Year Significant Governance Issue	Action Taken	Further Action Required
Resource Pressures		
<p>There was the potential risk that the Council would be unable to meet the service demand, or achieve its target outcomes, and that this could continue to impact future revenue budgets as a result of the response to COVID-19, where there was an increase in costs and a reduction in income during 2020-21.</p>	<p>The Council received additional funding from the Scottish Government as a support measure, which was largely set aside at the end of 2020-21.</p> <p>On 21 December 2021, Policy and Resources committee approved an allocation of the above one-off funding towards a series of projects considered to provide excellent recovery prospects from the COVID-19 pandemic.</p>	<p>Monitoring and reporting arrangements for the outcome of the projects approved for use of this funding will be required, to ensure the objectives are met.</p> <p>These objectives should help alleviate service delivery constraints, improve future efficiency, cut emissions and stimulate recovery.</p>
Workforce capacity		
<p>There is a risk that the Council is unable to deliver its services effectively and efficiently, whilst also increasing pressure on current staff resources. This was further compounded during the COVID-19 pandemic with the Council facing additional difficulties in filling vacant posts which impacts on the Council's ability to meet performance targets.</p>	<p>During 2021-22 a restructure has taken place at OIC in 2 phases.</p> <p>Phase 1 approved a new Council Service structure based around five Services each led by a Corporate Director.</p> <p>Phase 2 approved the creation of 70 new jobs during 2022-23 due to the fundamental shift in the expectations of customers, service users and staff, and to deal with the significant increase in interventions from the Scottish Government and the associated workload.</p>	<p>The new posts will be advertised during 2022-23 with a view to increasing the capacity and therefore effectiveness of the Council's workforce to deliver on Council priorities while reducing the pressure on the current staff resources.</p>
Quarry Procurement		
<p>In 2020, a consignment of stone material was purchased to support the continuation of supply at Cursiter Quarry. Procurement Policy and Financial Regulations were not followed leading to an impact on public confidence in the Authority and the risk that other internal control measures and processes in place would also not be adhered to.</p>	<p>An internal audit review was carried out by the Council's Chief Internal Auditor, with an Internal Audit Report presented to Monitoring and Audit Committee on 11 March 2021. The report made five high priority recommendations including key changes to procurement processes, signing limits for orders and the timing of briefings to elected Members which were all accepted.</p>	<p>All audit recommendations were duly implemented by 31 March 2022 and the action has been closed.</p>

Prior Year Significant Governance Issue	Action Taken	Further Action Required
Cyber Fraud		
Increase susceptibility to cyber fraud as a result of COVID-19 and remote working implementation which could lead to the Council becoming a target of fraud with a direct loss of money, or access to IT infrastructure leading to service interruption.	All standard controls are in place, with electronic procedure replacing paper-based systems. An iLearn fraud awareness course has been developed and is now available to all OIC staff. The focus of the course is to raise awareness of fraud, highlight who is likely to commit fraud, types of fraud, why fraud occurs, how we prevent it and identify quickly when it does happen.	Finance Service staff are required to complete this course; however, it is not currently mandatory for all OIC staff. A decision to make the course mandatory would require to be approved by CLT.
Educational Need		
The level of reported unmet educational need implies a resource greater than the allocated budget to achieve statutory compliance. This may require a reduction in provision of other services as a result of redirecting resources to meet minimum statutory requirements.	Phase 2 of the management restructure approved 13 additional posts for Education, Leisure and Housing, of which 5 are fully funded new teaching posts. The new posts will focus on attainment and subject to the additional funding being confirmed will be fully provided for.	A review of the funding arrangements of the fully funded posts is due to be carried out during 2022-23 amidst concerns that the additional baselined funding has not been passed onto the Council. The findings of this review will be presented to the Corporate Leadership Team.

Concluding Remarks

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

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



Councillor James Stockan

Leader

17 November 2022



John W Mundell, OBE

Interim Chief Executive

17 November 2022

Remuneration Report

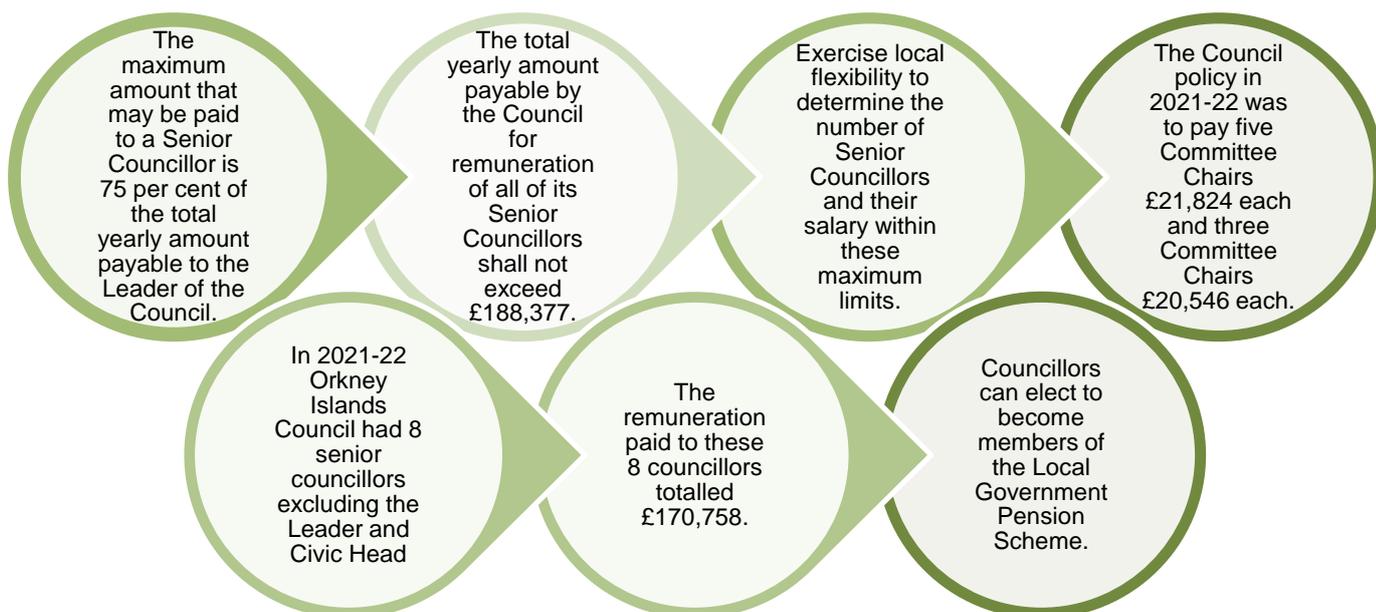
The Local Authority Accounts (Scotland) Regulations 2014 require local authorities in Scotland to prepare a Remuneration Report as part of the annual statutory accounts.

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

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

The remuneration of councillors is regulated by the Local Governance (Scotland) Act 2004 (Remuneration) Regulations 2007 (SSI No. 2007/183). The Regulations provide for the grading of councillors for the purposes of remuneration arrangements, as either the Leader of the Council, the Civic Head, Senior Councillors or Councillors. The salary that is to be paid to the Leader of the Council is set out in the Regulations. For 2021-22 the salary for the Leader of Orkney Islands Council is £29,730 which is £1,280 less than the maximum. This was agreed to enable the Depute Leader to be paid the same as a Committee Chair. The Regulations permit the Council to remunerate one Civic Head. The Regulations set out the maximum salary that may be paid to that Civic Head. Council policy is to pay at the national maximum.

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



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

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

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

2. Remuneration Policy for Senior Employees

The salary of senior employees is set by reference to national arrangements. The Scottish Joint Negotiating Committee (SJNC) for Local Authority Services sets the salaries for the Chief Executives of Scottish local authorities. Circular CO/151 sets the amount of salary for the Chief Executive of Orkney Islands Council for the period 2021-2022, however, the interim Chief Executive is paid a daily rate that has been agreed by the Council. Salaries of the Corporate Directors and Heads of Service are also based on Circular CO/151.

Other benefits received by senior employees include car mileage allowance.

3. Remuneration of Senior Employees

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



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

The term “remuneration” means gross salary, fees and bonuses, allowances and expenses and compensation for loss of employment. The table below outlines the remuneration details for senior employees, including prior year figures. The table shows the relevant amounts, before tax and other deductions, due to, or receivable by, each of the persons named for the year to 31 March 2022, whether those amounts were actually paid to, or received by, those persons within that period.

2020-2021	Senior Employees		2021-2022			
Total £	Name	Post Held	Salary, Fees and Allowances £	Any payment made in connection with the termination of their employment £	Election Payments £	Total £
165,300	John Mundell	Chief Executive	156,219		4,263	160,482
83,687	Gareth Waterson	Corporate Director - Enterprise & Sustainable Regeneration (from 21/02/2022), Executive Director – Regulatory, Marine and Transportation (from 02/08/2021 to 20/02/2022) and Head of Finance/Section 95 Officer (up to 01/08/2021)	88,985		2,750	91,735
0	Hayley Green	Corporate Director - Neighbourhood Services & Infrastructure (from 21/02/2022) and Executive Director – Environmental, Property & IT Services (from 02/08/2021 to 20/02/2022)	56,751		0	56,751
2020-2021	Senior Employees		2021-2022			

Total	Name	Post Held	Salary, Fees and Allowances	Any payment made in connection with the termination of their employment	Election Payments	Total
72,494	Karen Greaves	Corporate Director - Strategy, Performance and Business Solutions (from 21/02/2022) and Head of Executive Support (up to 20/02/2022)	85,234		2,750	87,984
43,830	Gillian Morrison	Executive Director - Corporate Services (up to 31/07/2021) *		81,640	0	81,640
96,063	Gavin Barr	Executive Director - Development & Infrastructure (up to 23/07/2021)	34,584		0	34,584
96,063	James Wylie	Executive Director - Education, Leisure & Housing Services	97,223		0	97,223
0	Colin Kemp	Head of Finance (from 16/08/2021)	48,244		0	48,244
74,122	Gavin Mitchell	Head of Legal & Governance	75,681		100	75,781
631,559	Total		642,921	81,640	9,863	734,424

Note 1 * seconded to IJB from 01/04/2021 to 31/07/2021

4. Remuneration of Senior Councillors

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

The table below shows the relevant amounts, before tax and other deductions, due to, or receivable by, each of the persons named for the year to 31 March 2022, whether or not those amounts were actually paid to, or received by, those persons within that period.

2020-2021	Leader, Civic Head and Senior Councillors			2021-2022
Total £	Name	Position Held	Salary, Fees and Allowances £	Total £
20,961	Rob Crichton	Chair (Planning)	21,824	21,824
11,754	David Dawson	Chair (Orkney Ferries)	20,546	20,546
22,299	Harvey Johnston	Civic Head	23,217	23,217
20,961	Rachael King	Chair (Orkney Health & Care)	21,824	21,824
20,961	Leslie Manson	Depute Leader of the Council	21,824	21,824
19,734	John Richards	Chair (Monitoring & Audit)	20,546	20,546
20,961	Gwenda Shearer	Chair (Education, Leisure & Housing)	21,824	21,824
20,961	Graham Sinclair	Chair (Development & Infrastructure)	21,824	21,824
28,505	James Stockan	Leader of the Council	29,678	29,678
19,734	Duncan Tullock	Chair (Licensing)	20,546	20,546
1,845	Kevin Woodbridge	Chair (Orkney Ferries) *	0	0
208,676	Total		223,653	223,653

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. 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 2022 are shown in the following table, together with the contribution made by the Council to each individual's pension during the year.

Pension contributions made by Orkney Islands Council during 2020-2021 £000	Senior Employees						Pension contributions made by Orkney Islands Council during 2021-2022 £000
	Name	Post Held	Accrued pension benefit as at 31 March 2022		Change in accrued pension benefits since 31 March 2021		
			Pension £000	Lump Sum £000	Pension £000	Lump Sum £000	
0	John Mundell	Chief Executive	0	0	0	0	0
14	Gareth Waterson	Corporate Director - Enterprise & Sustainable Regeneration*	43	56	4	2	15
12	Hayley Green	Corporate Director - Neighbourhood Services & Infrastructure	44	0	8	0	15
12	Karen Greaves	Corporate Director - Strategy, Performance and Business Solutions	33	42	5	5	14
8	Gillian Morrison	Executive Director - Corporate Services (up to 31/07/2021) **	50	90	00	0	0
16	Gavin Barr	Executive Director - Development & Infrastructure (up to 23/07/2021)	26	11	1	0	6
16	James Wylie	Executive Director - Education, Leisure & Housing Services	5	0	2	0	16
11	Colin Kemp	Head of Finance	43	78	10	19	14
13	Gavin Mitchell	Head of Legal & Governance	10	0	2	0	13
102	Total		254	277	32	26	93

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

Note 2 ** seconded to IJB from 01/04/2021 to 31/07/2021 and includes a transfer in of pension benefits from other pension funds or schemes

Pension contributions made by Orkney Islands Council during 2020-2021 £000	Leader, Civic Head and Senior Councillors						Pension contributions made by Orkney Islands Council during 2021-2022 £000
	Name	Post Held	Accrued pension benefit as at 31 March 2022		Change in accrued pension benefits since 31 March 2021		
			Pension £000	Lump Sum £000	Pension £000	Lump Sum £000	
4	Rob Crichton	Chair (Planning)	6	1	1	0	4
3	David Dawson	Chair (Orkney Ferries)	2	0	0	0	3
4	Harvey Johnston	Convener	6	0	1	0	4
4	Rachael A King	Chair (Orkney Health and Care) *	7	0	0	0	4
4	Leslie Manson	Depute Leader of the Council	4	0	1	0	4
3	John Richards	Chair (Monitoring and Audit)	4	0	1	0	3
4	Gwenda Shearer	Chair (Education, Leisure & Housing)	4	0	1	0	4
4	Graham Sinclair	Chair (Development and Infrastructure)	6	2	1	0	4
5	James Stockan	Leader of the Council*	32	77	3	6	5
3	Duncan Tullock	Chair (Licensing)*	6	0	1	0	3
38	Total		77	80	10	6	38

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

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

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

6. Councillors' remuneration

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

	2020-2021	2021-2022
	£000	£000
Salaries	407	433
Mileage	2	3
Conferences and Courses	0	0
Travel Costs	1	3
Subsistence	0	1
Other Allowances and Expenses	1	1
Telephone and ICT Expenses	4	3
Reimbursed Costs	(5)	(5)
Total	410	439

The annual return of Councillors' salaries and expenses for 2021-2022 is available for any member of the public to view at all Council libraries and public offices during normal working hours and is also available on the Council's website at www.orkney.gov.uk. Please follow the links on the Council's website as follows: [Councillors Record of Claims](#)

7. Remuneration of Employees

The following table gives a statement of the number of employees whose remuneration, excluding pension contributions, was in excess of £50,000 during 2021-2022, in bands of £5,000. This information includes those senior employees who are subject to the fuller disclosure requirements in the tables above.

