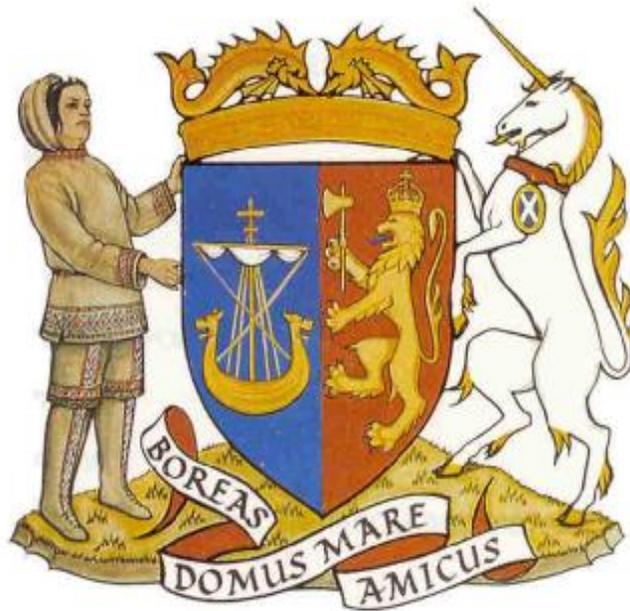


ORKNEY ISLANDS COUNCIL



STATEMENT OF ACCOUNTS

2007 / 2008

Orkney Islands Council
Statement of Accounts - 2007/2008
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Introduction

The purpose of the annual Statement of Accounts is to demonstrate proper stewardship of the Council's financial affairs. The Accounts of the Islands Council are set out on the following pages and have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom.

This foreword provides an explanation of the Statement of Accounts and of the most significant matters reported in the Accounts, together with a summary of the financial outturn for the year ended 31 March 2008.

Core Financial Statements

Income and Expenditure Account

The Income and Expenditure Account is a summary of the financial performance of the Council, measured in terms of the resources generated and consumed in providing services and managing the Council for last financial year.

Statement of Movement on the General Fund Balance

The Statement of Movement on General Fund Balance reconciles the outturn on the Income and Expenditure Account to the General Fund Balance, in recognition of the fact that the Council is required to raise council tax on a different accounting basis taking into account the use of reserves and balances.

Statement of Total Recognised Gains and Losses

This statement brings together all the recognised gains and losses of the Council for the year and shows the aggregate increase in its net worth.

Balance Sheet

This statement brings together all the assets and liabilities in the Council's account as at 31 March 2008, with the exception of the Pension Fund, Charity, Trust and Common Good Funds, which are disclosed separately.

Cash flow Statement

The Cash Flow statement summarises all inflows and outflows of cash for the financial year arising both from capital and revenue transactions.

Notes to the Core Financial Statements

The notes to the core financial statements disclose additional information intended to aid the readers understanding of the financial accounts.

Supplementary Single Entity Financial Statements

The supplementary financial statements cover a number of functions that the Council has specific responsibility for providing.

Harbour Authority Account

The Harbour Authority Account shows the trading position of the Harbour Authority and net movement in reserves for the year.

The main activities of the Harbour Authority includes managing the safe movement of oil tankers through the Scapa Flow Oil Port, the operation of miscellaneous piers and harbours as well as its responsibilities for Oil Pollution.

Orkney College

The Islands Council provides further and higher education provision through the Orkney College using a devolved Board of Management arrangement. The Orkney College is funded by direct grant from the Scottish Funding Council (SFC).

Housing Revenue Account

The HRA reflects the statutory requirements to account separately for Local Authority direct housing provision. The account shows the main elements of housing revenue expenditure including capital financing costs, and how these costs are met by rents and other income.

Council Tax and Non Domestic Rates Income Accounts

These statements provide details of net income raised from Council Tax and Non Domestic Rates.

Pension Fund

The Orkney Islands Council Pension Fund is constituted under various Local Government Pension Fund Acts and related regulations. It is a defined benefits contributory pension scheme and provides pension benefits to all local Government employees, excluding principally teachers, of the Islands Council together with employees of a number of external organisations of a statutory and voluntary nature that have been accepted into the scheme as members.

Charity, Trust and Common Good Funds

The Islands Council as sole trustee administers a number of educational, social welfare and miscellaneous bequests. This statement provides a summary of the income and expenditure during the year together with a summary of the balances.

Group Accounts

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

Group Income and Expenditure Account

This statement provides a summary of the expenditure and income for the year ending 31 March 2008 on the services which the group provides and demonstrates how the net costs has been financed.

Reconciliation of the Single Entity Surplus or Deficit to the Group Surplus or Deficit

This Statement reconciles the Council's single entity surplus or deficit for the year to the Group surplus or deficit for the year.

Group Statement of Total Recognised Gains and Losses

This statement brings together all the recognised gains and losses of the Group for the year and shows the aggregate increase in its net worth.

Group Balance Sheet

This statement brings together all the assets and liabilities for the group as at 31 March 2008.

Group Cash Flow Statement

The Group Cash Flow statement provides the details of cash movements arising both from capital and revenue transactions for the financial year.

Group Notes to the Accounts

Notes to the accounts detail the various entities that have been brought into the group accounts and provides supplementary information on the various financial transactions.

Statement on the System of Internal Financial Control

This statement provides an assessment of the adequacy and effectiveness of the system of internal financial control that has operated and been maintained over the past financial year in relation to the Orkney Islands Council group entity. If appropriate, it also includes an assessment of identified weaknesses and remedial actions taken or planned.

REVIEW OF THE YEAR

Local Taxation

The Islands Council on 8 February 2007 agreed a General Fund budget of £66.938M and under the Local Government Finance Act 1992 set Council Tax for Band D properties at £1,037. This was the second lowest Council Tax figure in Scotland being some £112 below the Scottish average.

During the year, it was necessary to revise the original budget upwards to £68.3M, to take account of additional resources being provided by the Scottish Government.

On a comparable basis, the actual net cost of General Fund services amounted to some £66.4M, while sources of finance were realised at £66.6M, including a contribution of £0.2M from reserves. Overall, this represents a surplus against budget for General Fund Services of £0.2M for the financial year ended 31 March 2008.

Council tax income contributed to this position, with the Islands Council maintaining its position as the top local authority for the collection of council tax in Scotland, with a collection rate of 97.7% in year (97.8% for 2006/07). At the same time it should be noted that the Council's policy is to provide in full for all prior year arrears, while on an ongoing basis expects to collect in excess of 99% of all prior year council tax income.

Income and Expenditure Account

The net cost of services provided by the Council for last year amounted to £68.8M, which after taking into account corporate activities resulted in a Net Operating Expenditure of £59.6M being realised for the Council as a whole.

Principal sources of finance were realised at £66.4M for the year, being Revenue Support Grant of £51.7M, Non Domestic Rate Income of £7.1M and Council Tax Income of £7.6M.

After taking into account the sources of finance, overall the activities of the Council returned a net surplus of £6.9M for the year.

The main source of this surplus can be attributed to gains in corporate investment income of £8.5M which were generated through the Harbour Authority's Strategic Reserve Fund.

The main spending pressures for the Council remain, as in previous years, as the provision of care for the elderly together with transportation services.

Movement in General Fund Balances

During the year, General Fund Balances increased from £15.9M to £17.4M, being an increase of £1.5M.

This increase is represented by a surplus on general fund services of £0.2M and other movements of £1.3M.

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

After taking into account funds earmarked for specific projects and other purposes, a balance of £15.1M remains available for general fund purposes. At the same time, it is however considered prudent for the Council to maintain a general fund balance at a level not less than £8M, as a contingency for unforeseen events.

Net Worth of the Orkney Islands Council

The Islands Council is debt free and currently holds a significant level of reserves.

In financial terms, the Council remains in good health, with its net worth increasing from £289.1M to £314.9M for the financial year to 31 March 2008, being an increase of £25.8M or 8.9%.

Harbour Authority Account

The Harbour Authority generated a trading loss of £596k from its various harbour operations for the year. This was mainly as a result of a downturn in the activity of the Scapa Flow Oil Port during the year.

In addition to this, the Harbour Authority Account generated a surplus on investment activities of £8,461k for the year, after netting off grants and other investment expenditure.

After taking into account the use of reserves during the year, which included a contribution of £325k to support general fund services, £745k in respect of capital financing, the net effect of this has been an increase of £6,795k on the Harbour Authority Account Reserves for the year.

Orkney College

The range of higher and further educational activities provided by the College has resulted in a surplus of £48k being realised for last financial year (deficit £57k for 2006/07), resulting in a decrease in the accumulated deficit position on the College from £923k to £875k as at 31 March 2008.

During the year an action plan has been agreed to improve the financial position of the College in the future.

Housing Revenue Account (HRA)

The HRA approved budget for the financial year 2007/08 included expenditure of £1,787k to be met from income generated on the year of £1,787k.

The HRA account achieved a break-even position for the year.

Capital Expenditure

In accordance with the Prudential Regime for capital finance, the Islands Council is allowed to determine its own limits for borrowing and capital expenditure, as long as it can be demonstrated that these plans are affordable, sustainable and prudent.

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

Education

Papdale Primary School Extension
Stromness Academy Upgrade

Transportation

Hatston Ferry Terminal Extension

Recreation

Stromsøy Healthy Living Centre
Pickaquooy Caravan Site

Capital Expenditure for 2007/08 amounted to £10.7M, financed by internal borrowing £4.2M, capital and grant receipts £5.4M and revenue contributions £1.1M. Unapplied capital receipts increased by £0.1M, from £3.1M to £3.2M.

To meet capital expenditure, the Islands Council as at 31 March 2008 now has a total internal borrowing requirement of £37.0M through the Loans Fund, borrowed against reserves and balances. The capital loan debt outstanding as at 31 March 2008 is in respect of General Fund Services only.

Pension Liability

The Statement of Accounts include the future pension liability of the Islands Council resulting from the full implementation of the Financial Reporting Standard No 17 – Retirement Benefits (FRS 17).

In accordance with the FRS 17, the net pension fund liability as at 31 March 2008 is £4.783M. This represents a decrease of £17.349M on the previous year, and is largely due to a change in the financial assumptions underlying the Present Value of the Scheme Liabilities.

The actuarial losses on the fund are regularly considered as part of a triennial revaluation process, with the last carried out for the Pension Fund as at 31 March 2005. At this time the actuarial valuation considered the appropriate level of employers contributions necessary for the three year period 2006/09, taking into account estimated revenues generated from investments in the future, to meet the fund's projected commitments in the long term. As a result of the review, it has not been necessary to increase the employers contribution rates.

Changes in Accounting Policies

The Statement of Accounts for the financial year 2007/08 reflects the changes in accounting policies for Financial Instruments. The main difference from previous practice is that loans and investments are now recognised on the basis of fair value, rather than the lower of cost and net realisable value.

The purpose of this change in accounting policy is to improve the recognition of the non-cash effect of transactions and other events in the financial statements for the accounting period in which they occur. Application of the consistency and prudence concepts have in the past had a smoothing effect on financial accounts which in turn resulted in an understatement of gains on assets while overstating identified liabilities. This approach is no longer considered appropriate, and as such that the application of these concepts in the preparation of accounts are only to be recognised as far as they are desirable objectives for assessing accounting policies in the future.

The net effect of these changes has been to reduce the valuation of loans to business preferential terms, while increasing the valuation of equity type investments to full market value. The net effect of these changes has been an increase in the net worth of the Council by £7.660 million.

Euro

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

Acknowledgements

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

A Tait, C.P.F.A., F.C.C.A.
Director of Finance
25 September 2008

General

The Statement of Accounts summarise the Council's transactions for the financial year 2007/08 and its position at the year end as at 31 March 2008. The Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom, using the historic cost convention modified by the revaluation of certain categories of assets. The Code of Practice has been developed by the CIPFA/LASAAC Joint Committee. Any exceptions to the Code of Practice are disclosed in the notes to the Accounts.

Corporate and Democratic Core

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

Overheads

The costs of Central Support Services have been fully allocated using a time or unit based method of apportionment over the various accounts of the Authority after separately identifying the cost of Corporate and Democratic Core and Unapportioned Central Overheads in accordance with BVACOP. In 2007/08, £7.8M of Central Support Services were apportioned on this basis.

Accruals of Income and Expenditure

The Accounts are prepared on an accruals basis in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2007: A Statement of Recommended Practice. Accordingly, best estimates of amounts due or payable which relate to activities during the year are included whether or not cash has actually been received or paid in the year.

Pension Costs

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

Teachers

This is an unfunded scheme administered by the Scottish Government. The pension cost charged to the accounts is the contribution rate set by the Scottish Executive on the basis of a national fund. This scheme is exempt from the provisions of FRS 17.

Other Employees

Other employees, subject to certain qualifying criteria, are eligible to join the Local Government Pension Scheme. This is known as The Pension Fund and is administered by Orkney Islands Council. The pension costs included in the accounts in respect of this scheme have been determined in accordance with FRS 17. This means that the accounts include the current service cost rather than the actual contributions made to the scheme. The policies are as follows:

attributable assets of the scheme have been measured at fair value

attributable liabilities have been measured on an actuarial basis using the projected unit method which assesses the future liabilities discounted to their present value

scheme liabilities have been discounted at 3.3% in excess of inflation

the deficit in the scheme is the shortfall of the value of the assets below the present value of the scheme liabilities

the current service cost is deducted based on normal contributions paid by the Council, allowing for any changes in assumptions used for FRS 17 purposes. It is based on assumptions appropriate at the start of the year

the interest cost is based on the discount rate and the present value of the scheme liabilities at the beginning of the period

the expected return on assets is based on long term expectations at the beginning of the period and is expected to be reasonably stable

actuarial gains and losses arising from new valuations and from updating the latest actuarial valuation have been taken into account to reflect conditions at the balance sheet date

past service costs have been disclosed on a straight line basis over the period in which the increases in benefit vest.

The liabilities for retirement benefits as at 31 March 2008 have been assessed using a discount rate of 3.2% in excess of inflation, based on the current rate of return for high quality corporate bonds of equivalent currency and term to the scheme liabilities. When compared to a rate of 2.2% for the previous year. The increase in yield has had a positive impact on funding levels, reducing the liabilities by between 10% and 25%. Unfortunately, asset returns have not been so favourable with investment returns between -5% and -3% for the year to 31 March 2008. The actual asset returns has therefore had a negative impact on the FRS17 position, reducing funding levels between 8% and 10%. The overall position is an improvement in the FRS deficit on the Pension Fund of £17.349M for the year. In summary, while relatively poor investment returns have had an adverse effect on the FRS17 deficit for the year, this has been outweighed by the favourable movements in financial assumptions.

Grants

All Revenue Grants are matched with the expenditure to which they relate. Accruals have been made for balances known to be received for the period to 31 March 2008.

Capital Receipts

Receipts from the sale of tangible fixed assets and capital grants received/receivable during the year are recorded in the Capital Account. Grants and contributions received towards the creation of fixed assets are credited to the Government Grants Deferred Account and released to the Income and Expenditure Account over the life of the asset.

Stocks and Work in Progress

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

Tangible Fixed Assets

Tangible fixed assets are assets that have physical substance and are held for use in the provision of services or for administration purposes on a continuing basis.

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

Measurement: assets are initially measured at cost, comprising all expenditure that is directly attributable to bringing into working condition for its intended use. Assets are then carried in the Balance Sheet using the following measurement bases:

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

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

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

Assets included in the Balance Sheet at current value are revalued where there have been material changes in the value, but as a minimum every five years. Increase in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Income and Expenditure Account where they arise from the reversal of an impairment loss previously charged to a service revenue account.

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

Impairment: the values of each category of assets and of material individual assets that are not being depreciated are reviewed at the end of each financial year for evidence of reductions in value. Where impairment is identified as part of this review or as a result of a valuation exercise, this is accounted for by:

- where attributable to the clear consumption of economic benefits - the loss is charged to the relevant service account
- otherwise - written off against any revaluation gains attributable to the relevant asset in the Revaluation Reserve, with any excess charges to the relevant service revenue account.

Where an impairment loss is charged to the Income and Expenditure Account but there where accumulated revaluation gains in the Revaluation Reserve for the that asset, an amount up to the value of the loss is transferred from the Revaluation Reserve to the Capital Adjustment Account.

Disposals: when an asset is disposed of or decommissioned, the value of the asset in the Balance Sheet is written off to the Income and Expenditure Account as part of the gain or loss on disposal. Receipts from disposal are credited to the Income and Expenditure Account as part of the gain or loss on disposal (ie netted off against the carrying value of the asset at time of disposal). Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account.

The gain or loss on disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the Statement of Movement on General Fund Balance.

