



Draft Annual Accounts 2025/26

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Management Commentary

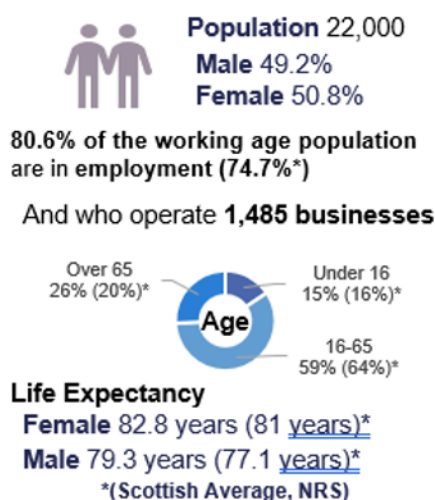
The Management Commentary is intended to assist users in understanding the objectives and strategy of Orkney Islands Council, whilst demonstrating the stewardship of the public funds that support its mission and strategic priorities. It also provides a review of its business and financial performance throughout the year, summarising the position of the Council at the end of March 2026. It outlines the principal risks and uncertainties facing the Council and assesses the potential impact of those risks on future developments and performance. The financial position of the wider Council group is also presented, with the format and content of the Accounts prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom.

Orkney Islands Council

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



Who do we provide our services to?



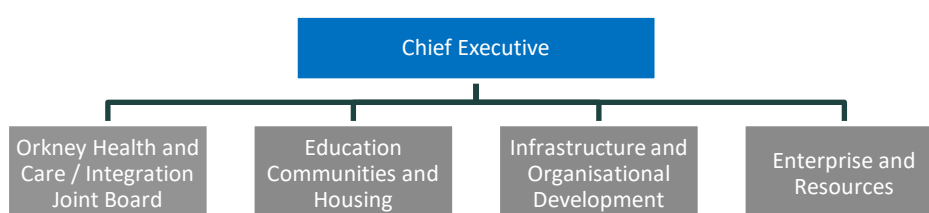
What do we provide?

...1,693 employees (FTE) who...



Council Structure

On 22 April 2025, Policy and Resources Committee approved a new Corporate Management Structure, reducing the directorates across the Council down from 5 to 4, and restructuring the Heads of Service that sit under those 4 directorates, as follows:



The full remit of each directorate can be found on the Council's website: [Orkney Islands Council Structure with SM Remits and Names](#)

Council Mission and Strategic Priorities

What are we aiming to achieve for Orkney?

The Orkney Partnership

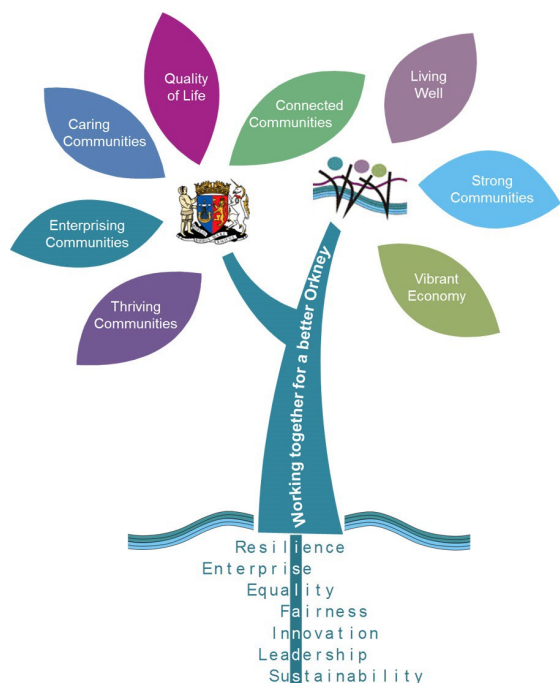
The Council works alongside four other lead agencies in Orkney to maintain and deliver Orkney's Community Plan. The Council, NHS

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



The Orkney Partnership

Working together for a better Orkney



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

The Community Plan, incorporating the Local Outcomes Improvement Plan, can be found at the following link: [Orkney Community Plan 2025-2030 incorporating the LOIP \(orkneycommunities.co.uk\)](https://orkneycommunities.co.uk/orkney-community-plan-2025-2030-incorporating-the-loip)

The Council Plan

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

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

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

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

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



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

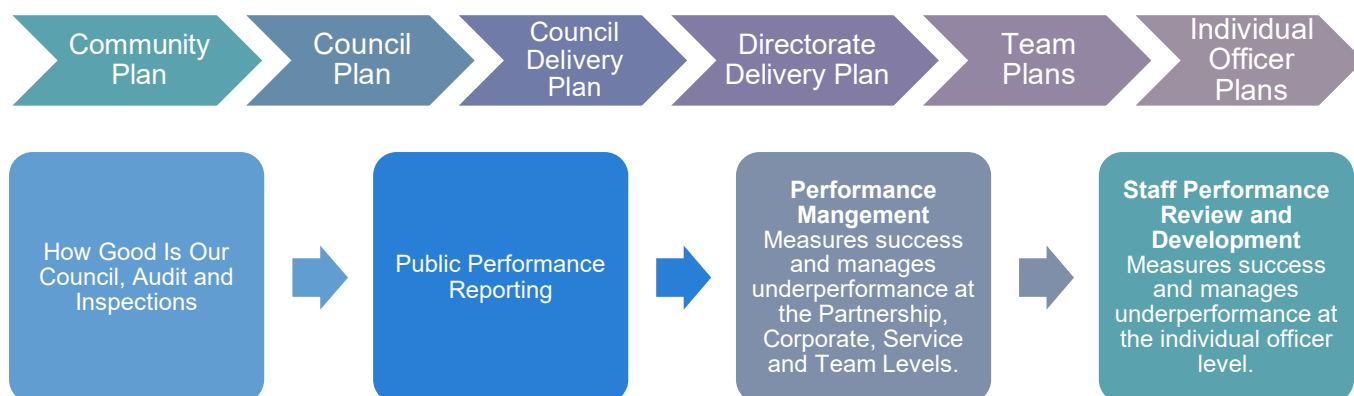
Underpinning all of our plans is the Council's commitment to combat climate change, having joined other councils in declaring a climate emergency in 2019. The opportunity to grow our green and blue economies with land and sea-based renewable energy projects will give Orkney a head-start in the race to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

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

How do we achieve the objectives?

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

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



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

Looking back over 2025/26

Financial year 2025/26 has continued to be challenging for Orkney with the budget settlement failing to deliver real terms growth. Council Tax levels for 2025/26 were increased by 15% which was an unprecedented increase for Orkney but reflected the financial pressures faced by the Council. Work to identify, progress and develop future budget savings and efficiencies continued during the year, however, in February 2025 following the budget setting process for 2025/26, it was agreed to fund the gap between the cost of delivering services and available resources with a £20.0M draw from the Strategic Reserve Fund for the second year in a row. This was subsequently reduced to £18.4M but remains a considerable and unsustainable draw on the reserves to fund statutory services.

The Council received a further award of £214,000 from the Islands Cost Crisis Emergency Fund and this was distributed by the Orkney Community Planning Partnership's Cost of Living Taskforce to meet the needs of those who need it most. The funding award was fully spent during 2025/26 and reported to the Scottish Government in March 2026. The activities to benefit from this funding included, amongst other things, expansion of the Food Hub scheme to more communities, covering the transport costs so that Orkney charities can continue to benefit from Fare Share's surplus food, tailored support to families facing hardship to reduce the impact of poverty, payments to families of children entitled to free school meals to cover lunches in the school holidays, continuation of the school participation fund so that children can take part in activities in and out of school, supporting the food bank, providing energy vouchers and voucher packs for women and families impacted by domestic abuse and cash-first support towards the "every child deserves a Christmas" grant scheme delivered by the Orkney Charitable Trust.

Recruitment continues to be an issue across Orkney with firms, sectors and services competing for the same staff. As a result, the Council continues to be reliant on agency staff in Social Services. The agency staff are critical to the continued delivery of safe services, but costs associated with agency staff outstrip the budgets, with agency costs for social care now costing in the region of £6.0M per annum, covering the costs of employing the agency staff, including travel and accommodation costs.

After more than a decade of service, Hayley Green, Director for Infrastructure and Organisational Development retired in December 2025. Hayley was a key member of the leadership team at the Council, and her leadership and services were particularly important in ensuring that Orkney looked and operated well during the Orkney 2025 Island Games. Lorna Richardson who was the Head of Infrastructure Services, was appointed to the post of Director in February 2026.

Highlights

In early January 2026 the Council received notification from the Scottish Government, that the Scottish Budget for 2026/27, would provide the budget required to allow the Council to complete Phase 1 of the Ferry Replacement Programme, with Phase 1 seeking to replace the ferries which serve the routes between Kirkwall and the islands of Eday, Sanday, Stronsay and Westray. The provision of this budget followed substantial engagement between the Council and the Scottish Government through the Ferries Taskforce, which was set up by John Swinney in December 2022 to address the need for renewal of the Orkney internal ferry fleet.

To allow the Council flexibility in how this additional funding is spent, it is being received by the Council as part of the annual settlement from the Scottish Government as inter-island connectivity funding totalling £10.0M per year, £2.0M capital and £8.0M revenue, with an indication that this funding will continue for the duration of the current Spending Review period. This will allow the Council to borrow money to build the new fleet of vessels and allows the funding to be used for other connectivity related issues as well. In financial year 2025/26 the £2.0M capital connectivity funding was used to purchase the Toplander, a landing craft style vessel, to increase the resilience in island connectivity, a runway roller to allow staff at the airfields to carryout essential maintenance and the purchase of a third aircraft to deliver an enhanced timetable of flights to the north isles.

During financial year 2025/26 Orkney Islands Council's Housing Service took ownership of 14 newly completed houses from the open market at Walliwall in Kirkwall and Cairston Road in Stromness. The Council also awarded contracts for the building of 25 new houses at Coplands Drive in Stromness and an independent living house at Moar Drive in Kirkwall. In addition to this, the Council purchased two properties in Kirkwall with external funding, to be used as student accommodation for students attending UHI Orkney.

The Council's Local Housing Strategy sets an ambitious target for new homes over the next 10 years, with a 60/40 split between affordable and private housing. These goals will be delivered through a combination of the Council, Housing Associations, Development Trusts alongside private sector developers. To reach this target the Council entered a landmark partnership with Places for People in November 2025 for them to deliver 500 new homes over the next decade. Places for People are the first national housing association to build in Orkney and bring with them over 50 years of experience developing and managing homes across Scotland.

Orkney made history in 2025 by being the smallest island ever to host the International Island Games, welcoming a record number of visitors for a single event. The Games took place from 12th to 18th July 2025 and brought together 2,141 athletes and officials from 24 islands across the globe with 1,630 athletes competing across 12 sports and was a massive success.

The Council agreed to officially support the bid, made by the Orkney Islands Games Association to host the 2023 Island Games and provided a commitment to support the event with up to £1.0M of funding and further in-kind support. The Covid pandemic resulted in the 2021 games being postponed to 2023, with the knock-on effect that the Orkney games did not take place until 2025. The delay increased the cost of the event, and OIC increased their funding package up to £1.4M from the Strategic Reserve Fund.

This investment recognised the benefits that the games could provide such as inclusion in terms of volunteering opportunities, increased participation in sport, increased profile for local athletes, a legacy in terms of equipment, training, infrastructure and club expertise, increased community engagement and a positive economic impact through visitor spend and use of local suppliers.

Finance and Performance

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

The Strategic Reserve Fund, held as part of the Harbour Authority Account, has been applied to supplement the General Fund services as part of an agreed medium-term financial strategy. For the financial year 2025/26 it was agreed that £18.431M from the Strategic Reserve Fund be used as a funding source to supplement the General Fund Services revenue budget. The purpose and strategy of the Strategic Reserve Fund is detailed under the Harbour Authority Account section.

Revenue Expenditure

General Fund

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

The revenue outturn position will be reported to the Policy & Resources Committee on 22 September 2026.

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

Note 7 provides a reconciliation of the £1.802M of accounting adjustments that are made to the net expenditure chargeable to the Fund Balances to arrive at the amounts in the CIES.

2025-2026	General Fund Outturn					Annual Accounts	
	Approved Budget £000	Budget movements throughout the financial year £000	Revised Budget £000	Actual Net Expenditure £000	Variance £000	Accounting Adjustments £000	Net Expenditure per the Annual Accounts £000
Education	50,231	188	50,419	50,995	576	6,110	57,105
Cultural and Recreation	5,245	208	5,453	5,477	24	2,011	7,488
Orkney Health and Care	31,414	(39)	31,375	33,401	2,026	6,719	40,120
Roads and Transportation	8,517	29,159	37,676	38,665	990	(3,132)	35,533
Environmental Services	4,561	(7)	4,554	4,652	99	(1,214)	3,438
Other Services	18,237	(39)	18,198	12,995	(5,203)	1,105	14,100
Housing Revenue Account	(920)	920	0	82	82	4,074	4,156
Harbour Authority	(2,569)	2,569	0	(330)	(331)	(1,353)	(1,683)
Non-Distributed Cost	0	0	0	0	0	61	61
Net Cost of Service	114,716	32,959	147,675	145,937	(1,737)	14,381	160,318
Other Income and Expenditure	(119,527)	(30,764)	(150,291)	(156,820)	(6,530)	(12,579)	(169,399)
Deficit/(Surplus) For Year	(4,811)	2,195	(2,616)	(10,883)	(8,267)	1,802	(9,081)

Explanations of major spend and variances throughout the year

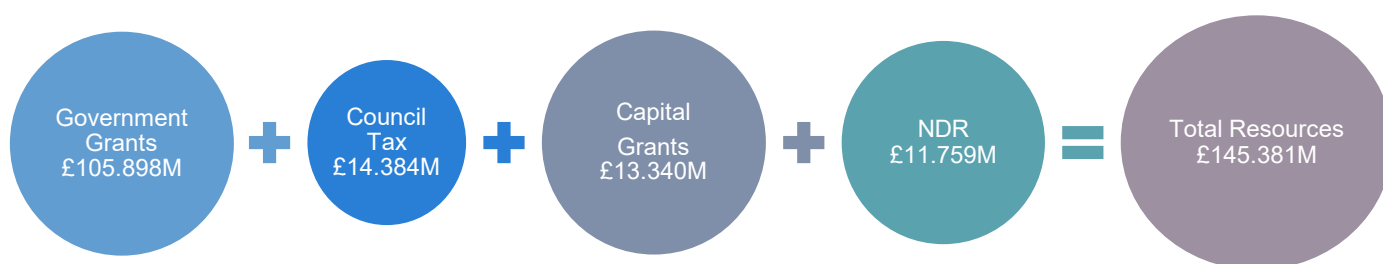
Orkney Health & Care – The continuation of recruitment pressures has resulted in the ongoing requirement to use agency staff to cover essential posts, which costs a premium.

Roads and Transport – Winter maintenance costs, surface treatment and patching for 2025/26 were high. Essential repairs also required on quarry equipment.

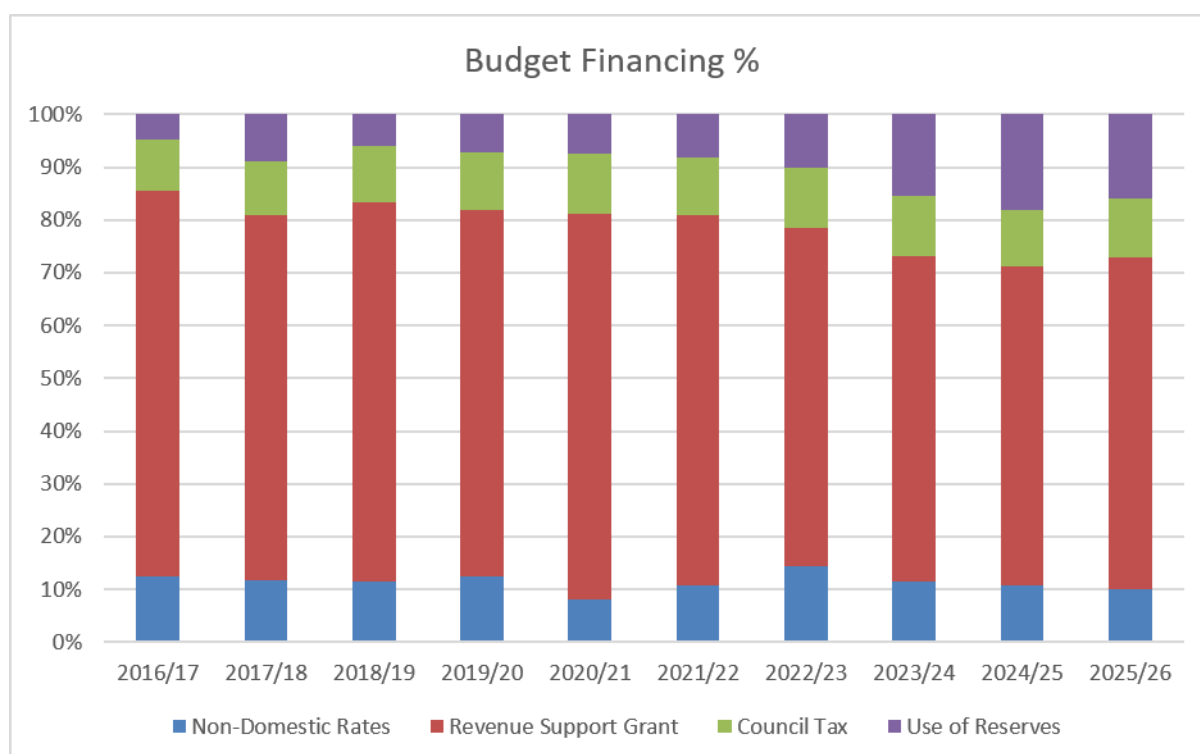
Other Services – Underspend on loan charges due to slippage on the planned delivery of the capital programme and the current programme of approved projects nearing completion. Additional redeterminations received within financial year.

Principal sources of finance

Savings



As government funding continues to reduce in real terms, the Council recognises the financial challenges that come with the ongoing reduction in resources. The graph below shows how the services are funded and illustrating the continued and increasing reliance on drawing on reserves.



In 2025/26 budget setting there was £0.7224 of efficiency savings identified by the services. This is well below the savings target set as part of the 2024/25 budget setting process.

The 2026/27 budget includes a contribution from reserves of £20.000M to ensure a balanced budget. The medium-term financial strategy for the period 2025/26 to 2029/30 highlights that a growing contribution from reserves to meet in-year service costs is no longer sustainable, and baseline budgets need to return closer to funding levels. The indicative budget forecasts estimate a funding gap of £29.4M by 2030/31 without corrective action. Within the Council's Long Term Financial Plan for the period 2018 to 2030 it stated that the Council would face a best-case scenario cumulative funding gap of £23.6M over this period, with a worst-case scenario of £145.6M, with the most likely scenario at £65.7M. This included a planning assumption that the financial contributions from the Strategic Reserve Fund will be maintained over this period.

However, these, now already historical, projections only serve to illustrate that the Council faces a significant challenge over the next five years in matching the level of expenditure to the available

resources. The Council's Long-Term Financial Plan requires updating to reflect recent performance, current assumptions, efficiency targets, and Strategic Reserve Fund draws.

Reserves

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

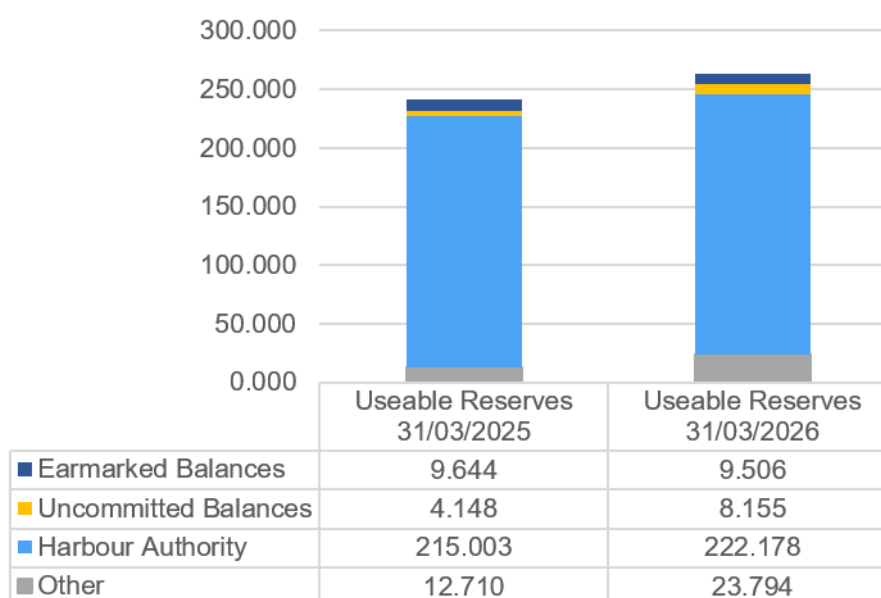
The Movement in Reserves statement shows an overall net increase of £22.128M in usable reserves.

The Council's Reserves Strategy review set a target for the unearmarked General Fund balances at 2% of budgeted expenditure for 2025/26.

As inflationary pressures built up throughout financial year 2025/26, it was felt prudent to continue to put on hold the practice of accelerating debt repayments, with no additional funds available to provide the additional flexibility needed to manage these recurring pressures going forward. This also in part recognised the effect that recurring slippage on the capital programme has had on the Council's capital financing requirement.

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

The graph below summarises the Movements on the Reserves for 2025/26:

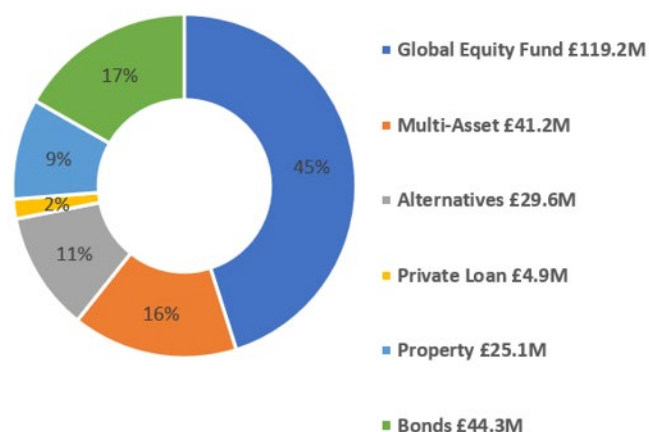


Harbour Authority Account

The Harbour Authority Account is made up of three separate ring-fenced operations under Miscellaneous Pier and Harbours, Scapa Flow Oil Port and the Strategic Reserve Fund. Overall, the Harbour Authority generated a gain of £1.684M, from various harbour activities due to an increase in ship-to-ship transfers and increased fees. Investment activities through the Strategic Reserve Fund returned a gain of £26.616M for the year and after netting off grants and other investment expenditure there was an overall gain on the Harbour Authority Account of £26.729M.