Remuneration band	2020-2021	2021-2022
	Number of Employees	Number of Employees
£165,000 to £169,999	1	0
£160,000 to £164,999	0	1
£155,000 to £159,999	0	0
£150,000 to £154,999	0	0
£145,000 to £149,999	0	0
£140,000 to £145,999	0	0
£135,000 to £139,999	0	0
£130,000 to £134,999	0	1
£125,000 to £129,999	0	1
£120,000 to £124,999	0	1
£115,000 to £119,999	0	0
£110,000 to £114,999	1	1
£105,000 to £109,999	1	1
£100,000 to £104,999	2	2
£95,000 to £99,999	5	1
£90,000 to £94,999	0	1
£85,000 to £89,999	0	2
£80,000 to £84,999	2	5
£75,000 to £79,999	2	1
£70,000 to £74,999	8	8
£65,000 to £69,999	13	4
£60,000 to £64,999	14	15
£55,000 to £59,999	14	23
£50,000 to £54,999	56	54
Total	119	122

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.

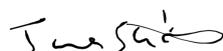
Exit Package Cost Band	Number of Compulsory Redundancies		Number of Other Departures Agreed		Total Number of Exit Packages by Cost band		Total Cost of Exit Packages in each band	
	2020-2021	2021-2022	2020-2021	2021-2022	2020-2021	2021-2022	2020-2021 £000	2021-2022 £000
£0 - £19,999	1	1	0	0	1	1	5	3
£20,000 - £39,999	0	0	0	0	0	0	0	0
£40,000 - £59,999	0	0	2	0	2	0	92	0
£60,000 - £79,999	0	0	0	0	0	0	0	0
£80,000 - £99,999	0	0	0	0	0	0	0	0
£100,000 - £149,999	0	0	1	0	1	0	130	0
£150,000 - £199,999	0	0	0	1	0	1	0	192
Total	1	1	3	1	4	2	227	195

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

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

For the reporting year 2021-2022, the equivalent of 0.8 FTE (across 21 individuals) of paid facility time was made available, with an associated cost of £0.045M. This sum equates to 0.05% of the Council's overall staff costs.

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



Councillor James Stockan
Leader

17 November 2022



John W Mundell, OBE
Interim Chief Executive

17 November 2022

Statements

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Council, analysed into usable reserves (those reserves that can be applied to fund expenditure or to reduce local taxation) and unusable reserves. The surplus or deficit on the provision of services line shows the true economic cost of providing the Council's services, more details of which are shown in the comprehensive income and expenditure statement. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for Council Tax-setting and dwellings rent-setting purposes. The net increase or (decrease) before transfers to other statutory reserves line shows the statutory General Fund Balance and the Housing Revenue Account Balance before any discretionary transfers to or from the other statutory reserves of the Council. Additional information to support these movements can be found in Note 22 to these accounts:

	General Fund Balance	HRA Balance	Harbour Reserve	Capital Fund	Capital Receipts Reserve	Capital Grants Unapplied	Renewals & Repairs Fund	Total Usable Reserves	Total Unusable Reserves	Total Reserves of the Authority
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balances as at 1 April 2020	(18,788)	(523)	(199,300)	(508)	(3,047)	(20)	(7,435)	(229,621)	(350,413)	(580,034)
Movement in reserves during the year										
(Surplus) or deficit on the provision of services	101,242	(3,632)	423	0	0	0	0	98,033	0	98,033
Other Comprehensive Income and Expenditure	(98,850)	(477)	(47,722)	0	0	0	0	(147,049)	(28,791)	(175,840)
Total Comprehensive Income and Expenditure	2,392	(4,109)	(47,299)	0	0	0	0	(49,016)	(28,791)	(77,807)
Adjustments between accounting basis & funding basis under regulations (Note 8)	(6,838)	4,575	(2,540)	0	528	0	0	(4,275)	4,275	0
Net (Increase)/Decrease before Transfers to Earmarked Reserves Statutory and Other Reserves	(4,446)	466	(49,839)	0	528	0	0	(53,291)	(24,516)	(77,807)
Transfer (to) or from earmarked reserves Statutory and Other Reserves	(6,197)	(593)	9,589	0	0	0	(2,799)	0	0	0
(Increase)/Decrease in Year	(10,643)	(127)	(40,250)	0	528	0	(2,799)	(53,291)	(24,516)	(77,807)
Balance as at 31 March 2021	(29,431)	(650)	(239,550)	(508)	(2,519)	(20)	(10,234)	(282,912)	(374,929)	(657,841)
Movement in reserves during the year										
(Surplus) or deficit on provision of services	121,039	3,041	1,323	0	0	0	0	125,403	0	125,403
Other Comprehensive Income and Expenditure	(93,881)	(146)	(5,962)	0	0	0	0	(99,989)	(71,167)	(171,156)
Total Comprehensive Income and Expenditure	27,158	2,895	(4,639)	0	0	0	0	25,414	(71,167)	(45,753)
Adjustments between accounting basis & funding basis under regulations (Note 8)	(23,890)	(2,669)	(2,167)	0	578	0	0	(28,148)	28,148	0
Net (Increase)/Decrease before Transfers to Earmarked Reserves Statutory and Other Reserves	3,268	226	(6,806)	0	578	0	0	(2,734)	(43,019)	(45,753)
Transfer (to) or from earmarked reserves Statutory and Other Reserves	(8,097)	(253)	7,266	0	0	0	1,084	0	0	0
(Increase)/Decrease in Year	(4,829)	(27)	460	0	578	0	1,084	(2,734)	(43,019)	(45,753)
Balance as at 31 March 2022	(34,260)	(677)	(239,090)	(508)	(1,941)	(20)	(9,150)	(285,646)	(417,948)	(703,594)

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	2020-2021			2021-2022		
		£000	£000	£000	£000	£000	£000
		Expenditure	Income	Net	Expenditure	Income	Net
Cultural and Recreation		6,839	(547)	6,292	8,912	(1,066)	7,846
Education		42,148	(3,112)	39,036	52,130	(3,713)	48,417
Roads and Transportation		19,892	(5,563)	14,329	24,885	(8,194)	16,691
Housing Revenue Account		134	(3,766)	(3,632)	7,054	(4,013)	3,041
Harbour Authority		14,090	(13,667)	423	16,910	(15,588)	1,322
Housing Services		5,834	(4,435)	1,399	6,438	(4,550)	1,888
Social Care		52,757	(29,356)	23,401	58,979	(31,032)	27,947
Planning and Development		5,023	(2,355)	2,668	5,365	(2,400)	2,965
Environmental Services		5,654	(1,032)	4,622	6,169	(1,262)	4,907
Other Services		12,970	(3,521)	9,449	14,371	(4,097)	10,274
Non-Distributed Costs		46	0	46	105	0	105
(Surplus)/Deficit on Continuing Operations		165,387	(67,354)	98,033	201,318	(75,915)	125,403
Other Operating Expenditure	10			175			(681)
Financing and Investment Income and Expenditure	11			(47,018)			(4,447)
Taxation and Non-Specific Grant Income: Other	12			(100,206)			(94,861)
(Surplus)/Deficit on Provision of Services				(49,016)			25,414
Surplus on revaluation of non-current assets	13			(10,397)			(59,209)
(Surplus)/Deficit on revaluation of financial assets at fair value through Other Comprehensive Income and Expenditure	22			(45)			(243)
Remeasurement of the net Pension Fund Liability/(Assets)	33			(18,349)			(11,715)
Other Comprehensive Income and Expenditure				(28,791)			(71,167)
Total Comprehensive Income and Expenditure (Surplus)/Deficit				(77,807)			(45,753)

Balance Sheet as at 31 March 2022

The balance sheet shows the value as at 31 March 2022 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 2021	31 March 2022
		£000	£000
Property, Plant & Equipment	13	380,156	426,586
Heritage Assets		912	912
Investment Property	14	19,800	20,649
Intangible Assets		230	206
Long Term Investments	15	8,736	9,220
Long Term Debtors	15	2,580	2,906
Long Term Assets		412,414	460,479
Short Term Investments	15	258,530	270,898
Inventories	16	1,751	2,418
Short Term Debtors	17	10,385	11,781
Cash and Cash Equivalents	18	35,051	22,700
Assets held for sale	19	741	474
Current Assets		306,458	308,271
Short Term Borrowing	15	407	5,408
Short Term Creditors	20	18,781	18,283
Current Liabilities		19,188	23,691
Provisions	21	31,004	32,168
Long Term Borrowing	15	35,085	30,057
Other Long-Term Liabilities	33	(24,246)	(20,760)
Long Term Liabilities		41,843	41,465
Net Assets		657,841	703,594
Usable Reserves	22	282,912	285,646
Unusable Reserves	22	374,929	417,948
Total Reserves		657,841	703,594

The unaudited accounts were issued on 30 June 2022.

The audited accounts were authorised for issue on 17 November 2022.



Gareth Waterson, BAcc., CA

Corporate Director of Enterprise and Sustainable Regeneration

17 November 2022

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.

	2020-2021	2021-2022
	£000	£000
Net surplus or (deficit) on the provision of services	49,016	(25,414)
Adjustment to surplus or deficit on the provision of services for non-cash movements	(31,054)	17,571
Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	1,108	1,155
Net Cash flows from Operating activities	19,070	(6,688)
Net Cash flows from Investing Activities	(11,575)	(3,210)
Net Cash flows from Financing Activities	(2,088)	(2,453)
Net increase or decrease in cash and cash equivalents	5,407	(12,351)
Cash and cash equivalents at the beginning of the reporting period	29,644	35,051
Cash and cash equivalents at the end of the reporting period	35,051	22,700

Cash Flow Statement: Operating activities

	2020-2021	2021-2022
	£000	£000
Adjustment to surplus or deficit on the provision of services for non-cash movements		
Depreciation and Impairment losses	13,430	22,978
Revaluation gains	(1,937)	2,286
Amortisation (included with depreciation above)	24	24
(Increase)/Decrease in Stock	(434)	(667)
(Increase)/Decrease in Debtors	(2,907)	(1,729)
(Increase)/Decrease in Creditors	3,794	(757)
Movements in the Pension Reserve not relating to actuarial changes	6,975	15,201
Carrying amount of non-current assets sold	689	433
Investment Income not involving movement of cash	(49,101)	(8,255)
Contributions to Other Reserves/Provisions	(1,416)	(11,736)
Movement in value of investment properties - included above in impairment & downward revaluations (& non-sale de-recognitions)	(171)	(207)
	(31,054)	17,571
Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities		
Purchase of short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)	275,206	13,405
Proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)	(274,098)	(12,250)
	1,108	1,155

Cash Flow Statement: Investment Activities:

	2020-2021	2021-2022
	£000	£000
Purchase of PP&E, investment property and intangible assets	16,408	12,367
Purchase of Short-Term Investments (not considered to be cash equivalents)	357	0
Purchase of Long-Term Investments	4,180	6,275
Other Payments for Investing Activities	1,051	(537)
Proceeds from the sale of PP&E, investment property and intangible assets	(514)	(1,115)
Proceeds from Short Term Investments (not considered to be cash equivalents)	0	(6,088)
Proceeds from Long Term Investments	(4,100)	0
Capital Grants and Contribution Received	(6,223)	(8,037)
Other Receipts from Investing Activities	416	345
Net Cash flows from Investing Activities	11,575	3,210

Cash Flow Statement: Financing Activities:

	2020-2021	2021-2022
	£000	£000
Cash receipts from Short- and Long-Term borrowing	0	0
Other Receipts from Financing Activities	(165)	(71)
Repayment of Short- and Long-Term borrowing	29	28
Other payments for Financing Activities	2,224	2,496
Net Cash flows from Financing Activities	2,088	2,453

Notes

Notes to the Core Financial Statements

Note 1 Summary of Significant Accounting Policies

The Financial Statements for the year ended 31 March 2022 have been prepared in accordance with proper accounting practice as per section 12 of the Local Government in Scotland Act 2003. Proper accounting practice comprises the Code of Practice on Local Authority Accounting in the United Kingdom (the Accounting Code), supported by International Financial Reporting Standards and recommendations made by the Local Authority (Scotland) Accounts Advisory Committee (LASAAC). The Annual Accounts have been prepared on a “going concern” basis. They are designed to give a true and fair view of the financial performance and position of the Council and comparative figures for the previous financial year are provided. There are no significant departures from these recommendations. The following accounting concepts have been considered in the application of accounting policies:

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

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

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

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

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

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

Accruals of Expenditure and Income

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

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

Cash and Cash Equivalents

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

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

Charges for the Use of Assets

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

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

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

Charities

Some of the charities or trust funds controlled by the Council are registered charities. The 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.

Employee Benefits

Benefits payable during employment

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

Termination benefits

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

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

Post-employment benefits

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

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

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

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

The Notes to the Core Financial Statements provide further information.

Events after the Balance Sheet date

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

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

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

Financial Instruments

Financial Assets

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

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

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

Financial Assets Measured at Amortised Cost

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

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

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

Financial Assets at Fair Value through Other Comprehensive Income

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

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

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

Expected Credit Loss Model

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

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

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

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

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

Financial Assets Measured at Fair Value through Profit or Loss

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

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

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

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

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

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

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

Financial Liabilities

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

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

Loans Fund

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.

Intangible assets are measured initially at cost. Amounts are not revalued, as the fair value of the assets held by the Council cannot be determined by reference to an active market. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and the Capital Receipts Reserve.

Interests in Companies and Other Entities

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

Inventories

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

Investment Property

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

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

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

Leases

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

Operating Leases (Council as lessor)

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

Operating Leases (Council as lessee)

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

Overheads and Central Support Costs

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

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

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

Property, Plant and Equipment

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

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

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

Plant, furniture and computer equipment costing less than £10,000 are not treated as fixed assets but are charged to the revenue account. This de-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 Robert Eunson, Depute Assessor to the Orkney and Shetland Valuation Joint Board, who is MRICS qualified. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains.