Depreciation

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

Buildings - each building has been individually assessed to derive outstanding useful life, up to a maximum of 100 years

Infrastructure - the majority of infrastructure assets are depreciated over 40 years

Vehicles - varies between 3 and 15 years according to class of vehicles

Equipment - 5 years

Charges to Revenue for Fixed Assets

Service revenue accounts, are charged with the following amounts to reflect the real cost of holding fixed assets during the year:

depreciation attributable to the assets used by the relevant service;

impairment losses attributable to the clear consumption of economic benefits on tangible fixed assets used by the service;

amortisation of intangible fixed assets attributable to the service.

The Council is not required to raise Council Tax to cover depreciation, impairment losses, amortisations. However, it is required to make annual provision from revenue to contribute towards the repayment of loan debt. These charges are therefore replaced by revenue provision in the Statement of Movement on the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account.

Financial Assets

Financial assets are classified into two types:

loans and receivables - assets that have fixed or determinable payments and are not quoted in an active market

available-for-sale assets - assets that have a quoted market price and/or do not have fixed or determinable payments

Loans and Receivables

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Income and Expenditure Account 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 council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable and interest credited to the Income and Expenditure Account is the amount receivable for the year in the loan agreement.

However, the council has made a number of loans to local businesses as part of its function to develop economic development at less than market rates (soft loans). When soft loans are made, a loss is recorded in the Income and Expenditure Account 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 at a marginally higher effective rate of interest than the rate receivable from the local businesses, 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 Income and Expenditure Account 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 Statement of Movement on the General Fund Balance.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Income and Expenditure Account.

Any gains and losses that arise on the derecognition of the asset are credited/debited to the Income and Expenditure Account.

Available-for-sale Assets

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

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

instruments with quoted market prices - the market price

other instruments with fixed and determinable payments - discounted cash flow analysis

equity shares with no quoted market prices - independent appraisal of company valuations.

Changes in fair value are balanced by an entry in the Available-for-sale Reserve and the gain/loss is recognised in the Statement of Total Recognised Gains and Losses (STRGL). The exception is where impairment losses have been incurred - these are debited to the Income and Expenditure Account, along with any net gain/loss for the asset accumulated in the Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Income and Expenditure Account.

Any gains and losses that arise on the derecognition of the asset are credited/debited to the Income and Expenditure Account, along with any accumulated gains/losses previously recognised in the STRGL.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

Loan Debt

A Loans Fund is maintained under powers contained in the Local Government (Scotland) Act 1975. All loans raised by the Council from the Strategic Reserve Fund are paid into the Fund and all advances to finance capital expenditure are made from the Fund except for capital projects financed directly from Revenue Accounts or financed from capital receipts.

It is the policy of the Council to repay loan debt as quickly as possible and consequently some annual repayments of principal have been made on an accelerated basis. The Capital Adjustment Account is charged with annual repayments of principal and the Income and Expenditure Account with an average rate of interest on the balance outstanding.

The average rate of interest charged by the fund in 2007/08 based on returns generated by the Treasury Management function on cash flow balances were as follows:

Revenue Balances	5.26% (2006/07 4.74%)
Capital Balances	5.16% (2006/07 4.67%)

Reserves and Provisions

Reserves represent amounts set aside for specific policy purposes, contingencies or earmarked balances. Expenditure is not charged directly to any Reserve, but all movements on the Reserves are disclosed on the Statement of Movement on General Fund Balance.

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

Provisions are charged to the Income and Expenditure Account in the year that the authority becomes aware of the obligation, based on the best estimate of the likely settlement. When payments are eventually made, they are charged to the provision set up in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year - where it becomes more likely than not that a transfer of economic benefits will not now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the Income and Expenditure Account.

Provisions have been made for doubtful debts as follows:

Debt Outstanding 2-3 month – 10%
Debt Outstanding 4-6 month – 20%
Debt Outstanding 7-12 month – 30%
Debt Outstanding 2006/07 – 60%
Debt Outstanding 2005/06 – 80%
Debt Outstanding Pre 2005/06 - 100%

Harbour Authority Account Fund

Surplus or deficits on the harbour operations are transferred to the Strategic Reserve Fund. The Harbour Authority Account Fund encompasses all the Harbour Authority Account Balances which can be used for purposes specified in the Orkney County Council Act 1974.

Pension Reserve

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

Pension Fund Accounting Policies

The accounts have been prepared in accordance with the main recommendations of the Financial Reports of Pension Schemes - A Statement of Recommended Practice (the Pension SORP) and the CIPFA Code of Practice on Local Authority Accounting, with the exception of transfer values, which are credited in the year they are received. All transfer values paid, and the service credit given in exchange for transfer values received, are calculated in accordance with the Scheme's regulations and are consistent with the requirements of Schedule 1A of the Social Security Pensions Act.

Investments held by the Pension Fund are included at fair value. Overseas currencies are translated at the WM/Reuters London closing spot rates on the last business day of the reporting period, being 31 March 2008.

VAT

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue & Customs and all VAT paid is recoverable.

Foreign Currency Translation

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

Financial Relationship with Companies

Full disclosure is made of all material relationships with related companies by way of note 8 to the core financial statements.

Group Accounts

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

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

THE AUTHORITY'S RESPONSIBILITIES

The authority is required :

1. To make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority that officer is the Director of Finance.
2. To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

THE DIRECTOR OF FINANCE'S RESPONSIBILITIES

The Director of Finance is responsible for the preparation of the authority's statement of accounts which, in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code of Practice'), is required to present fairly the financial position of the authority at the accounting date and its income and expenditure for the year ended 31 March 2008

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

1. selected suitable accounting policies and then applied them consistently
2. made judgments and estimates that were reasonable and prudent
3. complied with the local authority SORP

The Director of Finance has also :

1. kept proper accounting records which were up to date
2. taken reasonable steps for the prevention and detection of fraud and other irregularities.

I confirm that this Statement of Accounts presents fairly the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2008.

A Tait, C.P.F.A., F.C.C.A.
Director of Finance
25 September 2008

Orkney Islands Council
Statement of Accounts-2007/2008

Income and Expenditure Account

PURPOSE

This account summarises the resources that have been generated and consumed in providing services and managing the council during last year. It includes all day-to-day expenses and related income on an accruals basis, as well as transactions measuring the value of fixed assets actually consumed and real projected value of retirement benefits earned by employees in the year.

Income and Expenditure Account for year ended 31 March 2008

2006/07 Net Expenditure £'000		2007/08 Gross Expenditure £'000	2007/08 Gross Income £'000	2007/08 Net Expenditure £'000
24,900	Education	28,989	3,152	25,837
3,939	Cultural & Recreation	4,714	1,239	3,475
13,875	Community Social Services	18,372	5,795	12,577
1,625	Police Services	1,769	0	1,769
1,608	Fire Services	1,670	0	1,670
12,500	Roads and Transportation	13,284	1,717	11,567
1,197	Planning and Development	2,313	826	1,487
3,446	Environmental Services	4,242	900	3,342
1,516	Central Services	4,092	2,181	1,911
2,045	Corporate & Democratic Costs	2,117	0	2,117
453	Housing Services	4,490	4,140	350
(95)	Housing Revenue Account	2,807	1,807	1,000
745	Harbour Authority	9,645	9,193	452
(1,250)	Non Distributed Costs	0	(116)	116
0	Exceptional Items	1,112	0	1,112
66,504	Net Cost of Services	99,616	30,834	68,782
(39)	(Gain)/Loss on disposal of fixed assets			(398)
(459)	Grants and contributions received to finance capital expenditure			0
(8,989)	Net (Surplus)/Deficit on Harbour Investment Income			(8,461)
65	Net (Surplus)/Deficit on Orkney College			15
(366)	Interest on Balances			(1,633)
(325)	Pensions Interest Cost & Expected Return on Pension Assets			(593)
1,719	Interest Payable and Similar Charges			1,873
58,110	Net Operating Expenditure			59,585
(48,956)	Revenue Support Grant			(51,714)
(7,233)	Distribution of Non-Domestic Rate Pool			(7,149)
(7,231)	Council Tax			(7,612)
(5,310)	(Surplus)/Deficit for Year			(6,890)

<p>Orkney Islands Council Statement of Accounts - 2007/2008</p> <p>Statement of Movement on General Fund Balance</p>
--

PURPOSE

The Income and Expenditure account shows the Council's actual financial performance for the year, measured in terms of the resources consumed and generated over the last twelve months. However, the authority is required to raise council tax on a different accounting basis, the main differences being:

- Capital investment is accounted for as it is financed, rather than when the fixed assets are consumed.

- Retirement benefits are charged as the amounts become payable to pension funds and pensioners, rather than as future benefits earned.

The General Fund Balance compares the Council's spending against the council tax that it raised for the year, taking into account the use of reserves built up in the past and contributions to funds and reserves.

This reconciliation statement summarises the differences between the outturn on the Income and Expenditure Account and the General Fund Balance.

Statement of Movement on General Fund Balance as at 31 March 2008

	2007/08	2006/07
	£'000	£'000
(Surplus)/Deficit for the Year on the Income and Expenditure Account	(6,890)	(5,310)
Net additional Amount required by statute and non-statutory proper practices to be debited or credited to the General Fund	<u>5,376</u>	<u>(8,912)</u>
(Increase)/Decrease in General Fund Balance for the year	(1,514)	(14,222)
General Fund Balance brought forward	(15,884)	(1,662)
GENERAL FUND BALANCE CARRIED FORWARD	(17,398)	(15,884)

Orkney Islands Council
Statement of Accounts - 2007/2008

Statement of Total Recognised Gains and Losses

PURPOSE

This statement brings together all the gains and losses of the Council for the year and shows the aggregate increase in its net worth. In addition to the surplus generated on the Income and Expenditure Account, it includes gains and losses relating to the revaluation of fixed assets and re-measurement of the net liability to cover the cost of retirement benefits.

Statement of Total Recognised Gains and Losses as at 31 March 2008

	2007/08	2006/07
£'000	£'000	£'000
(Surplus)/Deficit for the year on the Income and Expenditure Account	(6,890)	(5,310)
(Surplus)/Deficit arising on revaluation of fixed assets	(806)	(603)
(Surplus)/Deficit arising from valuation of Financial Instruments	613	0
(Surplus)/Deficit arising from valuation of Available-for-sale Financial Instruments	(1,729)	0
Actuarial (gains)/losses on pension fund assets and liabilities	(17,015)	(6,517)
Any other (gains) and losses required to be included in the STRGL		
- Gain on Repairs and Renewals Funds for year	0	(373)
- Gain on Capital Fund for year	0	(96)
TOTAL RECOGNISED (GAINS) AND LOSSES FOR THE YEAR	(25,827)	(12,899)

**Orkney Islands Council
Statement of Accounts - 2007/2008**

Balance Sheet

PURPOSE

The balance sheet is fundamental to the understanding of an authority's financial position at the year-end. It shows its balances and reserves and its long-term indebtedness, and the fixed and net current assets employed in its operations, together with summarised information on the fixed assets held.

Balance Sheet as at 31 March 2008

		31/03/08 £'000	31/03/07 £'000
Fixed Assets			
Operational Assets			
Council Dwellings		14,975	15,837
Other Land and Buildings		93,906	93,147
Vehicles, Plant and Equipment		3,600	3,927
Infrastructure Assets		72,092	73,637
Community Assets		3,474	3,444
Non-Operational Assets			
Investment Properties		21,970	5,660
Assets Under Construction		2,676	2,085
Surplus Assets		649	931
TOTAL FIXED ASSETS	Note 10	213,342	198,668
Long-term Investments	Note 20	151,089	154,878
Long-term Debtors	Note 12	2,663	3,670
TOTAL LONG-TERM ASSETS		367,094	357,216
Stocks and Work in Progress	Note 13	745	721
Debtors	Note 14	7,090	6,900
Investments	Note 20	9,881	9,363
Cash and Bank	Note 15	8	8
CURRENT ASSETS		17,724	16,992
Creditors		8,348	7,202
Provisions	Note 16	1,112	0
Bank Overdraft	Note 15	638	395
Advances from Other Accounts	Note 15	1,034	1,408
CURRENT LIABILITIES		11,132	9,005
TOTAL ASSETS LESS CURRENT LIABILITIES		373,686	365,203
Net Pension Liability	Note 23	4,783	22,132
Government Grants Deferred	Note 21	53,990	53,985
LONG TERM LIABILITIES		58,773	76,117
TOTAL NET ASSETS		314,913	289,086
Represented by:			
Capital Reserves			
Revaluation Reserve		806	0
Capital Adjustment Account		105,241	107,894
Financial Instruments Adjustment Account		(613)	0
Available-for-sale Financial Instruments Reserve		1,729	0
Capital Receipts Reserve		3,184	3,113
Capital Fund		2,531	2,288
		112,878	113,295
Revenue Reserves			
General Fund Balances		17,398	15,884
Harbour Authority Account Fund		180,885	174,090
Pension Reserve		(4,783)	(22,132)
Repairs and Renewals Fund		8,535	7,949
		202,035	175,791
TOTAL NET WORTH	Note 22	314,913	289,086

The unaudited accounts were issued on 27 June 2008 and the audited accounts were authorised for issue on 25 September 2008.

**A Tait, C.P.F.A., F.C.C.A.
Director of Finance
25 September 2008**

Orkney Islands Council
Statement of Accounts - 2007/2008
Cash Flow Statement

PURPOSE

This statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes. For the purpose of this statement cash is defined as cash-in-hand and deposits repayable on demand less overdrafts repayable on demand.

Cash Flow Statement as at 31 March 2008

		2007/08		2006/07	
		£'000	£'000	£'000	£'000
Revenue	Cash Outflows				
Activities	Cash paid to and on behalf of employees	56,817		56,207	
	Other Operating Cash Payments	15,894		21,267	
	Non Domestic Rates Payments - to pool	7,023		6,832	
	Precepts Paid	1,775		1,692	
	Housing Benefit paid out	<u>1,272</u>	<u>82,781</u>	<u>1,190</u>	87,188
	Cash Inflows				
	Housing Rents (net of rebates)	776		723	
	Council Tax	9,696		9,265	
	Community Charge Income	0		0	
	Non Domestic Rate Income - from national pool	7,149		7,233	
	Non Domestic Rate Income - rate receipts	6,964		7,009	
	Revenue Support Grant	51,714		48,956	
	DWP Grants for Housing & Council Tax Benefit	3,209		3,019	
	Other Government Grants (Note 29)	7,625		6,614	
	Cash Received for Goods and Services	592		3,170	
	Other Operating Cash Receipts	<u>0</u>	<u>87,725</u>	<u>0</u>	85,989
	NET REVENUE ACTIVITIES (Note 25)		4,944		(1,199)
Returns on Investment and Servicing of Capital	Cash Outflows				
	Interest Paid	54			222
	Cash Inflows				
	Interest Received	493			394
	NET SERVICING OF CAPITAL		439		172
Capital Activities	Cash Outflows				
	Purchase of Fixed Assets	10,371		13,457	
	Purchase of Long Term Investments	247		3,644	
	Other Capital Cash Payments	<u>178</u>	<u>10,796</u>	<u>239</u>	17,340
	Cash Inflows				
	Sale of Fixed Assets	2,053		1,316	
	Sale of Long Term Investments	45		15,057	
	Other Capital Receipts	753		651	
	Capital Grants Received	<u>3,212</u>	<u>6,063</u>	<u>6,770</u>	23,794
	NET CASH INFLOW/(OUTFLOW) BEFORE FINANCING		(4,733)		6,454
Management of Liquid Resources	Net (Increase)/Decrease in Short Term Deposits (Note 27)		(518)		(2,141)
Financing	Cash Outflows				
	Repayment of Amounts Borrowed (Note 28)	374		3,880	
	Cash Inflows				
	New Loans Raised	0		0	
	New Short Term Loans	<u>0</u>	<u>(374)</u>	<u>0</u>	(3,880)
	INCREASE/(DECREASE) IN CASH (Note 26)		(242)		(594)

Orkney Islands Council
Statement of Accounts - 2007/2008
Notes to Core Financial Statements

1. Reconciling Items for the Statement of Movement in General Fund Balances

In addition to the Income and Expenditure Account surplus or deficit for the year, the following amounts are required by statute and non-statutory proper practice to be charged or credited to General Fund balances in determining the Movement in General Fund Balance for the year.