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

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

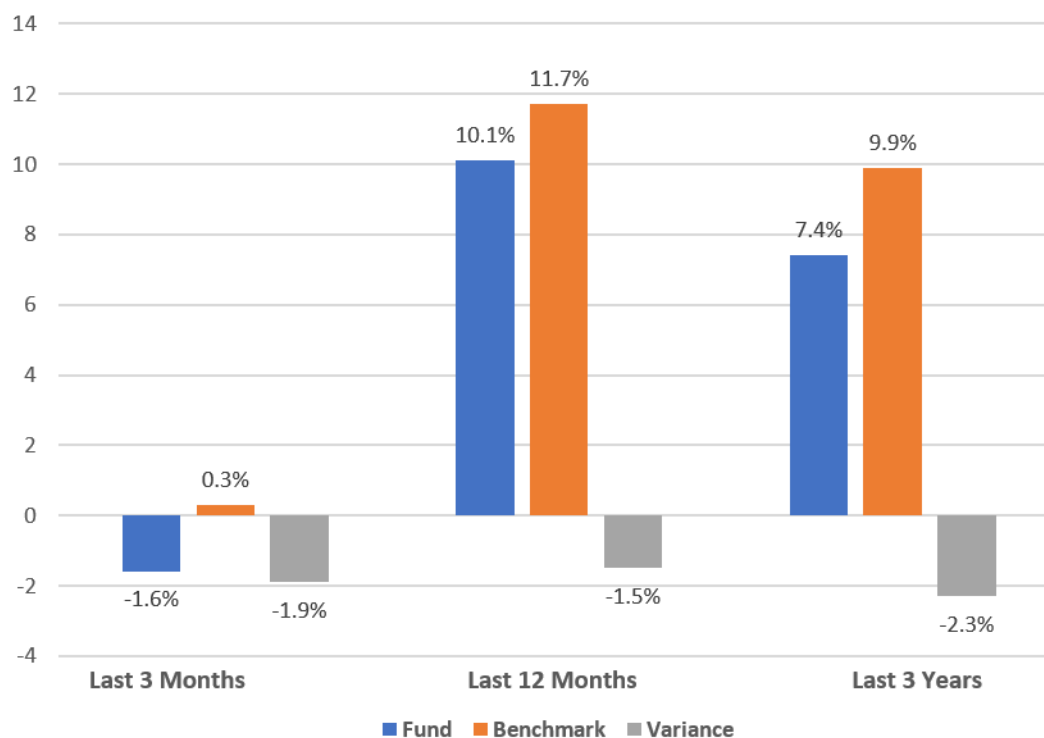


The Council aims to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of this Council is low in order to give priority to security of its investments. This is in keeping with the nature of the Council's Strategic Reserve Fund, which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

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

The performance of the Strategic Reserve Fund externally managed fund investments is measured against a range of indices reflecting the weighting or concentration of individual asset classes within the approved investment strategy with a target to outperform the aggregate benchmark over a rolling 3-year period. The following table indicates how managed fund investments have collectively performed relative to benchmark as at 31 March 2026:

Managed Funds Investment - Performance summary



Strategic Reserve Fund managed fund investments increased to a total of £264.318M, which after allowing for transfer or cash outflows, represented a gain of 10.1% on the year, with further analysis provided at Note 15.

After allowing for amounts required by statute and non-statutory proper accounting practice, including the use of reserves during the year, which included net contributions of £19.700M to support General Fund services, the net effect has been an increase of £7.175M on the Harbour Authority Account Reserves for the year.

Housing Revenue Account (HRA)

The HRA returned a loss on its operations of £4.157M which can largely be attributed to revaluation losses on the housing stock during the current year of £5.442M (£1.232M for 2024/25). After allowing for accounting for fixed assets and employee pension benefits, accelerated debt repayment and transfers to/from Reserves, the HRA achieved a deficit position of £0.083M for the year resulting in a reserve balance of £0.500M as at 31 March 2026 (£0.583M as at 31 March 2025).

UHI Orkney

The range of higher and further educational activities provided by UHI Orkney returned a deficit of £1.154M for the year (deficit of £1.472M for 2024/25). A large proportion of this accounting deficit can be attributed directly to being unable to achieve external funding to supplement core Scottish Funding Council support. On a funding basis, the net effect of UHI Orkney's activities resulted in a deficit of £0.623M for the year resulting in a fund liability of £2.038M as at 31 March 2026 (£1.415M as at 31 March 2025).

Orkney Integration Joint Board

The Orkney Integration Joint Board (OIJB) was established as a body corporate by order of Scottish Ministers with effect from 6 February 2016. The main purpose of the OIJB is to plan, resource and oversee the delivery of high-quality health and social care services for and with the people of Orkney. The Council and the NHS are jointly accountable for the delivery of services by the OIJB.

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

Capital Expenditure

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

£22.190M Actual capital expenditure incurred in 2025/26

£2.675M Underspend due to expenditure not meeting the profile assumed in the capital programme

Projects with the largest capital spend in 2025/26:



Investing in Education £1.667M



Investing in Roads, Transport and Infrastructure £9.402M



Investing in Housing £4.171M



Investing in Social Care £3.190M



Investing in Plant and Vehicles £1.580M



Investing in IT £0.604M



Investing in Community and Recreation £0.685M



Other £0.891M

Funding of the Capital Programme:

£5.052M General Capital Grant

£7.505M Borrowing

£7.029M Specific Grants

£0.575M Funded from Revenue Contributions

£1.186M Other Capital Grants

£0.843M Capital Receipts

It has been recognised that in setting an ambitious capital programme in previous years, it was not deliverable due to weaknesses in the forward planning process, which resulted in a significant amount of capital programme slippage.

Slippage is defined as capital projects which have not progressed in accordance with provisions made within the capital programme, which has been further compounded during the last few financial years by reduced capacity within the construction industry, material shortages and delays with the delivery of plant and vehicles. Although there can be positive consequences of slippage this is recognised as a weakness on the basis that these delays are likely to result in higher costs for the Council to deliver the approved capital programme.

However, it is good to see the minimal slippage in financial year 2025/26 which can be attributed to the new Capital Project Appraisal process and better monitoring and realignment of budgets during the financial year.

Performance against Prudential Framework Indicators

The Prudential Code for Capital Finance in Local Authorities allows greater local flexibility for investment decisions that are informed and supported by a suite of performance indicators. The indicators for 2025/26 were approved by Council on 4 March 2025. The Council's overall performance against these indicators provides a firm basis for the monitoring and control of capital investment and borrowing and for determining that it is prudent, affordable, and financially sustainable.

The key performance indicators are:

Prudential Indicator	Original Limit	Actuals	Commentary
Approved limit for capital expenditure	£24.865M	£22.190M	The maximum that the Council may spend on capital investments during the year.
Capital financing requirement	(£18.025M)	£4.311M	The Council's aggregate capital expenditure that is yet to be financed.
Aggregate external debt as at 31 March 2026		£50.000M	
Operational boundary	£90.000M		The upper limit for the aggregate external borrowing need.
Authorised limit	£100.000M		The upper limit of aggregate external borrowing that is affordable and prudent.

Treasury Management

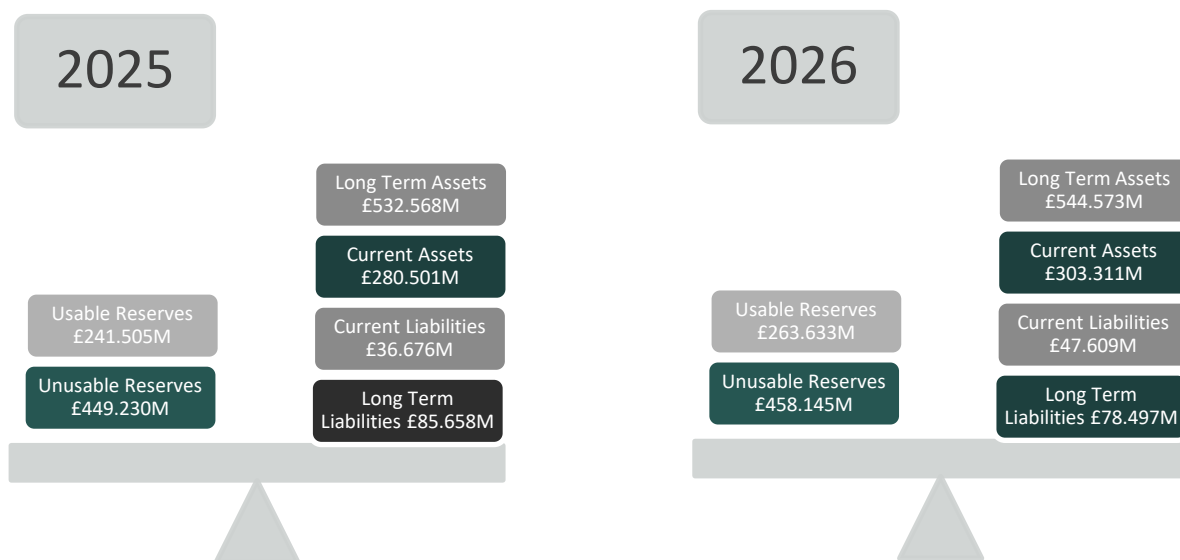
The borrowing strategy is prepared in accordance with the Code of Practice on Treasury Management in Local Authorities and with the Council utilising a borrowing facility from the Public Works Loan Board (PWLB).

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

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

Balance Sheet

The Balance Sheet represents a snapshot of Orkney Islands Council's overall financial position as at 31 March 2026. It brings together the year-end balances of all the Council's accounts and presents money owed to and by the Council, assets owned and the reserves at the Council's disposal.



In financial terms, the Council's net worth stands at £721.778M, which is an increase of £31.043M or 4.49% on the previous year.

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

Long term assets – The increase reflects the revaluation of fixed assets

Current assets – The increase is mainly due to a gain in the value of the externally managed investments of the Strategic Reserve Fund and increased cash balances.

Long term liabilities – The reduction in long term liabilities reflects the changing profile on debt repayment.

Current liabilities – The increase in current liabilities reflects debt due to be repaid in the next twelve months.

Usable Reserves – The increases on usable reserves can be attributed to the gains on the Strategic Reserve Fund, and an increase on earmarked reserves.

Unusable Reserves – The decrease on unusable reserves can be attributed to the recognition of an increase within the revaluations and pension reserve.

Details of Assets and Liabilities

Assets: £846.348M



Council Dwellings
£99.777M



Vehicles, Plant and Equipment £38.455M



Infrastructure
£74.088M



Land and Buildings
£282.969M



Cash and Cash Equivalent
£21.722M



Investment Property
£25.827M



Other Assets
£39.199M



Short-Term Investments
£264.318M

Liabilities: £124.570M



Borrowing £50.601M



Short Term Creditors
£26.953M



Provisions £42.831M



Net Pension Fund Liability/(Asset)
£4.185

Key Financial Ratios

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

Financial Indicator	2024-25	2025-26	Commentary
Reserves			
Uncommitted General Fund reserve as a proportion of Annual Budgeted Net Expenditure	3.7%	7.0%	This reflects the level of funding available to manage financial risk/unplanned expenditure and 2025/26 budget requirements and is considered sufficient.
Increase/(Decrease) in the Uncommitted General Fund Balance	£0.746M	£4.143M	Reflects the review of the Councils Uncommitted General Fund Reserve.

Financial Indicator	2024-25	2025-26	Commentary
Council Tax			
In-year Collection Rate	95.9%	96.1%	Reflects the Council’s effectiveness in collection of Council Tax debt and financial management.
Ratio of Council Tax Income to Overall Level of Funding	10.7%	7.8%	Reflects the Council’s capacity to vary expenditure by raising Council Tax income, a principal source of finance within the Local Authority control.
Financial Management			
Actual Outturn Compared to Budgeted Expenditure	100.9%	100.0%	How closely expenditure compares to the budget is a reflection of the effectiveness of financial management. The indicator is based on the format of budget monitoring as reported throughout the year.
Actual Contribution to/(from) Unallocated General Fund Balance compared to Budget	(0.4)%	(3.3)%	
Debt/Long-term Borrowing			
Ratio of Financing Cost to Net Revenue Stream: General Fund HRA	3.6% 29.6%	3.7% 26.9%	These two ratios indicate the scale of financing costs compared with the level of funding available to the Council.

Group Accounts

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

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

The Orkney Integration Joint Board is included as a "joint venture". The effect of recognising the Council's interests in subsidiaries and associates on a group basis is an increase in net worth of £3.477M to £725.255M.

Council Plan Targets, Outcomes and Planned Actions

The table below summarises the status of the 37 action points contained within the Council's Delivery Plan 2023-2028 as at 31 March 2026, under the key themes of the Council Plan 2023-2028:

Council Plan Themes	Red	Amber	Green	No Data	Total
Growing our Economy	1	4	2	0	7
Strengthening our communities	3	6	2	1	12
Developing our Infrastructure	5	1	2	0	8
Transforming our Council	3	2	5	0	10
Total	12	13	11	1	37

Action point progress
Net-zero and de-carbonisation The Council continues to report on progress against Energy Efficiency Standard for Social Housing 2 (EESH2) and as at 31 March 2026, out of a stock of 1,054 properties, 988 had achieved the standard which, after 28 exempt or out-of-scope properties are considered, this is a compliance rate of 96%. The independent transition (net zero) study was completed and reported to Policy and Resources committee in February 2026. The Council has agreed a target of net zero by 2045 and to progress the highest ambition scenario described in the study. Work on the Climate Strategy and action plan are now proceeding. Additional capital funding was provided from the Scottish Government for delivery of projects during 2025/26 and this supported the extended capability of the Council's asset replacement programme deliver low carbon projects.
Support for local business The Enterprise and Sustainable Regeneration Service continues to support local businesses through advice provided by the Business Gateway service and with direct support through development grants.
Living independently The Strategic Plan 2025-2028 and the Strategic Delivery Plan 2025/26 were approved by the Integration Joint Board in April 2025. A capital project to deliver a new purpose- built accessible house designed for independent living was approved at Policy and Resources Committee on 25 November 2025. This followed discussions between Orkney Health and Care (OHAC) and Housing to develop a jointly shared Council house to replace a facility which no longer meets modern day standards. There is also an Older Person/Frailty Workstream which has highlighted a number of actions which are being progressed. As part of that, a Dementia Workshop was held in March 2026 with a further session scheduled for June 2026. There was also a Learning Disability Session held in April 2026.
Improve education standards (Scottish attainment challenge) The Raising Attainment Strategy 2026-2029 was approved at Education, Communities and Housing Committee on 1 April 2026. The Scottish Attainment Fund has brought additional funding to the Council through the following funds – • Strategic Equity Fund – local authorities are allocated funding to be used strategically to support authority-wide programmes. • Pupil Equity Fund – schools are allocated funding and the Headteachers are responsible for the planning and implementation of the spending of this fund. • Care Experienced Children and Young People Fund – local authorities are allocated funding to be jointly managed by Education Services and Orkney Health and Care. The Council are required to demonstrate the impact of all three funding streams and the Raising Attainment Strategy is there to put robust guidance and plans in place to continue to meet both the Council and the Scottish Government's vision to ensure every child in Orkney can fulfil their potential.
Childcare The new nursery has completed and handed over to the Council. Following an unsuccessful tendering exercise, Elected Members agreed that the Council should run the new nursery. To facilitate this, the Strynd Nursery will relocate to the new building and expand provision to include children aged 0-2 and offer an extended day and year. All staff currently working at Willow Tree will move to the Strynd once it moves and the temporary provision will be closed. The Care Inspectorate is currently processing the Variation Application to move the Strynd Nursery, and the anticipated moving date is at the start of July 2026.

Improve Isles transport links
In December 2025, stage 1 of the tender process to invite interested shipyards to tender for the final design and build of three replacement Outer North Isles vessels. The tender evaluation process was completed between January and March 2026 the shipyards shortlisted having until 31 July 2026 to submit their tenders for the Final Design and Build. The purchase of an additional Britten Norman islander aircraft is progressing and will be brought into service towards the end of summer 2026. A further period of consultation will then take place with communities and elected members, before an enhanced air services timetable is put in place. Free ferry travel for young people from the islands is now in place, funded by the Scottish Government.
Supporting Economic Growth through Harbours Infrastructure
A Pre-Construction Service Agreement was awarded to Acciona and Jones consortium in April 2025 to carry out detailed design works, ground and marine investigations and site surveys. This work will deliver a firm budget estimated and a clear build-out strategy to inform the fund-raising phase of the project. The planning process is also advancing with supplementary environmental information submitted to NatureScot. Planning consent will be required from the Council for terrestrial elements of the development alongside marine licensing from the Scottish Government.
Social Housing
The most recent Strategic Housing Investment Plan was approved by Council in November 2025. Plans to develop affordable housing are progressing through the Housing Market Partnership, with relevant partners, accordingly and subject to Scottish Government grant being available.
Capital Programme
A progress update on the Capital Strategy was presented to the Corporate Leadership Team on 30 April 2024, and it was agreed to move this forward in line with the recommended report. On 18 June 2024 Policy and Resources Committee recommended an uplift on the annual improvement programme budgets for the 3 years starting 1 April 2025 and were presented with an update on capital slippage. A revised Capital Project Appraisal process has been developed alongside the Capital Strategy and engagement with the Capital Projects Board ensures that any new projects go through the proper process before they can be approved.

Local and National Statutory Performance Indicators 2024-25

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

The Council has mapped the LGBF indicators against the OIC target outcomes and priorities in the Council Plan. The most recent LGBF performance data is for the year ending 31 March 2025.

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

Looking ahead

The Council's revenue budgets, and capital programme continues to come under significantly increasing budgetary pressures. The Accounts Commission published its Financial Bulletin in January 2026 providing a high-level independent analysis of Scottish local authorities' financial position at 31 March 2025, which included the following four key messages:

- In 2024/25, councils' total revenue funding and income increased by 1.3 per cent. Despite this, councils faced a £542 million budget gap and remained reliant on reserves and savings to

balance their budgets. Councils identified around £200 million of predominantly recurring savings to help manage overall financial pressures.

- Despite being largely successful in implementing the actions agreed to manage budgets, with around 90 per cent of savings targets delivered, the sector reported a collective overspend against their agreed revenue budgets for the first time in six years. Around a third of councils reported that they overspent against their agreed revenue budgets and many struggled to deliver recurring savings, instead taking one-off measures to manage their in-year spending.
- In 2024/25, most councils spent less than planned on capital projects but invested around £3.5 billion in both existing and new public assets. Reduced capital funding meant councils continued to rely on borrowing to finance increasingly expensive projects and, alongside changes to how they account for leases, have seen their total debt increase by over £2.5 billion in a year. Councils now spend around £1.2 billion a year servicing these debts, with future borrowing requirements also increasing.
- There are increasing indications that councils are struggling financially, with a collective budget gap of £647 million identified when budgets were set for 2025/26. Costs continue to outpace funding increases, and there remain significant commitments on funding to fulfil both statutory duties and national policy commitments. There is also continued reliance on non-recurring measures, such as using reserves, to address budget gaps which is simply not sustainable. Technical changes have contributed to rising debt, but there is also a need to recognise that borrowing is forecast to increase, and this comes with associated costs. Councils need to take urgent action to address the sustained and recurring cost pressures associated with delivering services. This will mean carefully considering where services need to be reduced; how service delivery can be fundamentally reconfigured; who is eligible to receive services; and policies on fees and charges.

Despite the Council continuing to lobby the Scottish Government for an equitable settlement some difficult decisions are likely to be required to deliver a financially sustainable budget over the coming years with the new Medium Term Financial Strategy for 2025/26 to 2029/30 containing the following obligations:

- To maintain Council Tax at national average.
- To maximise fee income generation.
- To maximise external funding streams.
- To continue lobbying for an equitable settlement from the Scottish Government.
- To continue to search for efficiencies.
- To continue to look at the way we deliver our services, including innovative service redesign.
- To continue to build capacity through effective partnership working.
- To continue to ensure that the draw on reserves is sustainable.
- To limit any service pressures to cases where very exceptional circumstances arise.

Following an unsuccessful procurement exercise, no operator for the new nursery completed in financial year 2025/26 was found, and a decision was taken at Policy and Resources Committee on 17 February 2026 to run the nursery as a Council service by relocating the Strynd Nursery and closing the Willow Tree Nursery. The move to the new facility by the staff and children from the Strynd and Willow Tree will take place in summer 2026. The new nursery is situated next to the UHI Orkney Campus and cost £3.2M, part funded through the Scottish Government's Islands Programme.

The new Kirkwall Care home, Kirkjuvagr House achieved its practical completion certificate on 31 May 2026. Work is underway to operationally plan for the move of the residents and staff from St Rognvalds House to Kirkjuvagr House with a transfer into the new facility planned for late August/early

September 2026. Staff training and building orientation are being organised and two recruitment days, on site, are currently being progressed.

There is a growing focus on Public Sector Reform which is a national priority aimed at ensuring every pound of public sector funding is used effectively and that services are sustainable well into the future. Public Sector Reform needs to be shaped to meet our local needs, with a bespoke approach particularly important in the island communities.

In Orkney we are working across the Council, NHS Orkney and the Integration Joint Board to develop our local approach, which was published in December 2025 Routemap to (Public Service) Reform'. As we move forward other partner organisations will be involved, as well as the local community.

The Chief Executive, Oliver Reid, went on a period of special leave with effect from 25 May 2026. Following discussions, the four Directors agreed to deputise for the Chief Executive on a monthly rotational basis, as follows –

- June 2026 – James Wylie, Director of Education, Communities and Housing
- July 2026 – Gareth Waterson, Director of Enterprise and Resources
- August 2026 – Stephen Brown, Chief Officer – Integration Joint Board/Orkney HSCP
- September 2026 – Lorna Richardson, Director of Infrastructure and Organisational Development

While each Director is undertaking the role of Deputising Chief Executive, the Corporate Leadership Team will continue to operate collectively as usual – meeting regularly, contributing to decision-making, and setting the Council's strategic direction. To ensure the strategic development of the Council continues, and to keep things consistent with our external partners, some Directors have been assigned as the lead in specific areas regardless of who is in the Deputising Chief Executive role.

Conclusion

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

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

Councillor Heather Woodbridge
Leader

Oliver D Reid
Chief Executive

Gareth Waterson, BAcc., CA
Director of Enterprise
and Resources

Statement of Responsibilities for the Annual Accounts

The Authority's Responsibilities

The authority is required to:

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

Signed on behalf of Orkney Islands Council.

Councillor Heather Woodbridge
Leader

The Chief Finance Officer's Responsibilities

The Director for Enterprise and Sustainable Regeneration is responsible for the preparation of the authority's Annual Accounts in accordance with proper practices as required by legislation and as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2025/26 (the Accounting Code).

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

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

The Chief Finance Officer has also:

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

I certify that the financial statements give a true and fair view of the financial position of the local authority and its group at the reporting date and the transactions of the local authority and its group for the year ended 31 March 2026.