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

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

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

Fair Value Measurement

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

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

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

Impairment

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

Disposals

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

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

Depreciation

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

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

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

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

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

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

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

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

Contingent Liabilities

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

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

Contingent Assets

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

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

Reserves

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

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

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

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

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

Revenue Expenditure Funded from Capital under Statute

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

VAT

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

Note 2 Accounting Standards Issued but not yet adopted

The Code requires the disclosure of information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. The Code required implementation from 1 April 2022, therefore there is no impact on the 2021-22 financial statements. This applies to the adoption of the following new or amended standards within the 2021-2022 Code:

- IFRS 16 Leases (but only for those local authorities that have decided to adopt IFRS 16 in the 2022/23 year).
- Annual Improvements to IFRS Standards 2018–2020. The annual IFRS improvement programme notes 4 changed standards:
- IFRS 1 (First-time adoption) – amendment relates to foreign operations of acquired subsidiaries transitioning to IFRS
 - IAS 37 (Onerous contracts) – clarifies the intention of the standard
 - IFRS 16 (Leases) – amendment removes a misleading example that is not referenced in the Code material
 - IAS 41 (Agriculture) – one of a small number of IFRSs that CIPFA/LASAAC do not envisage having a significant impact on local authority financial statements.
- Property, Plant and Equipment – Proceeds before Intended Use (amendment to IAS 16)

Note 3 Critical Judgements in Applying Accounting Policies

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

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

Asset Valuations: The Council's appointed valuer of property assets carries out regular reviews of the value of assets reported in the Balance Sheet and any significant changes in value are processed as asset revaluations or impairments. These values are based on their professional opinion using available market information at the time of assessment. Although the measures taken to tackle COVID-19 continue to affect economies and real estate markets globally, as at the valuation date property markets are mostly functioning again, with transaction volumes and other evidence at levels where an adequate quantum of market evidence exists upon which to base opinions of value. As such, property valuations are no longer reported as being subject to "material valuation uncertainty". There is no indication that the Council's investment properties have suffered a material valuation uncertainty or impact as a result of the COVID-19 market conditions and as a result, rental levels and renewals appear to have been unaffected to any material degree, allowing for normal vacancy rates at any given time. To provide an insight into the market context under which the valuation opinion has been prepared, and in recognition of the potential for market conditions to move rapidly in response to changes in the control or future spread of COVID-19, the valuer does however highlight the importance of the valuation date.

Note 4 Assumptions made about the Future

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

The items in the Council's Balance Sheet as at 31 March 2022 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
Property, Plant & Equipment	<p>Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Authority will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.</p> <p>There is currently valuation uncertainty in relation to Property, Plant and Equipment due to the current turmoil in the economic markets which is affecting real estate markets and material prices globally.</p>	<p>If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for Property, Plant and Equipment would increase by £1.709M for every year that useful lives had to be reduced.</p> <p>The impairment review carried out in financial year 2021/22 as a desktop exercise has resulted in an increase of £52.5M on net book value, to reflect the impact of material and contract price increases on the assets held on a Depreciated Replacement Cost basis.</p>
Pensions Liability	<p>Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.</p>	<p>The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.1% decrease in the discount rate assumption would result in an increase in the pension liability of £0.009M. The impact of the change of various assumptions is shown in note 33.</p>
Debt Impairment	<p>At 31 March 2022, the Council had a balance for trade debtors of £11.781M. A review of significant balances suggested that an impairment of doubtful debts of 19.07% (£2.263M) was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient.</p>	<p>If collection rates were to deteriorate, an increase of 10% of the amount of the impairment of doubtful debts would require an additional £1.178M to be set aside as an allowance.</p>
Flotta Oil Terminal Decommissioning	<p>At 31 March 2022, the Council has recognised a contractual commitment in respect of the future decommissioning of the Flotta Oil Terminal as a provision of £32.168M.</p>	<p>The provision is updated annually by RPI for the effects of inflation. A 1.0% increase in inflation in excess of the budgeted assumption would require a further £0.322M to be provided for.</p>
Fair Value Measurement	<p>When the fair value of financial assets and liabilities cannot be measured based on quoted prices in active markets (i.e., Level 1 inputs), their fair value is measured using valuation techniques. Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible judgement is required in establishing fair values. These judgements typically include consideration such as uncertainty and risk. However, changes in the assumptions used could affect the fair value of the council's assets and liabilities.</p>	

Note 5 Material Items of Income and Expenditure

All material items are disclosed on the face of the Comprehensive Income and Expenditure Statement.

Note 6 Events after the Balance Sheet Date

The Section 95 Officer, being the officer responsible for the Council's financial affairs, signed the Draft Annual Accounts on 30 June 2022. 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 2022, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

Note 7 Expenditure and Funding Analysis

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

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

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

Expenditure and Income Analysed by Nature

2021-2022		£000
Expenditure		
Employee expenses		57,693
Other service expenses		85,187
Support service recharges		3,451
Depreciation and Revaluation		24,599
Movement in accumulated absences		27
Movement in pensions reserve		15,023
Transfer from reserves		7,616
Net expenditure not included in analysis		11,596
Income		
Fees, charges and other service income		24,149
Grants and contributions		41,127
Transfer to reserves		11,055
Principal repayment of loan debt		2,267
Capital financed by current revenue		1,191
Net Cost of Service		125,403
Financing and investment income and expenditure		(4,446)
Taxation and non-specific grant funding: other		(94,861)
Other operating expenditure		(682)
(Surplus)/Deficit on provision of services		25,414

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

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

The adjustments between funding and accounting basis totalling £29.810M includes transfers to/(from) the repairs and renewals fund and the Capital Statutory Fund of (£1.662M) as detailed in Note 9 to the Accounts.

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

2020-2021	Net Expenditure to Fund Balances	Adjustment Between Funding & Accounting Basis	Net Expenditure in CIES
	£000	£000	£000
Education	35,161	3,875	39,036
Cultural and Recreation	4,901	1,390	6,291
Community Social Services	20,452	2,949	23,401
Roads and Transportation	10,930	3,399	14,329
Environmental Services	3,932	690	4,622
Other Services	27,077	(13,560)	13,517
Housing Revenue Account	(126)	(3,506)	(3,632)
Harbour Authority	1,054	(631)	423
Non-Distributed Costs	0	46	46
Cost of Service	103,381	(5,348)	98,033
Other Income and Expenditure	(154,401)	7,352	(147,049)
Deficit/(Surplus) For Year	(51,020)	2,004	(49,016)

2020-2021	£000
Expenditure	
Employee expenses	54,588
Other service expenses	77,857
Support service recharges	3,540
Depreciation and Revaluation	11,226
Movement in accumulated absences	131
Movement in pensions reserve	6,950
Transfer from reserves	20,315
Net expenditure not included in analysis	13,548
Income	
Fees, charges and other service income	21,428
Grants and contributions	38,456
Transfer to reserves	23,404
Principal repayment of loan debt	6,041
Capital financed by current revenue	793
Net Cost of Service	98,033
Financing and investment income and expenditure	(47,018)
Taxation and non-specific grant funding: other	(100,206)
Other operating expenditure	175
(Surplus)/Deficit on provision of services	(49,016)

	General Fund	Housing Revenue Account	Harbour Authority	Total
	£000	£000	£000	£000
Balance as at 1 April 2020	(18,788)	(523)	(199,300)	(218,611)
Deficit/(Surplus) For Year	(10,643)	(126)	(40,250)	(51,019)
Balance as at 31 March 2021	(29,431)	(649)	(239,550)	(269,630)

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

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

	Accounting for Capital Note 1	Accounting for Pensions Note 2	Other Adjustments Note 3	Transfer to/from Reserves	Total Adjustments
2020-2021	£000	£000	£000	£000	£000
Education	3,427	1,091	126	(769)	3,875
Cultural and Recreation	1,203	234	0	(47)	1,390
Community Social Services	873	2,155	3	(82)	2,949
Roads and Transportation	3,024	460	0	(85)	3,399
Environmental Services	479	230	0	(19)	690
Other Services	(8,976)	1,956	0	(6,540)	(13,560)
Housing Revenue Account	(4,618)	41	0	1,071	(3,506)
Harbour Authority	2,066	574	2	(3,272)	(630)
Non-Distributed Costs	0	0	0	46	46
Cost of Service	(2,522)	6,741	131	(9,697)	(5,347)
Other Income and Expenditure	200	234	20	6,897	7,351
Deficit/(Surplus) For Year	(2,322)	6,975	151	(2,800)	2,004

Adjustments for Capital Purposes

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

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

Net Change for the Pensions Adjustment

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

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

Other Differences

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

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

Note 8 Adjustment between Accounting Basis and Funding Basis

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

Usable Reserves					
2021-2022	General Fund Balance	Housing Revenue Account	Harbour Reserves	Capital Receipt Reserves	Movement in Unusable Reserves
	£000	£000	£000	£000	£000
Adjustments involving the Capital Adjustment Account:					
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:					
Charges for depreciation and impairment of non-current assets	17,632	2,046	3,300	0	(22,978)
Amortisation of Intangible Assets	24	0	0	0	(24)
Revaluation losses on Property, Plant and Equipment	1	2,285	0	0	(2,286)
Movements in the Market Value of Investment Properties	0	0	(207)	0	207
Capital grants and contributions	(6,912)	(488)	0	0	7,400
Revenue expenditure funded from capital under statute	0	0	0	0	0
Carrying amount of non-current assets sold	429	0	4	0	(433)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:					
Statutory Provision for the Financing of Capital Investment	(260)	(884)	(1,123)	0	2,267
Capital expenditure charged against the General Fund and HRA balances	(500)	(385)	(339)	0	1,224
Adjustments involving the Capital Receipts Reserve:					
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	0	(1,693)	1,693
Proceeds from sale of non-current assets	(379)	0	(736)	1,115	0
Adjustments involving the Financial Instruments Adjustment Account:					
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	0	0	2	0	(2)
Adjustments involving the Pensions Reserve:					
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 40)	20,955	144	1,915	0	(23,014)
Employer's pensions contributions and direct payments to pensioners payable in the year	(7,114)	(49)	(650)	0	7,813
Adjustment involving the Accumulating Compensated Absences Adjustment Account:					
Adjustment in relation to Short-term compensated absences	14	0	1		(15)
Total Adjustments	23,890	2,669	2,167	(578)	(28,148)

Usable Reserves					
2020-2021	General Fund Balance	Housing Revenue Account	Harbour Reserves	Capital Receipt Reserves	Movement in Unusable Reserves
	£000	£000	£000	£000	£000
Adjustments involving the Capital Adjustment Account:					
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:					
Charges for depreciation and impairment of non-current assets	10,192	2	3,236	0	(13,430)
Amortisation of Intangible Assets	24	0	0	0	(24)
Revaluation losses on Property, Plant and Equipment	(23)	(1,914)	0	0	1,937
Movements in the Market Value of Investment Properties	0	0	(171)	0	171
Capital grants and contributions	(6,097)	(751)	(163)	0	7,011
Carrying amount of non-current assets sold	533	77	79	0	(689)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:					
Statutory Provision for the Financing of Capital Investment	(3,954)	(1,279)	(808)	0	6,041
Capital expenditure charged against the General Fund and HRA balances	0	(593)	(199)	0	792
Adjustments involving the Capital Receipts Reserve:					
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	0	(1,042)	1,042
Proceeds from sale of non-current assets	(355)	(159)	0	514	0
Adjustments involving the Financial Instruments Adjustment Account:					
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	0	0	(10)	0	10
Adjustments involving the Pensions Reserve:					
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 40)	13,218	86	1,194	0	(14,498)
Employer's pensions contributions and direct payments to pensioners payable in the year	(6,860)	(44)	(619)	0	7,523
Adjustment involving the Accumulating Compensated Absences Adjustment Account:					
Adjustment in relation to Short-term compensated absences	159	0	2	0	(161)
Total Adjustments	6,837	(4,575)	2,541	(528)	(4,275)

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

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

	Balance at 31 March 2020 £000	Transfers in 2020-2021 £000	Transfers out 2020-2021 £000	Balance at 31 March 2021 £000	Transfers in 2021-2022 £000	Transfers out 2021-2022 £000	Balance at 31 March 2022 £000
Repairs & Renewals Fund	7,434	3,064	(264)	10,234	623	(1,707)	9,150
Revenue statutory fund	7,434	3,064	(264)	10,234	623	(1,707)	9,150
Capital Fund	508	0	0	508	0	0	508
Capital Receipts Reserve	3,047	514	(1,042)	2,519	1,115	(1,693)	1,941
Capital Grants Unapplied	20	0	0	20	0	0	20
Capital statutory funds	3,575	514	(1,042)	3,047	1,115	(1,693)	2,469
Total	11,009	3,578	(1,306)	13,281	1,738	(3,400)	11,619

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

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

Ring-fenced elements of the General Fund Balance

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

	2020-2021				2021-2022		
	Balance at 31 March 2020 £000	Transfers in 2020-2021 £000	Transfers out 2020-2021 £000	Balance at 31 March 2021 £000	Transfers in 2021-2022 £000	Transfers out 2021-2022 £000	Balance at 31 March 2022 £000
General Fund:							
Covid Redeterminations Flexibility Fund	0	2,105	0	2,105	932	(1106)	1,931
Business Support Fund	0	5,000	(2,032)	2,968	382	(554)	2,796
Orkney College	63	44	0	107	374	0	481
Training Fund	264	0	(33)	231	0	(231)	0
Innovation Fund	771	0	(41)	730	0	(730)	0
Renewable Energy Fund	3,914	8,248	(1,607)	10,555	0	(617)	9,938
Recreation & Cultural Services Project Fund	65	0	0	65	0	0	65
Development Grants Fund	1,888	19	(123)	1,784	0	(128)	1,656
Sustainable Communities Fund	15	0	0	15	0	(15)	0
Capital Projects Appraisal Fund	393	200	(43)	550	200	(12)	738
Outwith Orkney Placements Fund	729	528	(404)	853	788	(641)	1,000
Welfare Fund	4	0	0	4	0	(4)	0
Local Works & Services Contingency Fund	122	0	(7)	115	0	(3)	112
Crown Estate Fund	774	1,043	(669)	1,148	858	(109)	1,897
Workforce Management Fund	1,000	517	0	1,517	70	0	1,587
Sustainable and Green Transport Fund	0	0	0	0	83	0	83
Integration Joint Board - General Fund Balances	0	0	0	0	500	0	500
Islands Deal Fund	0	0	0	0	1,432	0	1,432
Total General Fund Earmarked Reserves	10,002	17,704	(4,959)	22,747	5,619	(4,150)	24,216

After allowing for an allocation of resources to priority projects commitments, setting the General Fund budget for 2022-23 and future inflationary pressures, the unearmarked General Fund balance of £10.044M reduces to £6.042M or 6.5% of the Council's annual running costs.