	2007/08	2006/07
	£'000	£'000
Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the year		
Depreciation and impairment of fixed assets	(11,777)	(7,700)
Government Grants Deferred amortisation	3,947	1,747
Net gain on sale of fixed assets	398	39
Grants and contributions applied to finance capital expenditure	483	459
Net charges made for retirement benefits in accordance with FRS 17	(4,672)	(3,991)
	(11,621)	(9,446)
Amounts not included in the Income and Expenditure Account but required by statute to be included when determining the Movement on the General Fund Balance for the year		
Loans fund principal repayments	2,006	2,657
Capital expenditure charged in-year to the General Fund Balance	1,795	1,485
Employers contributions payable to the Orkney Islands Council Pension Fund and retirement benefits direct to pensioners	5,006	4,766
	8,807	8,908
Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year		
Transfers to/(from) the Capital Fund	243	91
Transfers to/(from) the Repairs and Renewals Fund	1,152	882
Transfers to/(from) the Harbour Fund	6,795	(9,347)
	8,190	(8,374)
Net additional amount required to be credited to the General Fund balance for the year	5,376	(8,912)

2. Publicity Expenditure

Section 5(1) of the Local Government Act 1986 requires certain expenditure on publicity to be separately accounted for.

Publicity expenditure was incurred as follows :-

	2007/08	2006/07
	£'000	£'000
Staff Recruitment Advertising	228	320
Other Advertising	101	83
Corporate Information Services	117	88
	446	491

Orkney Islands Council
Statement of Accounts - 2007/2008
Notes to Core Financial Statements - (continued)

3. Local Authorities (Goods and Services) Act 1970

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

	2007/08	2007/08	2006/07	2006/07
	Receipts	Payments	Receipts	Payments
	£'000	£'000	£'000	£'000
Orkney Housing Association	3	3	0	2
Northern Police Joint Board	1	3	2	3
Highlands and Islands Fire Joint Board	6	5	4	2
NHS Orkney	3	5	0	0
Historic Scotland	0	0	1	0
Orkney Islands Property Development	1	1	0	3
	14	17	7	10

4. Audit Fee

The fee payable to Audit Scotland in respect of external audit services undertaken in accordance with the Code of Practice is £206K (2006/07 £201K). No fees were paid in respect of other services provided by the appointed auditor.

5. Pensions (Teachers)

In 2007/08 the Islands Council paid an employer's contribution of £1.507M to the Scottish Government in respect of teachers' pension costs, which represented 13.50% of teachers' pensionable pay.

In addition, the Islands Council is responsible for all pension payments relating to added years it has awarded, together with mandatory compensation and related increases. In 2007/08 these amounted to £257K representing 2.3% of pensionable pay.

6. Local Government Pension Scheme

The Income and Expenditure Account reflects the SORP accounting requirements as they relate to FRS 17 - Retirement Benefits.

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

Revenue Costs for Year to 31 March 2008	2007/08	2007/08	2006/07	2006/07
	£'000	% of	£'000	% of
Amount charged to Operating Profit -		Payroll		Payroll
Service Cost	5,149	19.8	5,566	22.6
Past Service Costs	116	0.4	(1,250)	(5)
Curtailment and Settlements	0	0	0	0
Total Operating Charge	5,265	20.2	4,316	17.5
Amount credited to Other Finance Income -				
Expected Return on Corporate Assets	7,056	27.1	6,143	25.0
Interest on Pension Scheme Liabilities	(6,463)	(24.8)	(5,818)	(23.6)
Net Return on Assets	593	2.30	325	1.30
Net Revenue Account Cost	4,672	17.9	3,991	16.2

Included in the Statement of Movement on General Fund Balance is a transfer of £334K to the pension reserve. The net effect of these accounting entries is that expenditure met from government grants and local taxation equals the actual employers contributions made to the Scheme of £4,536K, representing 17.44% of pensionable pay.

The employer's contribution rate is determined by the Fund's Actuary based on triennial actuarial valuations, the last review being 31 March 2005. Under Pension Fund Regulations contributions rates are set to meet the overall liabilities of the Fund. The employer's rates are set to meet the overall liabilities of the Fund. The employer's contribution was 295% of the employee's contribution for 2007/08.

In addition the Islands Council is responsible for all pension payments relating to added years benefits it has awarded, together with the related increases. In 2007/08 these amounted to £234,116 representing 0.9% pensionable pay.

Orkney Islands Council
Statement of Accounts - 2007/2008
Notes to Core Financial Statements - (continued)

7. Members' Allowances and Officers' Emoluments

In May 2007, a new allowance scheme introduced the payment of salaries for members, replacing the previous allowance scheme. The total allowances paid to both current and former members for the year amounted to £410K being an increase of £7K on the previous year.

	2007/08	2006/07
	£'000	£'000
Remuneration		
Salaries	356	0
Basic Allowances	0	126
Responsibility Allowances	0	202
Expenses		
Travel, Accommodation and Subsistence	69	94
Telephones/Communications	1	5
Less Reimbursement from Other Bodies	(16)	(24)
Total Members Allowances	410	403

In addition members are reimbursed for telephone costs, along with travel expenses incurred when on official council business. Reimbursement of expenses do not include the cost of council provided transport, while the annual salary is subject to tax and national insurance.

The number of employees whose remuneration was £50,000 or more in bands of £10,000 were:

	2007/08	2006/07
	Number of	Number of
	Employees	Employees
Remuneration Band		
£50,000 - £59,999	27	21
£60,000 - £69,999	9	7
£70,000 - £79,999	6	6
£80,000 - £89,999	0	0
£90,000 - £99,999	1	1

8. Related Parties

	Receipts	Payments	Receipts	Payments
	2007/08	2007/08	2006/07	2006/07
	£'000	£'000	£'000	£'000
Central Government				
Revenue Grants	51,714		48,956	
Being payments made in support of Revenue Expenditure				
Capital Grants	2,371		3,113	
Being payments made in support of Capital Expenditure				
Orkney Towage Company Limited				
Being payments made for the provision of Towage Services		2,672		3,023
Orkney Ferries Limited				
Being subsidy payments made in support of Ferry Services		5,317		5,013
Northern Police Joint Board		1,769		1,626
Highlands and Islands Fire Joint Board		1,670		1,608
Orkney and Shetland Valuation Joint Board		278		288
Being payments of annual requisition to Joint Boards				
Chief Officials				
Being advances and repayments of Car Loans	9	13	14	13
Orkney Islands Pension Fund				
Being payments of employers contributions in respect of employees		4,536		4,280

9. Exceptional Items

It was necessary to recognise the impact of additional staff costs which were due to 31 March 2008 on the Income and Expenditure Account, including a provision for Single Status negotiations which was ongoing at that time.

	2007/08	2006/07
	£'000	£'000
Staff Costs	1,112	0
	<u>1,112</u>	<u>0</u>

Furthermore, on the basis that the formal offer has largely been accepted by all staff affected by the single status pay negotiations, the impact of single status to the Islands Council has been fully reflected in the financial year 2007/08.

Orkney Islands Council
Statement of Accounts - 2007/2008

Notes to Core Financial Statements - (continued)

10. Fixed Assets

The following represents an analysis of fixed assets owned by the Islands Council at 31 March 2008

	Number of		Number of	
	Items		Items	
	31/03/08	31/03/08	31/03/07	31/03/07
		£000		£000
Council Dwellings				
Council Dwellings	759	14,975	775	15,837
	759	14,975	775	15,837
Operational Buildings				
Concert Halls and Theatres	1	347	1	362
Other Housing Properties	48	1,075	48	1,108
Depots and Workshops	81	5,456	85	5,421
Museums	2	786	2	811
Community/Day Centres	13	12,425	13	12,704
Sports Centres and Pools	2	1,567	2	1,623
Libraries	2	3,387	2	3,452
Schools	30	57,756	29	56,406
Office Buildings	16	8,739	15	8,941
Park and Amenity Properties	3	421	3	424
Miscellaneous :				
Public Conveniences	37	1,164	37	1,170
Refuse Sites	4	590	10	518
Quarries	2	193	2	207
	241	93,906	249	93,147
Infrastructure				
Sea Defences	16	230	16	256
Roads (Kilometres)	979	17,670	979	18,154
Piers and Harbours	54	52,277	56	53,221
Airfields	8	843	9	891
Car Parks	24	1,072	24	1,115
	1,081	72,092	1,084	73,637
Community Assets				
Cemeteries	41	215	41	234
Historic Buildings/Monuments	22	2,935	22	2,882
Parks	12	324	12	328
	75	3,474	75	3,444
Operational Equipment				
Computers	11	308	8	90
Mechanical Plant	143	626	193	693
Vehicles	236	2,017	265	2,262
Other Equipment	121	464	152	424
Ferries	12	185	12	458
	523	3,600	630	3,927
Non Operational Property				
Surplus Assets	17	649	23	931
Investment Properties	225	21,970	85	5,660
Assets Under Construction	3	2,676	3	2,085
	245	25,295	111	8,676
TOTAL	2,924	213,342	2,924	198,668

Orkney Islands Council
Statement of Accounts - 2007/2008

Notes to Core Financial Statements - (continued)

10. Fixed Assets (continued)

Fixed Asset Transactions

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

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

	Council	Land &		Community	Plant &	Non	
	Dwellings	Buildings	Infrastructure	Assets	Vehicles	Operational	Total
	£'000	£'000	£'000	£'000	£'000	£000	£'000
Gross Book Value	17,050	113,984	104,241	4,692	25,317	8,818	274,102
Aggregate Depreciation	1,213	20,837	30,604	1,248	21,390	142	75,434
Net Book Value at 1 April 2007	15,837	93,147	73,637	3,444	3,927	8,676	198,668
Additions	900	4,528	1,714	124	1,569	1,865	10,700
Disposals	(336)	(67)	0	0	(9)	(1,108)	(1,520)
Revaluation and restatements	0	908	0	0	0	16,363	17,271
Reclassifications	0	0	0	0	0	0	0
Depreciation	(526)	(2,370)	(2,725)	(68)	(1,429)	(153)	(7,271)
Impairments	(900)	(2,240)	(534)	(26)	(458)	(348)	(4,506)
Net Book Value at 31 March 2008	14,975	93,906	72,092	3,474	3,600	25,295	213,342

Valuation of Fixed assets carried at current value

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

	Council	Land &		Community	Plant &	Non	
	Dwellings	Buildings	Infrastructure	Assets	Vehicles	Operational	Total
	£'000	£'000	£'000	£'000	£'000	£000	£'000
Valued at historic cost	0	0	72,092	3,474	3,600	0	79,166
Current NBV of assets in:							
31 March 2008							
31 March 2007						25,295	25,295
31 March 2006	14,975						14,975
31 March 2005		93,906					93,906
Total	14,975	93,906	72,092	3,474	3,600	25,295	213,342

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

Assets Employed

	2007/08	2006/07
	£'000	£'000
The net book value of assets employed as at 31 March 2008 can be broken down as follows:		
Assets employed by the General Fund	114,912	114,242
Assets employed by the Housing Revenue Account	15,237	16,155
Assets employed by Harbour Fund	75,900	60,837
Assets employed by Orkney College	7,293	7,434
TOTAL ASSETS EMPLOYED	213,342	198,668

Sources of Finance for Fixed Assets Acquired

The following statement shows how capital expenditure in the year has been financed. The total of fixed asset expenditure in the year excluding Community Council assets should match the sum of the individual sources of finance.

	2007/08	2006/07
	£'000	£'000
Loans	4,236	5,616
Capital Receipts	1,814	1,962
Grant Receipts	2,855	4,133
CFCR	1,795	1,485
Other Income	0	0
	10,700	13,196

Orkney Islands Council
Statement of Accounts - 2007/2008

Notes to Core Financial Statements - (continued)

10. Fixed Assets (continued)

Commitments Under Capital Contracts

The following significant contracts for capital investment have been entered into by the Islands Council and extend beyond 31 March 2008 :

Project Name	Purpose	Approx. Value £'000	Anticipated Completion
Stromness Academy	Upgrade	1,300	January - 2010
Papdale Primary	School Extension	1,500	November - 2008
Hatston Ferry Terminal	Extension	460	January - 2009
Stronsay School	Healthy Living Centre	244	March 2009
Pickaquooy Caravan Site	Extension / Upgrade	380	August - 2008

11. Leases

The Council acts as lessor for a number of properties which are leased to locally based businesses on a commercial basis.

	2007/08 £'000	2006/07 £'000
Asset Value	13,601	13,492
Rental Income	1,186	967

During the year £154K of properties were constructed or acquired for this purpose.

The value of rental income generated from these activities amounted to £1,186K for the year.

Rent levels are determined by the District Valuer for these operating leases, with no properties being the subject of finance lease arrangements.

12. Long Term Debtors

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

	2007/08 £'000	2006/07 £'000
Housing Loans	221	256
Car Loans	78	101
Harbours	2,364	3,370
Others	0	(57)
	2,663	3,670

13. Stocks and Works In Progress

	2007/08 £'000	2006/07 £'000
Stocks		
General Fund	566	540
Harbours	179	181
	745	721
Work in Progress		
General Fund	0	0

14. Debtors and Creditors

Debtors are shown net of bad debt provision, and represents the net amount due to the Council as at 31 March 2008.

The Islands Council provides for any bad or doubtful debts at the end of each financial year, based on the age of debtors outstanding. At 31 March 2008 the Bad Debt Provision has decreased from £1,341,000 to £1,086,000 being an decrease of £255,000 on the year.

Creditors represent amounts due by the Council as at 31 March 2008.

15. Loan Debt

Long Term :	The Islands Council has no long term debt as at 31 March 2008	2007/08 £'000	2006/07 £'000
Short Term :	Bank Overdraft	638	395
	Cash In Hand	(8)	(8)
	Advances from Other Accounts	1,034	1,408
		1,664	1,795

Orkney Islands Council
Statement of Accounts - 2007/2008

Notes to Core Financial Statements - (continued)

16. Provisions

A provision of £1,112k was set aside within the Statement of Accounts in recognition of the Single Status negotiations which were ongoing at that time.

17. Net Assets Employed

The value of net assets employed as at 31 March 2008 are analysed as follows :

	2007/08	2006/07
	£'000	£'000
General Fund	58,643	39,897
Harbour Fund	241,082	233,264
Housing Revenue Account	15,188	15,925
	314,913	289,086

18. European Single Currency

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

As at 31 March 2008 no commitments in respect of costs associated with the Euro had been made, no exceptional expenditure had been incurred and it was not possible to forecast the total costs likely to be incurred.

19. Single Status

In recognition of a future liability being identified for the Islands council in respect of Single Status, an amount has been earmarked within General Reserves in advance of the actual cost being quantified.

20. Investments

The investments shown in the consolidated balance sheet consist of a number of individual funds, each valued at lower of cost or market value. The following is a summary of the investments held by the Islands Council as at 31 March 2008:

	Lower of Cost & Market Value 2007/08	Lower of Cost & Market Value 2007/08	Lower of Cost & Market Value 2006/07	Lower of Cost & Market Value 2006/07
	£'000	£'000	£'000	£'000
Investments				
Long Term				
Bonds and Equities	124,908	133,181	122,425	133,891
Land and Buildings	0	0	16,598	16,598
Private Companies	962	962	1,172	1,172
Fishing Quota	1,208	1,208	927	927
Deposits	14,323	14,323	12,210	12,210
Miscellaneous	1,415	1,415	1,546	1,546
	142,816	151,089	154,878	166,344
Short Term				
Cash Deposits	9,881	9,881	9,362	9,362

The Islands Council has interests in the following private limited companies :

	Orkney Towage Company Ltd	Weyland Farms Ltd	Orkney Ferries Ltd	Orkney Meat Ltd
	Tug Operation	Mixed Farming	Sea Transport	Meat Processing
2007/08				
Principal Activity				
Shares Held	100%	100%	100%	38%
	£'000	£'000	£'000	£'000
Investments Less Provision	501	0	0	61
Net Assets	(1,720)	10	32	1,013
Profit/(Loss) After Tax	(1,436)	(33)	(26)	67
Profit/(Loss) Before Tax	(1,436)	(33)	0	70
2006/07				
Net Assets	(1,184)	29	(1,042)	953
Profit/(Loss) After Tax	(147)	(26)	(25)	(135)
Profit/(Loss) Before Tax	(147)	(26)	0	(150)

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

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

A dividend of 10p per share (£2,449.20) was received from Orkney Meat during the year.

The Islands Council has provided in full against a diminution in the value of its £7,498,999 investment in Orkney Ferries Limited and has also provided in full against a diminution in the value of its £510,000 investment in Weyland Farms Limited.

Orkney Islands Council
Statement of Accounts - 2007/2008

Notes to Core Financial Statements - (continued)

20. Investments (continued)

At the 31 March 2008 the Islands Council's Reserve Fund loan to Weyland Farms Limited stood at £152,260, a increase of £20,000 on the year. The Loan Balance has been provided for in full. The Islands Council is committed to ensure an orderly winding up of the Company should it cease trading and will ensure that all bona fide creditors are paid in full.