Gareth Waterson, BAcc., CA
Director of Enterprise and
Resources

Annual Governance Statement

Scope of Responsibility

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

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

The Council's corporate governance is underpinned by the CIPFA/Solace Framework 'Delivering Good Governance in Local Government'. A revised edition of the Framework was published in early 2016 and the Local Code of Corporate Governance was updated to reflect the 2016 edition of the Framework in 2022. CIPFA issued an Addendum to the 'Delivering Good Governance in Local Government' framework in May 2025, detailing changes required to the annual review of governance and the Annual Governance Statement, to be implemented for financial year 2025/26 onwards. The Council adopted a revised Local Code of Corporate Governance in April 2026.

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

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

Purpose of the Governance Framework

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

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



Review of Effectiveness of Governance Arrangements

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

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

The 2025/26 self-assessment of the Council's Local Code of Corporate Governance was reviewed by the Corporate Leadership Team on 21 May 2026 and reported to the Monitoring and Audit Committee on 4 June 2026. The Council's degree of compliance with each principle in the Local Code was graded in accordance with the CIPFA Framework as "3 – fully compliant with the requirement".

Internal Audit and Monitoring and Audit Committee

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

The internal audit plan for financial year 2025/26 included core financial systems testing, other systems operating within services, annual audits, corporate reviews, a strategic project review and follow up on a quarterly basis of all recommended improvement actions.

The Chief Internal Auditor provides an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control. It is the opinion of the Chief Internal Auditor, based on the audit work performed in 2025/26, that the Council has a framework of controls in place that provides adequate assurance regarding the organisation's governance framework, related internal controls, and the management of key risks. The actions identified during the audit work carried out did not materially impact on the overall governance arrangements of the Council. While the overall governance framework is in place and operating, improvements are required in key areas – particularly Non-Domestic Rates which was the only audit this year to receive a Limited opinion.

The Chief Internal Auditor confirmed that there was one fraud issue reported to the Council's external auditors in financial year 2025/26, and this had been referred to the National Fraud Intelligence Bureau and Police investigations are ongoing.

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

Integration Joint Board

The Chief Internal Auditor for Orkney Islands Council (OIC) was appointed as the Chief Internal Auditor for the Orkney Integration Joint Board (IJB) for a period of five years starting from April 2021. This was extended for a further two-year period on 22 April 2026 as Azets, NHS Orkney's current internal auditors, would have required a separate contract and procurement process to take on the role of Chief Internal Auditor. There is no guarantee that Azets would continue after its NHS contract ends in March 2028. It has been agreed that Azets will continue to provide support to the IJB Chief Internal Auditor to deliver the Orkney IJB's internal audit plan.

Where our Governance needs to improve

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

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

These reviews have identified potential governance matters and concerns where actions will be taken forward to progress improvement, and in many cases are ongoing issues raised in previous years.

Significant Governance Issue	Potential Impact	Mitigating actions currently in place	Proposed Action
Strategic Leadership and Communication			
Importance of consistent and unified messaging from senior leadership in reinforcing the financial realities facing the Council.	Without clear and persistent communication from both elected members and senior officers, the Council risks creating a culture that fails to recognise or adequately respond to the financial challenges faced, potentially leading to poor decision-making and reduced organisational resilience.	Communications and Engagement Strategy 2024-2028. Internal and External Communications Delivery Plans 2025-2028.	Establish regular, transparent communication between elected members and senior officers. Foster a culture of openness where concerns are raised about financial challenges. Develop and agree on unified messaging aligned with strategic financial priorities.
Financial Sustainability			

Significant Governance Issue	Potential Impact	Mitigating actions currently in place	Proposed Action
Ongoing pressures from unfunded spending in various service areas. Increased demand for Council services. Concerns over the sustainability of significant drawdowns from reserves. Delivery of service efficiencies agreed through the budget setting process is not matching the scale of the financial challenge. Income assumptions are dependent on external factors beyond the Council's control.	Continued unsustainable draw on reserves will impact on long term sustainability of the Strategic Reserve Fund. After years of budget constraints, finding additional efficiencies is difficult to achieve leading to reduction or removal of service. Increased charges to service users. Future income streams from strategic projects are unlikely to offset budget gaps to the degree originally anticipated.	The Medium-Term Financial Strategy (MTFS) has been brought up to date, covering the period 2025/26 to 2029/30. The MTFS re-sets the outlook and crystalises the challenge before the Council. Reserve Fund Investment Strategy was reviewed in 2024 and will be further reviewed in 2026.	Position continues to be reviewed by Corporate Leadership Team. Work ongoing to close the 'gap' using tactics noted in MTFS. Ongoing dialogue with Scottish Government, Scottish Funding Council and other funding bodies, in pursuance of an equitable settlement for Orkney. The quality and accuracy of forecasting and monitoring budget information and understanding of cost drivers and service level financial performance must be improved. Culture shift towards disciplined resource use and away from growth-based expectations.
Transformation			
Pace of service transformation delivery.	Cost overruns persist. Service efficiency and savings targets not achieved. Change fatigue and uncertainty affects staff morale.	Budget monitoring and reporting arrangements. Member Officer Working Group (MOWG) completing review of Sport and Leisure Services. Task-force in place to look at UHI Orkney sustainability.	Public Service Reform in partnership with NHS Orkney.
Review of Performance			
Annual Governance Statement produced	Adverse consequences arising from failure to	Regular review of governance documents, including	A progress update will be presented to the Extended Corporate

Significant Governance Issue	Potential Impact	Mitigating actions currently in place	Proposed Action
annually with no in-year review	recognise and adapt to new and emerging risks.	Contract Standing Orders, Risk Registers and Financial Regulations. Biannual performance monitoring against Council Plan and Directorate Delivery Plans.	Leadership Team on a quarterly basis.

How we have improved our governance arrangements in 2025/26

In the prior year, the governance statement identified a number of challenges. Those that have been completed are not being reported on. However, the undernoted table provides some further updates on ongoing work.

Prior Year Significant Governance Issue	Action Taken	Further Action Required
Workforce Capacity		
Workforce Management, Planning and Resilience. Pressure on staff due to internal and external competing demands.	A review of the People Plan has been undertaken, and the new plan will be approved in 2026. A recruitment incentives campaign has been undertaken in Orkney Health and Care targeted at front line care roles.	Improvements and additional guidance around sickness absence procedures, and a review of the absence management policy are underway and due to be completed and approved in 2026. A review of flexible working and other linked policies is also being undertaken. Consultation has begun around those new policies with a target to achieve approval in 2026.
Budget Discipline		
Operational service costs (Roads, Fleet, Waste, Quarry) are not fully recovered through existing charging mechanisms.	Roads charge-rates were increased in 2023/24 and again in 2025/26. Plant rates were increased in 2025/26. Quarry Business Plan (approved June 2024) included revised pricing and profit assessments. Waste rates deemed appropriate but remain under review, however, the Fleet rates were revised for 2026/27 to better reflect actual costs.	The New Horizon system for cost recovery is being replaced. Several key functions have now been moved to other new or existing systems with a new Fleet Management system in place and quarry invoicing now separated. Job costing and stock management scheduled to move to existing roads asset management system in 2027. The intention is that New Horizons will not be needed from 27/28 onwards.

Prior Year Significant Governance Issue	Action Taken	Further Action Required
Insufficient capital and revenue funding to maintain asset quality over time.	Property works now being progressed through the Capital Project Appraisal process. Corporate Management Asset Plan updated and approved in 2025/26. Renewed Public Services Network accreditation, including annual health check on programme works which mitigated identified cyber-vulnerabilities.	Review of top-sliced capital programme funding due to take place in 2027/28 following the end of the temporary 3-year increase in available budget. Work is ongoing to identify capital projects that are suitable, fit the criteria and can be delivered within the required timescales of external capital funding sources that have become available to the Council – Connectivity funding, Islands Accelerator Model and the Islands Programme. It is possible some of these funding sources will continue for a number of years so longer-term projects are also being considered for future financial years. Continuing IT infrastructure refresh including cybersecurity infrastructure. Statutory testing makes up a significant proportion of revenue maintenance budgets. Analysis of spending and subsequent realignment of budget is required to ensure planned and reactive maintenance can be carried out timeously.
Limited local supplier market. Reluctance of local suppliers to tender for Council contracts.	The updated Procurement Strategy 2023-2028 was approved in December 2023 after a lengthy consultation process. Procurement thresholds are set by legislation and internal thresholds for procurement plans are contained in the Contract Standing Orders which were reviewed in March 2026. The Council is a member of the Supplier Development Programme which provides training to local businesses in relation to preparation of	The Chief Executive's Service Delivery Plan includes actions to support local business. The Council always encourages local businesses to compete for tenders, with the Building and Infrastructure team in regular contact with local firms. Ongoing competitive procurement practices. Renewal of membership of Scotland Excel which helps the Council provide additional support to local suppliers who are considering tendering for Council contracts.

Prior Year Significant Governance Issue	Action Taken	Further Action Required
	bids for Council, and other local, contracts. Meet the Buyer Events are held for Council tender opportunities where appropriate.	
Housing		
Delays and challenges in the completion of regulatory compliance.	Work to ensure the Electrical Installation Condition Reports (EICR) programme be restored to normal operational status is complete. Heat and Energy Efficient Scotland: Area Based Scheme (HEES:ABS) continues to be delivered in line with normal requirements.	Work is ongoing to develop a water safety delivery plan in respect of legionella risk assessments.
Financial Controls		
Concerns remain regarding consistent adherence to financial processes, financial regulations and contract standing orders.	Financial Regulations were updated in 2024. Officers have been reacquainted with them. Budget monitoring and reporting arrangements.	Internal Audit has noted an improvement in adherence to Financial Regulations. Training continues to be provided to all budget holders with clear guidance that Financial Regulations require to be followed at all times.

As a result of the review of the management restructure, reported to the Policy and Resources Committee in April 2025, the Scheme of Administration and the Scheme of Delegation to Officers were subsequently updated to reflect the outcome of that review.

A review of the Standing Orders has also been undertaken and will be reported to the Policy and Resources Committee in June 2026.

Forward Look on Governance

Public Service Reform

Public Service Reform (PSR) is a national priority aimed at ensuring every pound of public sector funding is used effectively and that services are sustainable well into the future.

What is clear is that PSR needs to be shaped to meet our local needs, with a bespoke approach particularly important in island communities.

In Orkney, we have been working across the Council, NHS Orkney and the Integration Joint Board to develop our local approach, which we published last December, titled a 'Routemap to (Public Service) Reform'.

On 8 June 2026, senior management, Board Members and Elected Members from the Council, NHS Orkney and the Integration Joint Board met to focus on working more closely together where it makes sense to do so for the benefit of local people. These discussions are at an early stage.

As we move forward, other partner organisations will also be involved as the work develops, as well as our local community.

Local Government Elections

The Local Government Elections are scheduled for May 2027. Looking to the results of the Scottish Parliamentary Election held in May 2026, this could result in a loss of experienced councillors, who are well versed in local government governance.

Officers are actively engaged in a national network, run by the Improvement Service, preparing for an Elected Member induction programme for 2027.

Artificial Intelligence

Artificial Intelligence (AI) is now becoming an integral part of various industries. It can offer significant benefits such as improved efficiency, enhanced decision-making, and innovative solutions, and gives us an unparalleled opportunity to do things differently and deliver more with less. We need to be aware that it is not infallible and needs good data and effective governance to work well.

An Officer working group has been set up and is continuing to work on strategy, policy and guidance, to establish guiding principles for the Council that must be considered when using artificial intelligence technologies.

Upcoming Statutory Duties

More statutory duties and responsibilities are being placed on services which only adds pressure to an already stretched workforce and budget. Examples including the requirement to produce a Good Food Nation Plan, free school swimming lessons and the potential roll out of the Outdoor Education Residential Bill. It is of paramount importance that, if there is a requirement to deliver statutory duties and/or services, they must be adequately funded and resourced.

Executive Summary

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

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

Councillor Heather Woodbridge

Leader

30 September 2026

Oliver D Reid

Chief Executive

30 September 2026

Remuneration Report

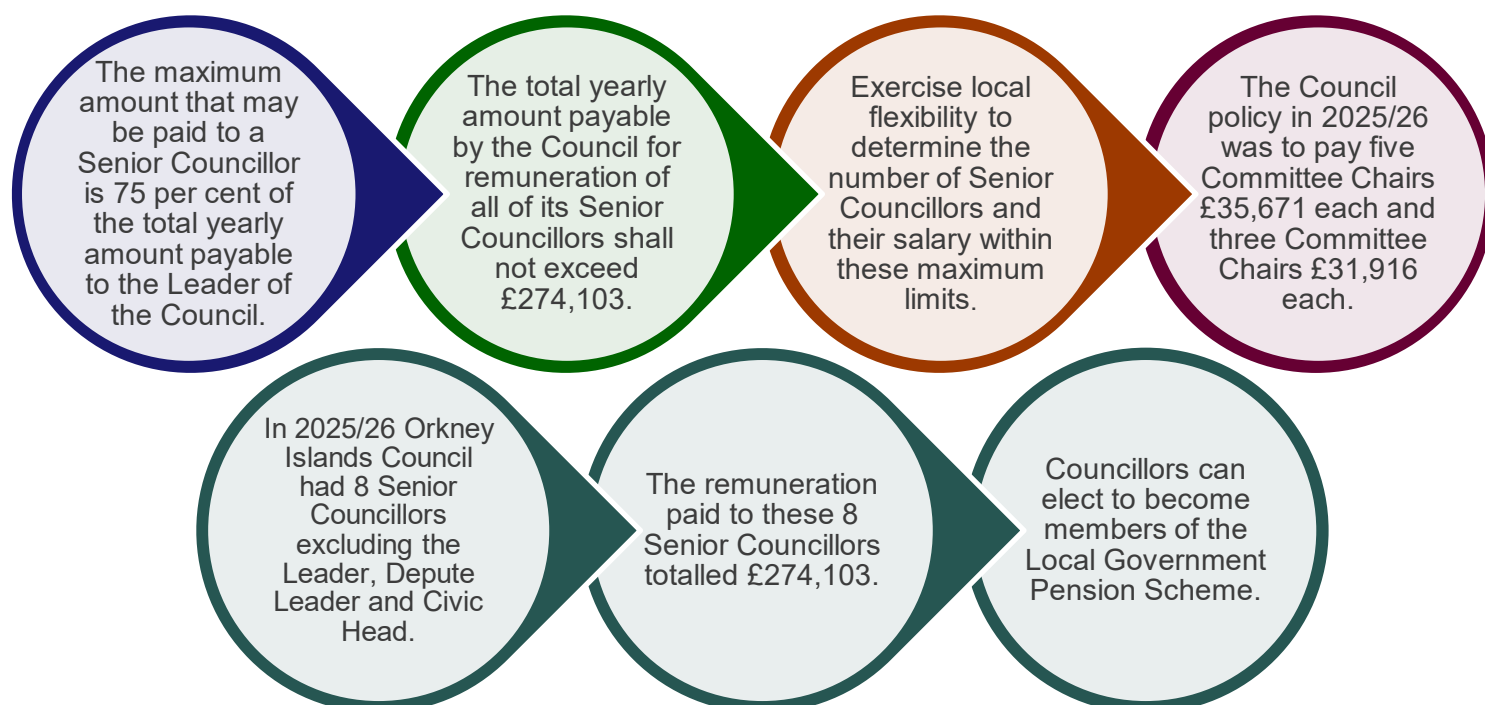
The Local Authority Accounts (Scotland) Regulations 2014 require local authorities in Scotland to prepare a Remuneration Report as part of the annual statutory accounts.

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

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

The remuneration of councillors is regulated by the Local Governance (Scotland) Act 2004 (Remuneration) Regulations 2007 (SSI No. 2007/183). The Regulations provide for the grading of Councillors for the purposes of remuneration arrangements, as either the Leader of the Council, the Civic Head, Senior Councillors or Councillors. The salary that is to be paid to the Leader of the Council is set out in the Regulations. The Regulations permit the Council to remunerate one Civic Head. The Regulations set out the maximum salary that may be paid to that Civic Head. Council policy is to pay at the national maximum.

The Regulations also set out the remuneration that may be paid to Senior Councillors, and the total number of Senior Councillors the Council may have.



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

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

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

2. Remuneration Policy for Senior Employees

The salary of senior employees is set by reference to national arrangements. The Scottish Joint Negotiating Committee (SJNC) for Local Authority Services sets the salaries for the Chief Executives of Scottish local authorities. Circular CO-154 sets the amount of salary for the Chief Executive of Orkney Islands Council for the period 2025/26. Salaries of the Corporate Directors and Heads of Service are also based on Circular CO-154.

Other benefits received by senior employees include car mileage allowance.

3. Remuneration of Senior Employees

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



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

The term “remuneration” means gross salary, fees and bonuses, allowances and expenses and compensation for loss of employment. The table below outlines the remuneration details for senior employees, including prior year figures. The table shows the relevant amounts, before tax and other deductions, due to, or receivable by, each of the persons named for the year to 31 March 2026, whether those amounts were actually paid to, or received by, those persons within that period.

2024-25	Senior Employees		2025-26		
Total £	Name	Position held	Salary, Fees and Allowances £	Election Payments £	Total £
133,548	Oliver Reid	Chief Executive	142,252	0	142,252
113,427	Gareth Waterson	Director - Enterprise & Resources	116,390	0	116,390
111,917	Hayley Green	Director - Infrastructure & Organisational Development (to 05/01/2026)	95,316	0	95,316
113,852	Karen Greaves	Director - Strategy, Performance and Business Solutions (to 16/03/2025)	0	0	0
111,917	James Wylie	Director - Education, Communities & Housing	116,390	0	116,390
95,649	Gavin Mitchell	Head of Corporate Governance	99,146	0	99,146
0	Lorna Richardson	Head of Infrastructure Services (from 09/02/2026)	11,916	0	11,916
0	Mohammed Sohail	Chief Finance Officer (from 21/11/2025)	21,067	0	21,067
0	Deborah Langan	Chief Finance Officer (from 25/08/2025 to 22/11/2025)	32,854	0	32,854
680,310	Total		635,331	0	635,331

4. Remuneration of Senior Councillors

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

The table below shows the relevant amounts, before tax and other deductions, due to, or receivable by, each of the persons named for the year to 31 March 2026, whether or not those amounts were actually paid to, or received by, those persons within that period.

2024-25	Leader, Civic Head and Senior Councillors		2025-26
Salary, Fees and Allowances £	Name	Position held	Salary, Fees and Allowances £
28,917	Graham Bevan	Convener	38,483
24,759	Alexander Cowie	Depute Leader	33,648
22,001	David Dawson	Chair (Development & Infrastructure)	25,920
28,456	Lindsay Hall	Chair (Monitoring and Audit)	35,831
27,521	Rachael A King	Chair (Integration Joint Board)	35,696
25,057	Kristopher Leask	Chair (Development & Infrastructure)	36,116
25,103	Gwenda Shearer	Chair (Education, Leisure & Housing)	35,283
29,408	Mellissa-Louise Thomson	Chair (Orkney Ferries Ltd)	36,628
26,280	Owen Tierney	Chair (Planning)	36,232
25,322	Duncan Tullock	Chair (Licensing)	33,224
45,609	Heather Woodbridge	Leader of the Council	58,637
308,433	Total		405,698

5. Pension Entitlement

Pension benefits for both Councillors and local government employees are provided through the Local Government Pension Scheme (Scotland).

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

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

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

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

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

The pension entitlements for Senior Employees and Senior Councillors for the year to 31 March 2026 are shown in the following table, together with the contribution made by the Council to each individual's pension during the year:

Senior Employees							
Pension contributions made by Orkney Islands Council during 2024-2025 £	Name	Post held	Accrued pension benefits as at 31 March 2026		Change in accrued pension benefits since 31 March 2025		Pension contributions made by Orkney Islands Council during 2025-2026 £
			Pension £	Lump Sum £	Pension £	Lump Sum £	
19,650	Oliver Reid	Chief Executive*	70,289	93,212	7,054	7,769	21,338
16,788	Gareth Waterson	Director - Enterprise & Resources*	58,049	66,525	4,046	2,567	17,459
16,788	Hayley Green	Director - Infrastructure & Organisational Development (To 05/01/26)*	62,078	0	4,654	0	14,025
16,833	Karen Greaves	Director - Strategy, Performance and Business Solutions (to 16/03/2025)*	0	0	0	0	0
16,788	James Wylie	Director - Education, Communities & Housing	16,199	0	2,606	0	17,459
14,300	Gavin Mitchell	Head of Corporate Governance*	19,976	0	2,323	0	14,872
0	Lorna Richardson	Director - Head of Infrastructure Services (from 09/02/2026)*	32,000	0	2,516	0	1,787
0	Deborah Langhan	Chief Finance Officer (from 25/08/2025 to 22/11/2025)	9,180	0	1,429	0	5,793
0	Mohammed Sohail	Chief Finance Officer (to 21/11/2026)	430	0	430	0	3,160
101,147	Total		268,201	159,737	25,058	10,336	95,893

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

Leader, Civic Head and Senior Councillors							
Pension contributions made by Orkney Islands Council during 2024-2025 £	Name	Post held	Accrued pension benefits as at 31 March 2026		Change in accrued pension benefits since 31 March 2025		Pension contributions made by Orkney Islands Council during 2025-2026 £
			Pension £	Lump Sum £	Pension £	Lump Sum £	
3,993	Graham Bevan	Convener	2,601	0	928	0	5,562
3,534	Alexander Cowie	Depute Leader	5,279	0	1,051	0	4,734
3,283	David Dawson	Chair (Development & Infrastructure) (to 13/05/2024)	0	0	0	0	0
3,534	Lindsay Hall	Chair (Monitoring and Audit)	2,799	0	1,036	0	4,734
3,753	Rachael A King	Chair (Integration Joint Board)* **	10,854	0	888	0	5,282
3,664	Kristopher Leask	Chair (Development & Infrastructure)	2,077	0	741	0	5,282
3,753	Gwenda Shearer	Chair (Education, Leisure & Housing)	7,100	0	940	0	5,282
3,534	Mellissa- Louise Thomson	Chair (Orkney Ferries Ltd)	2,074	0	668	0	4,734
3,534	Duncan Tullock	Chair (licensing)*	10,939	0	1,395	0	4,734
5,324	Heather Woodbridge	Leader of the Council	3,502	0	1,051	0	7,416
37,906	Total		47,225	0	8,698	0	47,760

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

Note 2 ** the Orkney Health and Care Committee was disestablished by Council on 07/12/2021 - it was also agreed that the Chair or Vice Chair of the Integration Joint Board, whichever was the Council appointment, should, from a Council perspective, act as spokesperson on all health, social care and social work matters, including attendance at the Health and Social Care Board of the Convention of Scottish Local Authorities.