Note 10 Other Operating Expenditure

	2020-2021	2021-2022
	£000	£000
(Gains)/losses on the disposal of non-current assets	175	(681)
Total	175	(681)

Note 11 Financing and Investment Income and Expenditure

	2020-2021	2021-2022
	£000	£000
Interest payable and similar charges	1,193	1,175
Pensions net interest cost	(214)	(330)
Interest receivable and similar income	(47,635)	(5,068)
Income and expenditure in relation to investment properties and changes in their fair value	(879)	(1,015)
Other investment income	517	791
Total	(47,018)	(4,447)

Note 12 Taxation and Non-specific Grant Income

The Council credited the following taxation and non-specific grant income to the Comprehensive Income and Expenditure Statement during 2021-22.

	2020-2021	2021-2022
	£000	£000
Council Tax Income	10,026	10,092
NDR Redistribution	7,019	9,788
Non-ringfenced government grants	76,150	67,581
Capital Grants	7,011	7,400
Total Taxation and Non-Specific Grant Income	100,206	94,861

The Council credited the following grants to the Comprehensive Income and Expenditure Statement during 2021-22.

Grant Income 2021-2022	
Credited to Taxation and Non-Specific Grant Income:	£000
General Revenue Grant	67,581
Distribution of non-domestic rate pool	9,788
Council Tax	10,092
Capital Grants & contributions	7,400
Total	94,861
Revenue grants credited to Services:	£000
Department for Digital, Culture Media & Sport - Cisco International Ltd	120
DWP - Housing Benefits Subsidy	3,048
Heritage Lottery Fund - North Isles landscape partnership	300
Highland and Islands Enterprise - Hotel Winter Support Scheme	123
Innovate UK - Department of Transport - Hydrogen in an integrated Maritime Energy Transition	144
Ministry of Housing, Communities and Local Government - Levelling up funding	125
Scottish Government - Community Justice Social Work	288
Scottish Government - Early Learning and Childcare	2,276
Scottish Government - Energy Efficient Scotland	876
Scottish Government - General Capital Grant - Disabled Adaptions	153
Scottish Government - LEADER Local Development Strategy	281
Scottish Government - Scottish Attainment Challenge -pupils equity funding	286
Scottish Government - Scottish Crown Estate Net revenue 2021-2022	858
Scottish Government - Town Centre Fund	198
Scottish Government - Young Person's Guarantee	104
Scottish Government - Other	701
Sports Scotland - Active Schools and Community Sports Hub	171
Transport Scotland - Orkney Islands Internal Ferry Services 2021-22	7,855
Other	976
Total	18,883

Note 13 Property, Plant and Equipment

Property, Plant & Equipment (PP&E)							
	Council Dwellings	Buildings	Vehicles, Plant & Equipment	Community Assets	PP&E Under Construction	Surplus Assets	Total PP&E
	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation							
Balance as at 1 April 2021	64,743	210,989	44,395	5,590	11,191	1,360	338,268
Adjusted opening balance	64,743	210,989	44,395	5,590	11,191	1,360	338,268
Additions (Note 35)	0	2,194	2,259	485	6,120	0	11,058
Revaluation increases/(decreases) to Revaluation Reserve	3,389	55,824	0	0	(4)	0	59,209
Revaluation increases/(decreases) to Surplus or Deficit on the Provision of Services	(2,290)	0	0	0	4	0	(2,286)
Derecognition - Disposals	0	(20)	(326)	0	0	(311)	(657)
Reclassifications & Transfers	6,334	0	1,305	0	(7,507)	0	132
Balance as at 31 March 2022	72,176	268,987	47,633	6,075	9,804	1,049	405,724
Depreciation and Impairment							
Balance as at 1 April 2021	0	18,755	21,105	754	72	204	40,890
Adjustments between cost/value & depreciation/impairment	0	0	0	0	0	0	0
Adjusted opening balance	0	18,755	21,105	754	72	204	40,890
Annual Depreciation Charge	1,942	6,587	3,808	0	0	34	12,371
Additional Depreciation Charge following Impairment Review	109	7,020	0	0	0	0	7,129
Derecognition – Disposals	0	(1)	(327)	0	0	(34)	(362)
Reclassifications & Transfers	0	0	72	0	(72)	0	0
Balance as at 31 March 2022	2,051	32,361	24,658	754	0	204	60,028,
Property, Plant and Equipment - Balance as at 31 March 2022	70,125	236,626	22,975	5,321	9,804	845	345,696
Infrastructure Assets – Balance as at 31 March 2022							80,890
Net Book Value as at 31 March 2022							426,586
Restated Property, Plant and Equipment - Balance as at 31 March 2021	64,743	192,234	23,290	4,836	11,119	1,156	297,378
Restated Infrastructure Assets – Balance as at 31 March 2021							82,778
Restated Net Book Value as at 31 March 2021							380,156

Property, Plant & Equipment (PP&E)							
	Council Dwellings	Buildings	Vehicles, Plant & Equipment	Community Assets	PP&E Under Construction	Surplus Assets	Total PP&E
	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation							
Balance as at 1 April 2020	57,283	209,603	32,163	5,510	12,440	1,360	318,359
Adjustments between cost/value & depreciation/impairment	1	0	0	(1)	0	0	0
Adjusted opening balance	57,284	209,603	32,163	5,509	12,440	1,360	318,359
Additions (Note 35)	174	1,847	1,832	97	9,939	0	13,889
Revaluation increases/(decreases) to Revaluation Reserve	10,340	22	0	0	0	0	10,362
Revaluation increases/(decreases) to Surplus or Deficit on the Provision of Services	1,821	(36)	0	0	0	0	1,785
Derecognition - Disposals	(86)	(216)	(788)	(16)	0	0	(1,106)
Derecognition – Others	(4,790)	(6)	0	0	0	0	(4,796)
Reclassifications & Transfers	0	(225)	11,188	0	(11,188)	0	(225)
Restated Balance as at 31 March 2021	64,743	210,989	44,395	5,590	11,191	1,360	338,268
Depreciation and Impairment							
Balance as at 1 April 2020	4,950	12,287	18,425	754	0	155	36,571
Adjustments between cost/value & depreciation/impairment	0	0	0	0	0	0	0
Adjusted opening balance	4,950	12,287	18,425	754	0	155	36,571
Depreciation Charge	0	6,491	3,540	0	0	49	10,080
Depreciation written out on Revaluation taken to Surplus or Deficit on the Provision of Services	(152)	0	0	0	0	0	(152)
Derecognition – Disposals	(8)	(17)	(788)	0	0	0	(813)
Derecognition – Other	(4,790)	(6)	0	0	0	0	(4,796)
Reclassifications & Transfers	0	0	(72)	0	72	0	0
Restated Balance as at 31 March 2021	0	18,755	21,105	754	72	204	40,890
Restated Property, Plant and Equipment - Balance as at 31 March 2021	64,743	192,234	23,290	4,836	11,119	1,156	297,378
Restated Infrastructure Assets – Balance as at 31 March 2021							82,778
Restated Net Book Value as at 31 March 2021							380,156
Restated Property, Plant and Equipment - Balance as at 31 March 2020	52,333	197,316	13,738	4,756	12,440	1,205	281,788
Restated Infrastructure Assets – Balance as at 31 March 2020							83,831
Restated Net Book Value as at 31 March 2020							365,619

Statutory Override – Infrastructure Assets

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

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

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

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

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

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

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

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

The valued of Infrastructure assets is as follows:

	2020-2021	2021-2022
	£000	£000
Net carrying amount as at 1 April	83,831	82,778
Add: Additions	2,262	1,590
Less: Depreciation	(3,315)	(3,478)
Balance as at 31 March	82,778	80,890

Note 14 Investment Properties

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

	2020-2021	2021-2022
	£000	£000
Rental income from investment property	(1,111)	(1,078)
Direct operating expenses arising from investment property	324	327
Net (Gain)/Loss included in Financing & Investment Income in the CIES	(787)	(751)
Changes in Fair Value of Investment Properties	(171)	(207)
	(958)	(958)

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:

	2020-2021	2021-2022
	£000	£000
Balance at start of the year	19,725	19,800
Additions:		
Purchases	0	646
Disposals	(79)	(4)
Net gains/losses from fair value adjustments	171	207
Transfers:		
To/from Property, Plant and Equipment	(15)	0
Other changes	(2)	0
Balance at end of the year	19,800	20,649

Note 15 Financial Instruments

Categories of financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The term ‘financial instrument’ covers both financial assets and financial liabilities and includes trade payables, borrowings (for example Public Works Loan Board debt and market debt), financial guarantees, bank overdraft, trade receivables, loans receivable, cash deposits with financial institutions (some on a fixed term basis and some which are immediately available) and longer-term investments. The following categories of financial instrument are carried in the Balance Sheet. (Those financial instruments that are classified as cash and cash equivalents are not included in this table – please see Note 18 for details of these.)

	Long-Term		Current	
	2020-2021 £000	2021-2022 £000	2020-2021 £000	2021-2022 £000
Investments				
Financial assets at fair value other comprehensive income	8,736	9,220	0	0
Financial assets at fair value through profit and loss	0	0	258,530	270,898
Total investments	8,736	9,220	258,530	270,898
Debtors				
Financial assets carried at amortised cost	2,580	2,906	8,181	10,339
Total Debtors	2,580	2,906	8,181	10,339
Borrowings				
Financial liabilities at amortised cost	35,085	30,057	407	5,408
Total borrowings	35,085	30,057	407	5,408
Creditors				
Financial liabilities carried at amortised costs	0	0	19,065	18,283
Total creditors	0	0	19,065	18,283

The Council also holds a long-term investment in the Orkney Research and Innovation Campus. For the year ended 31 March 2022, the gross value of this investment was £3.355M (£3.335M at 31 March 2021) with an impairment loss of £2.459M bringing the net asset value of the investment to £0.896M. The impairment loss is due to the decrease in the value of the property, plant and equipment as a result in the revaluation exercise and relates to the fact the research campus is currently under development.

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

Fair value of financial instruments

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

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

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

Investments	Market Value	Fair Value
	£000	%
Managed Funds	270,898	96.71
Private Companies	5,874	2.10
Fishing Quota	3,333	1.19
Other	13	0.00
Total	280,118	100.00

As at the 31 March 2022, as part of the transitioning arrangements to the revised investment strategy, the Fund had contractual commitments to invest up to £1.3M and £16.8M in each of the new mandates to Private Debt and Infrastructure Equity respectively. The drawdowns of these commitments are expected to take place over a period of three years and will be funded from within the Fund's portfolio of investments.

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

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

	Quoted Market Price Level 1 £000	Using Observable Inputs Level 2 £000	With Significant Unobservable Inputs Level 3 £000	Total £000
Value as at 31 March 2021				
Financial assets at fair value through profit and loss	106,361	121,440	30,729	258,530
Financial assets at fair value other comprehensive income	0	3,035	4,852	7,887
Loans and receivables at amortised cost	0	2,580	0	2,580
Total Financial Assets	106,361	127,055	35,581	268,997
Financial liabilities at fair value through profit and loss	0	0	0	0
Financial liabilities at amortised cost	0	35,135	0	35,135
Total Financial Liabilities	0	35,135	0	35,135
Total Financial Instruments	106,361	91,920	35,581	233,862
Net Investments Assets (Fair Value)	106,361	91,920	35,581	233,862

Loans and receivables include both loans advanced to local developers on commercial terms as well as loans advanced in support of economic development initiatives on interest free terms, otherwise more commonly known as soft loans. Loans to local developers, include a loan to Orkney Islands Property Development Limited of £0.790M, loans to fishing boats and housing loans to individuals where a specific entitlement criteria has been met. The risk of default is considered to be low for these financial instruments on the basis that security has been taken over the underlying assets. As such, the expected credit loss associated with loans to developers on commercial terms is not material and no impairment has been applied.

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

	2020-2021	2021-2022
	£000	£000
Balance as at 1 April	263	244
Add: Advances in year	0	0
Less: Loans repaid	(48)	(75)
Less: Loans written off	0	0
Add: Expected credit loss movement	16	135
Add: Fair value movement	13	0
Balance as at 31 March	244	304

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

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

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

The following items of income, expense, gain and loss relating to financial instruments are included within the lines "financing and investment income and expenditure".

	Financial Liabilities Measured at Amortised Cost £000	2021-2022			
		Financial Assets			Total £000
		At Amortised Cost £000	At Fair Value Other Comprehensive Income £000	At Fair Value through Profit and Loss £000	
Interest expense (including finance lease interest)	1,106	0	0	0	1,106
Losses on derecognition	0	0	0	96	96
Losses on revaluation	0	0	0	8,369	8,369
Impairment losses	0	(135)	0	0	(135)
Fee expense	93	13	0	844	950
Total expenses in (surplus) or deficit on the Provision of Services	1,199	(122)	0	9,309	10,386
Interest income	(71)	(182)	0	0	(253)
Interest income accrued on impaired financial assets	0	(7)	0	0	(7)
Gains on revaluation	0	0	0	(9,747)	(9,747)
Dividend income	0	0	(138)	(3,530)	(3,668)
Other income	0	0	0	(826)	(826)
Gains on derecognition	0	0	0	(1,579)	(1,579)
Total income in (surplus) or deficit on the Provision of Services	(71)	(189)	(138)	(15,682)	(16,080)
Gains on revaluation	0	0	(299)	0	(299)
Losses on revaluation	0	0	55	0	55
(Surplus) or deficit on revaluation of available-for-sale financial assets (in other comprehensive income and expenditure)	0	0	(244)	0	(244)
Net (gain)/loss for the year (in the total comprehensive income and expenditure)	1,128	(311)	(382)	(6,373)	(5,938)

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 2022 of 1.28% to 4.28% for loans from the PWLB and 2.0% 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:

	2020-2021		2021-2022	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
Financial liabilities	35,144	43,614	35,086	39,621
Total	35,144	43,614	35,086	39,621

The fair value of the financial liabilities is higher than the carrying amount because the Authority's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the prevailing rates at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31 March 2022) arising from a commitment to pay interest to lenders above current market rates.