Copies of the companies' audited accounts are available for inspection from the following:-

Orkney Towing Company Limited, School Place, Kirkwall, Orkney, KW15 1NY
 Weyland Farms Limited, School Place, Kirkwall, Orkney, KW15 1NY
 Orkney Ferries Limited, Shore Street, Kirkwall, Orkney, KW15 1LG
 Orkney Meat Limited, Grainshore Road, Hatston Industrial Estate, Kirkwall, Orkney, KW15 1FL

21. Government Grants - Deferred Account

Where the acquisition of a fixed asset is financed wholly or in part by a government grant, the amount of the grant should be credited to the government grants - deferred account, and written-off over the useful life of the asset matching the depreciation of the asset to which it relates.

	Gross Receipts £000	Grants Applied £000	Net Balance £000
Balance at 1 April 2007	72,166	18,181	53,985
Add Grant Receipts	3,952	0	3,952
Add Grants Deferred Adjustment	0	0	0
Less Grant Applied	0	3,947	(3,947)
Balance at 31 March 2008	76,118	22,128	53,990

22. Summary of Statement of Reserves

The following table provides a detailed analysis of the Reserves held by the Islands Council as at 31 March 2008 :

	Balance at 31/3/08 £'000	Gain/(Loss) £'000	Transfers £'000	Balance at 31/3/07 £'000
Capital Reserves				
Revaluation Reserve	806	806	0	0
Capital Adjustments Account	105,241	(2,653)	0	107,894
Financial Instruments Adjustment Account	(613)	97	(710)	0
Available-for-sale Financial Instruments Reserve	1,729		1,729	0
Capital Receipts Reserve	3,184	71		3,113
Capital Fund	2,531	243		2,288
	112,878	(1,436)	1,019	113,295
Revenue Reserves				
General Fund Balances :				
General Fund	15,095	183		14,912
Modernising Government Fund	17	(50)		67
Corporate Development Fund	76	(76)		152
Modernising Teachers Fund	68			68
Community Council	210	18		192
Devolved School Management Fund	167	96		71
Orkney College	(875)	48		(923)
Single Status Fund	1,600	544		1,056
ALCO Development Fund	131	(119)		250
Training Fund	101	62		39
Efficiency & Reform Fund	567	567		0
Energy Advice Centre Transitional Fund	21	21		0
Masterplans Studies Fund	140	140		0
Energy Efficiency Fund	80	80		0
	17,398	1,514	0	15,884
Repairs and Renewals Funds :				
Replacement Ferries Fund	2,888	109		2,779
Plant & Vehicle Replacement Fund	4,616	282		4,334
Repairs & Renewals Fund	1,031	195		836
	8,535	586	0	7,949
Harbour Authority Account	180,885	7,814	(1,019)	174,090
Pension Reserve	(4,783)	17,349		(22,132)
	202,035	27,263	(1,019)	175,791
TOTAL RESERVES	314,913	25,827	0	289,086

22. Summary of Statement of Reserves (continued)

DESCRIPTION OF RESERVES

Capital

The Revaluation Reserve records gains arising from the revaluation of fixed assets made after the 1 April 2007, but yet to be realised through sales.

The Capital Adjustments Account records all the transactions relating to the difference between the cost of fixed assets consumed in the delivery of services, and the capital financing set aside to pay for these assets.

Financial Instruments Adjustment Account represents a balancing account to allow for differences in statutory requirements and proper accounting practices for borrowings and investments.

Available-for-Sale Financial Instruments Reserve records the gains on revaluation of investments yet to be realised through sales.

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

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

Revenue

The General Fund balance represents the surplus on General Fund Services after crediting all income due and debiting the cost of providing the appropriate services, and after taking account of transfers from Reserves.

Modernising Government Fund represents ring fenced grant funding set aside in respect of the modernising government projects.

Corporate Development Fund represents general balances earmarked for corporate development priorities.

Modernising Teachers Fund represents general balances earmarked for the education service.

Community Councils Fund being the balance of the accumulated fund held on behalf of the Community Councils.

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

The Orkney College deficit represents the balance of College losses.

The Single Status balance represents general balances earmarked for Single Status.

The ALCO Development Fund represents general balances earmarked for the development of designated capital projects in respect of the Education Service.

The Training Fund represents general balances earmarked for the development of corporate training provisions.

The Efficiency and Reform Fund represents general balances earmarked for the development of joint working initiatives approved as part of the Efficient Government agenda.

The Energy Advice Centre Transitional Fund represents general balances earmarked for the provision of an Energy Advice service during financial year 2008/09.

The Masterplans Studies Fund represents general balances earmarked for the engagement of consultants to undertake Masterplans Studies during financial year 2008/09.

The Energy Efficiency Fund represents general balances earmarked for the provision of a revolving fund to support energy efficiency measures.

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

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

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

23. Pension Reserve Etc.

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

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

Asset Value of the Pension Fund and Expected Returns attributable to Orkney Islands Council

	As at 31 March 2008			As at 31 March 2007		
	Expected	OIC	Total	Expected	OIC	Total
	Return	Pension	Pension	Return	Pension	Pension
	% p.a.	Assets	Fund Assets	% p.a.	Assets	Fund Assets
	£'000	£'000		£'000	£'000	
Equities	7.7	76,081	84,279	7.8	77,039	83,800
Bonds	5.7	16,409	18,177	4.9	12,262	13,300
Property	5.7	0	0	5.8	0	0
Cash	4.8	7,299	8,086	4.9	6,029	6,600
Total	7.2	99,789	110,542	7.2	95,330	103,700

Net Pension Asset/(Liability) attributable to Orkney Islands Council

	31/3/2008	31/03/2007	Movement
	£'000	£'000	£'000
Estimated Assets	99,790	95,330	4,460
Present Value of Scheme Liabilities	97,945	109,738	(11,793)
Present Value of Unfunded Liabilities	6,628	7,724	(1,096)
Total Value of Liabilities	104,573	117,462	(12,889)
Net Pension Asset/(Liability)	(4,783)	(22,132)	17,349

Local government legislation provides that local authorities have an obligation to meet the expenditure of the Joint Boards of which they are constituent members. As a consequence Orkney Islands Council has additional liabilities from the pension deficits of Highlands and Islands Fire Joint Board, Northern Joint Police Board and Orkney and Shetland Valuation Joint Board. Further information regarding these deficits can be found in the annual report and accounts of the relevant bodies.

Liabilities are valued on an actuarial basis using the projected unit method which assesses the future liabilities of the fund discounted at their present value. The valuations are based on a valuation as of 31 March 2005 and updated for the following three years by Hyman's Robertson the independent actuaries to the Orkney Islands Council Pension Fund. The main assumptions used in the calculation are as follows:

Financial Assumptions at 31 March	2008	2007
	%	%
Price Increases	3.6	3.2
Salary Increases	5.1	4.7
Pension Increases	3.6	3.2
Rate used to discount scheme liabilities	6.9	5.4

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

The liabilities for retirement benefits as at 31 March 2008 have been assessed using a discount rate of 3.3% in excess of inflation, based on the current rate of return for high quality corporate bonds of equivalent currency and term to the scheme of liabilities. When compared to a rate of 2.2% for the previous year, this represents a significant change reducing some 10-25% to projected scheme liabilities. Unfortunately, asset returns for the whole fund have not been so favourable at around -5% to -3% for the year to 31 March 2008. As a result the relatively poor investment returns have been outweighed by the favourable movements in financial assumptions. The overall position has decreased the FRS deficit on the Pension Fund by £17.349M for the year.

Orkney Islands Council
Statement of Accounts - 2007/2008

Notes to Core Financial Statements - (continued)

23. Pension Reserve Etc. (continued)

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

	2007/08	2006/07
	£'000	£'000
Surplus/(Deficit) at beginning of year	(22,132)	(29,424)
Current Service Cost	(5,149)	(5,566)
Employer Contributions	4,536	4,280
Contributions in respect of Unfunded Benefits	470	486
Other Income	0	0
Other Outgoings (e.g. Expenses etc.)	0	0
Past Service Costs	(116)	1,250
Impact of settlement and curtailments	0	0
Net return on assets	593	325
Actuarial gains/(losses)	17,015	6,517
Surplus/(deficit) at end of year	(4,783)	(22,132)

The following is a history of the gains and losses:

	2007/08	2006/07
	£'000	£'000
Difference between the expected and actual return on assets	(6,817)	(2,339)
Value of assets	99,790	95,330
Percentage of assets	(6.8%)	(2.5%)
Experience gains/(losses) on liabilities	763	74
Present value of liabilities	104,573	117,462
Percentage of the present value of liabilities	0.7%	0.1%
Actuarial gains/(losses)	17,015	6,517
Present value of liabilities	104,573	117,462
Percentage of the present value of liabilities	16.3%	5.5%

Additional disclosures in respect of Pensions are included in note 6 to the Core Financial Statements.

24. Date of Accounts Authorised for Issue

The Director of Finance and Housing, being the proper officer for the financial administration of the Islands Council, signed the Annual Accounts on 25 September 2008. Events after the 31 March 2008, being the date of the Balance Sheet, and up until the date of signing have been considered.

25. Reconciliation of Operating Surplus to Net Cash Outflow from Revenue Activities

	2007/08	2006/07
	Total	Total
	£'000	£'000
Operating Surplus/(Deficit) for Year	1,514	14,222
Non Cash Transactions		
Contributions to Reserves	(6,413)	(7,828)
Adjustments not Involving the Movement of Funds	4,186	(9,684)
Contributions to Capital	3,056	4,066
Increase/(Decrease) in Bad Debt Provision	(255)	295
	2,088	1,071
Items on an Accruals Basis		
(Increase)/Decrease in Stock and Work in Progress	(24)	105
(Increase)/Decrease in Debtors	950	(18)
Increase/(Decrease) in Creditors	1,930	(2,357)
	2,856	(2,270)
Cash Outflow from Revenue Activities	4,944	(1,199)

26. Movement in Cash

	2007/08			2006/07
	31/03/08	31/03/07	Movement	Movement
	£'000	£'000	£'000	£'000
Bank Overdraft	(638)	(395)	(243)	(594)
Cash	8	8	0	0
Increase/(Decrease) in Cash	(630)	(387)	(243)	(594)

Orkney Islands Council
Statement of Accounts - 2007/2008

Notes to Core Financial Statements - (continued)

27. Reconciliation of Liquid Resources	2007/08			2006/07
	31/03/08	31/03/07	Movement	Movement
	£'000	£'000	£'000	£'000
Temporary Lending	9,881	9,363	518	2,141

28. Reconciliation of Financing	2007/08			2006/07
	31/03/08	31/03/07	Movement	Movement
	£'000	£'000	£'000	£'000
Revenue Advances from Common Good, Charities and Trusts	(1,034)	(1,408)	374	3,880

29. Analysis of Government Grants	2007/08		2006/07
		£'000	£'000
Teacher Training		0	0
Other Education Grants		993	1,020
National Priorities Action Fund		1,537	1,100
Other Miscellaneous Grants		449	113
Homelessness Strategy		334	0
Community Social Services - Specific Training		361	412
Supporting People		616	422
Mental Illness Specific Grant		133	133
Offender Services		5	382
Strategic Waste Fund		296	369
Scottish Funding Council for Further Education		1,580	1,569
Transport - Rural Initiative		1,321	1,094
Total Government Grants Per Cash Flow Statement		<u>7,625</u>	<u>6,614</u>

Orkney Islands Council
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Notes to Core Financial Statements - (continued)

30. Note to the Accounts on Financial Instrument Balances

The borrowings and investments disclosed in the Balance Sheet are made up of the following categories of financial instruments:

	Long-Term		Current	
	31 March 2007	31 March 2008	31 March 2007	31 March 2008
	£'000	£'000	£000	£'000
Loans and receivables	3,670	2,663	9,363	9,881
Available-for-sale financial assets	152,160	148,712	0	0
Unquoted equity investment at cost	2,718	2,377	0	0
TOTAL INVESTMENTS	158,548	153,752	9,363	9,881

31. Note to the Accounts on Financial Instrument Gains/Losses

The gains and losses recognised in the Income and Expenditure Account and STRGL in relation to the financial instruments are made up as follows:

	Financial Assets		Total
	Loans and Receivables	Available-for-Sale Assets	
	£'000	£000	£'000
Interest expense	0	0	0
Losses on derecognition	0	0	0
Impairment losses	0	0	0
INTEREST PAYABLE AND SIMILAR CHARGES	0	0	0
Interest income	0	0	0
Gains on derecognition	0	0	0
INTEREST AND INVESTMENT INCOME	0	0	0
Gains on revaluation	0	1,729	1,729
Losses on revaluation	(613)	0	(613)
Amounts recycled to the Income and Expenditure Account after impairment	0	0	0
SURPLUS/(DEFICIT) ARISING ON REVALUATION OF FINANCIAL ASSETS	(613)	1,729	1,116
NET GAIN/(LOSS) FOR THE YEAR	(613)	1,729	1,116

32. Fair value of Assets and Liabilities Carried at Amortised Cost

Financial liabilities and financial assets represented by loans and receivables 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 interest rates at 31 March 2008 of 5.5% for loans receivable and payable
- No early repayment or impairment is recognised
- Where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value
- The fair value of trade and other receivables is taken to be the invoiced or billed amount

The fair values calculated are as follows:

	31 March 2008	
	Carrying Amount	Fair Value
	£'000	£'000
Loans and receivables	3,276	2,663

The fair value of the financial instruments are lower than the carrying amount due to the fact that the authority's portfolio of investments includes a number of loans on interest free terms.

33. 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 authority's overall risk management practices focus on the unpredictable nature of financial markets and seeks to minimise the potential adverse effects on the resources available to fund Council Services. Risk management is carried out by a central treasury function, under policies approved by the council as part of the annual treasury management strategy. The council provides written principals for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash through Treasury Management Practices (TMP's).

Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposure to the authority's customers. Deposits are not made with banks and financial institutions unless they are rated independently with minimum score of A1/P1 short term debt ratings with Moodys or Standard & Poors. The authority has a policy of not lending more than £2M of its surplus balances to individual institutions at any one time.

Customers are assessed, taking into account their financial position, past experience and other factors, to determine individual credit limits.

The following analysis summarises the authority's potential maximum exposure to credit risk, based on experience of default and uncollectability over the last five financial years, adjusted to reflect current market conditions.

	Amount at 31 March 2008 £000	Historic Experience of Default %	Historic Experience Adjusted for Market Conditions at 31 March 2008 %	Estimated Maximum Exposure to Default and Uncollectability £000
Deposits with banks and financial institutions	6,481	0.01	0.01	1
Local Authorities	3,400	0.01	0.01	0
Trade Debtors	8,176	5.00	13.28	1,086
	18,057			1,087

Trade debtors of £8,176K are stated before any provision for default and uncollectability. A provision for this purpose amounting to £1,086K has been set aside for this purpose.

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 local authorities.

The authority does not generally allow credit for customers, such that £1,529K of the £2,660K balance is past its due date for payment. The past due amount can be analysed by age as follows:

	£000
Less than three months	345
Three to six months	208
Six months to one year	185
More than one year	791
	1,529

Liquidity Risk

As the authority is debt free and lends 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 significant risk in terms of its exposure to interest rate movements on its investments. Movements in interest rates have a complex impact on the authority. For instance, a rise in interest rates would have the following effects:

investments at variable rates - the interest income credited to the Income and Expenditure Account will rise

investments at fixed rates - the fair value of the assets will fall.

Changes in interest receivable on variable rate investments will be posted to the Income and Expenditure Account and affect the General Fund Balance £ for £. Movements in fair value of fixed rate investments will be reflected in the STRGL.

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

According to this assessment strategy, at 31 March 2008, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	£000
Increase in interest payable on variable rate borrowings	0
Increase in interest receivable on variable rate investments	(242)
Increase in government grant receivable for financing costs	0
Impact on Income and Expenditure Account	<u>(242)</u>
Share of overall impact debited to the HRA	<u>0</u>
Decrease in fair value of fixed rate investment assets	74
Impact on STRGL	<u>0</u>
Decrease in fair value rate borrowings liabilities (no impact on I&E Account or STRGL)	<u>74</u>

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

Price Risk

The authority held £128,493K of investments as at 31 March 2008 in the form of equity shares and bonds, including £2,377K in a number of joint ventures and in local industry. The authority is consequently exposed to losses arising from movement in the price of the shares.

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

These clearly defined shares are all classified as 'available for sale', meaning that all movements in price will impact on gains and losses recognised in the STRGL. A general shift of 5% in the general price of shares (positive or negative) would have resulted in a £6,425K gain or loss being recognised in the STRGL for 2007/08.

Foreign Exchange Risk

The authority has no financial assets or liabilities denominated in foreign currencies and therefore has no exposure to loss arising from movements in exchange rates.

**Orkney Islands Council
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Harbour Authority Account

PURPOSE

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

This statement shows:

- The trading position from the various harbour operations for the year.
- The net return generated on investment activities associated with balances on the harbour authority account fund.