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

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

6. Councillors' remuneration

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

	2024-2025	2025-2026
	£000	£000
Salaries	494	638
Mileage	12	10
Conferences and Courses	0	0
Travel Costs	27	28
Subsistence	16	18
Other Allowances and Expenses	1	2
Telephone and ICT Expenses	2	2
Reimbursed Costs	(21)	(20)
Total	531	678

The annual return of Councillors' salaries and expenses for 2025/26 is available for any member of the public to view at all Council libraries and public offices during normal working hours and is also available on the Council's website at www.orkney.gov.uk. Please follow the links on the Council's website as follows: [Councillors Record of Claims](#)

7. Remuneration of Employees

The following table gives a statement of the number of employees whose remuneration, excluding pension contributions, was in excess of £50,000 during 2025/26, in bands of £5,000. This information includes those senior employees who are subject to the fuller disclosure requirements in the tables above.

Remuneration Band	2024-2025 Number of employees	2025-2026 Number of employees
£165,000 to £169,999	0	0
£160,000 to £164,999	0	1
£155,000 to £159,999	0	0
£150,000 to £154,999	0	0
£145,000 to £149,999	0	0
£140,000 to £144,999	0	1
£135,000 to £139,999	0	1
£130,000 to £134,999	2	0
£125,000 to £129,999	0	2
£120,000 to £124,999	2	2
£115,000 to £119,999	3	2
£110,000 to £114,999	4	0
£105,000 to £109,999	0	1
£100,000 to £104,999	0	0
£95,000 to £99,999	2	12
£90,000 to £94,999	9	4
£85,000 to £89,999	7	5
£80,000 to £84,999	7	12
£75,000 to £79,999	10	11
£70,000 to £74,999	17	15
£65,000 to £69,999	16	27
£60,000 to £64,999	47	60
£55,000 to £59,999	80	43
£50,000 to £54,999	134	131
Total	340	330

8. Exit Packages

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

Exit Package Cost Band	Number of Compulsory Redundancies		Number of Other Departures Agreed		Total Number of Exit Packages by Cost Band		Total Cost of Exit Packages in each Band	
	2024-2025	2025-2026	2024-2025	2025-2026	2024-2025	2025-2026	2024-2025	2025-2026
							£000	£000
£0 - £19,999	0	0	0	0	0	0	0	0
£20,000 - £39,999	0	0	1	0	1	0	18	0
£40,000 - £59,999	0	0	0	0	0	0	0	0
£60,000 - £79,999	0	0	0	0	0	0	0	0
£80,000 - £99,999	0	0	0	0	0	0	0	0
£100,000 - £149,999	0	0	0	0	0	0	0	0
£150,000 - £199,999	0	0	1	0	1	0	196	0
£200,000 - £299,999	0	0	0	0	0	0	0	0
Total	0	0	2	0	2	0	214	0

Councillor Heather Woodbridge

Leader

Oliver D Reid

Chief Executive

Statements

Movement in Reserves Statement

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

	General Fund Balance	HRA Balance	Harbour Reserve	Capital Fund	Capital Receipts Reserve	Capital Grants Unapplied	Renewals & Repairs Fund	Total Usable Reserves	Total Unusable Reserves	Total Reserves of the Authority
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balances as at 1 April 2024	3,401	480	227,483	1,138	2,080	20	6,019	253,387	572,379	825,766
Movement in reserves during the year										
(Surplus) or deficit on the provision of services	(134,634)	54	2,999	0	0	0	0	(131,581)	0	(131,581)
Other Comprehensive Income and Expenditure	109,545	1,368	2,542	0	0	0	0	113,455	(116,905)	(3,450)
Total Comprehensive Income and Expenditure	25,089	1,422	5,541	0	0	0	0	(18,126)	(116,905)	(135,031)
Adjustments between accounting basis & funding basis under regulations (Note 8)	5,332	(1,884)	2,614	0	183	0	0	6,245	(6,245)	0
Net (Increase)/Decrease before Transfers to Earmarked Reserves Statutory and Other Reserves	(19,757)	(462)	8,155	0	183	0	0	(11,881)	(123,150)	(135,031)
Transfer (to) or from earmarked reserves Statutory and Other Reserves	17,705	242	(20,635)	146	0	0	2,833	(1)	1	0
(Increase)/Decrease in Year	(2,052)	(220)	(12,480)	146	183	0	2,833	(11,882)	(123,149)	(135,031)
Balance as at 31 March 2025	13,792	583	215,003	(992)	2,263	20	8,852	241,505	449,230	690,735
Movement in reserves during the year										
(Surplus) or deficit on provision of services	(157,846)	(4,157)	1,684	0	0	0	0	(160,319)	0	(160,319)
Other Comprehensive Income and Expenditure	141,387	2,969	25,045	0	0	0	0	169,401	21,961	191,362
Total Comprehensive Income and Expenditure	(16,459)	(1,188)	26,729	0	0	0	0	9,082	21,961	31,043
Adjustments between accounting basis & funding basis under regulations (Note 8)	11,907	863	146	0	130	0	0	13,046	(13,046)	0
Net (Increase)/Decrease before Transfers to Earmarked Reserves Statutory and Other Reserves	(4,552)	(325)	26,875	0	130	0	0	13,046	(13,046)	0
Transfer (to) or from earmarked reserves Statutory and Other Reserves	8,421	256	(19,700)	(37)	0	0	11,074	0	0	0
(Increase)/Decrease in Year	3,869	(69)	7,175	(37)	130	0	11,074	22,128	8,915	31,043
Balance as at 31 March 2026	17,661	500	222,178	955	2,393	20	19,926	263,633	458,145	721,778

Comprehensive Income and Expenditure Statement

This statement shows the accounting cost of providing services and managing the Council during the year. It includes, on an accruals basis, all of the Council's day-to-day expenses and related income. It also includes transactions measuring the value of non-current assets actually consumed during the year and the real projected value of retirement benefits earned by employees during the year. The statement shows the accounting cost in accordance with generally accepted accounting practices, rather than the cost according to the statutory regulations that specify the net expenditure that councils need to take into account when setting the annual Council Tax charge. The required adjustments between accounting basis and funding basis under regulations are shown in the movement in reserves statement.

		2024-2025			2025-2026		
		£000	£000	£000	£000	£000	£000
	Note	Expenditure	Income	Net	Expenditure	Income	Net
Cultural and Recreation		9,492	(1,876)	7,616	9,523	(2,035)	7,488
Education		57,365	(1,708)	55,657	58,666	(1,561)	57,105
Roads and Transportation		30,926	(16,814)	14,112	37,291	(1,758)	35,533
Housing Revenue Account		4,750	(4,804)	(54)	9,296	(5,139)	4,157
Harbour Authority		23,494	(26,493)	(2,999)	27,255	(28,939)	(1,684)
Housing Services		7,381	(5,336)	2,045	6,418	(4,341)	2,077
Orkney Health & Care		76,148	(40,763)	35,385	82,208	(42,088)	40,120
Planning and Development		9,227	(4,086)	5,141	6,611	(2,585)	4,026
Environmental Services		7,214	(1,796)	5,418	7,321	(3,882)	3,439
Other Services		13,362	(4,410)	8,952	12,726	(4,729)	7,997
Non-Distributed Costs		308	0	308	61	0	61
(Surplus)/Deficit on Continuing Operations		239,667	(108,086)	131,581	257,376	(97,057)	160,319
Other Operating Expenditure	10			150			587
Financing and Investment Income and Expenditure	11			(6,693)			(24,607)
Taxation and Non-Specific Grant Income: Other	12			(106,912)			(145,381)
(Surplus)/Deficit on Provision of Services				18,126			(9,082)
Surplus on revaluation of non-current assets	13			(32,126)			(20,256)
(Surplus)/Deficit on revaluation of financial assets at fair value through Other Comprehensive Income and Expenditure	22			700			0
Remeasurement of the net Pension Fund Liability/(Assets)	33			(30,242)			(15,058)
Pension Fund Asset Ceiling Adjustment	33			178,575			13,351
Other Comprehensive Income and Expenditure				116,907			(21,963)
Total Comprehensive Income and Expenditure (Surplus)/Deficit				135,033			(31,045)

Balance Sheet as at 31 March 2026

The balance sheet shows the value as at 31 March 2026 of the assets and liabilities recognised by the Council. The net assets of the Council are matched by the reserves held by the Council. Reserves are reported in two categories. The first category comprises usable reserves, which are those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve, which may only be used to fund capital expenditure or to repay debt). The second category of reserves comprises those that the Council is not able to use to provide services. This category includes reserves that hold unrealised gains and losses in the value of assets (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold, and reserves that hold timing differences shown as 'adjustments between accounting basis and funding basis under regulations' in the movement in reserves statement.

	Note	31 March 2025	31 March 2026
		£000	£000
Property, Plant & Equipment	13	494,813	506,498
Heritage Assets		970	970
Investment Property	14	23,008	25,827
Intangible Assets		258	146
Right of Use Assets	29	586	1,022
Long Term Investments	15	5,581	5,571
Long Term Debtors	15	7,352	4,539
Other Long Term Assets	33	0	0
Long Term Assets		532,568	544,573
Short Term Investments	15	251,894	264,318
Inventories	16	3,686	3,248
Short Term Debtors	17	12,463	13,938
Cash and Cash Equivalents	18	11,828	21,722
Assets held for sale	19	630	85
Current Assets		280,501	303,311
Short Term Borrowing	15	10,638	20,601
Short Term Creditors	20	25,405	26,953
Right of Use Assets - Lease Liability	29	132	55
Current Liabilities		36,175	47,609
Provisions	21	41,341	42,831
Long Term Borrowing	15	40,000	30,000
Rights of Use Assets - Lease Liability	29	501	1,481
Other Long Term Liabilities	33	4,317	4,185
Long Term Liabilities		86,159	78,497
Net Assets		690,735	721,778
Usable reserves	22	241,505	263,633
Unusable Reserves	22	449,230	458,145
Total Reserves		690,735	721,778

The unaudited accounts were issued on 30 June 2026.

Gareth Waterson, BAcc., CA

Director of Enterprise and Resources

Cash Flow Statement

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

	2024-2025	2025-2026
	£000	£000
Net surplus or (deficit) on the provision of services	(18,126)	9,082
Adjustment to surplus or deficit on the provision of services for non-cash movements	13,667	(5,057)
Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	3,299	3,433
Net Cash flows from Operating activities	(1,160)	7,458
Net Cash flows from Investing Activities	321	6,392
Net Cash flows from Financing Activities	1,614	(3,956)
Net increase or decrease in cash and cash equivalents	775	9,894
Cash and cash equivalents at the beginning of the reporting period	11,053	11,828
Cash and cash equivalents at the end of the reporting period	11,828	21,722

Cash Flow Statement: Operating activities

	2024-2025	2025-2026
	£000	£000
Adjustment to surplus or deficit on the provision of services for non-cash movements		
Depreciation and Impairment losses	20,842	23,807
Revaluation (Gain)/Loss	(1,138)	5,164
Amortisation (included with depreciation above)	111	112
(Increase)/Decrease in Stock	(252)	438
(Increase)/Decrease in Debtors	1,854	(4,196)
(Increase)/Decrease in Creditors	1,753	(2,345)
Movements in the Pension Reserve not relating to actuarial changes	(2,163)	1,575
Carrying amount of non-current assets sold	558	1,486
Investment Income not involving movement of cash	4,491	(12,957)
Contributions to Other Reserves/Provisions	(14,240)	(15,193)
Movement in value of investment properties - included above in impairment & downward revaluations (& non-sale de-recognitions)	1,851	(2,948)
	13,667	(5,057)
Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities		
Purchase of short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)	6,890	7,971
Proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)	(3,591)	(4,538)
	3,299	3,433

Cash Flow Statement: Investment Activities:

	2024-2025	2025-2026
	£000	£000
Purchase of PP&E, investment property and intangible assets	17,292	22,456
Purchase of Short-Term Investments (not considered to be cash equivalents)	(12,766)	(28,337)
Purchase of Long-Term Investments	0	0
Other Payments for Investing Activities	2,837	723
Proceeds from the sale of PP&E, investment property and intangible assets	(408)	(899)
Proceeds from Short Term Investments (not considered to be cash equivalents)	761	9,870
Proceeds from Long Term Investments	0	0
Capital Grants and Contribution Received	(9,605)	(13,182)
Other Receipts from Investing Activities	1,568	2,977
Net Cash flows from Investing Activities	(321)	(6,392)

Cash Flow Statement: Financing Activities:

	2024-2025	2025-2026
	£000	£000
Cash receipts from Short- and Long-Term borrowing	0	0
Other Receipts from Financing Activities	(841)	(860)
Repayment of Short- and Long-Term borrowing	(4,971)	0
Other payments for Financing Activities	4,198	4,816
Net Cash flows from Financing Activities	(1,614)	3,956

Notes

Notes to the Core Financial Statements

Note 1 Summary of Significant Accounting Policies

The Financial Statements for the year ended 31 March 2026 have been prepared in accordance with proper accounting practice as per section 12 of the Local Government in Scotland Act 2003. Proper accounting practice comprises the Code of Practice on Local Authority Accounting in the United Kingdom (the Accounting Code), supported by International Financial Reporting Standards and recommendations made by the Local Authority (Scotland) Accounts Advisory Committee (LASAAC). The Annual Accounts have been prepared on a “going concern” basis. They are designed to give a true and fair view of the financial performance and position of the Council and comparative figures for the previous financial year are provided. There are no significant departures from these recommendations. The following accounting concepts have been considered in the application of accounting policies:

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

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

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

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

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

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

Accruals of Expenditure and Income

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

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

Cash and Cash Equivalents

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

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

Charges for the Use of Assets

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

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

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

Charities

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

Employee Benefits

Benefits payable during employment

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

Termination benefits

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

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

Post-employment benefits

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

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

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

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

The Notes to the Core Financial Statements provide further information.

Events after the Balance Sheet date

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

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

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

Financial Instruments

Financial Assets

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

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

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

Financial Assets Measured at Amortised Cost

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

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

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

Financial Assets at Fair Value through Other Comprehensive Income

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

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

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

Expected Credit Loss Model

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

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

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

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

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

Financial Assets Measured at Fair Value through Profit or Loss

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

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

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

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

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

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

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

Financial Liabilities

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

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

Loans Fund

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

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

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

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

Foreign Currency Translation

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

Government Grants and other Contributions

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

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

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

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants/contributions) or Taxation and Non-Specific Grant Income (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income

and Expenditure Statement. Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Account. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Account are transferred to the Capital Adjustment Account once they have been applied.

Intangible Assets

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

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

Interests in Companies and Other Entities

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

Inventories

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

Investment Property

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

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

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

Leases

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

Operating Leases (Council as lessor)

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

Operating Leases (Council as lessee)

At the inception of a contract, the arrangement is assessed as to whether it contains a lease. If it contains a lease if it conveys the right to control the use of an identified asset for a period of time. If the contract is assessed to contain a lease, then the right of use asset is capitalised on the balance sheet, with a corresponding lease liability. The payment of the lease is split between an interest expense in the comprehensive income and expenditure statement and a write down of the lease liability in the balance sheet.

Overheads and Central Support Costs

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

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

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

Property, Plant and Equipment

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

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

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

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

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

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

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

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

Fair Value Measurement

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

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

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

Impairment

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

Disposals

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

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

Depreciation

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

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

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

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

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

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

Heritage Assets

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

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

Provisions, Contingent Liabilities & Contingent Assets

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

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

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

Contingent Liabilities

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

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

Contingent Assets

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

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

Reserves

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

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

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

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

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

Revenue Expenditure Funded from Capital under Statute

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

VAT

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

Note 2 Accounting Standards Issued but not yet adopted

The Code requires the disclosure of information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. The Code required implementation from 1 April 2026, therefore there is no impact on the 2025/26 financial statements. This applies to the adoption of the following new or amended standards within the 2025/26 Code:

- Amendments to Classification and Measurement of Financial Instruments issued in May 2024 following the post-implementation review of IFRS 9 and IFRS 7. The amendments refine classification and measurement requirements for financial instruments and related disclosures.
- Amendments to IFRS 9 – Contracts Referencing Nature –dependent Electricity. This addresses accounting for contracts linked to electricity generation from renewable sources, issued in 2025.
- Amendments to FRS102 –The Financial Reporting Standard (amendments to Heritage Assets) issued in May 2024.
- Annual Improvements to IFRS accounting standards – Volume 11, issued in July 2024.

The changes will be effective from 1 April 2026 and are not expected to have a material impact on the Council's financial statements.

Note 3 Critical Judgements in Applying Accounting Policies

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

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

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

Note 4 Assumptions made about the Future

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

The items in the Council's Balance Sheet as at 31 March 2026 for which there is significant risks of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if results differ from assumption
Property, Plant & Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Authority will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets. There is currently valuation uncertainty in relation to Property, Plant and Equipment due to the current turmoil in the economic markets which is affecting real estate markets and material prices globally.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for Property, Plant and Equipment would increase by £2.945M for every year that useful lives had to be reduced.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.1% decrease in the discount rate assumption would result in an increase in the pension liability of £5.643M. The impact of the change of various assumptions is shown in note 33.
Debt Impairment	At 31 March 2026, the Council had a balance for trade debtors of £13.938M. A review of significant balances suggested that an impairment of doubtful debts of 20.9% (£2.910M) was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient.	If collection rates were to deteriorate, an increase of 10% of the amount of the impairment of doubtful debts would require an additional £1.394M to be set aside as an allowance.
Flotta Oil Terminal Decommissioning	At 31 March 2026, the Council has a recognised a contractual commitment in respect of the future decommissioning of the Flotta Oil Terminal as a provision of £42.831M	The provision is updated annually by RPI, as at 28 February, for the effects of inflation. A 1.0% increase in inflation in excess of the budgeted assumptions would require a further £0.428M to be provided for.

Fair Value Measurement	When the fair value of financial assets and liabilities cannot be measured based on quoted prices in active markets (i.e, Level 1 inputs), their fair value is measured using valuation techniques. Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible judgement is required in establishing fair values. These judgements typically include consideration such as uncertainty and risk. However, changes in the assumptions used could affect the fair value of the council's assets and liabilities.
Asset Valuation	The obsolescence rates used in the valuation process have been set through valuer judgement, using various data sources, for example, past experience, Scottish Assessors Association Practice Notes (Contractor's valuations), consideration of asset versus modern equivalent, and market comparison. The sensitivity of this assumption in the valuation process shows that where the building is relatively modern, and still close to the template for a modern replacement, the depreciation rates are starting low, and the impact is modest, but where the asset is more obsolete the change in value caused by variation in the depreciation rates are more pronounced. For example, a change of +/- 5% in the obsolescence rates used in the valuation Orkney's schools valued at DRC at £152,588,000 would result in a change in value of -£2,289,000 to £2,136,000, or -1.5% to 1.4%.

Note 5 Material Items of Income and Expenditure

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

Note 6 Events after the Balance Sheet Date

The Section 95 Officer, being the officer responsible for the Council's financial affairs, signed the Draft Annual Accounts on 30 June 2026. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2026, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

Note 7 Expenditure and Funding Analysis

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

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

2025-2026	Net Expenditure to Fund Balances	Adjustment Between Funding & Accounting Basis	Net Expenditure in CIES
	£000	£000	£000
Education	50,995	6,110	57,105
Cultural and Recreation	5,477	2,011	7,488
Orkney Health & Care	33,401	6,719	40,120
Roads and Transportation	38,666	(3,132)	35,533
Environmental Services	4,652	(1,214)	3,438
Other Services	12,995	1,105	14,100
Housing Revenue Account	82	4,074	4,156
Harbour Authority	(330)	(1,353)	(1,683)
Non-Distributed Costs	0	61	61
Cost of Service	145,938	14,381	160,318
Other Income and Expenditure	(156,821)	(12,579)	(169,399)
Deficit/(Surplus) For Year	(10,883)	1,802	(9,081)

Expenditure and Income Analysed by Nature

2025-2026		£000
Expenditure		
Staff Costs		105,761
Property Costs		20,784
Supplies & Services		11,543
Transport Costs		10,143
Administration Costs		2,222
Apportioned Costs		10,106
Third Party Payments		39,802
Transfer Payments		9,964
Miscellaneous Expenditure		44,133
Capital & Financing Charges		19,122
Income		
Government Grants		127,179
Other Grants, Reimbursements & Contributions		52,860
Rents & Lettings		7,949
Sales		1,583
Interest & Loans		30,232
Fees & Charges		47,066
Apportioned Income		12,999
Miscellaneous Income		2,793
(Surplus)/Deficit on provision of services		(9,081)

	General Fund	Housing Revenue Account	Harbour Authority	Total
	£000	£000	£000	£000
Balance as at 1 April 2025	(13,792)	(583)	(215,002)	(229,377)
Deficit/(Surplus) For Year	(3,869)	83	(7,175)	(10,962)
Balance as at 31 March 2026	(17,661)	(500)	(222,178)	(240,339)

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

The adjustments between funding and accounting basis totalling £1.802M includes transfers to/(from) the repairs and renewals fund and the Capital Statutory Fund of £11.166M as detailed in Note 9 to the Accounts.