	2020-2021		2021-2022	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
Long-term debtors less provision	2,580	2,642	2,906	2,969
Total	2,580	2,642	2,906	2,969

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

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

Note 16 Inventories

	2020-2021	2021-2022
	£000	£000
Stocks and Stores	1,751	2,418
Total	1,751	2,418

Note 17 Short-term Debtors

	2020-2021	2021-2022
	£000	£000
NDR & Council Tax	2,515	1,442
Rents	491	581
Value Added Tax	627	858
Trade Debtors	6,752	8,900
Total	10,385	11,781

Note 18 Cash and Cash Equivalents

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

	2020-2021	2021-2022
	£000	£000
Cash and Bank balances	69	81
Short Term Investments (considered to be Cash Equivalents)	23,000	18,000
Short Term Deposits (considered to be Cash Equivalents)	11,982	4,619
Total	35,051	22,700

Note 19 Assets Held for Sale

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

	Current	
	2020-2021	2021-2022
	£000	£000
Balance outstanding at start of year	1,057	741
Assets newly classified as held for sale:	0	0
Transferred from/(to) Non-Current Assets during year	1	0
Revaluation gains/(losses) taken to surplus or deficit on the provision of services	0	0
Revaluation gains/(losses) other	0	0
Assets sold cost	(317)	(135)
Other disposals	0	(132)
Balance outstanding at year-end	741	474

Note 20 Short-term Creditors

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

	2020-2021	2021-2022
	£000	£000
Council Tax	28	0
HRA	4	11
Accumulated Absences	2,672	2,687
Receipts in Advance	3,341	994
Trade Creditors	10,731	11,320
Other	2,005	3,271
Total Short-Term Creditors	18,781	18,283

Note 21 Provisions

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

	Balance as at 1 April 2021 Restated	Increase in provision during year	Utilised during year	Unused Amounts Reversed	Interest earned	Balance as at 31 March 2022
	£000	£000	£000	£000	£000	£000
Current Provisions	0	0	0	0	0	0
Long Term Provisions	31,004	1,164	0	0	0	32,168
	31,004	1,164	0	0	0	32,168

A provision of £32.168M has been set aside to provide for the future cost that will be incurred by the Council in respect of the decommissioning of the Flotta Oil Terminal.

Note 22 Reserves

Usable reserves

Useable reserves are those reserves the Council is able to apply to fund expenditure or reduce taxation and comprise both capital and revenue reserves. Movements in the useable reserves during the year are outlined in the Movement in Reserves statement.

2020-2021		2021-2022
£000		£000
29,431	General Fund Balance	34,260
650	Housing Revenue Account Balance	677
2,539	Capital Receipts Reserve	1,961
508	Other Statutory Funds	508
239,550	Harbours	239,090
10,234	Repairs and Renewals Fund	9,150
282,912	Total useable reserves	285,646

Unusable Reserves

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

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

Summary of Unusable Reserves

	2020-2021	2021-2022
	£000	£000
Capital Adjustment Account	254,549	244,898
Financial Instrument Adjustment Account	(31)	(33)
Revaluation Reserve	95,459	151,389
Pensions Reserve	24,246	20,760
Available for Sale Financial Instruments Reserve	3,378	3,621
Employee Statutory Adjustment Account	(2,672)	(2,687)
Total Unusable Reserves	374,929	417,948

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.

	2020-2021	2021-2022
	£000	£000
Balance at 1 April	87,746	95,459
Upward revaluation of assets	10,564	0
Downward revaluation of assets and impairment losses not charged to the surplus/deficit on the Provision of Services	0	59,209
Surplus or deficit on revaluation of non-current assets not posted to the surplus or deficit on the provision of services	10,564	59,209
Difference between fair value and historical cost depreciation	(2,684)	(3,279)
Revaluation balances on assets scrapped or disposed of	(167)	0
Balance at 31 March	95,459	151,389

2. Movement in the year: Capital Adjustment Account

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

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

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

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

	2020-2021		2021-2022	
	£000	£000	£000	£000
Balance at 1 April		249,014		254,549
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement				
Charges for depreciation and impairment of non-current assets	(13,454)		(23,002)	
Revaluation losses on Property, Plant and Equipment	1,937		(2,286)	
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	(689)		(433)	
		(12,206)		(25,721)
Adjusting amounts written out of the Revaluation Reserve		2,684		3,279
Net written out amount of the cost of non-current assets consumed in the year		(9,522)		(22,442)
Capital financing applied in the year:				
Use of the Capital Receipts Reserve to finance new capital expenditure	1,042		1,693	
Use of the Major Repairs Reserve to finance new capital expenditure	0		0	
Loans Lease principal repayments	6,041		2,267	
Application of grants to capital financing from the Capital Grants Unapplied Account	7,011		7,400	
Capital expenditure charged against the General Fund and HRA balances	792		1,224	
		14,886		12,584
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		171		207
Balance at 31 March		254,549		244,898

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 2022, the reduction in value and corresponding charge to be reversed, so that there is no impact on the General Fund Balance.

	2020-2021	2021-2022
	£000	£000
Balance at 1 April	(41)	(31)
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	10	(2)
Balance at 31 March	(31)	(33)

4. Movement in the year: Pension Reserve

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

	2020-2021	2021-2022
	£000	£000
Balance at 1 April	12,872	24,246
Remeasurement of the net Pension Fund liability/(asset)	18,349	11,715
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	(14,498)	(23,014)
Employers Pensions contributions and direct payments to pensioners payable in the year	7,523	7,813
Balance at 31 March	24,246	20,760

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.

	2020-2021	2021-2022
	£000	£000
Balance at 1 April	(2,511)	(2,672)
Amounts accrued at the end of the current year	(161)	(15)
Balance at 31 March	(2,672)	(2,687)

6. Movement in the year: Financial Instruments Revaluation Reserve

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

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

	2020-2021	2021-2022
	£000	£000
Balance at 1 April	3,333	3,378
Upward revaluation of investments	266	298
Downward revaluation of investments not charged to the Surplus/Deficit on the Provision of Services	(221)	(55)
Balance at 31 March	3,378	3,621

Note 23 Trading Operations

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

Note 24 Agency Services

The Council is required by legislation to provide a collection service for Scottish Water whereby it collects water and waste charges in conjunction with collection of Council Tax. The legislation stipulates the minimum amount Scottish Water must pay by way of commission for this service. For 2021-22 the value of this service amounted to £0.064M (2020-21 £0.067M).

The Council collects Non-Domestic Rates on behalf of the Scottish Government. For 2021-22 £9.788M was collected (2020-21 £7.019M).

During 2021/22 the Council acted as an agent to deliver £5.447M of various COVID-19 related grants on behalf of the Scottish Government as follows:

- £0.019M Business Restrictions Fund
- £0.008M Business Support for large self-catering and B&B establishments
- £0.090M Business Support for small accommodation providers paying Council Tax
- £0.183M January Business Support Top Up – Hospitality and Leisure Fund
- £0.137M Local Authority Discretionary Fund
- £0.033M Public House Table Service Restriction Fund
- £0.035M Scottish Brewers Support Fund
- £3.834M SFBF Transition Payment and Business Restart
- £0.210M Taxi and Private Hire Driver Support Fund
- £0.022M Ventilation Fund
- £0.398M December and January Top-Up Hospitality Fund
- £0.424M Discretionary Fund for Islands Equivalent Payment
- £0.045M Local Government Consequential (Business Support Grants)
- £0.001M Scottish Nightclub closure
- £0.008M Self Employment/B&B Hardship Fund

Note 25 External Audit Costs

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

	2020-2021	2021-2022
	£000	£000
Orkney Islands Council	196	200
Charities	1	1
	197	201

Note 26 Capital Grant Receipts in Advance

The Council has received no capital grants in advance of need during 2021-22.

Note 27 Related Parties

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

Scottish Government

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

Companies and Joint Boards

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

Councillors and Officers

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

Pension Fund

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

	2020-2021			2021-2022		
	Receipts £000	Payments £000	Debtor/ (Creditor) £000	Receipts £000	Payments £000	Debtor/ (Creditor) £000
Scottish Government						
Revenue Grants - being payments made in support of Revenue Expenditure	76,213	0	0	67,581	0	0
Capital Grants - being payments made in support of Capital Expenditure	7,011	0	0	7,400	0	0
Companies and Joint Boards						
Orkney Towage Company Limited - being payments made for the provision of Towage Services	571	0	0	7	0	0
Orkney Ferries Limited - being payments made in support of the Ferry Services	0	10,033	137	0	12,613	602
Pickaquoy Centre Trust - being payments for provision of leisure services	150	1,106	(36)	234	1,068	(171)
Orkney and Shetland Valuation Joint Board - being payments of annual requisition to Joint Boards	0	391	58	0	419	9
Orkney Integrated Joint Board – being payments of the annual contribution to the Joint Board arrangement between OIC and NHS Orkney.	0	20,452	0	0	22,337	40
Orkney Islands Pension Fund						
Being payments of employers contributions in respect of employees	0	7,669	0	0	8,071	0

Note 28 Capital Expenditure and Capital Financing

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

Capital Expenditure and Capital Financing	2020-2021	2021-2022
	£000	£000
Opening Capital Financing Requirement	36,286	37,493
Property, Plant and Equipment	15,911	12,648
Investment Properties	0	646
Intangible Assets	182	0
	16,093	13,294
Sources of Finance		
Capital receipts	(1,042)	(1,693)
Government grants and other contributions	(7,011)	(7,400)
Sums set aside from revenue:		
Direct revenue contributions:		
General	0	(500)
HRA	(593)	(385)
Harbours	(199)	(339)
Loans fund principal	(6,041)	(2,267)
	(14,886)	(12,584)
Closing Capital Finance Requirement	37,493	38,203
Explanation of movements in year		
Increase in underlying need to borrow (unsupported by government financial assistance)	1,207	710
Increase/(decrease) in Capital Financing Requirement	1,207	710

At 31 March 2022 the Council had commitments on capital contracts for projects of £2.786M. This expenditure will be funded from a combination of government grants, external borrowing, income from the sale of assets and contributions from revenue budgets.

The following significant contracts for capital investment have been entered into by Orkney Islands Council and extend beyond 31 March 2022:

Project Name	Purpose	Approx. Value £000	Anticipated Completion
Scapa Flow Visitor Centre	Extension and upgrade	124	24 June 2022
St Andrews School	Extension and upgrade	2,131	31 October 2022
Glaitness School Nursery	Extension and upgrade	531	15 August 2022
Overall Total		2,786	

Similar commitments at 31 March 2021 were £7.087M.

Note 29 Leases

Orkney Islands Council as Lessee

Operating Leases

The Council has acquired properties by entering into operating leases.

The expenditure charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was £0.196M (2020-21 £0.202M).

Future minimum payments are set out below:

	2020-2021	2021-2022
	Land and Buildings	Land and Buildings
	£000	£000
Minimum lease rentals payable:		
No later than 1 year	198	198
Later than 1 year and no later than 5 years	616	540
Later than 5 years	2,591	2,333
	3,405	3,071

Orkney Islands Council as Lessor

Operating Leases

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

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

The total value of rental income recognised during the period was £1.269M (2020-21 £1.403M). No contingent rents were recognised.

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

	2020-2021	2021-2022
	Land and Buildings	Land and Buildings
	£000	£000
Minimum lease rentals receivable:		
No later than 1 year	1,252	1,404
Later than 1 year and no later than 5 years	2,796	3,145
Later than 5 years	12,335	11,155
	16,383	15,704

Note 30 Impairment Losses

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

Note 31 Capitalisation of Borrowing Costs

The Council does not capitalise its borrowing costs.

Note 32 Pension Schemes Accounted as Defined Contribution Schemes

There are currently two occupational pension schemes for teachers in Scotland, the Scottish Teachers' Superannuation Scheme (STSS) and the Scottish Teachers' Pension Scheme 2015 (STPS 2015). These schemes are administered by the Scottish Public Pensions Agency on behalf of Scottish Ministers. Both are defined benefit schemes, but, as it is not possible to identify each participating Council's share of the underlying liabilities on a consistent and reasonable basis both schemes are accounted for as if they were defined contribution schemes. Employer contributions are set on the basis of periodic reviews by the Government Actuary. The Council's rate of contribution as an employer increased to 23% from 17.2% on 1 September 2019. The employee rate is tiered and ranges from 7.2% to 11.9%. The Council paid £3.345M (£3.247M in 2020-21) of employer contributions to the Scottish Public Pensions Agency during 2021-22. £0.271M of expenditure (£0.289M in 2020-21) was charged to service revenue accounts during 2021-22 in respect of "added years" pension enhancement termination benefits, representing 1.86% of employees' pensionable pay (2.05% in 2020-21).