Income and Expenditure Account for year ended 31 March 2008

	2007/08 Expenditure £'000	2007/08 Income £'000	2007/08 Net Expenditure £'000	2006/07 Net Expenditure £
Scapa Flow Oil Port	7,504	5,808	1,696	1,610
Miscellaneous Piers and Harbours	2,036	3,272	(1,236)	(842)
Oil Pollution Account	105	113	(8)	(23)
NET COST OF HARBOUR SERVICES	9,645	9,193	452	745
(Gain) or Loss on sale of Harbour fixed assets	0	0	0	56
Interest payable and similar charges	119	0	119	84
Pensions interest cost and expected return on pension assets	(44)	0	(44)	(24)
(SURPLUS)/DEFICIT FOR THE YEAR ON HARBOUR SERVICES	9,720	9,193	527	861

Statement of Movement on Harbour Authority Account Fund Balance as at 31 March 2008

	2007/08 £'000	2006/07 £'000
(Surplus)/Deficit for the Year on the Income and Expenditure Account	527	861
Net additional Amount required by statute and non-statutory proper practices to be debited or credited to the Harbour Authority Account Fund	69	505
(INCREASE)/DECREASE IN HARBOUR AUTHORITY ACCOUNT FUND BALANCE	596	1,366

HARBOUR AUTHORITY ACCOUNT INVESTMENT SUMMARY

Income Receivable

Investment Income	11,184	10,067
Rents	1,215	974
Interest on Revenue Balances	780	1,702
Other	0	588
	13,179	13,331

Expenditure

Payments of Grants	4,443	3,891
Other	275	451
	4,718	4,342

NET RETURN ON INVESTMENT ACTIVITIES	8,461	8,989
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Appropriations :

Deficit on Harbour Authority activities	(596)	(1,366)
Transfer to General Fund	(325)	(16,894)
Transfer to Capital Financing Account	(745)	(76)

NET INCREASE IN FUND DURING THE YEAR	6,795	(9,347)
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Harbour Authority Account - (continued)

Represented by :	Balance at	Net	Balance at
	31/03/2007	Movement	31/03/2008
	£'000	£'000	£'000
Strategic Reserve Fund	124,196	6,089	130,285
Flotta Terminal Decline and Decommissioning Fund	44,195	(854)	43,341
Conservation Fund	183	2	185
Talented Performers Fund	53	2	55
Travel Fund	88	5	93
Fisheries Fund	4,724	398	5,122
Orkney Memorial Fund	616	32	648
Talented Young Persons Fund	35	0	35
Miscellaneous Piers Vessel Reserve Fund	0	1,121	1,121
TOTAL	174,090	6,795	180,885

1. Reconciling Items for the Statement of Movement in Harbour Authority Account Fund Balances

	2007/08	2006/07
	£'000	£'000
Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the Harbour Authority Account Fund Balance for the year		
Depreciation and impairment of fixed assets	(2,342)	(1,654)
Government Grants Deferred amortisation	1,442	817
Net gain on sale of fixed assets	0	(56)
Net charges made for retirement benefits in accordance with FRS 17	(340)	(395)
	(1,240)	(1,288)
Amounts not included in the Income and Expenditure Account but required by statute to be included when determining the Movement on the Harbour Authority Fund Account Balance for the year		
Loans fund principal repayments	434	1,087
Capital expenditure funded by the Harbour Authority	512	356
Employers contributions payable to the Orkney Islands Council Pension Fund and retirement benefits direct to pensioners	363	350
	1,309	1,793
Net additional amount required to be credited to the Harbour Authority Account Fund balance for the year	69	505

2. Reserves held in the form of investments managed by external fund managers are as follows : -

Fund Manager	Type	Value	Performance	Benchmark
		£(M)	(%)	(%)
Prudential	Cash and Bonds	52.90	5.76	6.72
Schroders	Cash and Bonds	44.20	7.10	7.60
Schroders	Equities	51.60	-6.80	-7.70
TOTAL FUNDS		148.70		

During the year, the Harbour Authority Account managed funds returned a gain of £1.80M through investment activities.

Orkney Islands Council
Statement of Accounts-2007/2008
Orkney College of Further Education

PURPOSE

The Islands Council provided further and higher education provision through the Orkney College using a devolved Board of Management arrangement. The Orkney College is funded by direct grant from the Scottish Funding Council (SFC).

Income and Expenditure Account for year ended 31 March 2008

	2007/08 £'000	2006/07 £'000
EXPENDITURE		
Staff Costs	2,540	2,415
Property Costs	318	269
Supplies and Services	705	531
Transport Costs	111	91
Administration Costs	111	91
Apportioned Costs	43	38
Depreciation and impairment of fixed assets	53	61
TOTAL EXPENDITURE	3,881	3,496
INCOME		
Grants	2,995	2,640
Fees and Charges	864	754
Other Income	7	37
TOTAL INCOME	3,866	3,431
NET COST OF ORKNEY COLLEGE PER AUTHORITY INCOME AND EXPENDITURE ACCOUNT	15	65
Interest payable and similar charges	0	5
Pensions interest cost and expected return on pension assets	(29)	(16)
(SURPLUS)/DEFICIT FOR THE YEAR ON ORKNEY COLLEGE SERVICES	(14)	54

Statement of Movement on Orkney College Balance as at 31 March 2008

	2007/08 £'000	2006/07 £'000
(Surplus)/Deficit for the Year on the Income and Expenditure Account	(14)	54
Net additional Amount required by statute and non-statutory proper practices to be debited or credited to the Orkney College Balance	(34)	3
(Increase)/Decrease in the Orkney College Balance	(48)	57
Orkney College deficit brought forward	923	866
ORKNEY COLLEGE DEFICIT CARRIED FORWARD	875	923

Orkney Islands Council
Statement of Accounts - 2007/2008

Orkney College of Further Education - (continued)

1. Reconciling Items for the Statement of Movement in Orkney College Balance

	2007/08	2006/07
	£'000	£'000
Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the Orkney College Balance for the year		
Depreciation and impairment of fixed assets	(164)	(182)
Government Grants Deferred amortisation	111	121
Net charges made for retirement benefits in accordance with FRS 17	(224)	(253)
	<u>(277)</u>	<u>(314)</u>
Amounts not included in the Income and Expenditure Account but required by statute to be included when determining the Movement on the Orkney College Balance for the year		
Loans fund principal repayments	0	32
Capital expenditure funded by the Orkney College	16	64
Employers contributions payable to the Orkney Islands Council Pension Fund and retirement benefits direct to pensioners	227	221
	<u>243</u>	<u>317</u>
Net additional amount required to be (credited) or debited to the Orkney College Balance for the year	(34)	3

Orkney Islands Council
Statement of Accounts-2007/2008

Housing Revenue Account

PURPOSE

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

Income and Expenditure Account for year ended 31 March 2008

	2007/08	2006/07
	£'000	£'000
EXPENDITURE		
Repairs and maintenance	735	441
Supervision and management	613	621
Depreciation and impairment of fixed assets	1,422	579
Increase in bad debt provision	24	36
Other expenditure	13	14
TOTAL EXPENDITURE	2,807	1,691
INCOME		
Dwelling rents (gross)	1,720	1,705
Non-dwelling rents (gross)	16	16
Other Income	71	65
TOTAL INCOME	1,807	1,786
NET COST OF HRA SERVICES PER AUTHORITY INCOME AND EXPENDITURE ACCOUNT		
	1,000	(95)
(Gain) or Loss on sale of HRA fixed assets	(146)	(240)
Interest receivable and similar credits	(75)	(42)
Pensions interest cost and expected return on pension assets	(6)	(3)
(SURPLUS)/DEFICIT FOR THE YEAR ON HRA SERVICES	773	(380)

Statement of Movement on HRA Balance as at 31 March 2008

	2007/08	2006/07
	£'000	£'000
(Surplus)/Deficit for the Year on the Income and Expenditure Account	773	(380)
Net additional Amount required by statute and non-statutory proper practices to be debited or credited to the HRA Balance	(773)	380
HRA BALANCE CARRIED FORWARD	0	0

Orkney Islands Council
Statement of Accounts - 2007/2008
Housing Revenue Account - (continued)

1. Reconciling Items for the Statement of Movement in HRA Balance

	2007/08	2006/07
	£'000	£'000
Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the HRA Balance for the year		
Depreciation and impairment of fixed assets	(1,437)	(582)
Government Grants Deferred amortisation	15	3
Gain/(Loss) on sale of HRA fixed assets	146	240
Net charges made for retirement benefits in accordance with FRS 17	(47)	(55)
	(1,323)	(394)
Amounts not included in the Income and Expenditure Account but required by statute to be included when determining the Movement on the HRA Balance for the year		
Capital expenditure funded by the HRA	499	724
Employers contributions payable to the Orkney Islands Council Pension Fund and retirement benefits direct to pensioners	51	50
	550	774
Net additional amount required to be (credited) or debited to the HRA Balance for the year	(773)	380

2. Housing Stock

The numbers and types of dwellings included in the Council's Housing Stock as at 31 March 2008 are as follows:

	2007/08	2006/07
	Number of Dwellings	Number of Dwellings
1 Apartment	42	42
2 Apartment	278	282
3 Apartment	227	230
4 Apartment	199	207
5 Apartment	14	14
	760	775

3. Rent Arrears

	2007/08	2006/07
	£	£
Dwelling Arrears	86,994	73,352
Non Dwelling & Other Arrears	50,695	48,727
	137,689	122,079
Number of Tenants in Arrears	102	89

4. Provision for Bad Debts

	2007/08	2006/07
	£	£
Dwelling Arrears	44,694	30,066
Non Dwelling & Other Arrears	28,295	30,183
	72,989	60,249

Orkney Islands Council
Statement of Accounts - 2007/2008
Council Tax Income Account

PURPOSE

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

	2007/08 £'000	2006/07 £'000
Gross Council Tax Levied	8,921	8,504
Less Relieved, Remitted and Written Off	(1,108)	(1,038)
NET COUNCIL TAX DUE FOR YEAR	7,813	7,466
Reduced Discount on Second Homes	(165)	(163)
Provision for Bad Debts	(3)	(15)
Council Tax Benefit (Net of Government Grants)	0	0
NET CURRENT YEAR COUNCIL TAX INCOME	7,645	7,288
PRIOR YEARS' COUNCIL TAX		
Adjustments to Charges	(16)	7
Reduction Previous Years Council Tax Liability	(17)	(64)
COMMUNITY CHARGE		
Adjustments to Charges	0	0
TRANSFER TO INCOME AND EXPENDITURE ACCOUNT	7,612	7,231

1. Details of Charges Levied

	2007/08 £	2006/07 £
Council Tax - Band D - General Rate	1037.00	1007.00

Council Tax Charges for 2007/08

Valuation Band	Property Valuation Range	Fraction of Band D	Council Tax £
A	£0 - £27,000	6/9	691.33
B	£27,001 - £35,000	7/9	806.56
C	£35,001 - £45,000	8/9	921.78
D	£45,001 - £58,000	9/9	1037.00
E	£58,001 - £80,000	11/9	1267.44
F	£80,001 - £106,000	13/9	1497.89
G	£106,001 - £212,000	15/9	1728.33
H	Over £212,000	18/9	2074.00

The above table shows the Council Tax Charges due for 2007/08 on a domestic dwelling with an unmetered public water supply, based on two or more people aged 18 years or over resident in the property before any exemption, discounts or relief is applied.

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

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

Orkney Islands Council
Statement of Accounts-2007/2008
Council Tax Income Account - (continued)

2. Calculation of the Council Tax Base 2007/08

	@	Valuation Band								TOTAL
		A	B	C	D	E	F	G	H	
Total Number of Properties	0	2,572	2,656	1,968	1,475	965	187	16	2	9,841
Less Exemptions/Deductions	0	205	96	62	24	9	2	0	0	398
Less Disabled Relief	-14	-3	-9	6	7	11	2	0	0	0
Less Adjustment for Single Discounts	1	296	246	145	80	32	4	1	0	805
Less Adjustment for Double Discounts	0	127	64	47	20	11	4	1	0	274
Effective Number of Properties	13	1947	2259	1708	1344	902	175	14	2	8364
Band D Equivalent Factor (Ratio)	(5/9)	(6/9)	(7/9)	(8/9)	(9/9)	(11/9)	(13/9)	(15/9)	(18/9)	
Band D Equivalent Number of Properties	7	1298	1757	1518	1344	1102	253	23	4	7,306
Less Provision for Non-Collection %										95
										<u>7,211</u>

COUNCIL TAX BASE 2007/08

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

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

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

3. Arrears of Council Tax and Community Charge

	31/03/2008	31/03/2007
	£	£
Council Tax Arrears	689,852	656,955
Community Charge Arrears	0	0

Orkney Islands Council Statement of Accounts - 2007/2008 Non-Domestic Rate Income Account
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PURPOSE

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

	2007/08	2006/07
	£'000	£'000
Gross Rates Levied and Contributions in Lieu	8,245	8,261
Adjust for :		
Reliefs and Other Deductions	(1,218)	(1,213)
Interest on Overpaid Rates	(2)	0
Provision for Bad Debts	(4)	7
Reduction in Rates Liability for previous years	(45)	102
NET NON DOMESTIC RATES INCOME	6,976	7,157
Contribution from National Non-Domestic Rate Pool (See Note 4)	173	76
TRANSFER TO INCOME AND EXPENDITURE ACCOUNT	7,149	7,233

1. Rateable Values and Number of Subjects (1 April 2007)

Non-Domestic Rateable Subjects	Number of subjects	RV 01/04/07 £000	Number of subjects	RV 01/04/06 £000
Shops	266	1,598	266	1,517
Public Houses/Hotels	60	648	59	674
Offices	148	1,450	156	1,442
Industrial Subjects	496	2,720	493	2,581
Leisure/Entertainment	261	740	245	736
Garages & Petrol Stations	85	310	91	323
Cultural/Sporting/Education	83	1,793	81	1,705
Public Services Subjects	175	1,848	170	1,770
Miscellaneous	323	7,643	326	7,647
	1,897	18,750	1,887	18,395

2. Non-Domestic Rate Poundage

	2007/08	2006/07
	£0.441	£0.449
Property Rate	£0.441	£0.449

Non Domestic Rates are levied by the Islands Council on local Commercial and Industrial properties. The rate is, however, set by Central Government. An additional supplement of £0.004 is applied to properties with a rateable value exceeding £29,000, while small business relief is available for properties with a rateable value of less than £11,500 (and not in transition).

3. Non-Domestic Rate Arrears

	31/03/08	2006/07
	£	£
Arrears of Non Domestic Rates	110,645	92,895

4. Contribution due to National NDR Pool for year

	2007/08	2006/07
	£000	£000
Provisional Contributable Amount	7,023	6,832
Difference from Notified Amount	(45)	325
Contribution due to National NDR Pool for year	6,978	7,157

<p>Orkney Islands Council Statement of Accounts - 2007/2008</p> <p>Pension Fund Account</p>
--

The Orkney Islands Council Pension Fund is constituted under the various Local Government Pension Fund Acts and related regulations and provides pension benefits to all local government employees, excluding principally teachers, of Orkney Islands Council, together with 12 other organisations of a statutory and voluntary nature which have been accepted into the fund as admitted bodies. The members of the scheme increased from 1,660 employees at 31 March 2007 to 1,678 employees at 31 March 2008 and the number of pension payments increased from 452 at 31 March 2007 to 462 at 31 March 2008.

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

The monies belonging to the Pension Fund are entirely managed by external investment managers Baillie Gifford & Co, and are held separately from any of the employing bodies which participate in the Pension Fund. During the financial year 2007/08 the Fund's return on investments was 1.9% against a benchmark of -2.1%.

As an administering authority, the Island Council has delegated the management of the Pension Fund administration and investments to an Investment Sub Committee comprising of 5 elected members. The committee meets 3 times an year, with summary investment monitoring reports being issued directly to all members on a quarterly basis.

After meeting the cost of current benefits, all surplus cash income is invested and the increasing value of investment is then available to meet future liabilities to employees within the Fund. In addition to a contingent liability to meet future pension benefits payable to existing employees, the funds must also provide for the future payment deferred pension benefits which have been preserved by former employees prior to their leaving.

Employees contributions are fixed by statute, with employers contributions being assessed every three years by an independent Actuary to determine the level of contribution necessary by employing bodies to ensure that the fund is able to meet all future benefits. The standard employee contribution rate is 6% with some manual workers retaining the right to pay 5%. Following completion of the 2005 Actuarial valuation, the employers rate will remain at 295% for the 3 years commencing in 2006.

The funds have been invested in accordance with the investment controls laid down in the Local Government Pension (Scotland) Regulations 1989 and quoted investments of the fund have been revalued to market value at 31 March 2008 with the gain on revaluation being credited to the fund.