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

2024-2025	Net Expenditure to Fund Balances	Adjustment Between Funding & Accounting Basis	Net Expenditure in CIES
	£000	£000	£000
Education	48,888	6,769	55,657
Cultural and Recreation	5,190	2,425	7,615
Orkney Health & Care	32,919	2,465	35,384
Roads and Transportation	12,748	1,364	14,112
Environmental Services	4,740	678	5,418
Other Services	11,707	4,432	16,139
Housing Revenue Account	221	(275)	(54)
Harbour Authority	(2,077)	(921)	(2,998)
Non-Distributed Costs	0	308	308
Cost of Service	114,336	17,245	131,581
Other Income and Expenditure	(99,264)	(14,190)	(113,454)
Deficit/(Surplus) For Year	15,072	3,055	18,127

2024-2025	£000
Expenditure	
Staff Costs	96,948
Property Costs	20,332
Supplies & Services	12,031
Transport Costs	8,923
Administration Costs	2,170
Apportioned Costs	9,920
Third Party Payments	31,262
Transfer Payments	13,206
Miscellaneous Expenditure.	40,494
Capital & Financing Charges	20,717
Income	
Government Grants	94,888
Other Grants, Reimbursements & Contributions	62,327
Rents & Lettings	7,578
Sales	1,512
Interest & Loans	11,144
Fees & Charges	46,582
Apportioned Income	12,711
Miscellaneous Income	1,134
(Surplus)/Deficit on provision of services	18,127

	General Fund	Housing Revenue Account	Harbour Authority	Total
	£000	£000	£000	£000
Balance as at 1 April 2024	(15,844)	(803)	(227,483)	(244,130)
Deficit/(Surplus) For Year	2,052	221	12,480	14,753
Balance as at 31 March 2025	(13,792)	(582)	(215,003)	(229,377)

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

	Accounting for Capital Note 1	Accounting for Pensions Note 2	Other Adjustments Note 3	Transfer to/from Reserves	Total Adjustments
2025-2026	£000	£000	£000	£000	£000
Education	5,862	221	203	(176)	6,110
Cultural and Recreation	1,357	46	4	606	2,011
Orkney Health & Care	6,374	334	11	0	6,719
Roads and Transportation	4,938	90	1	(8,161)	(3,133)
Environmental Services	431	41	0	(1,686)	(1,214)
Other Services	(8,661)	646	21	9,100	1,106
Housing Revenue Account	852	11	0	3,211	4,074
Harbour Authority	2,697	134	8	(4,192)	(1,353)
Non-Distributed Costs	0	0	0	61	61
Cost of Service	13,849	1,522	247	(1,237)	14,381
Other Income and Expenditure	(2,349)	53	38	1,689	(12,580)
Deficit/(Surplus) For Year	11,500	(1,575)	286	452	(1,802)

	Accounting for Capital Note 1	Accounting for Pensions Note 2	Other Adjustments Note 3	Transfer to/from Reserves	Total Adjustments
2024-2025	£000	£000	£000	£000	£000
Education	5,828	732	139	70	6,769
Cultural and Recreation	1,753	145	7	521	2,426
Orkney Health & Care	1,332	1,124	9	0	2,465
Roads and Transportation	4,242	289	1	(3,168)	1,364
Environmental Services	534	142	0	1	677
Other Services	(5,913)	(4,329)	18	14,656	4,432
Housing Revenue Account	(1,870)	(14)	0	1,609	(275)
Harbour Authority	1,276	(179)	(3)	(2,015)	(921)
Non-Distributed Costs	0	0	0	308	308
Cost of Service	7,182	(2,090)	171	11,982	17,245
Other Income and Expenditure	1,966	(73)	24	(16,107)	(14,190)
Deficit/(Surplus) For Year	9,148	(2,163)	195	(4,125)	3,055

Adjustments for Capital Purposes

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

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

Net Change for the Pensions Adjustment

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

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

Other Differences

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

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

Note 8 Adjustment between Accounting Basis and Funding Basis

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

2025-2026 Usable Reserves	General Fund Balance	Housing Revenue Account	Harbour Reserves	Capital Receipt Reserves	Movement in Unusable Reserves
	£000	£000	£000	£000	£000
Adjustments involving the Capital Adjustment Account:					
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:					
Charges for depreciation and impairment of non-current assets	15,754	3,866	4,187	0	(23,807)
Amortisation of Intangible Assets	112	0	0	0	(112)
Revaluation losses on Property, Plant and Equipment	3,647	1,576	(59)	0	(5,164)
Movements in the Market Value of Investment Properties	0	0	(2,948)	0	2,948
Right of Use Assets to Capital Adjustment Account	969	0	0	0	(969)
Capital grants and contributions	(9,846)	(3,494)	0	0	13,340
Revenue expenditure funded from capital under statute	0	0	0	0	0
Carrying amount of non-current assets sold	658	78	750	0	(1,486)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:					
Statutory Provision for the Financing of Capital Investment	(783)	(1,152)	(1,259)	0	3,194
Capital expenditure charged against the General Fund and HRA balances	0	0	(101)	0	101
Adjustments involving the Capital Receipts Reserve:					
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	0	(769)	769
Proceeds from sale of non-current assets	(316)	(22)	(561)	899	0
Adjustments involving the Financial Instruments Adjustment Account:					
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	0	0	(4)	0	4
Adjustments involving the Pensions Reserve:					
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	9,370	77	909	0	(10,716)
Employer's pensions contributions and direct payments to pensioners payable in the year	(8,300)	(66)	(775)	0	9,141
Adjustment involving the Accumulating Compensated Absences Adjustment Account:					
Adjustment in relation to Short-term compensated absences	282	0	7	0	(289)
Total Adjustments	11,907	863	146	130	(13,046)

2024-2025 Usable Reserves	General Fund Balance	Housing Revenue Account	Harbour Reserves	Capital Receipt Reserves	Movement in Unusable Reserves
	£000	£000	£000	£000	£000
Adjustments involving the Capital Adjustment Account:					
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:					
Charges for depreciation and impairment of non-current assets	14,360	2,522	3,960	0	(20,842)
Amortisation of Intangible Assets	111	0	0	0	(111)
Revaluation losses on Property, Plant and Equipment	181	(1,290)	(29)	0	1,138
Movements in the Market Value of Investment Properties	0	0	1,851	0	(1,851)
Right of Use Assets to Capital Adjustment Account	81	0	0	0	(81)
Capital grants and contributions	(6,998)	(1,938)	(1,145)	0	10,081
Revenue expenditure funded from capital under statute	0	0	0	0	0
Carrying amount of non-current assets sold	235	82	241	0	(558)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:					
Statutory Provision for the Financing of Capital Investment	(651)	(1,247)	(1,259)	0	3,157
Capital expenditure charged against the General Fund and HRA balances	0	0	(629)	0	629
Adjustments involving the Capital Receipts Reserve:					
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	0	(225)	225
Proceeds from sale of non-current assets	(223)	0	(185)	408	0
Adjustments involving the Financial Instruments Adjustment Account:					
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	0	0	(8)	0	8
Adjustments involving the Pensions Reserve:					
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	6,309	45	575	0	(6,929)
Employer's pensions contributions and direct payments to pensioners payable in the year	(8,279)	(58)	(755)	0	9,092
Adjustment involving the Accumulating Compensated Absences Adjustment Account:					
Adjustment in relation to Short-term compensated absences	206	0	(3)	0	(203)
Total Adjustments	5,332	(1,884)	2,614	183	(6,245)

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

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

	Balance at 31 March 2024 £000	Transfers in 2024- 2025 £000	Transfers out 2024- 2025 £000	Balance at 31 March 2025 £000	Transfers in 2025- 2026 £000	Transfers out 2025- 2026 £000	Balance at 31 March 2026 £000
Repairs & Renewals Fund	6,019	3,300	(467)	8,852	11,218	(145)	19,925
Revenue statutory fund	6,019	3,300	(467)	8,852	11,218	(145)	19,925
Capital Fund	1,138	0	(146)	992	0	(37)	955
Capital Receipts Reserve	2,080	408	(225)	2,263	899	(769)	2,393
Capital Grants Unapplied	20	0	0	20	0	0	20
Capital statutory funds	3,238	408	(371)	3,275	899	(806)	3,368
Total	9,257	3,708	(838)	12,127	12,117	(951)	23,293

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

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

Ring-fenced elements of the General Fund Balance

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

	2023-24				2024-25		
	Balance at 31 March 2024 £000	Transfers in 2024-2025 £000	Transfers out 2024-2025 £000	Balance at 31 March 2025 £000	Transfers in 2025-2026 £000	Transfers out 2025-2026 £000	Balance at 31 March 2026 £000
General Fund:							
Covid Redeterminations Flexibility Fund	428	42	(95)	375	402	(17)	760
Business Support Fund	206	0	(35)	171	0	(29)	142
Orkney College	(555)	0	(860)	(1,415)	0	(622)	(2,037)
Local Works and Services Contingency Fund	0	0	0	0	0	0	0
Renewable Energy Fund	5,497	200	(1,553)	4,144	222	(1,083)	3,283
Development Grants Fund	1,208	333	(412)	1,129	333	(432)	1,030
Capital Project Appraisal Fund	616	33	0	649	28	0	677
Crown Estate Fund	3,040	989	(971)	3,058	1,332	(577)	3,813
Workforce Management Fund	973	0	(290)	683	0	(83)	600
Outwith Orkney Placements Fund	0	0	0	0	0	0	0
Sustainable and Green Transport Fund	126	230	(210)	146	0	(22)	124
Islands Deal Fund	904	0	(200)	704	0	(6)	698
The Orkney Fund	0	0	0	0	417	0	417
Total General Fund Earmarked Reserves	12,443	1,827	(4,626)	9,644	2,734	(2871)	9,507

A balance of £8.154M remains available for General Fund purposes.

Note 10 Other Operating Expenditure

	2024-2025	2025-2026
	£000	£000
(Gains)/losses on the disposal of non-current assets	150	587
Total	150	587

Note 11 Financing and Investment Income and Expenditure

	2024-2025	2025-2026
	£000	£000
Interest payable and similar charges	2,712	2,722
Pensions net interest cost	(6,697)	280
Interest receivable and similar income	(5,169)	(25,255)
Income and expenditure in relation to investment properties and changes in their fair value	989	(3,508)
Other investment income	1,472	1,154
Total	(6,693)	(24,607)

Note 12 Taxation and Non-specific Grant Income

The Council credited the following taxation and non-specific grant income to the Comprehensive Income and Expenditure Statement during 2025/26.

	2024-2025	2025-2026
	£000	£000
Council Tax Income	12,461	14,384
NDR Redistribution	12,176	11,759
Non-ringfenced government grants	72,194	105,898
Capital Grants	10,081	13,340
Total Taxation and Non-Specific Grant Income	106,912	145,381

The Council credited the following grants to the Comprehensive Income and Expenditure Statement during 2025/26:

Grant Income 2025-2026	
Credited to Taxation and Non-Specific Grant Income:	£000
General Revenue Grant	105,898
Distribution of non-domestic rate pool	11,759
Council Tax	14,384
Capital Grants & contributions	13,340
Total	145,381
Revenue grants credited to Services:	£000
DWP - Housing Benefits Subsidy	2,030
DLUHC - UK Shared Prosperity fund	509
Energy Savings Trust - Contactless Compliance Grant	131
Highlands and Islands Enterprise - Scapa Deep Water Key	3,704
Innovate UK - Rural Energy hubs Project	184
Pack UK - Extended Producer Responsibility	1,180
Scottish Government - 20mph Implementation	223
Scottish Government - Ferry Replacement programme	208
Scottish Government - General Capital Grant - Disabled Adaptions	130
Scottish Government - Heat Energy Efficient Scotland	1,488
Scottish Government - Justice Social Work Services	389
Scottish Government - No-one left behind - All Age Employability support	134
Scottish Government - No-one left behind - Tackling Child poverty	135
Scottish Government - Rural Community Led Local Development Fund	286
Scottish Government - Scottish Attainment Challenge -pupils equity funding	274
Scottish Government - Scottish Attainment Challenge -strategic equity funding	113
Scottish Government - Scottish Crown Estate Net revenue	1,332
Scottish Government - Other	512
Sports Scotland - Active Schools and Community Sports Hub	206
UK Government - Orkney Fund (Pride in Place)	513
Other	612
Total	14,293

Note 13 Property, Plant and Equipment

Property, Plant & Equipment (PP&E)							
	Council Dwellings	Land and Buildings	Vehicles, Plant & Equipment	Community Assets	PP&E Under Construction	Surplus Assets	Total PP&E
	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation							
Balance as at 1 April 2025	102,529	279,165	56,403	6,533	16,937	201	461,768
Adjusted opening balance	102,529	279,165	56,403	6,533	16,937	201	461,768
Additions	4,154	2,742	4,088	62	7,359	0	18,405
Revaluation increases/(decreases) to Revaluation Reserve	(3,762)	18,686	2,365	0	0	0	17,289
Revaluation increases/(decreases) to Surplus or Deficit on the Provision of Services	(3,063)	(36,968)	(4,603)	0	0	0	(44,634)
Derecognition – Disposals	(81)	(633)	(877)	0	0	0	(1,591)
Reclassifications & Transfers	0	19,977	605	(1)	(19,413)	325	1,493
Balance as at 31 March 2026	99,777	282,969	57,981	6,594	4,883	526	452,730
Depreciation and Impairment							
Balance as at 1 April 2025	0	22,061	20,171	724	0	70	43,026
Adjusted opening balance	0	22,061	20,171	724	0	70	43,026
Annual Depreciation Charge	3,852	11,638	4,407	0	0	0	19,897
Depreciation written out on Revaluation taken to Surplus or Deficit on the Provision of Services	(1,477)	(33,591)	(4,402)	0	0	0	(39,470)
Impairment Losses/Reversals to Revaluation Reserve	(2,372)	0	(107)	0	0	0	(2,479)
Derecognition – Disposals	(3)	(108)	(729)	0	0	0	(840)
Reclassifications & Transfers	0	0	186	0	0	0	186
Balance as at 31 March 2026	0	0	19,526	724	0	70	20,320
Property, Plant and Equipment - Balance as at 31 March 2026	99,777	282,969	38,455	5,870	4,883	456	432,410
Infrastructure Assets - Balance as at 31 March 2026							74,088
Net Book Value as at 31 March 2026							506,498
Restated Property, Plant and Equipment- Balance as at 31 March 2025	102,529	257,104	36,232	5,809	16,937	131	418,742
Restated Infrastructure Assets- Balance as at 31 March 2025							76,071
Restated Net Book Value as at 31 March 2025							494,813

Property, Plant & Equipment (PP&E)							
	Council Dwellings	Buildings	Vehicles, Plant & Equipment	Community Assets	PP&E Under Construction	Surplus Assets	Total PP&E
	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation							
Balance as at 1 April 2024	74,832	277,179	53,017	6,363	14,369	526	426,286
Adjusted opening balance	74,832	277,179	53,017	6,363	14,369	526	426,286
Additions	2,401	2,103	2,722	168	7,268	0	14,662
Revaluation increases/(decreases) to Revaluation Reserve	20,486	(24)	6,606	2	0	0	27,070
Revaluation increases/(decreases) to Surplus or Deficit on the Provision of Services	1,290	(318)	(4,865)	0	0	0	(3,893)
Derecognition – Disposals	0	(123)	(1,334)	0	(282)	0	(1,739)
Reclassifications & Transfers	3,520	348	257	0	(4,418)	(325)	(618)
Balance 31 March 2025	102,529	279,165	56,403	6,533	16,937	201	461,768
Depreciation and Impairment							
Balance as at 1 April 2024	2,501	10,979	22,266	724	0	65	36,535
Adjusted opening balance	2,501	10,979	22,266	724	0	65	36,535
Annual Depreciation Charge	2,637	11,101	4,069	0	0	5	17,812
Depreciation written out Revaluation taken to Surplus or Deficit on the Provision of Services	(118)	(13)	(4,865)	0	0	0	(4,996)
Impairment Losses/Reversals to Revaluation Reserve	(5,020)	0	0	0	0	0	(5,020)
Derecognition – Disposals	0	(6)	(1,299)	0	0	0	(1,305)
Reclassifications & Transfers	0	0	0	0	0	0	0
Balance as at 31 March 2025	0	22,061	20,171	724	0	70	43,026
Property, Plant and Equipment - Balance as at 31 March 2025	102,529	257,104	36,232	5,809	16,937	131	418,742
Infrastructure Assets - Balance as at 31 March 2025							76,071
Net Book Value as at 31 March 2025							494,813
Restated Property, Plant and Equipment - Balance as at 31 March 2024	72,331	266,200	30,751	5,639	14,369	461	389,751
Restated Infrastructure Assets - Balance as at 31 March 2024							77,723
Restated Net Book Value as at 31 March 2024							467,474

Statutory Override – Infrastructure Assets

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

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

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

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

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

The Scottish Government put a statutory intervention in place to allow time for a permanent solution to be developed within the Code. A permanent solution has not yet been agreed, therefore the statutory guidance has been extended to 31 March 2027.

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

- Statutory Override 1: For accounting periods commencing from 1 April 2021 until 31 March 2027, a local authority is not required to report the gross cost and accumulated depreciation for infrastructure assets.
- Statutory Override 2: For accounting periods commencing from 1 April 2021 until 31 March 2027 the carrying amount to be derecognised in respect of a replaced part of an infrastructure asset is to be taken to be and accounted for as a nil amount. No subsequent adjustment shall be made to the carrying amount of the asset with respect to that part.

The value of Infrastructure assets is as follows:

	2024-2025	2025-2026
	£000	£000
Net carrying amount as at 1 April	77,723	76,071
Add: Additions	2,490	2,821
Add: Revaluations	2	0
Add: Reclassifications & Transfers	0	(605)
Add: Derecognition – Disposals	0	0
Less: Derecognition – Disposals	0	0
Less: Depreciation	(4,144)	(4,385)
Less: Reclassifications & Transfers	0	186
Balance as at 31 March	76,071	74,088

Note 14 Investment Properties

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

	2024-2025	2025-2026
	£000	£000
Rental income from investment property	(1,142)	(1,107)
Direct operating expenses arising from investment property	338	342
Net (Gain)/Loss included in Financing & Investment Income in the CIES	(804)	(765)
Changes in Fair Value of Investment Properties	1,851	(2,948)
	1,047	(3,713)

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

	2024-2025	2025-2026
	£000	£000
Balance at start of the year	24,690	23,008
Additions:		
Purchases	0	964
Disposals	(124)	(585)
Net gains/losses from fair value adjustments	(1,851)	2,948
Transfers:		
To/from Property, Plant and Equipment	293	(508)
Other changes	0	0
Balance at end of the year	23,008	26,827

Note 15 Financial Instruments

Categories of financial instruments

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

	Long-Term		Current	
	2024-2025 £000	2025-2026 £000	2024-2025 £000	2025-2026 £000
Investments				
Financial assets at fair value other comprehensive income	4,313	4,303	0	0
Financial assets at Cost	1,268	1,268	0	0
Financial assets at fair value through profit and loss	0	0	251,894	264,318
Total investments	5,581	5,571	251,894	264,318
Debtors				
Financial assets carried at amortised cost	7,351	4,539	11,215	10,416
Total Debtors	7,351	4,539	11,215	10,416
Borrowings				
Financial liabilities at amortised cost	40,000	30,000	10,638	20,601
Total borrowings	40,000	30,000	10,638	20,601
Creditors				
Financial liabilities carried at amortised costs	0	0	25,405	26,953
Total creditors	0	0	25,405	26,953

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

Fair value of financial instruments

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

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

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

Investments	Market Value	Fair Value
	£000	%
Managed Funds	264,318	97.34%
Private Companies	2,922	1.08%
Fishing Quota	4,300	1.58%
Other	3	0.00%
Total	271,543	100%

As at the 31 March 2026, as part of the transitioning arrangements to the revised investment strategy, the Fund had remaining contractual commitments to invest up to £0.900M in the new mandate to Private Debt. The drawdown of this commitment will be funded from within the Fund's portfolio of investments.

The onboarding to a new Private Loan Perpetual Fund was completed in March 2026 with a contractual commitment of £18.0m. Drawdowns for this new fund will commence during 2026/27 and will also be funded from within the Fund's portfolio of investments.

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

	Quoted Market Price Level 1 £000	Using Observable Inputs Level 2 £000	With Significant Unobservable Inputs Level 3 £000	Total £000
Value as at 31 March 2026				
Financial assets at fair value through profit and loss	119,220	85,508	59,590	264,318
Financial assets at fair value other comprehensive income	0	4,300	3	4,303
Financial Assets at Cost	0	0	1,268	1,268
Loans and receivables at amortised cost	0	2,860	0	2,860
Total Financial Assets	119,220	92,668	60,861	272,749
Financial liabilities at fair value through profit and loss	0	0	0	0
Financial liabilities at amortised cost	0	50,000	0	50,000
Total Financial Liabilities	0	50,000	0	50,000
Total Financial Instruments	119,220	42,668	60,861	222,749
Net Investments Assets (Fair Value)	119,220	42,668	60,861	222,749

	Quoted Market Price Level 1 £000	Using Observable Inputs Level 2 £000	With Significant Unobservable Inputs Level 3 £000	Total £000
Value as at 31 March 2025				
Financial assets at fair value through profit and loss	101,714	89,652	60,527	251,893
Financial assets at fair value other comprehensive income	0	4,300	13	4,313
Financial Assets at Cost	0	0	1,268	1,268
Loans and receivables at amortised cost	0	3,177	0	3,177
Total Financial Assets	101,714	97,129	61,808	260,651
Financial liabilities at fair value through profit and loss	0	0	0	0
Financial liabilities at amortised cost	0	50,000	0	50,000
Total Financial Liabilities	0	50,000	0	50,000
Total Financial Instruments	101,714	47,129	61,808	210,651
Net Investments Assets (Fair Value)	101,714	47,129	61,808	210,651

Loans and receivables include both loans advanced to local developers on commercial terms as well as loans advanced in support of economic development initiatives on interest free terms, otherwise more commonly known as soft loans. Loans to local developers, include a loan to Orkney Islands Property Development Limited of £0.636M, and housing loans to individuals where a specific entitlement criterion has been met. The risk of default is considered to be low for these financial instruments on the basis that security has been taken over the underlying assets. As such, the expected credit loss associated with loans to developers on commercial terms is not material and no impairment has been applied.

A portfolio of historic loans issued on interest free or below commercial terms in support of economic development opportunities have been discounted to reflect the effective interest rate. With the interest

free loan typically being advanced for 20 years and with repayment only due upon maturity, these loans are viewed as moderate risk. As such, an impairment has been applied using the simplified lifetime expected credit loss methodology. The movement on the portfolio of soft loans has been summarised as follows:

	2024-2025	2025-2026
	£000	£000
Balance as at 1 April	259	128
Add: Advances in year	0	0
Less: Loans repaid	(210)	(36)
Less: Loans written off	0	0
Add: Expected credit loss movement	66	(2)
Add: Fair value movement	13	8
Balance as at 31 March	128	98

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

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

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

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

	Financial Liabilities Measured at Amortised Cost £000	2025-2026			
		Financial Assets			Total £000
		At Amortised Cost	At Fair Value Other Comprehensive Income	At Fair Value through Profit and Loss	
		£000	£000	£000	
Interest expense (including finance lease interest)	1,900	0	0	0	1,900
Losses on derecognition	0	0	0	(39)	(39)
Losses on revaluation	0	0	0	9,302	9,302
Impairment losses	0	(2)	0	0	(2)
Fee expense	110	16	0	1,090	1,216
Total expenses in (surplus) or deficit on the Provision of Services	2,010	14	0	10,353	12,377
Interest income	(860)	(285)	0	0	(1,145)
Interest income accrued on impaired financial assets	0	3	0	0	3
Gains on revaluation	0	0	0	(29,622)	(29,622)
Losses on revaluation	0	0	0	0	0
Dividend income	0	0	0	(2,864)	(2,864)
Other income	0	8	0	(3,065)	(3,057)
Gains on derecognition	0	0	0	(250)	(250)
Total income in (surplus) or deficit on the Provision of Services	(860)	(274)	0	(35,801)	(36,935)
Gains on revaluation	0	0	0	0	0
Losses on revaluation	0	0	0	0	0
(Surplus) or deficit on revaluation of available-for-sale financial assets (in other comprehensive income and expenditure)	0	0	0	0	0
Net (gain)/loss for the year (in the total comprehensive income and expenditure)	1,150	(260)	0	(25,448)	(24,558)

Fair Values of Assets and Liabilities

Financial liabilities, financial assets represented by loans and receivables and long-term debtors and creditors are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- Estimated ranges of interest rates at 31 March 2026 of 1.28% to 4.84 % for loans from the Public Works Loans Board and 5.5% for other loans receivable and payable, based on new lending rates for equivalent loans at that date
- No early repayment or impairment is recognised
- Where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

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

	2024-2025		2025-2026	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
Financial liabilities	50,000	37,398	50,000	36,442
Total	50,000	37,398	50,000	36,442

The fair value of the financial liabilities is higher than the carrying amount because the Authority's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the prevailing rates at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31 March 2026) arising from a commitment to pay interest to lenders above current market rates.