Note 33 Defined Benefit Pension Schemes

Participation in pension schemes

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

The Council participates in two pension schemes:

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

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

Transactions relating to post-employment benefits

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

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

2020-2021		2021-2022
£000		£000
Comprehensive Income and Expenditure Statement		
<i>Cost of Services:</i>		
14,666	Current service cost	23,239
46	Past service cost including curtailments	105
<i>Included within financing and investment income and expenditure</i>		
(214)	Net Interest Expense	(330)
14,498	Total of LGPS post-employment benefits charged to the surplus or deficit on the provision of services	23,014
<i>Included within other comprehensive income and expenditure:</i>		
2,725	Changes in demographic assumptions	(2,444)
99,074	Changes in financial assumptions	(32,942)
10,726	Other experience	333
(130,874)	Return on assets excluding amounts included in net interest	23,338
(18,349)	Remeasurement of the net Pension Fund Liability/(Assets)	(11,715)
Movement in reserves statement:		
<i>Adjustments between accounting and funding basis under regulations:</i>		
(14,498)	Reversal of net charges made to surplus or deficit on the provision of services for post-employment benefits in accordance with the code	(23,014)
18,349	Reversal of re-measurement of net defined benefit liability	11,715
Actual amounts charged against the General Fund balance for pensions in the year:		
7,523	Employer contributions and direct payments payable in the year	7,813
11,374	Net charge to the General Fund Summary	(3,486)

Pension Assets and Liabilities recognised in the Balance Sheet

	2020-2021	2021-2022
	£000	£000
Fair value of scheme assets	(481,638)	(469,337)
Fair value of scheme liabilities	457,392	448,577
Council's share of deficit or (surplus) in the scheme	(24,246)	(20,760)

Asset and Liabilities in Relation to Post-Employment Benefits

Reconciliation of Movements in the Fair Value of Scheme Assets:

2020-2021		2021-2022
£000		£000
(342,160)	Opening balance at 1 April	(481,638)
(7,873)	Interest Income	(9,640)
<i>Cashflows:-</i>		
(2,500)	Member contributions	(2,592)
(7,003)	Employer contributions	(7,333)
(520)	Contributions in respect of unfunded benefits	(480)
8,772	Benefits paid: other	8,528
520	Benefits paid: unfunded	480
<i>Remeasurements:-</i>		
(130,874)	Return on Plan Assets, excl. net interest expenses	23,338
(481,638)	Closing balance at 31 March	(469,337)

Reconciliation of Present Value of the Scheme Liabilities:

2020-2021		2021-2022
£000		£000
321,656	Present Value of Funded Liabilities	449,781
7,632	Present Value of Unfunded Liabilities	7,611
329,288	Opening balance at 1 April	457,392
14,666	Current service cost	23,239
46	Past service cost including curtailments	105
7,659	Interest Cost	9,310
	<i>Cashflows:-</i>	
2,500	Member contributions	2,592
(8,772)	Estimated benefits paid: other	(8,528)
(520)	Estimated benefits paid: unfunded	(480)
	<i>Remeasurements:-</i>	
2,725	Changes in demographic assumptions	(2,444)
99,074	Changes in financial assumptions	(32,942)
10,726	Other experience	333
457,392		448,577
449,781	Present Value of Funded Liabilities	441,928
7,611	Present Value of Unfunded Liabilities	6,649
457,392	Closing balance at 31 March	448,577

Analysis of Pension Fund's Assets

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

2020-2021			2021-2022	
£000			£000	
Equities:				
72,946	15%	Consumer	64,936	14%
53,274	11%	Manufacturing	51,726	11%
6,656	1%	Energy and Utilities	6,350	1%
69,288	14%	Financial Institutions	56,684	12%
38,162	8%	Health and Care	37,503	8%
78,138	17%	Information Technology	59,258	13%
Debt Security				
40,629	8%	UK Government	40,542	9%
14,224	3%	Private Equity:	23,949	5%
Investment Funds and Unit Trusts:				
103,390	22%	Equities	105,815	22%
0	0%	Infrastructure	19,558	4%
4,931	1%	Cash and Cash Equivalents:	3,016	1%
481,638	100%	Total Assets	469,337	100%

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, and the Council's share of the Pension Fund's defined benefit obligation (scheme liabilities) and scheme assets:

2020-2021		2021-2022
2.00%	Discount rate for defined benefit obligation	2.70%
3.35%	Rate of increase in salaries	3.70%
2.85%	Rate of increase in pensions	3.20%
Mortality assumptions: <i>Longevity at age 65 for current pensioners:</i>		
21.4	Men	21.3
23.9	Women	23.7
<i>Longevity at age 65 for future pensioners:</i>		
23.1	Men	22.9
26.1	Women	25.9
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.

Changes in assumptions as at 31 March 2022:	Approximate increase to Employer	Approximate Monetary Amount
	%	£000
0.1% decrease in Real Discount Rate	2%	9,002
1 year increase in member life expectancy	4%	17,943
0.1% increase in the Salary Increase Rate	0%	933
0.1% increase in the Pension Increase Rate	2%	7,999

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

Impact on the Authority's Cash Flows

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

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

The Authority anticipates paying £7.055M in contributions to the scheme in 2022-23.

Statutory Accounts

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

Note 34 Contingent Liabilities

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

Former Landfill and Quarry Sites Re-instatement

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

As at 31 March 2022, no financial provision has been made however the Council recognises that a contingent liability in respect of future reinstatement of current and former landfill and quarry sites operated by the Council may arise as a result of this work however the timing of liabilities in respect of current and former landfill and quarry sites is uncertain and the associated costs cannot be reliably estimated at this time.

Grant Funding Conditions

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

Merchant Navy Officers Pension Fund (MNOF)

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

The Trustee must carry out a full actuarial valuation at least every three years to assess the scheme's funding level. The next MNOF Actuarial Valuation will refer to the three-year period ending 31 March 2024. In the intervening years the Trustee will obtain annual actuarial reports on developments affecting the Fund's assets and technical provisions.

Orkney Islands Council Pension Fund

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

The results of the 2017 cost cap will be finalised in 2021-22 and are not anticipated to impact on the employer contribution rates recently certified and put in place by the LGPS administering authority from 1 April 2021.

National Care Service

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

Note 35 Nature and Extent of Risks Arising from Financial Instruments

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

Credit Risk - The possibility that other parties might fail to pay amounts due to the Authority.

Liquidity Risk - The possibility that the Authority might not have funds available to meet its commitments to make payments.

Market Risk - The possibility that financial loss might arise for the Authority as a result of changes in such measures as interest rates and stock market movements.

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

Credit Risk

Credit risk arises from the short-term lending of surplus funds to financial institutions and local authorities, as well as credit exposures to the council's customers.

The risk is minimised through the Annual Investment Strategy, which can be found at the following link: [Annual Investment Strategy 2021-2022](#)

Credit Risk Management Practices

The Council's credit risk management practices are set out on pages 58 to 63 of the Annual Investment Strategy. It is the policy of the council to place deposits only with a limited number of high-quality banks, building societies and money market funds whose credit rating is independently assessed as sufficiently secure by the Council's treasury advisers and to restrict lending to a prudent maximum amount for each entity.

Deposits are not made with banks and financial institutions unless they are rated independently with minimum score of A1/P1/F1 short term debt ratings with Moodys, Standard & Poors or Fitch. During the year the authority has a policy of not lending more than 25% of its surplus balances to individual institutions at any one time.

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

2021-2022	Amount at	Adjustment	Estimated
	31 March	for Market	maximum
	2022	Conditions at	exposure to
	£000	31 March	default and
		2022	uncollectability
		%	at 31 March
			2022
Deposits with financial institutions and local authorities	22,619		
Customers (sundry income)	5,755	39.32	2,263
Total	28,374		2,263

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

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

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

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

The Authority does not allow credit for customers such that of the £5.755M debtors balance, £3.110M is less than one month old, leaving a balance of £1.482M that is past its due date for payment. The past due but not impaired amounts can be analysed by age as follows:

2020-2021		2021-2022
£000		£000
191	Less than three months	494
144	Three to six months	68
272	Six months to one year	166
669	More than one year	754
1,276	Sundry income debtors balance	1,482

During the year the impairment loss allowance on overdue sundry income debtors decreased by £0.037M, being a decrease from £1.210M to £1.173M.

Amounts Arising from Expected Credit Losses

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

Collateral

Orkney Islands Council acts as the lender of last resort for housing loans. In such cases the Council takes a standard security over the property. As at 31 March 2022 the outstanding value of loans advanced by the Council was £1.554M (£1.272M as at 31 March 2021).

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:

	2020-2021	2021-2022
	£000	£000
Less than one year	29	29
Between one and two years	5,029	29
Between two and five years	56	5,028
More than five years	30,000	30,000
	35,114	35,086

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

Market risk: interest rate risk

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



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

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

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

	2020-2021	2021-2022
	£000	£000
Increase in interest receivable on variable rate investments	(350)	(226)
Impact on Surplus or Deficit on the Provision of Services	(350)	(226)
Decrease in fair value of variable rate investment assets	552	441
Decrease in fair value of fixed rate borrowing liabilities (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure)	8,483	7,246

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 £280.118M of investments as at 31 March 2022 in the form of equities, multi-asset and bonds, including £3.033M in a local wind energy company. The authority is consequently exposed to losses arising from movement in the price of the shares.

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

These clearly defined shares are mainly classified as Fair Value through Profit or Loss with the investment in the local wind energy company and fishing quota classified as Fair Value Other Comprehensive Income, meaning that all movements in price will impact directly on the income and expenditure statement. A general shift of 5% in the general price of shares (positive or negative) would have resulted in a £14.006M gain or loss being recognised in the income and expenditure statement.

Market risk: foreign exchange risk

As part of the portfolio of £280.118M of investments, the authority held £91.145M of investments in the form of global equities and multi-assets pooled funds.

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

These clearly defined shares are all classified as Fair Value through Profit or Loss, meaning that all movements in price will impact directly on the income and expenditure statement. A general shift of 5% in the general price of shares (positive or negative) would have resulted in a £4.557M gain or loss being recognised in the income and expenditure statement.

Note 36 Charitable and Non-Charitable Trust Funds

This section of the Annual Accounts shows the summary of transactions relating to the Charitable and Non-Charitable Trust Funds administered by Orkney Islands Council as sole trustee. A summary of the balances held at 31 March 2022 and how these balances were invested is also detailed. Orkney Islands Council administers these Funds and separately accounts for them. They do not form part of the Council's single entity balance sheet, although under s222 of the Local Government (Scotland) Act 1973, the property of the Trust Funds "vest[s] in" the relevant local authority. However, they are included in the Annual Accounts of the Council as a note to the core financial statements.

Many of the sundry trusts are registered with the Office of the Scottish Charity Regulator (OSCR) as charities. Details of these are shown in Note 1 below.

Summary Income and Expenditure Statement

2020-2021		2021-2022		
		Registered Charitable Trusts	Non-Registered Trusts	Total
		£000	£000	£000
	Income			
(10)	Interest on Investments etc.	0	(9)	(9)
	Expenditure			
9	General Expenditure	2	19	21
(1)	(Surplus)/Deficit for the Year	2	10	12

Balance Sheet as at 31 March 2022

31 March 2021 £000		Note	31 March 2022		
			Registered Charitable Trusts	Non-Registered Trusts	Total
			£000	£000	£000
715	Short-term Deposits with Orkney Islands Council		50	654	704
(1)	Current Liabilities		(1)	(1)	(2)
714	Total Assets less Liabilities		49	653	702
	Represented by				
714	Trust Fund Balances		49	653	702
714	Total Net Worth	2	49	653	702

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
William Orkney Reid's Bursary Fund	SC044607

2. Trust Fund Balances

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

	£000
Orkney Educational Trust	
Various bursary awards to promote further education opportunities, sports, visual arts, music and drama	43
William Orkney Reid's Bursary Fund	
To assist the education of any promising pupils at Kirkwall Grammar School	6
Total	49

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

Note 37 Common Good Fund

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

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

2020-2021 £000		2021-2022 £000
	Income	
(37)	Interest on Investments etc.	(37)
0	Transfer to revaluation reserve	(54)
	Expenditure	
32	General Expenditure	39
(5)	(Surplus)/Deficit for the Year	(52)

31 March 2021		31 March 2022		
Total	Balance Sheet	Stromness	Kirkwall	Total
£000		£000	£000	£000
Investments				
254	Property	36	272	308
169	Heritage Assets	0	169	169
225	Capital Deposits	50	175	225
648	Total Long-Term Assets	86	616	702
443	Loans Fund Deposit	121	319	440
443	Current Assets	121	319	440
0	Less Current Liabilities	0	0	0
443	Net Current Assets	121	319	440
1,091	Net Assets	207	935	1,142
Represented by:				
225	Capital Reserve	50	174	224
469	Revenue Reserve	122	345	467
397	Revaluation Reserve	35	416	451
1,091	Accumulated Funds	207	935	1,142

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.

2020-2021 £000		2021-2022	
		£000	£000
	<i>Expenditure:</i>		
1,407	Repairs and maintenance	1,914	
660	Supervision and management	799	
(1,912)	Depreciation and impairment of non-current assets	4,331	
(15)	Increase or (decrease) in the allowance for bad debts	10	
140			7,054
	<i>Income:</i>		
(3,757)	Dwelling rents	(3,966)	
(15)	Other income	(47)	
(3,772)			(4,013)
(3,632)	Net cost of HRA services as included in the comprehensive income and expenditure statement		3,041
	<i>HRA share of the operating income and expenditure included in the comprehensive income and expenditure statement</i>		
(751)	Capital grants	(488)	
(82)	(Gain) or loss on sale of HRA non-current assets	0	
357	Interest payable and similar charges	343	
(1)	Pensions interest cost and expected return on pensions assets	(1)	
(477)			(146)
(4,109)	(Surplus) or deficit for the year on HRA services		2,895

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.

2020-2021		2021-2022			
		£000	£000	£000	£000
(523)	Balance on the HRA at the end of the previous year				(650)
(4,109)	(Surplus) or deficit for the year on the HRA income and expenditure statement			2,895	
	<i>Adjustments between accounting basis and funding basis under regulations:</i>				
82	Reverse out gain or (loss) on sale of HRA non-current assets		0		
	<i>HRA share of contributions to or (from) the Pension Reserve:</i>				
(86)	Reverse out net charges made for post-employment benefits in accordance with IAS19	(144)			
44	Pensions cost chargeable for the year in accordance with statutory provisions: employer's contributions payable to Orkney Islands Council Pension Fund	49			
(42)	HRA share of contributions to or (from) the Pension Reserve		(95)		
593	Capital expenditure funded by the HRA		385		
	<i>Transfer to or (from) the Capital Adjustment Account:</i>				
1,912	Reverse out depreciation and impairment gains on non-current assets	(4,331)			
751	Reverse out credits made for capital grants	488			
1,279	Loans fund principal contribution from the HRA	884			
3,942	Transfer to or (from) the Capital Adjustment Account		(2,959)		
4,575	Total of adjustments between accounting basis and funding basis under regulations			(2,669)	
466	Net (increase) or decrease before transfers to or from reserves			226	
(593)	Transfers to or (from) reserves			(253)	
(127)	(Increase) or decrease in the year on the HRA				(27)
(650)	Balance on the HRA at the end of the current year				(677)

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 989 dwellings during 2020-21 (945 in 2020-21). The following shows an analysis of these dwellings by type.

Number at 31 March 2021 (Restated)	Type of dwelling	Number at 31 March 2022
27	One-apartment	27
357	Two-apartment	385
303	Three-apartment	319
240	Four-apartment	240
15	Five-apartment	15
3	Six-apartment	3
945	Total	989

2. The amount of rent arrears

At 31 March 2022 total rent arrears amounted to £0.586M (£0.495M at 31 March 2021). This is 14.76% of the total value of rental income at 31 March 2022.

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

In the financial year 2020-21 the rental bad debt provision has increased by £0.014M (£0.005M decrease during 2020-21). The provision to cover the potential loss of income stands at £0.172M at 31 March 2022. This is 4.34% of the total value of rents at that date.

4. The total value of uncollectable void rents

The total value of uncollectable void rents for Council dwellings that were not let during the year was £0.054M (£0.048M during 2020-21).

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.

2020-2021		2021-2022
£000		£000
12,620	Gross council tax levied	12,748
(905)	Council Tax Reduction Scheme	(855)
(1,567)	Other discounts and reductions	(1,568)
(33)	Write-off of uncollectable debts and allowance for impairment	(176)
(89)	Adjustment to previous year's council tax	(57)
10,026	Transfer to the General Fund	10,092

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 2021-22 was £1,208.48 (£1,208 in 2020-21).