Orkney Islands Council
Statement of Accounts - 2007/2008

Pension Fund Account - (continued)

FUND ACCOUNT	2007/08	2006/07
Contributions Receivable	£'000	£'000
Employer Contributions - Normal	5,201	4,975
Employer Contributions - Additional	12	3
Employees Contributions - Normal	1,828	1,745
Transfers In - Individual Transfers in from Other Schemes	1,925	814
TOTAL CONTRIBUTIONS RECEIVABLE	8,966	7,537
Benefits Payable		
Pensions	2,274	2,163
Commutation of Pensions and Lump Sum Retirement Benefits	547	464
Lump Sum Death Benefits	222	77
Refund of Contributions	22	24
State Scheme Premiums	9	10
Transfers Out - Group Transfers out to Other Schemes	0	158
Transfers Out - Individual Transfers out to Other Schemes	709	902
Fund Administration	215	176
TOTAL BENEFITS PAYABLE	3,998	3,974
NET ADDITIONS FROM DEALING WITH MEMBERS	4,968	3,563
Returns on Investments		
Investment Income		
Interest from Fixed Interest Securities	159	213
Dividend from Equities	2,047	1,700
Income from Index Linked Securities	85	70
Income from Pooled Investment Vehicles	608	411
Interest on Cash Deposits	379	302
Recoverable Tax	13	9
Gain in Market Value of Investments:		
Realised	5,272	4,948
Unrealised	(6,362)	(3,045)
Irrecoverable Withholding Tax	(196)	(165)
Investment Management Expenses	(310)	(249)
NET RETURN ON INVESTMENTS	1,695	4,194
NET INCREASE IN FUND DURING YEAR	6,663	7,757
Opening Net Assets of Fund	103,879	96,122
CLOSING NET ASSETS OF FUND	110,542	103,879
Net Assets Statement (as at 31 March)		
Investment Assets		
Bonds - Corporate	10,262	4,662
Bonds - Overseas	2,585	1,968
Bonds - Gilts	9,030	7,168
Equities - UK	36,470	44,885
Equities - Overseas	42,011	38,929
Funds held by Investment Managers - Other (Cash)	10,685	6,651
TOTAL INVESTMENT ASSETS	111,043	104,263
Current Assets		
Sundry Debtors	2	0
Loans Fund Deposit	0	0
Less Current Liabilities		
Sundry Creditors	84	332
Loans Fund Advance	419	52
NET CURRENT ASSETS	(501)	(384)
NET ASSETS	110,542	103,879
Financed by:		
ACCUMULATED FUND	110,542	103,879

A Tait, C.P.F.A., F.C.C.A.
 Director of Finance
 25 September 2008

Orkney Islands Council
Statement of Accounts - 2007/2008

Pension Fund Account - (continued)

NOTES

Accounting Policies

The accounts have been prepared in accordance with the main recommendations of the Financial Reports of Pension Schemes - A Statement of Recommended Practice (the Pension SORP) and the CIPFA Code of Practice on Local Authority Accounting, with the exception of transfer values, which are credited in the year they are received. All transfer values paid, and the service credit given in exchange for transfer values received, are calculated in accordance with the Scheme's regulations and are consistent with the requirements of Schedule 1A of the Social Security Pensions Act.

Investments held by the Pension Fund are included at their closing prices on 31 March 2008 and adjusted, where applicable, for accrued interest to the valuation date. Overseas currencies are translated at the WM/Reuters London closing spot rates on the last business day of the reporting period, being 31 March 2008.

The Accounts have been prepared on an accruals basis and do not take account of liabilities to pay pensions and other benefits after the year end. However, the actuarial position does account for such obligations. This is disclosed in the Accounts and should be read in conjunction with the actuary's report.

1. Actuarial Valuation Reports

Actuarial report was provided in 2006 after undertaking valuations on the fund as at 31 March 2005. Information from this actuarial valuation is undernoted:

(a)	Market value of assets at valuation £70,869,000.	
(b)	Members Contributions	
	Officers	6.00%
	Manual Workers before 01/04/98	5.00%
	Manual Workers after 01/04/98	6.00%
(c)	Employers contributions as a percentage of employees contributions	
	1 April 2006	295%
	1 April 2007	295%
	1 April 2008	295%
(d)	Valuation assumptions	
	Investment Return:	
	Equities	6.70%
	Bonds	5.00%
	Pay Increases	4.40%
	Price Inflation/Pension Increases	2.90%
	Rate used to discount scheme liabilities	6.30%
(e)	The Projected Unit method was used for the valuation of the fund	
(f)	The level of funding in terms of the percentage of assets available to meet liabilities was 87%	

2. Investment Assets

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

	2007/08		2006/07	
	£'000	%	£'000	%
Baillie Gifford and Company	111,043	100.46	104,263	100.37
Loans Fund Advance	(418)	-0.38	(52)	(0.05)
Sundry Debtors Less Creditors	(83)	-0.08	(332)	(0.32)

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

<p>Orkney Islands Council Statement of Accounts - 2007/2008 Pension Fund Account - (continued)</p>

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

	2007/08	2006/07
	£'000	£'000
UK Listed	66,447	56,715
UK Unlisted	0	0
Foreign Listed	44,596	40,897
Foreign Unlisted	0	0
	111,043	97,612

In the year to 31 March 2008 the Fund's return on investments was 1.9%, outperforming its benchmark of -2.1% by some 4.0%. Equities markets were volatile during 2007 but made some progress, as the ongoing repercussions of the US sub-prime crisis continued to have an impact but were counterbalanced to a certain extent by continuing growth, particularly in Emerging Markets. This dichotomy in divergent sector performance, with sectors linked to the domestic woes of western economies and of financial markets such as construction, retail and banking losing most ground, whilst companies in other sectors such as commodities benefited from increasing global demand. In the first quarter of 2008, as news flow on the US economy became more worrying, markets generally fell back. Central banks are having to strike a balance between the need to cut interest rates to stimulate growth on the one hand and the need to contain inflation on the other. The fund's performance has benefited from its exposure to Emerging Markets equities and from stock selection, particularly its exposure to certain resources and oil service companies.

3. Purchases and Sales

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

	2007/08	2006/07
	£'000	£'000
Purchases	38,618	33,030
Sales	34,755	28,758

4. Contributions Receivable and Benefits Payable

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

	2007/08	2006/07
	£'000	£'000
Administering Authority :		
Contributions Receivable	6,126	5,818
Benefits Payable	2,934	2,542
Admitted Bodies		
Contributions Receivable	903	902
Benefits Payable	109	162

5. Investment Sub Committee

The Orkney Islands Council carries out its administration functions through its Investment Sub Committee which comprises the Convener S Hagan, Vice Convener J Stockan, Councillor I Johnstone, Councillor M Drever and Councillor A Gordon. The committee meets 3 times a year, with quarterly investment monitoring reports being issued directly to the above sub committee members throughout the year.

6. Admitted Bodies

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

- Orkney Tourist Board (Visit Scotland)
- Orkney Heritage Society
- Orkney Towage Company Limited
- Weyland Farms Limited
- Orkney Meat Limited
- Orkney Ferries Limited
- Orkney Enterprise
- Drinkwise Orkney
- Orkney Islands Property Development Limited
- Pickaquoy Centre Trust
- Orkney Opportunities Centre
- D & H Glue

7. Additional Voluntary Contributions

The Council also operates an AVC Scheme administered by Prudential. As the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 does not permit AVC's to be paid into the Pension Fund, these figures are additional to the LGPS and provided for information only.

Members contributions are invested in "with profits" funds. During the year, the value of AVC investments increased by £92K from £885K to £977K as at 31 March 2008.

Orkney Islands Council Statement of Accounts - 2007/2008 Charitable Trust Funds
--

PURPOSE

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

INCOME AND EXPENDITURE ACCOUNT FOR YEAR ENDED 31 MARCH 2008

	2007/08	2006/07
	£'000	£'000
EXPENDITURE		
Supplies and Services	8	9
Advertising	1	0
Transfer Payments	5	5
Miscellaneous Costs	5	5
TOTAL EXPENDITURE	19	19
INCOME		
Interest	32	26
Donations	3	2
Legacies	(3)	47
Miscellaneous Income	1	1
TOTAL INCOME	33	76
SURPLUS ON YEAR	14	57

BALANCE SHEET AS AT 31 MARCH 2008

	2007/08	2006/07
	£'000	£'000
Investments		
Listed Securities	17	16
Property	2	2
TOTAL LONG TERM ASSETS	19	18
Current Assets		
Loans Fund Deposit	613	601
Less Current Liabilities	0	1
NET CURRENT ASSETS	613	600
NET ASSETS	632	618
Represented By :		
Capital Reserve	76	76
Revenue Reserve	556	542
ACCUMULATED FUNDS	632	618

NOTES

Accounting Policies

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

A Tait, C.P.F.A., F.C.C.A.
Director of Finance
25 September 2008

Orkney Islands Council
Statement of Accounts - 2007/2008

Non Charitable Trust Funds and Common Good Fund

PURPOSE

The Islands Council as the sole Trustee administers a number of non charitable trusts and common good funds. Income is used to provide educational grants and prizes, comforts for residents in Islands Council homes for the elderly and handicapped and various community facilities.

INCOME AND EXPENDITURE ACCOUNT FOR YEAR ENDED 31 MARCH 2008

	2007/08 £'000	2006/07 £'000
EXPENDITURE		
Staff Costs	1	1
Property Costs	10	3
Supplies and Services	11	7
Administration	0	2
Third Party Payments	36	8
Transfer Payments	43	41
Miscellaneous Costs	9	598
TOTAL EXPENDITURE	110	660

INCOME		
Sales	3	4
Rent & Lettings	19	18
Interest	43	38
Fees & Charges	1	1
Donations	16	26
Legacies	3	14
Miscellaneous Income	4	5
TOTAL INCOME	89	106

DEFICIT ON YEAR	(21)	(554)
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BALANCE SHEET AS AT 31 MARCH 2008

	2007/08 £'000	2006/07 £'000
Investments		
Property	27	27
Capital Deposits	149	149
TOTAL LONG TERM ASSETS	176	176

Current Assets		
Loans Fund Deposit	690	710
Less Current Liabilities	1	1
NET CURRENT ASSETS	689	709

NET ASSETS	865	885
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Represented By :

Capital Reserve	149	149
Revenue Reserve	716	737
ACCUMULATED FUNDS	865	886

NOTES

Accounting Policies

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

A Tait, C.P.F.A., F.C.C.A.
Director of Finance
25 September 2008

Orkney Islands Council Statement of Accounts-2007/2008 Group Accounting Policies

PURPOSE

The Code of Practice on Local Authority Accounting in the United Kingdom 2004: A Statement of Recommended Practice (the 2004 SORP) placed a requirement on authorities to consider all their interests in external organisations including limited companies and other statutory organisations. This includes other local authorities or similar bodies defined in section 106 of the Local Government (Scotland) Act 1973 e.g. statutory bodies such as Police, Fire and Valuation Boards. Authorities are required to prepare a full set of group accounts in addition to their own Council's accounts where they have a material interest in such entities. The group Financial Statements to 31 March 2008 represents the consolidation of the balances and transactions of the Council its subsidiaries and associates.

Combining Entities

The Group Accounts consolidate the results of the Council with eleven other entities.

Name of combining entity	Method of Accounting	Date of Consolidation
Orkney Towage Company Ltd	Subsidiary	
Orkney Ferries Ltd	Subsidiary	
Weyland Farms Ltd	Subsidiary	
Orkney Islands Property Development Ltd	Subsidiary	
Pickaquoy Centre Trust	Associate	
Orkney Meat Ltd	Associate	
Orkney Herring Company Limited	Associate	31 March 2008
Northern Joint Police Board	Associate	
Highlands and Islands Fire Board	Associate	
Orkney and Shetland Valuation Joint Board	Joint Venture	
HITRANS	Associate	31 March 2007

To comply with the 2004 SORP, the Council has identified a number of companies where the Council has a "controlling interest" - these are termed "subsidiaries". The Council holds 100% of the shares in 3 Companies (Orkney Towage Company Limited, Orkney Ferries Limited and Weyland Farms Ltd) and has included the companies limited by Trust and Guarantee (Orkney Islands Property Development Ltd) because it has a "controlling interest" over their financial and operating policies. Under accounting standards, the council is required to include the results of organisations termed as "associates", or "joint ventures" because it has a "significant influence" over financial and operating policies. The Council has no shares nor ownership of any of these organisations which are entirely independent of the Council under law and for taxation.

Orkney Islands Council's share of each associate or joint venture's net assets or liabilities is calculated in a variety of methods.

"Associate" and "joint venture" organisations were consolidated on the following basis :-

		2007/08	2006/07
		%	%
Pickaquoy Centre Trust		100.00	100.00
Orkney Meat Ltd	Share Holding	38.00	38.00
Orkney Herring Company Limited	Share Holding	33.30	0.00
Northern Joint Police Board	% Revenue Contribution	6.15	5.68
Highlands and Islands Fire Board	% Revenue Contribution	7.43	7.55
Orkney and Shetland Valuation Joint Board	% Revenue Contribution	48.18	50.55
HITRANS	% Revenue Contribution	8.50	13.50

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

Orkney Islands Council
Statement of Accounts - 2007/2008
Group Accounting Policies - (continued)

Materiality

A number of other organisations were also considered for consolidation

Name of considered entity

Orkney Homes Trust
Eday Co-op
Papay Co-op
Pickaquoy Centre Limited
Common Good Fund

Following a full review it was deemed that for the purposes of this exercise they could not be considered to have a group relationship on the basis that Orkney Islands Council would be unable to derive future economic benefits and would have no material exposure to financial risk.

Basis of Combination & Going Concern

In line with the principles contained within the 2004 SORP, the Group Financial Statement for the year ended 31 March 2008 has been prepared on the basis of a full consolidation of the financial transactions and balances of the Council and its subsidiaries.

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

For seven of the eleven entities, the Council has a share in a net liability. The negative balances arise from the inclusion of liabilities related to the defined benefit pension schemes as required by FRS17 (i.e. Their pension liability to pay retirement benefits in the long term). There is a significant negative net worth in the case of the Police and Fire Joint Boards.

The effect of inclusion of the above bodies on the Group Balance Sheet is to reduce both Reserves and Net Assets by £22.824 million net liabilities in these entities. As above, this reflect the combined pension liability of these organisations, particularly those recorded for the Police and Firemen's Pension Schemes.

All consolidated organisations consider it appropriate that their Statement of Accounts should follow the "going concern" basis of accounting Arrangements with the constituent local authorities for the funding of the deficits of Police, Fire , Valuation Joint Boards and HITRANS means that the financial position of these Boards remains assured. The Council have procedures in place to ensure the funding of the deficits of the subsidiaries, and the Council's share in Orkney Meat and Orkney Herring is a net asset.

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 set out on Statement 1 with the additions and exceptions shown in the following section.

GROUP INCOME AND EXPENDITURE ACCOUNT

Retirement Benefits

In common with Orkney Islands Council, the subsidiaries participate in the Council's Pension Scheme. This is explained on Statement 8. The subsidiaries have accounting policies for pensions accounting that are consistent with those of the Council.

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

Orkney Islands Council
Statement of Accounts - 2007/2008
Group Accounting Policies - (continued)

Grants and Contributions

Amounts credited to the Group Income & Expenditure Account from government grants deferred are included within the "net cost of services".

Value Added Tax

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

Proceeds from Disposals of Fixed Assets

Profits and losses on the disposal of fixed assets are credited or debited to the Group Income & Expenditure Account within "net cost of service". The proceeds of disposals for the Group are appropriated out after "net operating expenditure". In the case of proceeds for the Council's assets, these are taken to the Usable Capital Receipts Reserve. Amounts written off to the Group Income and Expenditure Account in respect of Council assets are appropriated out after "net operating expenditure" to the Capital Adjustment Account. For the share of proceeds for associates, these are taken instead to the Group Income and Expenditure Reserve.

GROUP BALANCE SHEET

Valuation of Fixed Assets

The basis of valuation across the combining entities is in accordance with UK GAAP and there are no material inconsistencies with the policies adopted by Orkney Islands Council.

Depreciation

The periods and categories of assets for the Group are:

	Useful Life
Buildings	10 – 100 years
Infrastructure	40 years
Plant & Equipment, Furniture & Fittings	3 – 15 years
Vehicles	3 – 15 years

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

Stock

Stock is valued at the lower of cost or net realisable value and in the case of Weyland Farms Ltd at 75% of market value or purchase price. The difference in valuation methods does not have a material effect on the results of the Group given the levels of stockholdings.

Goodwill

Goodwill is written off in full against profits on acquisition. The 2004 SORP requires group accounts for accounting periods ending on or after 31 March 2008, as such no goodwill was written off (£Nil in 2007).

Investments

Investments are measured at fair value and carried at their amortised cost.