	2023-2024		2024-2025	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
Long-term debtors less provision	3,113	3,135	2,816	2,830
Total	3,113	3,135	2,816	2,830

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

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

Note 16 Inventories

	2024-2025	2025-2026
	£000	£000
Stocks and Stores	3,686	3,248
Total	3,686	3,248

Note 17 Short-term Debtors

	2024-2025	2025-2026
	£000	£000
NDR & Council Tax	1,470	3,522
Rents	412	442
Value Added Tax	1,237	1,073
Trade Debtors	9,344	8,901
Total	12,463	13,938

Note 18 Cash and Cash Equivalents

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

	2024-2025	2025-2026
	£000	£000
Cash and Bank balances	150	173
Short Term Investments (considered to be Cash Equivalents)	500	10,749
Short Term Deposits (considered to be Cash Equivalents)	11,178	10,800
Total	11,828	21,722

Note 19 Assets Held for Sale

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

	Current	
	2024-2025	2025-2026
	£000	£000
Balance outstanding at start of year	270	630
Assets newly classified as held for sale:	0	0
Transferred from/(to) Non-Current Assets during year	325	(380)
Revaluation gains/(losses) taken to surplus or deficit on the provision of services	35	0
Revaluation gains/(losses) other	0	(15)
Assets sold cost	0	(150)
Other disposals	0	0
Balance outstanding at year-end	630	85

Note 20 Short-term Creditors

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

	2024-2025	2025-2026
	£000	£000
Council Tax	0	31
HRA	0	30
Accumulated Absences	3,124	3,413
Receipts in Advance	3,005	1,126
Trade Creditors	16,426	18,979
Other	2,850	3,374
Total Short-Term Creditors	25,405	26,953

Note 21 Provisions

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

	Balance as at 1 April 2025	Increase in provision during year	Utilised during year	Unused Amounts Reversed	Interest earned	Balance as at 31 March 2026
	£000	£000	£000	£000	£000	£000
Long Term Provisions	41,341	1,490	0	0	0	42,831
	41,341	1,490	0	0	0	42,831

A provision of £42.831M has been set aside to provide for the future cost that will be incurred by the Council in respect of the decommissioning of the Flotta Oil Terminal. The provision is updated annually by RPI for the effects of inflation.

Note 22 Reserves

Usable reserves

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

2024-2025		2025-2026
£000		£000
13,792	General Fund Balance	17,661
583	Housing Revenue Account Balance	500
2,283	Capital Receipts Reserve	2,413
992	Other Statutory Funds	955
215,003	Harbours	222,178
8,852	Repairs and Renewals Fund	19,926
241,505	Total useable reserves	263,633

Unusable Reserves

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

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

Summary of Unusable Reserves

	2024-2025	2025-2026
	£000	£000
Capital Adjustment Account	266,115	264,637
Financial Instrument Adjustment Account	(5)	(1)
Revaluation Reserve	187,739	198,285
Pensions Reserve	(4,317)	(4,185)
Available for Sale Financial Instruments Reserve	2,822	2,822
Employee Statutory Adjustment Account	(3,124)	(3,413)
Total Unusable Reserves	449,230	458,145

1. Movement in the year: Revaluation Reserve

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

	2024-2025	2025-2026
	£000	£000
Balance at 1 April	164,671	187,739
Upward revaluation of assets	32,152	20,042
Downward revaluation of assets and impairment losses not charged to the surplus/deficit on the Provision of Services	0	0
Surplus or deficit on revaluation of non-current assets not posted to the surplus or deficit on the provision of services	32,152	20,042
Difference between fair value and historical cost depreciation	(9,058)	(8,704)
Revaluation balances on assets scrapped or disposed of	(26)	(792)
Balance at 31 March	187,739	198,285

2. Movement in the year: Capital Adjustment Account

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

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

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

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

	2024-2025		2025-2026	
	£000	£000	£000	£000
Balance at 1 April		265,268		266,115
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement				
Charges for depreciation and impairment of non-current assets	(20,953)		(23,919)	
Revaluation losses on Property, Plant and Equipment	1,138		(5,164)	
Right of Use Assets – net movement on CAA	(81)		(969)	
Revenue expenditure funded from capital under statute	0		0	
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(558)		(1,486)	
		(20,454)		(31,538)
Adjusting amounts written out of the Revaluation Reserve		9,060		9,708
Net written out amount of the cost of non-current assets consumed in the year		(11,394)		(21,830)
Capital financing applied in the year:				
Use of the Capital Receipts Reserve to finance new capital expenditure	225		769	
Use of the Major Repairs Reserve to finance new capital expenditure	0		0	
Loans Lease principal repayments	0		0	
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	10,081		13,340	
Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	3,157		3,194	
Capital expenditure charged against the General Fund and HRA balances	629		101	
		14,092		17,404
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		(1,851)		2,948
Balance at 31 March		266,115		264,637

3. Movement in the year: Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments, and for bearing losses or benefiting from gains in accordance with statutory provisions. The Council uses the Financial Instruments Adjustment Account to manage “soft loans” that were on the Council’s Balance Sheet at 31 March 2007. Soft loans are loans advanced by the Council at nil or below prevailing interest rates. Generally accepted accounting practices require that the discounted interest rate is recognised as a reduction in the fair value of the loan, with the difference being debited to the Comprehensive Income and Expenditure Statement as service expenditure. However, statutory arrangements [or regulations] require that, for soft loans on the Council’s Balance Sheet at 31 March 2026, the reduction in value and corresponding charge to be reversed, so that there is no impact on the General Fund Balance.

	2024-2025	2025-2026
	£000	£000
Balance at 1 April	(14)	(5)
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	9	4
Balance at 31 March	(5)	(1)

4. Movement in the year: Pension Reserve

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

	2024-2025	2025-2026
	£000	£000
Balance at 1 April	141,853	(4,317)
Remeasurement of the net Pension Fund liability/(asset)	30,242	15,058
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(6,929)	(10,716)
Employers Pensions contributions and direct payments to pensioners payable in the year	9,092	9,141
Asset Ceiling Adjustment	(178,575)	(13,351)
Balance at 31 March	(4,317)	(4,185)

For year end 31 March 2026 the Council has applied a consistent approach to the prior year, recognising the surplus only to the extent that it can be recovered through economic value from potential future reduced contributions. Over the course of the year, an increase in the Discount Rate has diminished this economic value.

Under the asset ceiling test, an asset can only be recognised to the extent that it is recoverable — for example, through future contribution reductions. In this period, the projected future service cost (i.e., the cost of pension benefits accruing for current employees) is lower than the estimated level of future employer contributions. This implies that no contribution holiday is available to the employer, and therefore no economic benefit can be realised from the surplus. As a result of these changes, no pension surplus can be recognised as of 31 March 2026.

5. Movement in the year: Employee Statutory Adjustment Account

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

	2024-2025	2025-2026
	£000	£000
Balance at 1 April	(2,921)	(3,124)
Amounts accrued at the end of the current year	(203)	(289)
Balance at 31 March	(3,124)	(3,413)

6. Movement in the year: Financial Instruments Revaluation Reserve

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

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

	2024-2025	2025-2026
	£000	£000
Balance at 1 April	3,522	2,822
Upward revaluation of investments	0	0
Downward revaluation of investments not charged to the Surplus/Deficit on the Provision of Services	(700)	0
Balance at 31 March	2,822	2,822

Note 23 Trading Operations

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

	2024-2025			2025-2026		
	Expenditure	Income	Net Expenditure / (Income)	Expenditure	Income	Net Expenditure / (Income)
	£000	£000	£000	£000	£000	£000
Orkney College	7,764	(6,292)	1,472	8,090	(6,936)	1,154
Total	7,764	(6,292)	1,472	8,090	(6,936)	1,154

Note 24 Agency Services

The Council is required by legislation to provide a collection service for Scottish Water whereby it collects water and waste charges in conjunction with collection of Council Tax. The legislation stipulates the minimum amount Scottish Water must pay by way of commission for this service. For 2025/26 the value of this service amounted to £0.083M (2024/25 £0.078M).

The Council collects Non-Domestic Rates on behalf of the Scottish Government. For 2025/26 £11.759M was collected (2024/25 £12.176M).

Note 25 External Audit Costs

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

	2024-2025	2025-2026
	£000	£000
Orkney Islands Council	243	253
Charities	1	1
Total	244	254

Note 26 Capital Grant Receipts in Advance

The Council has received no capital grants in advance of need during 2025/26.

Note 27 Related Parties

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

Scottish Government

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

Companies and Joint Boards

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

Councillors and Officers

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

Pension Fund

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

	2024-2025			2025-2026		
	Receipts £000	Payments £000	Debtor/ (Creditor) £000	Receipts £000	Payments £000	Debtor/ (Creditor) £000
Scottish Government						
Revenue Grants – being payments made in support of Revenue Expenditure	72,194	0	0	105,898	0	0
Capital Grants – being payments made in support of Capital Expenditure	9,795	0	0	13,266	0	0
Companies and Joint Boards						
Orkney Ferries Limited – being payments made in support of the Ferry Services	3,092	15,829	3,492	4,543	20,871	3,280
Pickaquoy Centre Trust – being payments for provision of Leisure Services	267	914	19	247	1,081	(201)
Orkney and Shetland Valuation Joint Board – being payments of annual requisition to Joint Boards	0	511	(11)	0	576	(13)
Orkney Integration Joint Board – being payments of the annual contribution into the Joint Board arrangement between OIC and NHS Orkney	0	32,919	0	0	31,471	0
Orkney Islands Council Pension Fund						
Being Payments of employer's contributions in respect of employees	0	9,277	0	0	9,689	0

Note 28 Capital Expenditure and Capital Financing

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

Capital Expenditure and Capital Financing	2024-2025	2025-2026
	£000	£000
Opening Capital Financing Requirement	46,469	51,173
Property, Plant and Equipment	17,152	21,226
Investment Properties	14	964
Intangible Assets	13	0
	17,179	22,190
Sources of Finance		
Capital receipts	(225)	(769)
Government grants and other contributions	(10,081)	(13,340)
Other Contributions	(1,383)	(474)
Sums set aside from revenue:		
Direct revenue contributions:		
General	0	0
HRA	0	0
Harbours	(629)	(101)
Loans fund principal	(3,157)	(3,194)
	(15,475)	(17,878)
Closing Capital Finance Requirement	51,173	55,485
Explanation of movements in year		
Increase in underlying need to borrow (unsupported by government financial assistance)	1,971	4,312
Increase/(decrease) in Capital Financing Requirement	1,971	4,312

At 31 March 2026 the Council had commitments on capital contracts for projects of £31.243M. This expenditure will be funded from a combination of government grants, external borrowing, income from the sale of assets and contributions from revenue budgets.

The following significant contracts for capital investment have been entered into by Orkney Islands Council and extend beyond 31 March 2026:

Project Name	Purpose	Approx. Value £000	Anticipated Completion
Coplands Road	New Build	5,439	Wednesday, May 31, 2028
Quanterness Wind Farm	New Build	24,700	Monday, October 2, 2028
New Airfield Buildings – Eday	New Build	450	Wednesday, March 31, 2027
New Airfield Buildings – Westray	New Build	654	Friday, October 2, 2026
Overall Total		31,243	

Similar commitments at 31 March 2025 were £2.492M.

Note 29 Leases

International Financial Reporting Standard 16 (IFRS 16)

In 2025/26, the Council has applied IFRS 16 Leases as adopted by the Code of Accounting Practice. IFRS 16 establishes a single model for lessee accounting, requiring the recognition of both assets and liabilities for most leases.

As a result, operating leases, previously accounted for under IAS17, have been recognised as right-of-use assets with a corresponding lease liability, representing the obligation to make the lease payments, in the balance sheet as at 1 April 2025.

IFRS 16 has been applied retrospectively, but with the cumulative effect recognised at 1 April 2025. This means that right-of-use assets and lease liabilities have been calculated as if IFRS 16 had always applied but recognised in 2025/26 and not by adjusting prior year figures. The details of the changes in accounting policies and transitional provisions are disclosed below.

Definition of a lease

On transition to IFRS 16, the Council elected to apply the practical expedient not to reassess whether a contract is, or contains, a lease at 1 April 2025, except in relation to leases for nil consideration and housing tenancies. It has applied IFRS 16 only to contracts that were previously identified as leases under IAS 17 and IFRIC 4.

As a lessee

As a lessee, the Council previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Council. Under IFRS 16, the Council recognises right-of-use assets and lease liabilities for most leases, i.e. these leases are on-balance sheet.

The Council decided to apply recognition exemptions to short-term leases and has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a term of 12 months or less and leases of low value assets. The Council recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

As a lessor

The Council is not required to make any adjustment on transition to IFRS 16 for leases in which it acts as a lessor, except for councils acting as an intermediate lessor (subletting an asset it has acquired under a lease), or where the Council is party to a lease for nil consideration.

The Council was not party to any sublease arrangements as lessor as at 1 April 2025.

As at 1 April 2025 the Council was not party to as lessor to lease for nil consideration.

Sale-and-leaseback

The Council did not have any Sale and Leaseback transactions as at 1 April 2025.

Orkney Islands Council as Lessee

Right of Use Assets

The table below shows the change in the value of right-of-use assets held under leases by the Council:

	2024-2025			2025-2026		
	General Fund	Harbours	Total	General Fund	Harbours	Total
	£000	£000	£000	£000	£000	£000
Opening Balance	0	0	0	137	449	586
Implementation	174	466	640	0	0	0
Additions	0	0	0	0	0	0
Revaluations	0	0	0	45	458	503
Depreciation	(37)	(17)	(54)	(42)	(25)	(67)
Disposals	0	0	0	0	0	0
Balance as at 31 March 2026	137	449	586	140	882	1,022

The table below shows the Lease Liability in respect of Right of Use Assets:

	2024-2025			2025-2026		
	General Fund	Harbours	Statutory Charge for Repayment of Debt	General Fund	Harbours	Statutory Charge for Repayment of Debt
	£000	£000	£000	£000	£000	£000
Opening Balance	0	0	0	175	458	633
Lease Liability <1 year	92	40	132	(53)	(24)	(77)
Lease Liability >1 year	83	418	501	107	873	980
Closing Balance	175	458	633	229	1,307	1,536

The table below shows the impact of the recognition of Right of Use Assets on the Council's Unusable Reserves:

	2024-2025			2025-2026		
	General Fund	Harbours	Unusable Reserves Total	General Fund	Harbours	Unusable Reserves Total
	£000	£000	£000	£000	£000	£000
Right Of Use Assets						
Opening Balance	0	0	0	39	9	48
Capital Adjustment Accounts	43	38	81	95	874	969
Revaluation Reserve	(4)	(29)	(33)	(45)	(458)	(503)
Closing Balance	39	9	48	89	425	514

Transactions under leases

The Council incurred the following expenses and cash flows in relation to leases:

	2024-2025	2025-2026
	£000	£000
Comprehensive Income and Expenditure Statement		
Interest expense on lease liabilities	28	43
Expense relating to short-term leases	0	0
Variable lease commitments not included in the measurement of lease liabilities	73	71
Cash Flow Statement		
Total cashflow for leases	97	84
Cash payments for interest portion of lease liabilities	0	0
Movement in Reserves During Year		
Total comprehensive income and expenditure	48	110
Reversal of entries included in the surplus or deficit on the provision of serves in relation to capital expenditure	(82)	(110)
Statutory provision for the repayment of debt (MRP)	(34)	0

Maturity analysis of lease liabilities

The lease liabilities are due to be settled over the following time bands (measured at the undiscounted amounts of expected payments):

	2024/2025	2025/2026
	£000	£000
No later than 1 year	61	103
Later than 1 year and no later than 5 years	210	314
Later than 5 years	798	1,692
Total undiscounted liabilities	1,069	2,109

The Council is exposed to future cash outflows that are not reflected in the measurement of lease liabilities, arising from lease payments that fall outside the scope of IFRS 16 because of the variable nature of the lease payments.

The future minimum payments for leases that fall outside the scope of IFRS 16 are set out below:

	2024-2025	2025-2026
	Land and Buildings	Land and Buildings
	£000	£000
Minimum lease rentals payable:		
No later than 1 year	72	93
Later than 1 year and no later than 5 years	283	367
Later than 5 years	1,072	1,264
	1,427	1,724

Orkney Islands Council as Lessor

Operating Leases

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

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

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

	2024-2025	2025-2026
	Land and buildings	Land and buildings
	£000	£000
Minimum lease rentals payable:		
No later than 1 year	1,132	1,056
Later than 1 year and no later than 5 years	2,515	2,227
Later than 5 years	11,217	9,024
	14,864	12,307

Note 30 Impairment Losses

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

Note 31 Capitalisation of Borrowing Costs

The Council does not capitalise its borrowing costs.

Note 32 Pension Schemes Accounted as Defined Contribution Schemes

There are currently two occupational pension schemes for teachers in Scotland, the Scottish Teachers' Superannuation Scheme (STSS) and the Scottish Teachers' Pension Scheme 2015 (STPS 2015). These schemes are administered by the Scottish Public Pensions Agency on behalf of Scottish Ministers. Both are defined benefit schemes, but, as it is not possible to identify each participating Council's share of the underlying liabilities on a consistent and reasonable basis both schemes are accounted for as if they were defined contribution schemes. Employer contributions are set on the basis of periodic reviews by the Government Actuary. The Council's rate of contribution as an employer increased to 26% from 23% on 1st April 2024. The employee rate is tiered and ranges from 7.35% to 12.14%. The Council paid £4.683M (£4.607M in 2024/25) of employer contributions to the Scottish Public Pensions Agency during 2025-26. £0.280M of expenditure (£0.277M in 2024/25) was charged to service revenue accounts during 2025/26 in respect of "added years" pension enhancement termination benefits, representing 1.55% of employees' pensionable pay (1.56% in 2024/25).

Note 33 Defined Benefit Pension Schemes

Participation in pension schemes

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

The Council participates in two pension schemes:

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

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

Transactions relating to post-employment benefits

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

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

2024-2025		2025-2026
£000		£000
Comprehensive Income and Expenditure Statement		
<i>Cost of Services:</i>		
13,318	Current service cost	10,375
308	Past service cost including curtailments	61
<i>Included within financing and investment income and expenditure</i>		
(6,697)	Net Interest Expense	280
6,929	Total of LGPS post-employment benefits charged to the surplus or deficit on the provision of services	10,716
<i>Included within other comprehensive income and expenditure:</i>		
(576)	Changes in demographic assumptions	1,907
(57,903)	Changes in financial assumptions	(10,678)
(3,601)	Other experience	2,772
31,838	Return on assets excluding amounts included in net interest	(9,059)
178,575	Asset Ceiling Adjustment	0
148,333	Remeasurement of the net Pension Fund Liability/(Assets)	(15,058)
Movement in Reserves Statement:		
<i>Adjustment between accounting and funding basis under regulations:</i>		
(6,929)	Reversal of net changes made to surplus or deficit on the provision of services for post-employment benefits in accordance with code	(10,716)
30,242	Reversal of re-measurement of net defined benefit liability	1,707
(178,575)	Asset Ceiling Adjustment	0
Actual amounts charged against the General Fund balance for pensions in the year:		
9,092	Employer contributions and direct payments in the year	9,141
(146,170)	Net charge to the general Fund Summary	132

Pension Assets and Liabilities recognised in the Balance Sheet

	2024-2025	2025-2026
	£000	£000
Fair Value of scheme assets	(482,538)	(522,425)
Fair value of liabilities	308,280	18,915
Asset Ceiling Adjustment	178,575	507,695
Council's share of deficit or (surplus) in the scheme	4,317	4,185

Asset and Liabilities in Relation to Post-Employment Benefits

Reconciliation of Movements in the Fair Value of Scheme Assets:

2024-2025		2025-2026
£000		£000
(491,107)	Opening balance at 1 April	(482,538)
(23,584)	Interest Income	(28,108)
<i>Cashflows:</i>		
(3,349)	Member contributions	(3,468)
(8,591)	Employer contributions	(8,644)
(501)	Contributions in respect of unfunded benefits	(497)
12,255	Benefits paid: other	13,347
501	Benefits paid: unfunded	497
0	Other	0
<i>Remeasurements:</i>		
31,838	Return on Plan Assets, excl. net interest expense	(9,059)
(482,538)	Closing balance at 31 March	(518,470)

Reconciliation of Present Value of the Scheme Liabilities:

2024-2025		2025-2026
£000		£000
344,187	Present Value of Funded Liabilities	303,963
5,067	Present Value of Unfunded Liabilities	4,317
349,254	Opening balance at 1 April	308,280
13,318	Current service cost	10,375
308	Past service cost including curtailments	61
16,887	Interest Cost	18,038
<i>Cashflows:</i>		
3,349	Member contributions	3,468
(12,255)	Estimated benefits paid: other	(10,848)
(501)	Estimated benefits paid: unfunded	(497)
<i>Remeasurements:</i>		
(576)	Changes in demographic assumptions	1,907
(57,903)	Changes in financial assumptions	(10,678)
(3,601)	Other experience	2,772
308,280		322,878
303,963	Present Value of Funded Liabilities	320,149
4,317	Present Value of Unfunded Liabilities	4,185
308,820	Closing balance at 31 March	324,334

Analysis of Pension Fund's Assets

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

2024-2025			2025-2026	
£000			£000	
Equities:				
63,499	13%	Consumer	49,509	9%
15,747	3%	Manufacturing	16,495	3%
4,897	1%	Energy and Utilities	10,981	2%
40,040	8%	Financial Institutions	45,913	9%
26,215	6%	Health and Care	28,509	5%
48,225	10%	Information Technology	63,559	12%
69,631	15%	Other	70,551	14%
Debt Security				
34,021	7%	Corporate Bonds (Investment Grade)	49,761	10%
88,111	18%	UK Government	96,665	19%
43,580	9%	Other	41,136	8%
0	0%	Private Equity:	0	0%
Investment Funds and Unit Trusts:				
0	0%	Equities	0	0%
42,179	9%	Infrastructure	43,894	8%
6,393	1%	Cash and Cash Equivalents:	5,454	1%
482,538	100%	Total Assets	522,425	100%

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in the future years dependent on assumptions about mortality rates, salary levels, etc. The estimates are based on the latest full valuation of the Fund at 31 March 2023, projected forward to 31 March 2026. The following table shows the principal assumptions used by Hymans Robertson LLP, the Fund's independent actuaries, to estimate the Council's post-employment benefits transactions, and the Council's share of the Pension Fund's defined benefit obligation (scheme liabilities) and scheme assets. The mortality assumptions are based on lives aged 45 and 65 at the latest Fund valuation date and not the balance sheet date:

2024-2025		2025-2026
5.80%	Discount rate for defined benefit obligation	6.20%
3.30%	Rate of increase in salaries	3.50%
2.80%	Rate of increase in pensions	3.00%
Mortality assumptions:		
<i>Longevity at age 65 for current pensioners</i>		
20.9	Men	21.3
23.6	Women	23.8
<i>Longevity at age 65 for future pensioners</i>		
22.1	Men	22.3
25.6	Women	25.7
Commutation assumptions – percentage of the maximum additional tax-free cash (per HM Revenue & Customs limits) converted from annual pensions into retirement lump sum:		
50%	For pre- April 2009 service	50%

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

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

Changes in assumptions as at 31 March 2026:	Approximate increase to Employer	Approximate Monetary Amount
	%	£000
0.1% decrease in Real Discount Rate	2%	5,643
1 year increase in member life expectancy	4%	12,973
0.1% increase in the Salary Increase Rate	0%	318
0.1% increase in the Pension Increase Rate	2%	5,319

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

Impact on the Authority's Cash Flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The Council has agreed a strategy with the scheme's actuary to maintain a funding level of 100% over the next 20 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed as at 31 March 2026.