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

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

Annual council tax charges

2021-2022							
Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H
£805.65	£939.93	£1,074.20	£1,208.48	£1,587.81	£1,963.78	£2,366.61	£2,960.78

Calculation of the council tax base

2021-2022	Number of dwellings	Number of exemptions	Disabled relief	Discounts of 25%	Discounts of 50%	Council Tax Reduction	Total equivalent dwellings	Ratio to Band D	Band D equivalents
@	0	0	10	(1)	0	(5)	4	200/360	2
Band A	2,374	(298)	3	(261)	(48)	(338)	1,432	240/360	955
Band B	2,908	(160)	10	(305)	(30)	(340)	2,083	280/360	1,620
Band C	2,423	(106)	(4)	(197)	(24)	(176)	1,916	320/360	1,703
Band D	1,889	(41)	(1)	(119)	(17)	(75)	1,636	360/360	1,636
Band E	1,487	(22)	(13)	(64)	(11)	(15)	1,362	473/360	1,791
Band F	354	(3)	(5)	(10)	(1)	(5)	330	585/360	536
Band G	23	0	0	0	0	0	23	705/360	45
Band H	5	(1)	0	0	0	0	4	882/360	10
Total	11,463	(631)	0	(957)	(131)	(954)	8,790		8,298

Class 17 and 24 dwellings	0
Sub-total	8,298
Provision for non-payment and future award of discounts and reliefs	(31)
Council tax base	8,267

@ 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.

2020-2021		2021-2022
£000		£000
14,884	Gross rates levied	14,588
(6,293)	Reliefs and other deductions	(5,295)
(34)	Write-offs of uncollectable debts and allowance for impairment	(42)
8,557	Net non-domestic rate income	9,251
(1,438)	Adjustment to previous years' non-domestic rates	(313)
(100)	Contribution (to) or from the national non-domestic rate pool	850
7,019	Transfer to comprehensive income and expenditure statement	9,788

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 2021-22 the charge was 49.0 pence in the pound. From 1 April 2017 the Scottish Government amended the existing Small Business Bonus Scheme (SBBS). Under the SBBS properties with a rateable value up to and including £15,000 are entitled to a 100% reduction in their business rates. Properties with a rateable value of between £15,001 and £18,000 receive a 25% reduction. Additionally, a business with two or more properties with a combined rateable value of £35,000 are eligible to qualify for relief of 25% on individual properties with a rateable value of £18,000 or less.

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

Analysis of Orkney Islands Council's rateable values:

2021-2022		£000	£000
Rateable value at 1 April 2021:	Commercial	8,676	
	Industrial and Freight Transport	4,846	
	Others	15,996	
			29,518
Running roll (full-year rateable value)			(72)
Rateable value at 31 March 2022			29,446
Wholly exempt subjects			(430)
Net rateable value at 31 March 2022			29,016

Harbour Authority Account

Harbour Authority Revenue Account income and expenditure statement

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

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

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

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

2020-2021		2021-2022		
£000		£000	£000	£000
Net		Expenditure	Income	Net
(2,142)	Scapa Flow Oil Port	7,793	(8,014)	(221)
2,565	Miscellaneous Piers and Harbours	9,118	(7,574)	1,544
423		16,911	(15,588)	1,323
423	Net cost of Harbour Services as included in the comprehensive income and expenditure statement			1,323
<i>Harbours share of the operating income and expenditure included in the comprehensive income and expenditure statement:</i>				
(163)	Capital grants			0
79	(Gain) or loss on sale of Harbour Authority assets			(732)
682	Interest payable and similar charges			755
(48,306)	Harbours Investment Income			(5,966)
(14)	Pensions interest cost and expected return on pension assets			(19)
(47,299)	(Surplus) or deficit for the year on Harbour Authority			(4,639)

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.

2020-2021		2021-2022		
£000		£000	£000	£000
(199,300)	Balance on the Harbour Authority at the end of the previous year			(239,550)
(47,299)	(Surplus) or deficit for the year on the Harbour income and expenditure statement			(4,639)
	<i>Adjustments between accounting basis and funding basis under regulations:</i>			
10	Difference between any other item of income and expenditure determined in accordance with the Code and determined in accordance with statutory Harbour requirements		(2)	
(79)	Reverse out gain or (loss) on sale of Harbour non-current assets		732	
	Harbour share of contributions to or (from) the Pension Reserve:			
(1,193)	Reverse out net charges made for post-employment benefits in accordance with IAS19	(1,915)		
619	Pensions cost chargeable for the year in accordance with statutory provisions: employer's contributions payable to Orkney Islands Council Pension Fund	650		
(574)	Harbour share of contributions to or (from) the Pension Reserve		(1,265)	
(2)	Harbour share of contributions to or (from) the Employee Statutory Adjustment Account		(1)	
199	Capital expenditure funded by the Harbour Authority		339	
	Transfer to or (from) the Capital Adjustment Account:			
(3,065)	Reverse out depreciation and impairment losses on non-current assets	(3,093)		
163	Reverse out credits made for capital grants	0		
808	Loans fund principal contribution from the Harbour Authority	1,123		
(2,094)	Transfer to or (from) the Capital Adjustment Account		(1,970)	
(2,540)	Total of adjustments between accounting basis and funding basis under regulations			(2,167)
(49,839)	Net (increase) or decrease before transfers to or from reserves			(6,806)
9,589	Contributions to/(from) General Fund Services		7,266	
0	Contributions to/(from) Housing Revenue Account House Build Programme		0	
9,589	Transfers to or (from) reserves:			7,266
(40,250)	(Increase) or decrease in the year on the Harbour Authority			460
(239,550)	Balance on the Harbour authority at the end of the current year			(239,090)

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

	2020-2021					2021-2022	
	Balance as at 1 April 2020	Transfers in 2020-2021	Transfers out 2020-2021	Balance at 31 March 2021	Transfers in 2021-2022	Transfers out 2021-2022	Balance at 31 March 2022
Harbour Balances	£000	£000	£000	£000	£000	£000	£000
Strategic Reserve Fund	174,740	50,930	(9,774)	215,896	7,114	(7,689)	215,321
Flotta Terminal Decline & Decommissioning Fund	6,497	414	(414)	6,497	1,164	(1,164)	6,497
Conservation Fund	193	1	0	194	1	0	195
Talented Performers Fund	62	0	0	62	0	0	62
Travel Fund	105	0	0	105	0	0	105
Fisheries Fund	0	0	0	0	0	0	0
Orkney Memorial Fund	463	3	(5)	461	1	0	462
Talented Young Persons Fund	12	0	0	12	0	(1)	11
Miscellaneous Piers Reserve Fund	8,258	0	(1,054)	7,204	0	(24)	7,180
Renewable Energy Fund	8,970	149	0	9,119	138	0	9,257
Harbour Fund Balances	199,300	51,497	(11,247)	239,550	8,418	(8,878)	239,090

Orkney College Account

Orkney College Revenue Account income and expenditure statement

Orkney Islands Council provides further and higher education provision through the Orkney College using a devolved Board of Management arrangement with a dedicated College Management Sub-Committee under the remit of the Education, Leisure and Housing Service. The Orkney College is funded by direct grant from the Scottish Funding Council (SFC). The trading position from these activities is reflected within the Council's Comprehensive Income and Expenditure Statement as part of financing and investment expenditure.

2020-2021		2021-2022	
£000		£000	£000
<i>Expenditure:</i>			
4,292	Staff Costs	4,909	
395	Property Costs	430	
480	Supplies & Services	516	
95	Transport Costs	49	
107	Administration Costs	120	
89	Apportioned Costs	94	
292	Depreciation and impairment of non-current assets	689	
7	Provision for Bad Debts	(16)	
5,757			6,791
<i>Income:</i>			
(3,747)	Grants	(4,150)	
(1,393)	Fees & Charges	(1,726)	
(100)	Other income	(124)	
(5,240)			(6,000)
517	Net cost of Orkney College services as included in the comprehensive income and expenditure statement		791
<i>Orkney College share of the operating income and expenditure included in the comprehensive income and expenditure statement</i>			
0	Capital Grants		0
(6)	Pensions interest cost and expected return on pensions assets		(7)
511	(Surplus) or deficit for the year on Orkney College		784

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.

2020-2021		2021-2022			
£000		£000	£000	£000	£000
(63)	Balance on the College at the end of the previous year				(106)
511	(Surplus) or deficit for the year on the College income and expenditure statement			784	
<i>Adjustments between accounting basis and funding basis under regulations:</i>					
	College share of contributions to or (from) the Pension Reserve:				
(485)	Reverse out net charges made for post-employment benefits in accordance with IAS19	(758)			
252	Pensions cost chargeable for the year in accordance with statutory provisions: employer's contributions payable to Orkney Islands Council Pension Fund	257			
(233)	College share of contributions to or (from) the Pension Reserve		(501)		
(30)	College share of contributions to or (from) the Employee Statutory Adjustment Account		12		
0	Capital expenditure funded by the College		19		
(291)	Reverse out depreciation and impairment losses on non-current assets	(689)			
(291)	Transfer to or (from) the Capital Adjustment Account		(689)		
(554)	Total of adjustments between accounting basis and funding basis under regulations			(1,159)	
(43)	Net (increase) or decrease before transfers to or from reserves			(375)	
(43)	(Increase) or decrease in the year on the College				(375)
(106)	Balance on the College at the end of the current year				(481)

Group Accounts

Statement of Group Accounting Policies

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

Authorities are required to prepare a full set of group accounts in addition to their own Council's accounts where they have a material interest in such entities. The group Financial Statements to 31 March 2022 represents the consolidation of the balances and transactions of the Council, its subsidiaries, associate and joint ventures.

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

Combining Entities

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

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

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

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

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

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

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

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

Name of Combining Entity	Method of Accounting	2020-2021	2021-2022
		%	%
Hammars Hill Energy Ltd	Equity Method	28	28
Orkney Integration Joint Board	Equity Method	50	50
Orkney Research and Innovation Campus	Equity Method	50	50

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

Basis of Consolidation and Going Concern

In line with the principles contained within the Code, the Group Financial Statement for the year ended 31 March 2022 has been prepared on the basis of a full consolidation of the financial transactions and balances of the Council and its subsidiaries.

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

The effect of inclusion of the above bodies on the Group Balance Sheet is to reduce both Reserves and Net Assets by £1.779M representing the Council's share of the net liabilities in these entities.

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

Group Movement in Reserves

For the Year Ended 31 March 2022

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

	General Fund Balance £000	HRA Balance £000	Other Reserves £000	Harbour Reserves £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000	Authority's share of subsidiaries & associates £000	Total Group Reserves £000
Balance as at 1 April 2021	(29,431)	(650)	(13,281)	(239,550)	(282,912)	(374,929)	(657,841)	3,129	(654,712)
(Surplus) or deficit on provision of services	121,039	3,041		1,323	125,403		125,403	(1,172)	124,231
Other Comprehensive Expenditure and Income	(93,881)	(146)	0	(5,962)	(99,989)	(71,167)	(171,156)	(178)	(171,334)
Total Comprehensive Expenditure and Income	27,158	2,895	0	(4,639)	25,414	(71,167)	(45,753)	(1,350)	(47,103)
Net (Increase)/Decrease before Transfers	27,158	2,895	0	(4,639)	25,414	(71,167)	(45,753)	(1,350)	(47,103)
Adjustments between accounting basis and funding basis under regulations	(23,890)	(2,669)	578	(2,167)	(28,148)	28,148	0	0	0
Net (Increase)/Decrease before Transfers to Earmarked Reserves	3,268	226	578	(6,806)	(2,734)	(43,019)	(45,753)	(1,350)	(47,103)
Transfers (to) / from Earmarked Reserves	(8,097)	(253)	1,084	7,266	0	0	0	0	0
(Increase) / Decrease in Year	(4,829)	(27)	1,662	460	(2,734)	(43,019)	(45,753)	(1,350)	(47,103)
Balance as at 31 March 2022	(34,260)	(677)	(11,619)	(239,090)	(285,646)	(417,948)	(703,594)	1,779	(701,815)

	General Fund Balance £000	HRA Balance £000	Other Reserves £000	Harbour Reserves £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000	Authority's share of subsidiaries & associates £000	Total Group Reserves £000
Balance as at 1 April 2020	(18,788)	(523)	(11,010)	(199,300)	(229,621)	(350,413)	(580,034)	2,858	(577,176)
(Surplus) or deficit on provision of services	2,391	(4,109)	0	(47,298)	(49,016)	0	(49,016)	(1,349)	(50,365)
Other Comprehensive Expenditure and Income	0	0	0	0	0	(28,791)	(28,791)	1,620	(27,171)
Total Comprehensive Expenditure and Income	2,391	(4,109)	0	(47,298)	(49,016)	(28,791)	(77,807)	271	(77,536)
Net (Increase)/Decrease before Transfers	2,391	(4,109)	0	(47,298)	(49,016)	(28,791)	(77,807)	271	(77,536)
Adjustments between accounting basis and funding basis under regulations	(6,837)	4,575	528	(2,541)	(4,275)	4,275	0	0	0
Net (Increase)/Decrease before Transfers to Earmarked Reserves	(4,446)	466	528	(49,839)	(53,291)	(24,516)	(77,807)	271	(77,536)
Transfers (to) / from Earmarked Reserves	(6,197)	(592)	(2,800)	9,589	0	0	0	0	0
(Increase) / Decrease in Year	(10,643)	(126)	(2,272)	(40,250)	(53,291)	(24,516)	(77,807)	271	(77,536)
Balance as at 31 March 2021	(29,431)	(649)	(13,282)	(239,550)	(282,912)	(374,929)	(657,841)	3,129	(654,712)

Group Comprehensive Income and Expenditure Statement for the year ended 31 March 2022