Orkney Islands Council
Statement of Accounts - 2007/2008

The Group Income And Expenditure Account

PURPOSE

This account summarises the resources that have been generated and consumed in providing services and managing the group during last year. It includes all day-to-day expenses and related income on an accruals basis, as well as transactions measuring the value of fixed assets actually consumed and real projected value of retirement benefits earned by employees in the year.

Group Income and Expenditure Account for year ended 31 March 2008

2006/07		2007/08	2007/08	2007/08
Net		Gross	Gross	Net
Expenditure		Expenditure	Income	Expenditure
£'000		£'000	£'000	£'000
24,900	Education	28,989	3,152	25,837
3,939	Cultural and Recreation	4,714	1,239	3,475
13,875	Community Social Services	18,372	5,795	12,577
1,625	Police Services	1,769	0	1,769
1,608	Fire Services	1,670	0	1,670
12,533	Roads and Transportation	13,201	1,560	11,641
1,197	Planning and Development	2,313	826	1,487
3,446	Environmental Services	4,242	900	3,342
1,516	Central Services	4,092	2,181	1,911
2,045	Corporate & Democratic Costs	2,117	0	2,117
326	Housing Services	4,646	4,431	215
(95)	Housing Revenue Account	2,807	1,807	1,000
914	Harbour Authority	9,650	8,886	764
(1,185)	Net (Surplus)/Deficit on Associate			210
0	Net (Surplus)/Deficit on Joint Ventures			14
0	Exceptional Items	2,269		2,269
(1,250)	Non Distributed Cost	0	(116)	116
65,394	NET COST OF SERVICES	100,851	30,661	70,414
(39)	(Profit)/Loss on Disposal of Fixed Assets			(400)
(459)	Grants and contributions received to finance capital expenditure			0
(8,989)	Net (Surplus)/Deficit on Harbour Investment Income			(8,459)
45	Net (Surplus)/Deficit on Orkney College			57
(430)	Interest on Balances			(1,682)
(34)	Share of Interest Receivable of Associate			(66)
0	Share of Interest Receivable of Joint Ventures			0
(325)	Pensions Interest Cost & Expected Return on Pensions Assets			(680)
1,131	Pensions Interest Cost & Expected Return on Pensions Assets of Associates			1,266
1,784	Net (Income)/Expenditure on Interest Payable			1,930
58,078				62,380
24	Transfer to/(from) Reserves			24
26	Tax on profit on Ordinary Activities			26
(6)	Share of tax of Associate			1
58,122	NET EXPENDITURE			62,431
(48,956)	Revenue Support Grant			(51,714)
(7,233)	Distribution on Non-Domestic Rate Pool			(7,149)
(7,231)	Council Tax			(7,612)
(5,298)	(SURPLUS)/DEFICIT FOR YEAR			(4,044)
Statement of Movement on General Fund Balance				
99	Balance at 1 April 2007			14,309
(8,912)	Net additional amount required by statute and non-statutory proper practices to be debited or credited to General Fund Balance for the year			5,376
(5,298)	(Surplus)/Deficit for year			(4,044)
14,309	BALANCE AT 31 MARCH 2008			12,977

Orkney Islands Council
Annual Accounts - 2007/2008

Reconciliation of the Single Entity to the Group

PURPOSE

This Statement reconciles the Council's single entity surplus or deficit for the year to the Group surplus or deficit for the year.

Reconciliation of the Single Entity Surplus or Deficit for the Year to the Group Surplus or Deficit as at 31 March 2008

	2007/08	2006/07
	£'000	£'000
(Surplus) or deficit on the authority's single Income and Expenditure Account for the year	(6,890)	(5,310)
Less Adjustments for transactions with group entities	(9,724)	(9,885)

SURPLUS IN GROUP INCOME AND EXPENDITURE ACCOUNT		
ATTRIBUTABLE TO THE AUTHORITY	(16,614)	(15,195)

Add (Surplus)/Deficit arising in the Group Income and Expenditure Account attributable to the Group entities (Adjusted for intra-group transactions)

Subsidiaries

Orkney Towage Company Limited	3,657	2,832	
Orkney Ferries Limited	7,369	6,992	
Weyland Farms Limited	(11)	2	
Orkney Islands Property Development Limited	142	165	
The Pickaquoy Centre Trust	<u>(243)</u>	<u>(178)</u>	9,813

Associates

Orkney Meat	(24)	51	
Orkney Herring	103	0	
Northern Joint Police Board	1,174	55	
Highlands and Islands Fire Board	<u>403</u>	<u>(22)</u>	84

GROUP ACCOUNT (SURPLUS) OR DEFICIT FOR THE YEAR	(4,044)	(5,298)
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Orkney Islands Council Statement of Accounts - 2007/2008 Group Statement of Total Recognised Gains and Losses
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PURPOSE

This statement brings together all the gains and losses of the Group for the year and shows the aggregate increase in its net worth. In addition to the surplus generated on the Income and Expenditure Account, it includes gains and losses relating to the revaluation of fixed assets and re-measurement of the net liability to cover the cost of retirement benefits.

Group Statement of Total Recognised Gains and Losses as at 31 March 2008

	2007/08	2006/07
	£'000	£'000
(Surplus)/Deficit for the year on the Income and Expenditure Account	(4,044)	(5,298)
(Surplus)/Deficit arising on revaluation of fixed assets	(806)	(1,644)
(Surplus)/Deficit arising from valuation of financial instruments	613	0
(Surplus)/Deficit arising from valuation of available-for-sale financial instruments	(1,729)	0
Actuarial (gains)/losses on pension fund assets and liabilities	(18,934)	(7,138)
Any other (gains) and losses required to be included in the STRGL		
- Gain on Associates Reserves for year	205	(94)
- Prior year movements on Group Balances	(2,014)	(44)
- Gain on Repairs and Renewals Funds for year	0	(373)
- Gain on Capital Fund for year	0	(96)
TOTAL RECOGNISED (GAINS) AND LOSSES FOR THE YEAR	(26,709)	(14,687)

Notes to Group Statement of Total Recognised Gains and Losses as at 31 March 2008

1. (Surplus)/Deficit arising on revaluation of fixed assets	£'000	
Orkney Islands Council	806	
Orkney Islands Property Developments	0	
	806	
2. Actuarial (gains)/losses on pension fund assets and liabilities	£'000	
Orkney Island Council	(17,015)	
Orkney Towage Company Limited	(676)	
Weyland Farms Limited	(19)	
Orkney Ferries Ltd	(1,144)	
Pickaquooy Centre Trust	(80)	
	(18,934)	

Orkney Islands Council
Statement of Accounts - 2007/2008

The Group Balance Sheet

PURPOSE

The balance sheet is fundamental to the understanding of the Group's financial position at the year-end. It shows its balances and reserves and its long-term indebtedness, and the fixed and net current assets employed in its operations, together with summarised information on the fixed assets held.

Group Balance Sheet as at 31 March 2008

	2007/08 £'000	2006/07 £'000
Fixed Assets		
Operational Assets		
Council Dwellings	14,975	15,837
Other Land and Buildings	96,595	95,836
Vehicles, Plant and Equipment	4,016	4,709
Infrastructure Assets	72,092	73,637
Community Assets	3,474	3,444
Non-Operational Assets		
Investment Properties	21,970	5,660
Assets Under Construction	2,676	2,085
Surplus Assets	649	931
TOTAL FIXED ASSETS	216,447	202,139
Long Term Investments	149,318	153,807
Share of Net Assets of Associate	8,191	6,317
Share of Gross Assets of Joint Ventures	9	7
Share of Gross Liabilities of Joint Ventures	(9)	(7)
Long-term Debtors	2,311	3,338
TOTAL LONG-TERM ASSETS	376,267	365,601
Current Assets		
Stocks and Work in Progress	1,149	1,103
Debtors	6,491	5,090
Investments	9,881	9,363
Cash in Hand	847	803
TOTAL CURRENT ASSETS	18,368	16,359
Less Current Liabilities		
Creditors	10,057	7,712
Provisions	1,112	0
Bank Overdraft	638	395
Advances from Pension, Charity and Trust Funds	1,034	1,408
TOTAL CURRENT LIABILITIES	12,841	9,515
TOTAL ASSETS LESS CURRENT LIABILITIES	381,794	372,445
Net Pension Liability	4,663	22,778
Government Grants Deferred	53,990	53,985
Liability in Associates	30,020	29,257
Long Term Creditors	1,032	1,045
TOTAL ASSETS LESS LIABILITIES	292,089	265,380
Represented by:		
Capital Reserves		
Revaluation Reserve	2,086	1,280
Capital Adjustment Account	105,241	107,894
Financial Instruments Adjustment Account	(613)	0
Available-for-sale Financial Instruments Reserve	1,729	0
Capital Receipts Reserve	3,184	3,113
Capital Fund	2,531	2,288
	114,158	114,575
Revenue Reserves		
General Fund Balances	15,364	14,545
Harbour Authority Fund	180,885	174,090
Pension Reserve	(4,663)	(23,794)
Repairs and Renewals Fund	8,535	7,949
Reserves of Associates	(22,190)	(21,985)
	177,931	150,805
TOTAL EQUITY	292,089	265,380

A Tait, C.P.F.A., F.C.C.A.
 Director of Finance
 25 September 2008

Orkney Islands Council
Statement of Accounts - 2007/2008

The Group Cash Flow

PURPOSE

This statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes. For the purpose of this statement cash is defined as cash-in-hand and deposits repayable on demand less overdrafts repayable on demand.

Group Cash Flow Statement as at 31 March 2008

		2007/08		2006/07	
		£'000	£'000	£'000	£'000
Net Cash Inflows from Revenue Activities			4,346		(1,311)
Returns on Investment					
and Servicing					
of Finance					
	Cash Outflows				
	Interest Paid	122		287	
	Cash Inflows				
	Interest Received	542		456	
NET CASH INFLOW FROM INVESTMENTS					
AND SERVICING OF FINANCE			420		169
Taxation					
	Tax Charge for year		27		0
Capital					
Activities					
	Cash Outflows				
	Purchase of Fixed Assets	(10,437)		(13,627)	
	Purchase of Long Term Investments	(247)		(3,644)	
	Other Capital Cash Payments	(178)	(10,862)	(239)	(17,510)
	Cash Inflows				
	Sale of Fixed Assets	2,058		1,338	
	Capital Grants Received	3,212		15,057	
	Sale of Long Term Investments	45		651	
	Other Capital Receipts	753	6,068	6,770	23,816
NET CAPITAL ACTIVITIES			(4,794)		6,306
NET CASH INFLOW/(OUTFLOWS)					
BEFORE FINANCING			(55)		5,164
Management of					
Liquid Resources					
	Net Increase/(Decrease) in Short Term Deposits		(518)		(2,141)
Financing					
	Cash Outflows				
	Repayment of Amounts Borrowed	(374)		3,880	
	Cash Inflows				
	New Loans Raised	0	374	0	(3,880)
(INCREASE) / DECREASE IN CASH			(199)		(857)

Orkney Islands Council
Statement of Accounts - 2007/2008
Notes to Core Group Financial Statements

PURPOSE

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.

1. Details of Combining Entities

In addition to the information included in the consolidated Group Accounts on the preceding pages, the accounting regulations require specific disclosures about the combining entities and the nature of their business. The accounting period for the entities are the twelve months to 31 March 2008, apart from Orkney Meat Ltd which has an year end of 28 December 2007.

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

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

The latest set of audited accounts is for the year to 31 March 2008. Copies of these accounts can be obtained from Orkney Islands Council, School Place, Kirkwall, Orkney, KW15 1NY.

The net liability of the company at 31 March 2008 was £1.721M compared to £1.184M at 31 March 2007. The loss before taxation for the period to 31 March 2008 was £1.421M compared to £0.147M for the period to 31 March 2007. In 2007-08, Orkney Islands Council contributed £2.757M or 92.8% of the companies turnover. No dividend payments were due to, or received by, the Council in respect of its investment.

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

The latest set of audited accounts is for the year to 31 March 2008. Copies of these accounts can be obtained from Orkney Ferries Ltd, Shore Street, Kirkwall, Orkney, KW15 1LG.

The net assets of the company at 31 March 2008 was £0.032M compared to a liability of £1.042M at 31 March 2007. There was no profit or loss before taxation for the period to 31 March 2008 or the period to 31 March 2007. In 2007-08, Orkney Islands Council contributed £6.082M or 78% of the companies turnover.

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.

Weyland Farms Limited is a company incorporated in 1983 under the terms of the Companies Acts to promote farming. The Council is the principle shareholder in the company holding all 510,000 £1 ordinary shares representing 100% of the issued share capital. Under accounting standards, the Council has a controlling interest in this company, and it is therefore included in the group accounts as a subsidiary. Councillors and Council Officials hold all 6 of the seats on the board, with each director entitled to one vote.

The latest set of audited accounts is for the year to 31 March 2008. Copies of these accounts can be obtained from Orkney Islands Council, School Place, Kirkwall, Orkney, KW15 1NY.

The net assets of the company at 31 March 2008 were £0.010M compared to £0.029M at 31 March 2007. The loss before taxation for the period to 31 March 2008 was £0.040M compared to £0.026M for the period to 31 March 2007. In 2007-08, Orkney Islands Council contributed £0.00M or nil% of the companies turnover. No dividend payments were due to, or received by, the Council in respect of its investment.

Orkney Islands Council
Statement of Accounts - 2007/2008

Notes to Core Group Financial Statements - (continued)

Orkney Islands Property Development Ltd is a company limited by guarantee formed in 1991 and is registered in Scotland. Its principal place of business is 15 Victoria Street, Kirkwall KW15 1DN. The Company provides housing and related management services to the general public. Any surplus generated by the company is applied solely towards its continuation, development and the provision of housing in Orkney.

Orkney Islands Property Development are included in the Council's Group Accounts, because the Council has ultimately been prepared to accept the risk of cash shortfalls in the entity, and as such it was ultimately exercising dominant influence over it. Councillors and Council Officials hold 3 of the 9 seats on the board, with each director entitled to one vote.

The latest set of unaudited accounts is for the year to 31 March 2008. When available, copies of these accounts can be obtained from the General Manager, 15 Victoria Street, Kirkwall, KW15 1DN.

The net assets of the company at 31 March 2008 were £1.556M compared to £1.488M at 31 March 2007. The profit before taxation for the period 31 March 2008 was £0.076M compared to £0.067M for the period to 31 March 2007. In 2007-08, Orkney Islands Council contributed £0.196M or 40.2% of the companies turnover. No dividend payments were due to, or received by, the Council in respect of its investment.

The Pickaquooy Centre Trust is a company limited by trust formed in 1999 and is registered in Scotland. Its principal place of business is The Pickaquooy Centre, Muddisdale Loan, Kirkwall KW15 1LR. The Trust provides leisure facilities within Orkney Islands Council's area to the general public. The objectives of the Trust are to provide facilities for recreation, sport, cultural and other leisure activities for the benefit of the community in Orkney. Any surplus generated by the charity is applied solely to its continuation and development.

The Pickaquooy Centre Trust are included in the Council's Group Accounts, because the Council has ultimately been prepared to accept the risk of cash shortfalls in the entity, and as such it was ultimately exercising dominant influence over it. Councillors and Council Officials hold 5 of the 11 seats on the board, with each trustee entitled to one vote.

The latest set of unaudited accounts is for the year to 31 March 2008. When available, copies of these accounts can be obtained from The Pickaquooy Centre, Muddisdale Loan, Kirkwall KW15 1LR.

In 2007-08, Orkney Islands Council contributed £0.714M or 56.5% of the company's turnover and its share of the year-end net asset of £0.159M (2006-07 liability of £0.045M) is included in the Group Balance Sheet. The following additional disclosures are required under accounting regulations for the Pickaquooy Centre Trust because the Council's share of the net assets of the Company exceeds 25%.

	2007/08	2006/07
Council's Share of Pickaquooy Centre Trust Limited	100.00%	100.00%
	£M	£M
Turnover	1.263	1.213
Profit/(Loss) before tax	0.108	0.129
Interest Payable/Receivable	0.006	Nil
Taxation	Nil	Nil
Profit/(Loss) after tax	0.114	0.129
Fixed Assets	0.056	Nil
Current Assets	0.212	0.190
Liabilities due within one year	(0.162)	(0.065)
Liabilities due after one year or more	0.053	(0.080)
Net Liabilities	0.159	0.045
Contingent Liabilities	None	None
Capital Commitments	None	None

Orkney Meat Limited is a private limited company formed in 1986 and is registered in Scotland. Its registered office is at The Abbatoir Grainshore Road, Hatston Industrial Estate, Kirkwall KW15 1FL. The Company's main business is that of meat producers and wholesalers.

Any surplus generated by the company is distributed by means of dividend or retained and applied solely to its contribution and development. The accounts of the Orkney Meat Limited are published separately and are made available to all members. The latest set of audited accounts is for the year to 28 December 2007. Copies may be obtained from the General Manager, Orkney Meat Limited, Grainshore Road, Hatston Industrial Estate, Kirkwall, KW15 1FL.