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

The Authority anticipates paying £8.60M in contributions to the scheme in 2026/27.

Statutory Accounts

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

Note 34 Contingent Liabilities

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

Former Landfill and Quarry Sites Re-instatement

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

As at 31 March 2026, no financial provision has been made however the Council recognises that a contingent liability in respect of future reinstatement of current and former landfill and quarry sites operated by the Council may arise as a result of this work however the timing of liabilities in respect of current and former landfill and quarry sites is uncertain and the associated costs cannot be reliably estimated at this time.

Grant Funding Conditions

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

Merchant Navy Officers Pension Fund (MNOF)

The MNOF is closed to new members and to future accrual from 31 March 2016, when contributing members were transferred to the Ensign Retirement Plan (for the MNOF). The MNOF is a multi-

employer defined-benefit scheme and the Council cannot identify its share of the underlying assets and liabilities.

A full triennial actuarial valuation as at 31 March 2025 was finalised on 31 March 2026 (mnopf.co.uk). Key results were:

	31 March 2025	31 March 2026
	£000	£000
Technical Provisions Funding Level	99%	99%
Surplus/(deficit)	(11,000)	(12,000)

The Trustee and the Participating Employers agreed no deficit-repair contributions will be levied, as the shortfall is expected to be recovered from investment returns under the 2025 Recovery Plan. The next full valuation is due as at 31 March 2027.

Orkney Islands Council Pension Fund

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

The results of the 2017 cost cap were finalised in 2021/22 and suggest no changes to employer contribution rates recently certified and put in place by the LGPS administering authority from 1 April 2024.

Note 35 Nature and Extent of Risks Arising from Financial Instruments

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

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

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

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

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

Credit Risk

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

The risk is minimised through the Annual Investment Strategy, which can be found at the following link: [Annual Investment Strategy 2025-2026](#)

Credit Risk Management Practices

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

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

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

2025-2026	Amount at 31 March 2026	Adjustment for Market Conditions at 31 March 2026	Estimated maximum exposure to default and uncollectability at 31 March 2026
	£000	%	£000
Deposits with financial institutions and local authorities	21,549		
Customers (sundry income)	7,132	40.08	2,910
Total	28,681		2,910

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

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

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

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

The Authority does not allow credit for customers such that of the £7.132M debtors balance, £4.443M is less than one month old, leaving a balance of £1.407M that is past its due date for payment. The past due but not impaired amounts can be analysed by age as follows:

2024-2025		2025-2026
£000		£000
677	Less than three months	543
111	Three to six months	142
199	Six months to one year	185
561	More than one year	536
1,548	Sundry income debtors balance	1,406

During the year the impairment loss allowance on overdue sundry income debtors decreased by £0.044M, being an decrease from £1.443M to £1.399M.

Amounts Arising from Expected Credit Losses

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

Collateral

Orkney Islands Council acts as the lender of last resort for housing loans. In such cases the Council takes a standard security over the property. As at 31 March 2026 the outstanding value of loans advanced by the Council was £1.850M (£2.056M as at 31 March 2025).

Liquidity risk

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

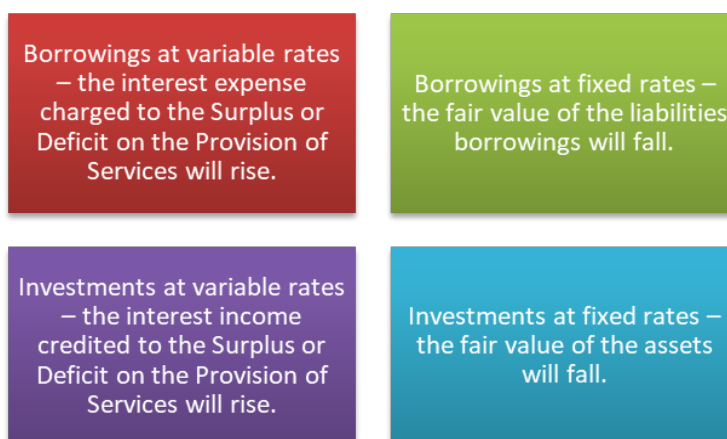
The maturity analysis of the principal element of borrowing is as follows:

	2024-2025	2025-2026
	£000	£000
Less than one year	10,000	0
Between one and two years	10,000	20,000
Between two and five years	0	0
More than five years	30,000	30,000
	50,000	50,000

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

Market risk: interest rate risk

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



Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General

Fund Balance pound for pound. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in Other Comprehensive Income and Expenditure.

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

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

	2024-2025	2025-2026
	£000	£000
Increase in interest receivable on variable rate investments	117	215
Impact on Surplus or Deficit on the Provision of Services	117	215
Decrease in fair value of variable rate investment assets	427	275
Decrease in fair value of fixed rate borrowings liabilities (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure)	2,633	2,368

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

Market risk: price risk

The authority held £271.543M of investments as at 31 March 2026 in the form of equities, multi-asset and bonds. The authority is consequently exposed to losses arising from movement in the price of the shares.

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

These clearly defined shares are mainly classified as Fair Value through Profit or Loss with the investment in the local wind energy company and fishing quota classified as Fair Value Other Comprehensive Income, meaning that all movements in price will impact directly on the income and expenditure statement. A general shift of 5% in the general price of shares (positive or negative) would have resulted in a £13.577M gain or loss being recognised in the income and expenditure statement.

Market risk: foreign exchange risk

As part of the portfolio of £271.543M of investments, the authority held £71.473M of investments in the form of global equities and multi-assets pooled funds.

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

These clearly defined shares are all classified as Fair Value through Profit or Loss, meaning that all movements in price will impact directly on the income and expenditure statement. A general shift of 5% in the general price of shares (positive or negative) would have resulted in a £3.574M gain or loss being recognised in the income and expenditure statement.

Note 36 Charitable and Non-Charitable Trust Funds

This section of the Annual Accounts shows the summary of transactions relating to the Charitable and Non-Charitable Trust Funds administered by Orkney Islands Council as sole trustee. A summary of the balances held at 31 March 2026 and how these balances were invested is also detailed. Orkney

Islands Council administers these Funds and separately accounts for them. They do not form part of the Council's single entity balance sheet, although under s222 of the Local Government (Scotland) Act 1973, the property of the Trust Funds "vest[s] in" the relevant local authority. However, they are included in the Annual Accounts of the Council as a note to the core financial statements.

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

Summary Income and Expenditure Statement:

2024-2025 £000		2025-2026		
		Registered Charitable Trusts	Non-Registered Trusts	Total
		£000	£000	£000
	Income			
(148)	Interest on Investments etc.	(1)	(105)	(106)
	Expenditure			
315	General expense	1	91	92
167	(Surplus)/ Deficit for the Year	0	(14)	(14)

Balance Sheet as at 31 March 2026:

31 March 2025 £000		Note	31 March 2026		
			Registered Charitable Trusts	Non-Registered Trusts	Total
			£000	£000	£000
1,015	Short-term Deposits with Orkney Islands Council		30	1,000	1,030
(1)	Current Liabilities		(1)	0	(1)
1,014	Total Assets less Liabilities		29	1,000	1,029
	Represented by				
1,014	Trust Fund Balances		29	1,000	1,029
1,014	Total Net Worth		29	1,000	1,029

1. Registered as Charities

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

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

2. Trust Fund Balances

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

	£000
Orkney Educational Trust	
Various bursary awards to promote further education opportunities, sports, visual arts, music and drama	23
William Orkney Reid's Bursary Fund	
To assist the education of any promising pupils at Kirkwall Grammar School	6
Total	29

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

Note 37 Common Good Fund

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

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

2024-2025		2025-2026
£000		£000
	Income	
(64)	Interest on Investments etc.	(61)
0	Transfer to revaluation	0
	Expenditure	
17	General Expenditure	52
(47)	(Surplus)/ Deficit for the Year	(9)

31 March 2025	Balance Sheet	31 March 2026		
Total		Stromness	Kirkwall	Total
£000		£000	£000	£000
	Investments			
302	Property	35	265	300
169	Heritage Assets	0	169	169
225	Capital Deposits	50	175	225
696	Total Long-Term Assets	85	609	694
525	Loans Fund Deposits	168	368	536
525	Current Assets	168	368	536
0	Less Current Liabilities	0	0	0
525	Net Current Assets	168	368	536
1,221	Net Assets	253	977	1,230
	Represented by:			
230	Capital Reserve	50	174	224
522	Revenue Reserve	168	394	562
469	Revaluation Reserve	35	409	444
1,221	Accumulated Funds	253	977	1,230

Housing Revenue Account

Housing Revenue Account income and expenditure statement

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

2024-2025		2025-2026	
£000		£000	£000
	<i>Expenditure:</i>		
2,485	Repairs and maintenance	2,643	
989	Supervision and management	1,203	
1,232	Depreciation and impairment of non-current assets	5,442	
42	Increase or (decrease) in the allowance for bad debts	8	
4,748			9,296
	<i>Income:</i>		
(4,698)	Dwelling rents	(5,045)	
(104)	Other income	(94)	
(4,802)			(5,139)
(54)	Net cost of HRA services as included in the comprehensive income and expenditure statement		4,157
	<i>HRA share of the operating income and expenditure included in the comprehensive income and expenditure statement</i>		
(1,938)	Capital grants	(3,494)	
82	(Gain) or loss on sale of HRA non-current assets	56	
529	Interest payable and similar charges	467	
(41)	Pensions interest cost and expected return on pensions assets	2	
(1,368)			(2,969)
(1,422)	(Surplus) or deficit for the year on HRA services		1,188

Movement on the Housing Revenue Account statement

This statement shows the movement in the year on the Housing Revenue Account (HRA) Balance. The surplus or deficit for the year on the HRA income and expenditure statement represents the true economic cost of providing the Council's HRA services, more details of which are shown in the HRA income and expenditure statement itself. The adjustments between accounting basis and funding basis under regulations detail the adjustments that are made to the HRA income and expenditure, as recognised by the Council in the year in accordance with proper accounting practice, to the statutory amounts required to be charged to the HRA Balance for dwellings rent setting purposes.

2024-2025		2025-2026			
		£000	£000	£000	£000
(803)	Balance on the HRA at the end of the previous year				(583)
(1,422)	(Surplus) or deficit for the year on the HRA income and expenditure statement			1,188	
	<i>Adjustments between accounting basis and funding basis under regulations:</i>				
(82)	Reverse out gain or (loss) on sale of HRA non-current assets		(56)		
	<i>HRA share of contributions to or (from) the Pension Reserve:</i>				
(45)	Reverse out net charges made for post-employment benefits in accordance with IAS19	(77)			
58	Pensions cost chargeable for the year in accordance with statutory provisions: employer's contributions payable to Orkney Islands Council Pension Fund	66			
	HRA share of contributions to or (from) the Pension Reserve				
0	Capital expenditure funded by the HRA				
	<i>Transfer to or (from) the Capital Adjustment Account:</i>				
(1,232)	Reverse out depreciation and impairment gains on non-current assets	(5,442)			
1,938	Reverse out credits made for capital grants	3,494			
1,247	Loans fund principal contribution from the HRA	1,152			
0	Transfer to or (from) the Capital Adjustment Account		0		
1,884	Total of adjustments between accounting basis and funding basis under regulations			(863)	
462	Net (increase) or decrease before transfers to or from reserves			325	
(242)	Transfers to or (from) reserves			(242)	
220	(Increase) or decrease in the year on the HRA				83
(583)	Balance on the HRA at the end of the current year				(500)

Notes to the Housing Revenue Account income and expenditure statement

1. The number and types of dwelling in the Council's housing stock

The Council was responsible for managing 1,042 dwellings during 2025/26 (1,024 in 2024/25). The following shows an analysis of these dwellings by type.

Number at 31 March 2025	Type of dwelling	Number at 31 March 2026
28	One-apartment	28
394	Two-apartment	402
328	Three-apartment	333
256	Four-apartment	257
15	Five-apartment	19
3	Six-apartment	3
1,024	Total	1,042

2. The amount of rent arrears

At 31 March 2026 total rent arrears amounted to £0.652M (£0.575M at 31 March 2025). This is 12.92% of the total value of rental income at 31 March 2026.

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

In the financial year 2025/26 the rental bad debt provision has increased by £0.028M (£0.020M increase during 2024/25). The provision to cover the potential loss of income stands at £0.235M at 31 March 2026. This is 4.65% of the total value of rents at that date.

4. The total value of uncollectable void rents

The total value of uncollectable void rents for Council dwellings that were not let during the year was £0.080M (£0.067M during 2024/25).

Council Tax Income Account

Councils raise taxes from residents by way of a property tax – the council tax – which is based on property values. Each dwelling house in a local authority area is placed into one of eight valuation bands, “A” to “H”. The Council declares an annual charge for band D properties and all other properties are charged a proportion of this – lower valued properties pay less; higher valued properties pay more. The Council Tax Income Account shows the gross income raised from Council Taxes levied and deductions made under statute. The resultant net income is transferred to the Council’s comprehensive income and expenditure statement.

2024-2025		2025-2026
£000		£000
14,960	Gross council tax levied	17,267
(990)	Council Tax Reduction Scheme	(1,103)
(1,296)	Other discounts and reductions	(1,551)
(145)	Write-off of uncollectable debts and allowance for impairment	(114)
(68)	Adjustment to previous years’ council tax	(115)
12,461	Transfer to the General Fund	14,384

Calculation of the council tax

Dwellings are valued by the Assessor and placed within valuation bands ranging from the lowest “A” to the highest “H”. The Council Tax base is the number of chargeable dwellings across all valuation bands (adjusted for dwellings where discounts apply), after providing for non-payment, expressed as an equivalent number of band D dwellings. The band D Council Tax charge is calculated using the Council Tax base and this in turn fixes the charge for each of the other bands, which are based on pre-determined proportions relative to the band D charge. The band D charge for 2025/26 was £1,574.60 (£1,369.21 in 2024/25).

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

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

Annual council tax charges

2025-2026							
Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H
£1,049.73	£1,224.69	£1,399.64	£1,574.60	£2,068.85	£2,558.73	£3,083.59	£3,857.77

Calculation of the council tax base

2025-2026	Number of dwellings	Number of exemptions	Disabled relief	Discounts of 25%	Discounts of 50%	Council Tax Reduction	Total equivalent dwellings	Ratio to Band D	Band D equivalents
@	0	0	6	(1)	0	(2)	3	200/360	2
Band A	2,379	(272)	5	(281)	(28)	(272)	1,531	240/360	1,021
Band B	2,946	(141)	10	(338)	(22)	(291)	2,164	280/360	1,683
Band C	2,535	(96)	(2)	(224)	(11)	(163)	2,039	320/360	1,812
Band D	1,973	(42)	5	(139)	(9)	(59)	1,729	360/360	1,729
Band E	1,617	(16)	(14)	(75)	(6)	(16)	1,490	473/360	1,959
Band F	396	(3)	0	(15)	(2)	(5)	371	585/360	603
Band G	27	0	0	(1)	0	0	26	705/360	51
Band H	6	(1)	0	0	0	0	5	882/360	12
Total	11,879	(571)	10	(1,074)	(78)	(808)	9,358		8,872

Class 17 and 24 dwellings	0
Sub-total	8,872
Provision for non-payment and future award of discounts and reliefs	(69)
Council tax base	8,803

@ denotes additional relief for disabled persons occupying Band A properties

Non-Domestic Rates Account

This account is an agent's statement that reflects the statutory obligation for those councils who issue bills to non-domestic rate payers to maintain a separate non-domestic rate account. The account shows the rates collected from non-domestic rate payers during the year. Any difference between the rates collected and the amount the Council is guaranteed to receive under the national pooling arrangements is adjusted via the Scottish Government's general revenue grant to the Council. Non-domestic rate income is redistributed from the national non-domestic rate pool in proportion to the resident population of each council area and therefore bears no direct relationship with the amount charged or collected by those councils.

2024-2025		2025-2026
£000		£000
17,511	Gross rates levied	17,738
(5,139)	Reliefs and other deductions	(5,607)
(97)	Write-offs of uncollectable debts and allowance for impairment	(86)
12,275	Net non-domestic rate income	12,585
46	Adjustment to previous years' non-domestic rates	(826)
(145)	Contribution (to) or from the national non-domestic rate pool	0
12,176	Transfer to comprehensive income and expenditure statement	11,759

The nature and amount of each rate fixed

The non-domestic rates charge for each subject is determined by the rateable value placed upon it by the Assessor, multiplied by the rate per pound (the "rate poundage"). The national non-domestic rates poundage is set each year by the Scottish Ministers. For 2025/26 the charge was 49.8 pence in the pound. From 1 April 2017 the Scottish Government amended the existing Small Business Bonus Scheme (SBBS). Under the SBBS properties with a rateable value up to and including £12,000 are entitled to a 100% reduction in their business rates. Properties with a rateable value of between £12,001 and £15,000 receive a 25% reduction. Additionally, a business with two or more properties with a combined rateable value of £35,000 are eligible to qualify for relief of 25% on individual properties with a rateable value of £15,000 or less.

For properties with a rateable value over £51,000 but less than £100,000 a supplement of 1.3 pence in the pound was added as per the Non-Domestic Rates (Levying) (Scotland) Regulations 2020. For properties with a rateable value over £100,001 the supplement was 2.6 pence in the pound.

Analysis of Orkney Islands Council's rateable values:

2025-2026		£000	£000
Rateable value at 1 April 2025:	Commercial	9,527	
	Industrial and Freight Transport	5,602	
	Others	18,473	
			33,603
Running roll (full-year rateable value)			5,907
Rateable value at 31 March 2026			39,509
Wholly exempt subjects			(613)
Net rateable value at 31 March 2026			38,896

Harbour Authority Account

Harbour Authority Revenue Account income and expenditure statement

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

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

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

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

2024-2025		2025-2026		
£000 Net		£000 Expenditure	£000 Income	£000 Net
(2,238)	Scapa Flow Oil Port	9,579	(11,690)	(2,111)
(761)	Miscellaneous Piers and Harbours	13,972	(13,545)	427
(2,999)		23,551	(25,235)	(1,684)
(2,999)	Net cost of Harbour Services as included in the comprehensive income and expenditure statement			(1,684)
<i>Harbours share of the operating income and expenditure included in the comprehensive income and expenditure statement:</i>				
(1,145)	Capital Grants			0
56	(Gain) or loss on sale of Harbour Authority assets			189
1,477	Interest payable and similar charges			1,353
(2,400)	Harbours Investment (Gain)/loss			(26,616)
(530)	Pensions interest cost and expected return on pensions assets			29
(5,541)	(Surplus) or deficit for the year on Harbour Authority			(26,729)

Movement on the Harbour Authority Revenue Account Statement

This statement shows the movement in the year on the Harbour Authority Revenue Account Balance. The surplus or deficit for the year on the Harbour income and expenditure statement represents the true economic cost of providing the Council's Harbour Authority, more details of which are shown in the Harbour income and expenditure statement itself. The adjustments between accounting basis and funding basis under regulations detail the adjustments that are made to the Harbour income and expenditure, as recognised by the Council in the year in accordance with proper accounting practice, to the statutory amounts required to be charged to the Harbour Balance.

2024-2025		2025-2026		
£000		£000	£000	£000
(227,483)	Balance on the Harbour Authority at the end of the previous year			(215,003)
(5,541)	(Surplus) or deficit for the year on the Harbour income and expenditure statement			(26,729)
	<i>Adjustments between accounting basis and funding basis under regulations:</i>			
8	Difference between any other item of income and expenditure determined in accordance with the Code and determined in accordance with statutory Harbour requirements		4	
(56)	Reverse out gain or (loss) on sale of Harbour non-current assets		(189)	
29	Right of Use Assets- Leases – Revaluation of peppercorn rents		59	
<i>Harbour share of contributions to or (from) the Pension Reserve:</i>				
(575)	Reverse out net charges made for post-employment benefits in accordance with IAS19	(909)		
755	Pensions cost chargeable for the year in accordance with statutory provisions: employer's contributions payable to Orkney Islands Council Pension Fund	775		
180	Harbour share of contributions to or (from) the Pension Reserve		(134)	
3	Harbour share of contributions to or (from) the Employee Statutory Adjustment Account		(7)	
629	Capital expenditure funded by the Harbour Authority		101	
<i>Transfer to or (from) the Capital Adjustment Account:</i>				
(5,811)	Reverse out depreciation and impairment losses on non-current assets	(1,239)		
1,145	Reverse out credits made for capital grants	0		
1,259	Loans fund principal contribution from the Harbour Authority	1,259		
(3,407)	Transfer to or (from) the Capital Adjustment Account		20	
(2,614)	Total of adjustments between accounting basis and funding basis under regulations			(146)
(8,155)	Net (increase) or decrease before transfers to or from reserves			(26,875)
20,635	Contributions to/(from) General Fund Services		19,700	
0	Contributions to/(from) Housing Revenue Account House Build Programme			
20,635	Transfers to or (from) reserves:			19,700
12,480	(Increase) or decrease in the year on the Harbour Authority			(7,175)
(215,003)	Balance on the Harbour authority at the end of the current year			(222,178)

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

		2024-2025				2025-2026	
	Balance as at 1 April 2024	Transfers in 2024- 2025	Transfers out 2024- 2025	Balance as at 31 March 2025	Transfers in 2025- 2026	Transfers out 2025- 2026	Balance as at 31 March 2026
Harbour Balances	£000	£000	£000	£000	£000	£000	£000
Strategic Reserve Fund	204,887	6,585	(21,168)	190,304	29,250	(22,749)	196,805
Flotta Terminal Decline & Decommissioning Fund	5,574	1,364	(1,364)	5,574	1,490	(1,490)	5,574
Conservation Fund	208	10	0	218	10	0	228
Talented Performers Fund	65	3	0	68	3	0	71
Travel Fund	113	6	0	119	6	0	125
Fisheries Fund	0	0	0	0	0	0	0
Orkney Memorial Fund	449	22	(15)	456	21	(28)	449
Talented Young Persons Fund	8	0	0	8	0	0	8
Miscellaneous Piers Reserve Fund	6,382	2,077	0	8,459	331	0	8,790
Renewable Energy Fund	9,797	0	0	9,797	331	0	10,128
Harbour Fund Balances	227,483	10,067	(22,547)	215,003	31,442	(24,267)	222,178

UHI Orkney Account

UHI Orkney Revenue Account income and expenditure statement

Orkney Islands Council provides further and higher education provision through UHI Orkney which is funded by direct grants from the Scottish Funding Council (SFC). The trading position from these activities is reflected within the Council's Comprehensive Income and Expenditure Statement as part of financing and investment expenditure.