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	2020-2021			2021-2022		
		£000	£000	£000	£000	£000	£000
		Expenditure	Income	Net	Expenditure	Income	Net
Cultural and Recreation		8,900	(2,723)	6,177	11,654	(3,713)	7,941
Education		42,148	(3,112)	39,036	52,130	(3,713)	48,417
Roads and Transportation		21,384	(7,551)	13,833	27,517	(10,731)	16,786
Housing Revenue Account		134	(3,766)	(3,632)	7,054	(4,013)	3,041
Harbour Authority		14,090	(13,667)	423	16,910	(15,588)	1,322
Housing Services		5,834	(4,435)	1,399	6,438	(4,550)	1,888
Community Social Services		52,757	(29,356)	23,401	58,979	(31,032)	27,947
Planning and Development		5,023	(2,355)	2,668	5,365	(2,400)	2,965
Environmental Services		5,654	(1,032)	4,622	6,169	(1,262)	4,907
Other Services		12,970	(3,521)	9,449	14,371	(4,097)	10,274
Non-Distributed Costs		46	0	46	105	0	105
(Surplus)/Deficit on Continuing Operations		168,940	(71,518)	97,422	206,692	(81,099)	125,593
Other Operating Expenditure				170			(745)
Financing and Investment Income and Expenditure				(46,441)			(3,828)
Taxation and Non-Specific Grant Income: Other				(100,206)			(94,861)
Associates and Joint Ventures accounted for on an equity basis	6			(1,309)			(1,917)
Group (Surplus) or Deficit				(50,364)			24,242
(Surplus) or deficit on revaluation of non-current assets				(10,397)			(59,209)
(Surplus)/Deficit on revaluation of available for sale financial assets at fair value through Other Comprehensive Income and Expenditure				(45)			(243)
Actuarial gains/losses on pension assets/liabilities				(16,729)			(11,893)
Other Comprehensive Income and Expenditure				(27,171)			(71,345)
Total Comprehensive Income and Expenditure (Surplus)/Deficit				(77,535)			(47,103)

Group Balance Sheet as at 31 March 2022

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

	31 March 2021	31 March 2022
	£000	£000
Property, Plant & Equipment	380,364	426,845
Heritage Assets	912	912
Investment Property	19,802	20,649
Intangible Assets	230	206
Long Term Investments	2,580	2,906
Long Term Debtors	5,401	5,865
Investments in associates and joint ventures	3,149	5,052
Long Term Assets	412,438	462,435
Short Term Investments	255,441	267,864
Inventories	1,876	2,613
Short Term Debtors	10,119	10,713
Cash and Cash Equivalents	37,254	25,706
Assets held for sale	741	474
Current Assets	305,431	307,370
Short Term Borrowing	407	5,408
Short Term Creditors	20,115	19,612
Current Liabilities	20,522	25,020
Provisions	31,004	32,668
Long Term Borrowing	35,085	30,057
Other Long-Term Liabilities	(23,454)	(19,755)
Long Term Liabilities	42,635	42,970
Net Assets	654,712	701,815
Group Reserves	654,712	701,815
Total Reserves	654,712	701,815

The unaudited accounts were issued on 30 June 2022.

The audited accounts were authorised for issued on 17 November 2022.



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

17 November 2022

Group Cash Flow Statement at 31 March 2022

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.

	2020-2021	2021-2022
	£000	£000
Net surplus or (deficit) on the provision of services	50,364	(24,242)
Adjustment to surplus or deficit on the provision of services for non-cash movements	(32,155)	16,750
Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	1,108	1,155
Net Cash flows from Operating activities	19,317	(6,337)
Net Cash flows from Investing Activities	(11,766)	(3,355)
Net Cash flows from Financing Activities	(2,088)	(1,856)
Net Cash flows from Taxation	0	0
Net increase or decrease in cash and cash equivalents	5,463	(11,548)
Cash and cash equivalents at the beginning of the reporting period	31,791	37,254
Cash and cash equivalents at the end of the reporting period	37,254	25,706

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

	2020-2021	2021-2022
	£000	£000
Adjustment to surplus or deficit on the provision of services for non-cash movements		
Depreciation	13,504	23,050
Impairment & downward revaluation (& non-sale de-recognition)	(1,937)	2,286
(Increase)/Decrease in Stock	(428)	(737)
(Increase)/Decrease in Debtors	(3,582)	(2,175)
(Increase)/Decrease in Creditors	4,292	484
Payments to Pension Fund	7,134	15,592
Carrying amount of non-current assets sold	693	436
Investment Income not involving movement of cash	(49,083)	(8,247)
Contributions to Other Reserves/Provisions	(2,577)	(13,637)
Movement in value of investment properties-included above in Impairment & downward revaluations (& non-sale de-recognition)	(171)	(207)
Tax refund	0	(95)
	(32,155)	16,750
Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities		
Purchase of short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)	275,206	13,405
Proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)	(274,098)	(12,250)
	1,108	1,155

Cash Flow from Investing Activities

Cash Flow from Financing Activities

	2020-2021	2021-2022
	£000	£000
Purchase of PP&E, investment property and intangible assets	16,456	12,476
Purchase of Short-Term Investments (not considered to be cash equivalents)	357	0
Purchase of Long-Term Investments	4,180	6,275
Other Payments for Investing Activities	1,051	(537)
Proceeds from the sale of PP&E, investment property and intangible assets	(517)	(1,116)
Proceeds from Short Term Investments (considered to be cash equivalents)	0	(6,088)
Proceeds from Long Term Investments	(3,953)	37
Capital Grants and Contribution Received	(6,223)	(8,037)
Other Receipts from Investing Activities	415	345
Net Cash flows from Investing Activities	11,766	3,355
	2020-2021	2021-2022
	£000	£000
Cash receipts from Short- and Long-Term borrowing	0	0
Other Receipts from Financing Activities	(165)	(668)
Repayment of Short- and Long-Term borrowing	29	28
Other payments for Financing Activities	2,224	2,496
Net Cash flows from Financing Activities	2,088	1,856

Notes to the Financial Statements

For the Year Ended 31 March 2022

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

1. Disclosure of Differences with Main Statement of Accounting Policies

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

Group Income and Expenditure Statement

Retirement Benefits

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

Value Added Tax

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

Proceeds from Disposals of Fixed Assets

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

Group Balance Sheet

Valuation of Fixed Assets

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

Stock

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

2. Combining Entities

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

Orkney Towage Company Limited

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

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

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

Orkney Ferries Limited

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

The net liabilities of the company at 31 March 2022 were (£0.380M) compared to net assets of £0.598M at 31 March 2021. There was a loss of £0.093M before taxation for the period to 31 March 2022 compared to a loss of £0.098M to 31 March 2021. In 2021-22, Orkney Islands Council contributed £12.612M or 83.3% of the company's income. Orkney Ferries is deficit funded, whereby, any surpluses or deficits earned by the Company will be repaid to or recovered from the Council. No dividend payments were due to, or received by, the Council in respect of its investment.

The latest set of audited accounts is for the year to 31 March 2022. 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 hold 5 of the 12 seats on the board, with each trustee entitled to one vote.

In 2021-22, Orkney Islands Council contributed £0.777M or 28.6% of the company's income and its share of the year-end net liabilities of £0.061M (2020-21 net liabilities of £0.476M) is included in the Group Balance Sheet.

The latest set of audited accounts is for the year to 31 March 2022. 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 sits on the Board of Directors, the Council hold 28% of shares in the company and is therefore classed as “exerting a dominant or significant influence”.

The latest set of audited accounts is for the year to 31 December 2021. Copies of these accounts can be obtained from Hammars Hill Energy Ltd, Savigarth, Evie KW17 2PQ.

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

Council's Share of Hammars Hill Energy Ltd	2020-2021 28.00% £000	2021-2022 28.00% £000
Turnover	451	452
Profit/(Loss) before tax	180	192
Taxation	(37)	(38)
Profit/(Loss) after tax	143	154
Fixed Assets	903	838
Current Assets	430	469
Liabilities due within one year	(78)	(82)
Liabilities due after one year or more	(116)	(112)
Net Assets/Liabilities	1,139	1,113
Contingent Liabilities	None	None
Capital Commitments	None	None

Orkney Integration Joint Board

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

The OIJB Financial Statements have been prepared to show transactions occurring between 1 April 2021 to 31 March 2022. The expenditure was £72.550M and the income was £76.351M resulting in net surplus of £3.801M. The balance sheet consisted of short-term debtors of £6.124M and short-term creditors of £NilM, with total reserves of £6.124M. This surplus has been classed as earmarked balances and accounted for on a 50% equity basis by OIC. This means a total of £3.062M has been included in the total reserves of the Group Accounts.

The latest set of audited accounts is for the year to 31 March 2022. Copies of these accounts can be obtained from Orkney Islands Council, School Place, Kirkwall, Orkney, KW15 1NY.

Orkney Research and Innovation Campus

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

The ORIC Financial statements have been prepared to show transactions occurring between 1 April 2021 to 31 March 2022. The expenditure was £0.544M and the income was £0.557M resulting in net income of £0.012M which included an impairment of £0.094M on the valuation of Fixed Assets under

construction. The net assets as at 31 March 2022 were £1.752M. The Council also invested an additional £0.020M to ORIC during 2021-22, bringing the total investment in ORIC up to £3.355M.

The latest set of audited accounts is for the year to 31 March 2022. Copies of these accounts can be obtained from Orkney Islands Council, School Place, Kirkwall, Orkney, KW15 1NY.

3. Financial Impact of Consolidation

The effect of inclusion of the above bodies on the Group Balance Sheet is to decrease both Reserves and Net Assets by £1.779M representing the Council's share of the net liabilities in these entities.

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

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

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

5. Surplus/Deficit on Continuing Operations of Subsidiaries

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

	2020-2021			2021-2022		
	£000	£000	£000	£000	£000	£000
	Expenditure	Income	Net	Expenditure	Income	Net
Roads and Transportation	1,492	(1,988)	(496)	2,629	(2,536)	93
Cultural, environmental, regulatory and planning services	2,061	(2,176)	(115)	2,739	(2,646)	93
Total	3,553	(4,164)	(611)	5,368	(5,182)	186

6. Share of Operating Results of Associates and Joint Ventures

	2020-2021	2021-2022
	Net (Income) / Expenditure £000	Net (Income) / Expenditure £000

Associate and Joint Venture accounted for on an equity basis	(1,309)	(1,917)
Total	(1,309)	(1,917)

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 service analysis as set out in the single entity Comprehensive Income and Expenditure Statement.

	2020-2021	2021-2022
Subsidiaries	£000	£000
Interest Expense	0	0
Interest Income	(1)	0
Pension Interest	578	619
Total Group Entities	577	619

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).

	2020-2021	2021-2022
	£000	£000
Deficit/(Surplus) for the year on the Authority Income and Expenditure Statement	(77,807)	6,723
Deficit/(Surplus) for the year attributable to group entities	272	(1,350)
Deficit/(Surplus) for the year on the Group Income and Expenditure Statement	(77,535)	5,373

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.

	2020-2021			2021-2022
	Total	Council	Group Entities	Total
	£000	£000	£000	£000
Fair Value of Employer Assets	(516,048)	(469,337)	(34,233)	(503,570)
Present value of funded liabilities	492,496	448,577	35,146	483,723
Net (under)/overfunding in Funded Plans	(23,552)	(20,760)	913	(19,847)
Present value of unfunded liabilities	98	0	92	92
Net (asset)/liability	(23,454)	(20,760)	1,005	(19,755)

10. Other Pension Costs

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

Ensign Retirement Plan

Some employees from Orkney Ferries Limited and the Council contribute to this defined contribution pension plan. Contribution rates of 10% and 20% of pensionable salary are payable by employees and employers, respectively. Contributions payable in the year amounted to £57,327.

Merchant Navy Officers Pension Fund (MNOFF)

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

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

Merchant Navy Rating Pension Fund (MNRPF)

Some employees may qualify for membership of the MNRPF, a defined benefit scheme which closed to future accrual on 31 May 2001. For qualifying employees in the scheme Employers make contributions at the rate of 2% to provide for revaluation of benefits up to the date of retirement. It is a multiple employer scheme and the group is unable to identify its share of the underlying assets and liabilities. As at the last full valuation in March 2020, the MNRPF had a deficit of £96M which included a reserve figure of £70M for an unresolved court case. The trustees have indicated that they will not be seeking additional deficit contributions from participating employers at the present time.

Glossary of Terms

AAA Fitch Rating

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

AA Fitch Rating

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

A Fitch Rating

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

Accounting Period

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

Accruals

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

Actuarial Gains and Losses

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

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

Asset

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

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

Audit of Accounts

An independent examination of the Authority's financial affairs.

Balance Sheet

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

Borrowing

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

Budget

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

Capital Expenditure

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

Capital Financing

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

Capital Programme

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

Capital Receipt

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

Claw-Back

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

CIPFA

The Chartered Institute of Public Finance and Accountancy

Collection Fund

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

Community Assets

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

Comprehensive Income and Expenditure Statement

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

Consistency

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

Contingent Asset

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

Contingent Liability

A contingent liability is either:

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

Corporate and Democratic Core

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

Creditor

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

Current Service Cost (Pensions)

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

Debtor

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

Defined Benefit Pension Scheme

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

Depreciation

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

Discretionary Benefits (Pensions)

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

Equity

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

Events after the Balance Sheet Date

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

Expected Return on Pension Assets

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

Fair Value

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

Finance Lease

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

Going Concern

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

Government Grants

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

Housing Benefits

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

Housing Revenue Account (HRA)

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

Impairment

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

Infrastructure Assets

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

Intangible Assets

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

Interest Cost (Pensions)

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

Investments (Pension Fund)

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

Liability

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

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

Liquid Resources

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

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

Long-Term Contract

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

Materiality

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

Minimum Revenue Provision (MRP)

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

Net Book Value

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

Net Debt

The Authority's borrowings less cash and liquid resources.

Non-Distributed Costs

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

Non-Domestic Rates (NDR)

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

Non-Operational Assets

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

Operating Lease

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

Operational Assets

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

Past Service Cost (Pensions)

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

Pension Scheme Liabilities

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

Precept

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

Prior Year Adjustment

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

Provision

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

Public Works Loan Board (PWLB)

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

Rateable Value

The annual assumed rental of a hereditament, which is used for National Non-Domestic Rate purposes.

Related Parties

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

Related Party Transactions

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

Remuneration

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

Reserves

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

Residual Value

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

Retirement Benefits

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

Revenue Expenditure

The day-to-day expenses of providing services.

Revenue Expenditure Capitalised Under Statute (REFCUS)

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

Revenue Support Grant

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

Stocks

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

Temporary Borrowing

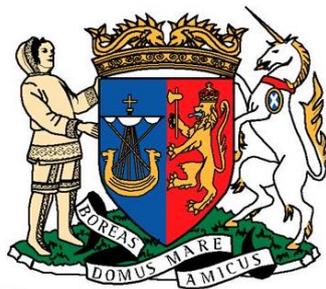
Money borrowed for a period of less than one year.

Trust Funds

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

Useful Economic Life (UEL)

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



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