Orkney Islands Council
Statement of Accounts-2007/2008

Notes to Core Group Financial Statements - (continued)

In 2007-08, Orkney Islands Council contributed £0.00m or nil% of the company's turnover and its share of the year-end net asset of £0.385M (2006-07 £0.325M) is included in the Group Balance Sheet. The following additional disclosures are required under accounting regulations for Orkney Meat Limited because the Council's share of the net assets of the Company exceeds 25%.

	2007/08	2006/07
Council's Share of Orkney Meat Limited	38.00%	38.00%
	£M	£M
Turnover	1.981	2.020
Profit/(Loss) before tax	0.020	(0.062)
Interest Payable/Receivable	0.007	0.005
Taxation	(0.001)	(0.006)
Profit/(Loss) after tax	0.026	(0.051)
Fixed Assets	0.081	0.106
Current Assets	0.492	0.465
Liabilities due within one year	(0.150)	(0.164)
Liabilities due after one year or more	(0.010)	(0.045)
Net Liabilities	0.385	0.362
Contingent Liabilities	None	None
Capital Commitments	None	None

Orkney Herring Company Limited is a private limited company formed in 1986 and is registered in Scotland. Its registered office is at Garson Industrial Estate, Stromness, Orkney, KW16 3JN. The Company's main business is that of meat producers and wholesalers.

Any surplus generated by the company is distributed by means of dividend or retained and applied solely to its contribution and development. The accounts of the Orkney Herring Company Limited are published separately and are made available to all members. The latest set of audited accounts is for the year to 31 March 2008. Copies may be obtained from the General Manager, Orkney Herring Company Limited, Garson Industrial Estate, Stromness, KW16 3JN.

In 2007-08, Orkney Islands Council contributed £0.00M or nil% of the company's turnover and its share of the year-end liability of £0.003M (2006-07 £Nil) is included in the Group Balance Sheet. The following additional disclosures are required under accounting regulations for Orkney Herring Company Limited because the Council's share of the net liabilities of the Company exceeds 25%.

	2007/08	2006/07
Council's Share of Orkney Herring Company Ltd	33.30%	Nil%
	£M	£M
Turnover	0.578	-
Profit/(Loss) before tax	(0.081)	-
Interest Payable/Receivable	(0.022)	-
Taxation	Nil	-
Profit/(Loss) after tax	(0.103)	-
Fixed Assets	0.185	-
Current Assets	0.200	-
Liabilities due within one year	(0.271)	-
Liabilities due after one year or more	(0.117)	-
Net Liabilities	(0.003)	-
Contingent Liabilities	None	-
Capital Commitments	None	-

Orkney Islands Council
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Notes to Core Group Financial Statements - (continued)

Orkney and Shetland Valuation Joint Board was formed in 1996 at local government re-organisation by Act of Parliament. Its principal place of business is Shetland Islands Council. The Board provides the valuation function for Orkney and Shetland Islands. The Board's running costs are met by the two member Councils. Surpluses or deficits on the Board's operations are shared between the Councils. In 2007-08, Orkney Islands Council contributed £0.266M or 47.30% of the Board's estimated running costs and its share of the year-end net liability of £0.026M (2006-07 £0.113M) is included in the Group Balance Sheet. Copies of its accounts may be obtained from the Shetland Islands Council.

The following additional disclosures are required under accounting regulations for Orkney and Shetland Valuation Joint Board because the share of the net liabilities of the Valuation Joint Board exceeds 25%.

	2007/08	2006/07
Council's Share of Orkney and Shetland Valuation Joint Board	48.18%	50.55%
	£M	£M
Turnover	0.271	0.292
Profit/(Loss) before tax	(0.003)	0
Interest Payable/Receivable	0.014	0
Taxation	Nil	0
Profit/(Loss) after tax	0.011	0
Fixed Assets	Nil	0
Current Assets	0.009	0.007
Liabilities due within one year	(0.009)	(0.007)
Liabilities due after one year or more	(0.026)	(0.113)
Net Liabilities	(0.026)	(0.113)
Contingent Liabilities	None	None
Capital Commitments	None	None

Northern Joint Police Board is the statutory body established under the Local Government Reorganisation in 1975, and provides a vast range of policing services on behalf of the 4 local authorities in the Highlands and Islands of Scotland. In 2007-08, Orkney Islands Council contributed £1.769M or 6.15% of the Board's estimated running costs and its share of the year-end net liability of £18.506M (2006-07 £17.972M) is included in the Group Balance Sheet. Copies of its accounts may be obtained from the Highland Council.

The following additional disclosures are required under accounting regulations:

	2007/08	2006/07
Council's Share of Northern Joint Police Board	6.15%	5.68%
	£M	£M
Turnover	0.407	0.310
Fixed Assets	2.956	2.850
Current Assets	0.770	0.498
Liabilities due within one year	(0.361)	(0.253)
Liabilities due after one year or more	(21.870)	(21.075)
Net Liabilities	(18,505)	(17.972)
Contingent Liabilities	None	None
Capital Commitments	0.958	0.250

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Notes to Core Group Financial Statements - (continued)

Highlands and Islands Fire Board is the statutory body established under the Local Government Reorganisation in 1975, and provides fire services on behalf of the 4 local authorities in the Highlands and Islands of Scotland. In 2007-08, Orkney Islands Council contributed £1.670M or 7.43% of the Board's estimated running costs and its share of the year-end net liability of £3.839M (2006-07 £4.244M) is included in the Group Balance Sheet. Copies of its accounts may be obtained from the Highland Council.

The following additional disclosures are required under accounting regulations:

	2007/08	2006/07
Council's Share of Highlands and Islands	7.43%	7.55%
Fire Board	£M	£M
Turnover	0.085	0.083
Fixed Assets	2.943	2.806
Current Assets	0.260	0.294
Liabilities due within one year	(0.229)	(0.294)
Liabilities due after one year or more	(6.813)	(7.050)
Net Liabilities	(3.839)	(4.244)
Contingent Liabilities	None	None
Capital Commitments	0.966	1.774

HITRANS (the Highlands and Islands Transport Partnership) was established under the Regional Transport Partnership (Establishment and Constitution) (Scotland) Order 2005, effective 5 December 2005. Its remit was to prepare Transport Strategies for their regions which will enhance economic well being ; promote safety ; social inclusion and equal opportunity ; plan for sustainable transport system ; and integrate across boundaries with other partnership. In 2007-08, Orkney Islands Council contributed £0.017M or 8.5% of the partnership's estimated running costs and its share of the year-end net liability of £0.001M (2006-07 net liability of £0.003M) is included in the Group Balance Sheet. Copies of its accounts may be obtained from the Highland Council.

The following additional disclosures are required under accounting regulations:

	2007/08	2006/07
Council's Share of HITRANS	8.50%	13.50%
	£M	£M
Turnover	Nil	0.000
Fixed Assets	Nil	0.000
Current Assets	0.144	0.088
Liabilities due within one year	(0.144)	(0.088)
Liabilities due after one year or more	0.001	(0.003)
Net Liabilities	0.001	(0.003)
Contingent Liabilities	None	None
Capital Commitments	None	None

2. Financial Impact of Consolidation

The effect of inclusion of the above bodies on the Group Balance Sheet is to reduce both Reserves and Net Assets by £22.824M representing the Council's share of the net liabilities in these entities. As above, this reflects the combined pension liability of these organisations, particularly those recorded for the Police and Firemen's Pension Schemes.

3. Council's Consideration for Acquisition of Associates' Net Assets or Liabilities

The assets, liabilities and reserves of the Council have been combined with its share of the net assets or liabilities of its associates and joint ventures under the accounting conventions of the "acquisition basis" using the equity method. The accounting regulations require certain disclosures about the net assets or liabilities so acquired:-

The Council paid a market price for its consideration in Orkney Towage Company Ltd , Orkney Meat Ltd and Orkney Herring Company Ltd.

There is no deferred or contingent purchase consideration.

All goodwill arising from these purchases has been written off in 2005-06.

A "fair value" for its share of the net assets or liability of the three Joint Boards at the point of acquisition and the post-acquisition results are unable to be accurately determined in view of length of time since the transfer responsibilities at local government re-organisation in 1975 and 1996, and the change in accounting for pensions under FRS17 in 2003-04.

No consideration was given for the interest in the remaining subsidiaries or associates, therefore no goodwill arose.

4. Exceptional Items

The Exceptional items included in the accounts represent accrued staff costs, a provision for equal pay and goodwill written of the balances during the year as follows:-

	2007/08	2006/07
	£'000	£'000
Staff Costs	2,269	0
Equal Pay	0	(1,250)
Goodwill	0	0
	2,269	(1,250)

5. Taxation

The tax charge for the year relates to corporation tax in this year for Orkney Ferries Ltd and Orkney Meat Ltd. The difference between tax at the standard rate on the company's profits for the actual level of corporation tax is mainly as a result of timing differences on capital expenditure.

6. Other Pension Schemes

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

Merchant Navy Officers Pension Plan (MNOFF)

Some employees contribute to this defined contribution pension plan. The contribution rate is 5.1%. Contributions payable in the year amounted to £4,228.

Merchant Navy Officers Pension Fund (MNOFF)

The MNOFF is closed to new members however some existing employees may qualify to contribute to the MNOFF, a defined benefit scheme, with a contribution rate of 11.9%. The group made contributions to this fund of £610,834 in the year. It is a multiple employer scheme and the company is unable to identify its share of the underlying assets and liabilities. As at the last valuation in March 2006, the pre-78 (Old) section of the MNOFF had a surplus of assets over liabilities of £223M, while the post-78 (New) section had a deficit of £309M.

The Trustees of the new section have now requested deficit contributions from each employer and the group entities agreed to make additional contributions, payable in 10 equal instalments due on 31 March annually until 2014, as follows:-

	£'000
Orkney Towage Company Ltd	60,329
Orkney Islands Council	52,116
	112,445

The additional contributions are subject to change, dependent on the results of future actuarial valuations of the fund.

Merchant Navy Rating Pension Plan (MNRPP)

Some employees may qualify to contribute to the MNRPP, a defined benefit scheme, with a contribution rate of 11.9%. The group made contributions to this fund of £2,697 in the year. It is a multiple employer scheme and the group is unable to identify its share of the underlying assets and liabilities. As at the last full valuation in March 2006, the pre-78 (Old) section of the MNRPP has a surplus of assets over liabilities, while the post-78 (New) section has a deficit. The Trustees of the New section have requested deficit contributions from each employer and the group has made additional contributions totalling £79,509 during the current year. The additional contributions are subject to change, dependent on the results of the future actuarial valuations of the fund.

7. Reconciliation of Operating Surplus to Net Cash Inflow from Revenue Activities

	2007/08	2006/07
	Total	Total
	£'000	£'000
Operating Surplus/(Deficit) for Year	1,332	5,298
Non Cash Transactions		
Contributions to Reserves	(6,428)	(8,883)
Adjustments not Involving the Movement of Funds	4,631	(8,792)
Contributions to Capital	3,056	4,066
Increase/(Decrease) in Bad Debt Provision	(255)	295
	1,004	(13,314)
Items on an Accruals Basis		
(Increase)/Decrease in Stock and Work in Progress	(46)	1,103
(Increase)/Decrease in Debtors	(1,401)	1,592
(Increase)/Decrease in Creditors	3,457	4,010
	2,010	6,705
Cash Inflow from Revenue Activities	4,346	(1,311)

Orkney Islands Council
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Notes to Core Group Financial Statements - (continued)

8. Movement in Cash	2007/08			2006/07
	31/03/08 £'000	31/03/07 £'000	Movement £'000	Movement £'000
Bank Overdraft	(638)	(395)	(243)	(395)
Cash	847	803	44	(462)
Increase/(Decrease) in Cash	209	408	(199)	(857)

9. Reconciliation of Liquid Reserves	2007/08			2006/07
	31/03/08 £'000	31/03/07 £'000	Movement £'000	Movement £'000
Temporary Lending	9,881	9,363	518	2,141

10. Reconciliation of Financing	2007/08			2006/07
	31/03/08 £'000	31/03/07 £'000	Movement £'000	Movement £'000
Revenue Advances from Common Good, Charities and Trusts	(1,034)	(1,408)	374	3,880

Orkney Islands Council
Statement of Accounts - 2007/2008
System of Internal Financial Control

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

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

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

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

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

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

- 5 Our review of the effectiveness of the system of internal financial control is informed by :
 - . the work of managers within the Group entity
 - . the best value review process
 - . the work of internal audit as described above; and
 - . the external auditors in their annual audit letter and other reports

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

- 6 In 2007/08, the budget monitoring arrangements became embedded throughout the Council. A series of training sessions was held which has led to a significant improvement in adherence to the budget monitoring procedures.

Arrangements were put in place during the year for the provision of the Payroll System to transfer from Highland Council to being managed in-house. The new arrangements came into place in April 2008, and should place greater control within the Council in maintaining the system.

In previous years problems have been highlighted with regards to the management of records relating to employment contracts and letters of employment for staff within certain departments. In 2007/08, the implementation of Single Status was progressed and employees in all departments were issued with new contracts.

While the Council has put arrangements in place to ensure compliance with "The Code of Guidance on Funding External Bodies and Following the Public Pound", adherence to the arrangements requires to be improved in certain areas. In particular a register detailing funding arrangements which have been established requires to be maintained up to date, in order to increase the controls over and transparency of funding provided to external bodies.

With regard to risk management, considerable effort was made during 2007/08 in identifying and examining the risks which exist to the Council delivering services. Whilst a Corporate Risk Register has been prepared, work is ongoing in developing departmental risk registers. This work is being facilitated by the Council's insurers and shall encompass a review of the existing risk management strategy and policies.

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

It was identified during the year that there is a requirement for the Council to improve the systems in place for recording and controlling stock within the Information Services Section and within the Museums Service.

The Council currently has decentralised arrangements in place for the procurement of goods and services, and there is no corporate procurement strategy. Procurement is one of the workstreams to be reviewed as part of the Council's Efficient Government agenda, and work is underway to improve the procedures and strengthen internal controls. The first stage in this has been the establishment of a Joint Head of Procurement post for the Council and NHS Orkney.

Several weaknesses have been identified in relation to asset management and planning arrangements. The Council does not have a clear asset management strategy which links to asset plans for services. This has however been identified as a priority for development in the corporate improvement plan. Work is ongoing in improving the systems for recording assets, including the installation of a new corporate asset register. The process of recruiting staff so that there are sufficient personnel resources dedicated to asset management systems is ongoing.

I am satisfied, that the responsible officers are aware of, and are addressing the issues detailed above.

A Tait, C.P.F.A., F.C.C.A.
Director of Finance
25 September 2008

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

We certify that we have audited the financial statements of Orkney Islands Council and its group for the year ended 31 March 2008 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Income and Expenditure Account, Statement of Movement on the General Fund Balance, Statement of Total Recognised Gains and Losses, Balance Sheet and Cash-Flow Statement, the Harbour Authority Account, the Orkney College of Further Education Account, the Housing Revenue Account Income and Expenditure Account, Statement of Movement on the HRA Balance, the Council Tax Income Account, the Non-Domestic Rate Income Accounts, the Pension Fund Account and Net Assets Statement, Charitable Trust Funds, Non Charitable Trust Funds and Common Good Fund and the related notes and the Statement of Accounting Policies together with Group Accounts. These financial statements have been prepared under the accounting policies set out within them.

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

Respective responsibilities of the Director of Finance & Housing and auditor

The Director of Finance & Housing's responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2007 - A Statement of Recommended Practice (the 2007 SORP) are set out in the Statement of Responsibilities for the financial statements.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission.

We report our opinion as to whether the financial statements present fairly, in accordance with relevant legal and regulatory requirements and the 2007 SORP the financial position of the local authority and its group and its income and expenditure for the year, and have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

We also report to you if, in our opinion, the local government body has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We review whether the Statement on the System of Internal Financial Control reflects the authority's compliance with the SORP, and we report if, in our opinion, it does not. We are not required to consider whether this statement covers all risk and controls, or form an opinion on the effectiveness of the local government body's corporate governance procedures or its risk and control procedures.

We read the other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the Explanatory Foreword. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with Part VII of the Local Government (Scotland) Act 1973 and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board as required by the Code of Audit Practice approved by the Accounts Commission. Our audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Director of Finance & Housing in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the local authority and its group's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements

- present fairly, in accordance with relevant legal and regulatory requirements and the 2007 SORP, the financial position of Orkney Islands Council and its group as at 31 March 2008 and its income and expenditure for the year then ended; and

- have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

Scott-Moncrieff
17 Melville Street
Edinburgh
EH3 7PH
25 September 2008