2024-2025		2025-2026	
£000		£000	£000
<i>Expenditure:</i>			
5,608	Staff Costs	5,540	
554	Property Costs	595	
789	Supplies & Services	1,029	
84	Transport Costs	112	
120	Administration Costs	132	
131	Apportioned Costs	121	
494	Depreciation and impairment of non-current assets	535	
(16)	Provision for Bad Debts	26	
7,764			8,090
<i>Income:</i>			
(4,302)	Grants	(4,793)	
(1,769)	Fees & Charges	(1,913)	
(221)	Other income	(230)	
(6,292)			(6,936)
1,472	Net cost of UHI Orkney services as included in the comprehensive income and expenditure statement		1,154
<i>UHI Orkney share of the operating income and expenditure included in the comprehensive income and expenditure statement:</i>			
0	Capital Grants	(108)	
0	Gains (Cr)/Loss on Sale of UHI Orkney Fixed Assets	0	
(216)	Pensions interest cost and expected return on pensions assets	11	
1,256	(Surplus) or deficit for the year on UHI Orkney		1,057

Movement on the UHI Orkney Revenue Account Statement

This statement shows the movement in the year on UHI Orkney Revenue Account Balance. The surplus or deficit for the year on UHI Orkney income and expenditure statement represents the true economic cost of providing the Council's Further and Higher Education services, more details of which are shown in UHI Orkney income and expenditure statement itself. The adjustments between accounting basis and funding basis under regulations detail the adjustments that are made to UHI Orkney income and expenditure, as recognised by the Council in the year in accordance with proper accounting practice, to the statutory amounts required to be charged to UHI Orkney Balance.

2024-2025		2025-2026			
£000		£000	£000	£000	£000
555	Balance on UHI Orkney at the end of the previous year				1,415
1,256	(Surplus) or deficit for the year on UHI Orkney income and expenditure statement			1,057	
<i>Adjustments between accounting basis and funding basis under regulations:</i>					
	UHI Orkney share of contributions to or (from) the Pension Reserve:				
(234)	Reverse out net charges made for post-employment benefits in accordance with IAS19	361			
307	Pensions cost chargeable for the year in accordance with statutory provisions: employer's contributions payable to Orkney Islands Council Pension Fund	309			
73	UHI Orkney share of contributions to or (from) the Pension Reserve		670		
(32)	UHI Orkney share of contributions to or (from) the Employee Statutory Adjustment Account		(42)		
0	Capital expenditure funded by UHI Orkney		0		
0	Gain or loss on sale of UHI Orkney fixed assets		0		
	Transfer to or (from) the Capital Adjustment Account:				
0	Reverse out credits made for capital grants	108			
(437)	Reverse out depreciation and impairment losses on non-current assets	(448)			
(437)	Transfer to or (from) the Capital Adjustment Account		0		
(396)	Total of adjustments between accounting basis and funding basis under regulations			(435)	
860	Net (increase) or decrease before transfers to or from reserves			623	
0	Transfers to or (from) reserves			0	
860	(Increase) or decrease in the year on UHI Orkney				623
1,415	Balance on UHI Orkney at the end of the current year				2,038

Group Accounts

Statement of Group Accounting Policies

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

Authorities are required to prepare a full set of group accounts in addition to their own Council's accounts where they have a material interest in such entities. The group Financial Statements to 31 March 2025 represents the consolidation of the balances and transactions of the Council, its subsidiaries, associate and joint ventures.

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

Combining Entities

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

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

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

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

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

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

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

Name of Combining Entity	Method of Accounting	2024-2025	2025-2026
		%	%
Hammars Hill Energy Ltd	Equity Method	28	28
Orkney Integration Joint Board	Equity Method	50	50

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

Basis of Consolidation and Going Concern

In line with the principles contained within the Code, the Group Financial Statement for the year ended 31 March 2026 has been prepared on the basis of a full consolidation of the financial transactions and balances of the Council and its subsidiaries.

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

The effect of inclusion of the above bodies on the Group Balance Sheet is to increase both Reserves and Net Assets by £3.477M representing the Council's share of the net liabilities in these entities.

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

Group Movement in Reserves

For the Year Ended 31 March 2026

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

	General Fund Balance £000	HRA Balance £000	Other Reserves £000	Harbour Reserves £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000	Authority's share of subsidiaries & associates £000	Total Group Reserves £000
Balance as at 1 April 2025	(13,792)	(583)	(12,128)	(215,003)	(241,003)	(449,227)	(690,733)	1,416	(689,317)
(Surplus) or deficit on provision of services	157,846	(4,157)	0	(1,684)	160,319	0	160,319	(2,882)	157,437
Other Comprehensive Expenditure and Income	(141,387)	(2,969)	0	(25,045)	(169,401)	(21,963)	(191,364)	(2,011)	(193,375)
Total Comprehensive Expenditure and Income	16,459	1,188	0	(26,729)	(9,082)	(21,963)	(31,045)	(4,893)	(35,938)
Net (Increase)/Decrease before Transfers	16,459	1,188	0	(26,729)	(9,082)	(21,963)	(31,045)	(4,893)	(35,938)
Adjustments between accounting basis and funding basis under regulations	(11,907)	(863)	(130)	(146)	(13,046)	13,046	0	0	0
Net (Increase)/Decrease before Transfers to Earmarked Reserves	4,552	325	(130)	(26,875)	(22,128)	(8,917)	(31,045)	(4,893)	(35,938)
Transfers (to) / from Earmarked Reserves	(8,421)	(242)	(11,037)	19,700	0	0	0	0	0
(Increase) / Decrease in Year	(3,869)	83	(11,167)	(7,175)	(22,128)	(8,917)	(31,045)	(4,893)	(35,938)
Balance as at 31 March 2026	(17,661)	(500)	(23,295)	(222,178)	(263,634)	(458,144)	(721,778)	(3,477)	(725,255)

	General Fund Balance £000	HRA Balance £000	Other Reserves £000	Harbour Reserves £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000	Authority's share of subsidiaries & associates £000	Total Group Reserves £000
Balance as at 1 April 2024	(20,253)	(803)	(4,848)	(227,483)	(253,387)	(572,379)	(825,766)	(2,433)	(828,199)
(Surplus) or deficit on provision of services	134,634	(54)	0	(2,999)	131,581	0	131,581	797	132,378
Other Comprehensive Expenditure and Income	(109,545)	(1,368)	0	(2,542)	(113,455)	116,907	3,452	5,955	9,407
Total Comprehensive Expenditure and Income	25,089	(1,422)	0	(5,541)	18,126	116,907	135,033	6,752	141,785
Net (Increase)/Decrease before Transfers	25,089	(1,422)	0	(5,541)	18,126	116,907	135,033	6,752	141,785
Adjustments between accounting basis and funding basis under regulations	(5,332)	1,884	(183)	(2,614)	(6,245)	6,245	0	0	0
Net (Increase)/Decrease before Transfers to Earmarked Reserves	19,757	462	(183)	(8,155)	11,881	123,152	135,033	6,752	141,785
Transfers (to) / from Earmarked Reserves	(13,296)	(242)	(7,097)	20,635	0	0	0	0	0
(Increase) / Decrease in Year	6,461	220	(7,280)	12,480	11,881	123,152	135,033	6,752	141,785
Derecognition of ORIC - discontinued operation							0	(2,903)	(2,903)
Balance as at 31 March 2025	(13,792)	(583)	(12,128)	(215,003)	(241,506)	(449,227)	(690,733)	1,146	689,317

Group Comprehensive Income and Expenditure Statement for the year ended 31 March 2026

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

		2024-2025			2025-2026		
		£000	£000	£000	£000	£000	£000
	Notes	Expenditure	Income	Net	Expenditure	Income	Net
Cultural and Recreation		12,822	(5,161)	7,661	12,717	(5,585)	7,132
Education		57,365	(1,708)	55,657	58,666	(1,561)	57,105
Roads and Transportation		35,081	(20,217)	14,864	38,627	(5,620)	33,007
Housing Revenue Account		4,750	(4,804)	(54)	9,296	(5,139)	4,157
Harbour Authority		23,494	(26,493)	(2,999)	27,255	(28,939)	(1,684)
Housing Services		7,381	(5,336)	2,045	6,418	(4,341)	2,077
Orkney Health & Care		76,148	(40,763)	35,385	82,208	(42,088)	40,120
Planning and Development		9,227	(4,086)	5,141	6,611	(2,585)	4,026
Environmental Services		7,214	(1,796)	5,418	7,321	(3,882)	3,439
Other Services		13,362	(4,410)	8,952	12,726	(4,729)	7,997
Non-Distributed Costs		308	0	308	61	0	61
(Surplus)/Deficit on Continuing Operations		247,152	(114,774)	132,378	261,906	(104,469)	157,437
Other Operating Expenditure				96			(277)
Financing and Investment Income and Expenditure				(6,732)			(24,510)
(Surplus) or Deficit on Discontinued Operations				(2,483)			0
Taxation and Non-Specific Grant Income: Other				(106,912)			(145,381)
Associates and Joint Ventures accounted for on an equity basis	6			(960)			(423)
Tax Expenses				0			267
Group (Surplus) or Deficit				15,387			(12,887)
(Surplus) or deficit on revaluation of non-current assets				(32,126)			(20,256)
(Surplus)/Deficit on revaluation of available for sale financial assets at fair value through Other Comprehensive Income and Expenditure				700			0
Actuarial gains/losses on pension assets/liabilities				(33,166)			(16,844)
Asset Ceiling				190,990			24,823
Other Comprehensive Income and Expenditure				126,398			(12,277)
Total Comprehensive Income and Expenditure (Surplus)/Deficit				141,785			(25,164)

Group Balance Sheet as at 31 March 2026

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

	31 March 2025	31 March 2026
	£000	£000
Property, Plant & Equipment	495,361	520,953
Heritage Assets	970	970
Investment Property	23,008	25,827
Intangible Assets	258	315
Right of Use Assets	586	1,022
Long Term Investments	5,581	5,571
Long Term Debtors	7,352	4,539
Other Long Term Assets	0	0
Investments in associates and joint ventures	1,213	1,156
Long Term Assets	534,329	560,353
Short Term Investments	249,136	261,560
Inventories	3,920	3,541
Short Term Debtors	25,234	13,666
Cash and Cash Equivalents	12,952	24,794
Assets held for sale	630	85
Current Assets	291,872	303,646
Short Term Borrowing	10,638	20,601
Short Term Creditors	39,390	40,692
Provisions	500	0
Right of Use Assets – Lease Liability	132	55
Current Liabilities	50,660	61,348
Provisions	41,341	43,172
Long Term Borrowing	40,000	30,000
Right of Use Assets – Lease Liability	501	1,481
Other Long Term Liabilities	4,382	2,743
Long Term Liabilities	86,224	77,396
Net Assets	689,317	725,255
Group Reserves	689,317	725,255
Total Reserves	689,317	725,255

The unaudited accounts were issued on 30 June 2026.

Gareth Waterson, BAcc., CA

Director of Enterprise and Resources

Group Cash Flow Statement at 31 March 2026

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

	2024-2025	2025-2026
	£000	£000
Net surplus or (deficit) on the provision of services	(15,387)	12,887
Adjustment to surplus or deficit on the provision of services for non-cash movements	10,695	(5,170)
Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	3,299	3,433
Net Cash flows from Operating activities	(1,393)	11,150
Net Cash flows from Investing Activities	334	4,381
Net Cash flows from Financing Activities	1,587	(3,956)
Net Cash flows from Taxation	0	267
Net increase or decrease in cash and cash equivalents	528	11,842
Cash and cash equivalents at the beginning of the reporting period	12,425	12,952
Cash and cash equivalents at the end of the reporting period	12,952	24,794

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

	2024-2025	2025-2026
	£000	£000
Adjustment to surplus or deficit on the provision of services for non-cash movements		
Depreciation	21,030	24,051
Impairment & downward revaluation (& non-sale de-recognition)	(1,138)	5,164
(Increase)/Decrease in Stock	(254)	380
(Increase)/Decrease in Debtors	(4,592)	(4,438)
(Increase)/Decrease in Creditors	5,197	(2,209)
Payments to Pension Fund	(2,197)	1,403
Carrying amount of non-current assets sold	558	1,486
Investment Income not involving movement of cash	4,480	(12,962)
Contributions to Other Reserves/Provisions	(14,240)	(15,193)
Movement in value of investment properties-included above in Impairment & downward revaluations (& non-sale de-recognition)	1,851	(2,948)
Tax refund	0	96
	10,695	(5,170)
Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities		
Purchase of short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)	6,890	7,971
Proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)	(3,591)	(4,538)
	3,299	3,433

Cash Flow from Investing Activities

	2024-2025	2025-2026
	£000	£000
Purchase of PP&E, investment property and intangible assets	17,570	23,070
Purchase of Short-Term Investments (not considered to be cash equivalents)	0	0
Purchase of Long-Term Investments	(12,766)	(28,337)
Other Payments for Investing Activities	2,837	723
Proceeds from the sale of PP&E, investment property and intangible assets	(408)	(899)
Proceeds from Short Term Investments (considered to be cash equivalents)	761	9,870
Proceeds from Long Term Investments	3,441	1,441
Capital Grants and Contribution Received	(13,298)	(13,182)
Other Receipts from Investing Activities	1,529	2,933
Net Cash flows from Investing Activities	(334)	(4,381)

Cash Flow from Financing Activities

	2024-2025	2025-2026
	£000	£000
Cash receipts from Short- and Long-Term borrowing	0	0
Other Receipts from Financing Activities	(814)	(860)
Repayment of Short- and Long-Term borrowing	(4,971)	0
Other payments for Financing Activities	4,198	4,816
Net Cash flows from Financing Activities	(1,587)	3,956

Notes to the Financial Statements

For the Year Ended 31 March 2026

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

1. Disclosure of Differences with Main Statement of Accounting Policies

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

Group Income and Expenditure Statement

Retirement Benefits

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

Value Added Tax

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

Proceeds from Disposals of Fixed Assets

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

Group Balance Sheet

Valuation of Fixed Assets

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

Stock

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

2. Combining Entities

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

Orkney Ferries Limited

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

The net assets of the company at 31 March 2026 were £2.050M compared to net assets of £8.745M at 31 March 2025. There was a profit of £3.087M before taxation for the period to 31 March 2025 compared to a loss of £0.884M to 31 March 2025. In 2025/26, Orkney Islands Council contributed £20.597M or 84.3% of the company's income. Orkney Ferries is deficit funded, whereby, any surpluses or deficits earned by the Company will be repaid to or recovered from the Council. No dividend payments were due to, or received by, the Council in respect of its investment.

The latest set of audited accounts is for the year to 31 March 2026. Copies of these accounts can be obtained from Orkney Islands Council, School Place, Kirkwall, Orkney, KW15 1NY.

Pickaquooy Centre Trust

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

In 2025/26, Orkney Islands Council contributed £0.755M or 20.1% of the company's income and its share of the year-end net assets of £0.903M (2024/25 net assets of £0.511M) is included in the Group Balance Sheet.

The latest set of audited accounts is for the year to 31 March 2026. When available, copies of these accounts can be obtained from The Pickaquoy Centre, Muddisdale Loan, Kirkwall KW15 1LR.

Hammar's Hill Energy Ltd

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

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

The latest set of audited accounts is for the year to 31 December 2025. Copies of these accounts can be obtained from Hammar's Hill Energy Ltd, Savisgarth, Evie KW17 2PQ.

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

Council's Share of Hammar's Hill Energy Ltd	2024-2025 28.00% £000	2025-2026 28.00% £000
Turnover	595	735
Profit/(Loss) before tax	155	352
Taxation	(43)	(91)
Profit/(Loss) after tax	112	261
Fixed Assets	648	584
Current Assets	903	876
Liabilities due within one year	(221)	(192)
Liabilities due after one year or more	(132)	(112)
Net Assets/Liabilities	1,198	1,156
Contingent Liabilities	None	None
Capital Commitments	None	None

Orkney Integration Joint Board

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

The OIJB Financial Statements have been prepared to show transactions occurring between 1 April 2025 to 31 March 2026. The expenditure was £87.551M and the income was £88.510M resulting in net surplus of £0.959M. The balance sheet consisted of short-term debtors of £4.245M and short-term creditors of £Nil, with total reserves of £4.245M. This surplus has been classed as earmarked balances and accounted for on a 50% equity basis jby OIC. This means a total of £2.123M has been included in the total reserves of the Group Accounts.

The latest set of audited accounts is for the year to 31 March 2026. Copies of these accounts can be obtained from Orkney Islands Council, School Place, Kirkwall, Orkney, KW15 1NY.

3. Financial Impact of Consolidation

The effect of inclusion of the above bodies on the Group Balance Sheet is to increase both Reserves and Net Assets by £3.477M representing the Council's share of the net liabilities in these entities.

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

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

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

5. Surplus/Deficit on Continuing Operations of Subsidiaries

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

	2024-2025			2025-2026		
	£000	£000	£000	£000	£000	£000
	Expenditure	Income	Net	Expenditure	Income	Net
Roads and Transportation	4,155	(3,403)	752	1,336	(3,862)	(2,526)
Cultural, environmental, regulatory and planning services	3,330	(3,285)	45	3,194	(3,550)	(356)
Total	7,485	(6,688)	797	4,530	(7,412)	(2,882)

6. Share of Operating Results of Associates and Joint Ventures

	2024-2025	2025-2026
	Net (Income) / Expenditure	Net (Income) / Expenditure
	£000	£000
Associate and Joint Venture accounted for on an equity basis	(960)	(423)
Total	(960)	(423)

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

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

	2024-2025	2025-2026
Subsidiaries	£000	£000
Interest Expense	0	0
Interest Income	(28)	102
Pension Interest	(11)	(5)
Total Group Entities	(39)	97

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

	2024-2025	2025-2026
	£000	£000
Deficit/(Surplus) for the year on the Authority Income and Expenditure Statement	(39,812)	(31,045)
Deficit/(Surplus) for the year attributable to group entities	(4,157)	5,881
Deficit/(Surplus) for the year on the Group Income and Expenditure Statement	(43,969)	(25,164)

9. Pension Costs

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

	2024-2025 Total £000	Council £000	Group Entities £000	2025-2026 Total £000
Fair Value of Employer Assets	(482,538)	(522,425)	(41,228)	(563,653)
Present value of funded liabilities	303,963	14,730	28,662	43,392
Asset Ceiling Adjustment	178,575	507,695	11,124	518,819
Net (under)/overfunding in Funded Plans	0	0	(1,442)	(1,442)
Present value of unfunded liabilities	4,317	4,185	0	4,185
Net (asset)/liability	4,317	4,185	(1,442)	2,743

10. Other Pension Costs

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

Ensign Retirement Plan

Some employees of Orkney Ferries Ltd and of the Council contribute to this defined contribution pension plan. Contribution rates of 10% and 20% of pensionable salary are payable by employees and employers, respectively. Contributions payable in the year amounted to £61,729 (2024-25: £56,223).

Merchant Navy Officers Pension Fund (MNOFF)

The MNOFF is closed to new members and closed to future accrual from 31 March 2016 when contributing members were transferred to the Ensign Retirement Plan (for the MNOFF). The MNOFF

is a multi-employer defined-benefit scheme and the Council is unable to identify its share of the underlying assets and liabilities. As at the last full valuation March 2024 the Fund had a deficit of £11M which was a decline from the 2021 surplus position of £58M. The Trustees and the Participating Employers agreed no deficit-repair contributions will be levied, as the shortfall is expected to be recovered from investment returns under the 2025 Recovery Plan.

The Trustee must carry out a full actuarial valuation at least every three years to assess the scheme's funding level. The next MNOPF Actuarial Valuation will refer to the three-year period ending 31 March 2027.

Merchant Navy Rating Pension Fund (MNRPF)

Certain employees may qualify for membership of the MNRPF, a defined-benefit scheme that closed to future accrual on 31 May 2001. Employers continue to pay 2% of pensionable salary to fund revaluation of deferred benefits. 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 2023, the MNRPF had a deficit of £152M, and this has been updated on 10 June 2024 to a deficit of £24M. The Trustees of the fund have requested additional deficit contributions to be made.

The next formal valuation will be as at 31 March 2027. Annual progress reports will continue to be obtained each spring.

Glossary of Terms

AAA Fitch Rating

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

AA Fitch Rating

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

A Fitch Rating

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

Accounting Period

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

Accruals

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

Actuarial Gains and Losses

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

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

Asset

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

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

Audit of Accounts

An independent examination of the Authority's financial affairs.

Balance Sheet

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

Borrowing

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

Budget

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

Capital Expenditure

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

Capital Financing

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

Capital Programme

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

Capital Receipt

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

Claw-Back

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

CIPFA

The Chartered Institute of Public Finance and Accountancy

Collection Fund

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

Community Assets

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

Comprehensive Income and Expenditure Statement

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

Consistency

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

Contingent Asset

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

Contingent Liability

A contingent liability is either:

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

Corporate and Democratic Core

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

Creditor

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

Current Service Cost (Pensions)

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

Debtor

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

Defined Benefit Pension Scheme

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

Depreciation

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

Discretionary Benefits (Pensions)

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

Equity

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

Events after the Balance Sheet Date

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

Expected Return on Pension Assets

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

Fair Value

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

Finance Lease

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

Going Concern

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

Government Grants

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

Housing Benefits

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

Housing Revenue Account (HRA)

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

Impairment

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

Infrastructure Assets

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

Intangible Assets

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

Interest Cost (Pensions)

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

Investments (Pension Fund)

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

Liability

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

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

Liquid Resources

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

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

Long-Term Contract

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

Materiality

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

Minimum Revenue Provision (MRP)

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

Net Book Value

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

Net Debt

The Authority's borrowings less cash and liquid resources.

Non-Distributed Costs

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

Non-Domestic Rates (NDR)

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

Non-Operational Assets

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

Operating Lease

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

Operational Assets

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

Past Service Cost (Pensions)

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

Pension Scheme Liabilities

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

Precept

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

Prior Year Adjustment

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

Provision

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

Public Works Loan Board (PWLB)

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

Rateable Value

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

Related Parties

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

Related Party Transactions

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

Remuneration

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

Reserves

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

Residual Value

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

Retirement Benefits

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

Revenue Expenditure

The day-to-day expenses of providing services.

Revenue Expenditure Capitalised Under Statute (REFCUS)

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

Revenue Support Grant

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

Stocks

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

Temporary Borrowing

Money borrowed for a period of less than one year.

Trust Funds

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

Useful Economic Life (UEL)

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



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