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# EXPLANATORY FOREWORD BY THE DIRECTOR OF FINANCE

## Introduction

The Accounts of the Islands Council are set out on the following pages and have been prepared in accordance with the Code of Practice on Local Authority Accounting in Great Britain.

The financial statement presented on page 6 is the Consolidated Revenue Account which brings together all the Council's income and expenditure for the year and shows that the Council's revenue reserves have increased by £1.7M to £182.4M.

The following statements, the Harbour Authority Summary Revenue Account, the Housing Revenue Account, the Council Tax Income Account, the Non Domestic Rates Income Account, the Direct Service Organisation Summary Revenue Account and Appropriation Account and Orkney College of Further Education, provide further analysis of the figures shown in the Consolidated Revenue Account.

The Consolidated Balance Sheet on page 21 shows that overall the financial position of the authority at 31 March 2003 is very healthy. Fund Balances and Reserves total £342.2M with no external borrowing.

A Statement of Total Movement in Reserves is provided on page 29.

The Cash Flow Statement on page 32 reconciles the operating surplus to the increase in cash for the year.

The Council also maintains financial records for the Pension Fund and various charity and trust funds. These statements are provided following the Cash Flow Statement.

## Review of the Year

### Local Taxation

The Islands Council on 15 February 2001 agreed a General Fund budget of £47.7M and under the Local Government Finance Act 1992 set Council Tax for Band D properties at £824.00. This was the third lowest Council Tax figure in Scotland.

### General Fund Service Spending

General Fund Services were financed by Revenue Support Grant of £38.1M, Non Domestic Rate Income of £6.7M and Council Tax Income of £5.6M. The net effect of the variations from budget is a General Fund surplus of £0.448M for the year after the use of balances.

### Capital Expenditure

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

|                           |  |
|---------------------------|--|
| Education                 | Sanday Junior Secondary School<br>Kirkwall Grammar School<br>Orkney College Extension<br>St Andrews School Extension |
| Recreation and Cultural   | New Orkney Library<br>Brandyquoy Bowling Facility  |
| Roads                     | North End Roundabout<br>Binscarth Phase IV<br>B9070 Sanday   |
| Harbours                  | Stromness Harbour Improvements<br>Hatston Facility<br>Longhope Pier Extension<br>Stromness & Kirkwall Marinas        |
| Community Social Services | One Stop Shop  |

Capital Expenditure for 2002/03 was contained within the consents issued by the Secretary of State for Scotland. The use of Revenue Contributions to Capital outlay means that the allocations for 2003/2004 will be enhanced by £1,644,000 while unapplied capital receipts increased by £117,000 to £729,000.

The Loan Debt outstanding on the various services accounts at 31 March 2003 was: Harbours - £3.7M, Housing Revenue Account - £1.4M, and other General Fund Services - £23.8M.

#### **Net Pension Fund Liability**

In accordance with the Financial Reporting Standard No 17 - Retirement Benefits (FRS 17) the net pension fund liability as at 31 March 2003 is £20.4M. This represents an increase of £17.9M on the previous year, and is largely due to the fall in the equity markets at this time.

The actuarial valuation has considered the appropriate level of employers contributions necessary for the next three years, taking into account estimated revenues generated from investments in the future, to meet the fund's commitments in the long term.

#### **Euro**

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

#### **Acknowledgements**

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

**A TAIT, C.P.F.A., F.C.C.A.**  
**Director of Finance**  
**25 June 2003**

## STATEMENT OF ACCOUNTING POLICIES

### **General**

The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting. The Code of Practice has been developed by the CIPFA/LASAAC Joint Committee. Any exceptions to the Code of Practice are disclosed in the notes to the Accounts.

### **Corporate and Democratic Core**

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

### **Overheads**

The costs of Central Support Services have been fully allocated using a time or unit based method of apportionment over the various accounts of the Authority after separately identifying the cost of Corporate and Democratic Core and Unapportionable Central Overheads in accordance with BVACOP. In 2002/03, £5.3M of Central Support Services were apportioned on this basis.

### **Debtors and Creditors**

The Accounts have been maintained on a receipts and payments basis during the financial year and have been converted to an income and expenditure basis by incorporating sums due to and by the Council at 31 March 2003.

### **Pension Costs**

The pension costs included in the accounts reflect the contributions paid in respect of the pension schemes in which the Council participates, including payments in respect of the enhanced elements of pension due to redundancy or early retirement, which are determined in accordance with relevant Government regulations. As a result, the Council does not comply with the accounting requirements of Statement of Standard Accounting Practice (SSAP) 24, "Accounting for Pension Costs" and the liabilities included in the balance sheet are understated in respect of pension costs. However, in accordance with standard accounting practice for local authorities, the pension costs that it would have been necessary to provide for in the accounts for the period under SSAP 24 are disclosed in the notes to the Consolidated Revenue Account.

### **Revenue Grants**

All Revenue Grants are matched with the expenditure to which they relate.

### **Capital Grants**

Capital Grants received are matched to the expenditure incurred during the year.

### **Stocks and Work in Progress**

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

## **Fixed Assets**

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

Fixed assets have been valued on the following basis:

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

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

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

The fixed assets are to be revalued not less than every five years. The difference between the current value of the fixed assets and the amount of debt outstanding on these assets in the balance sheet is reflected in the value of the Fixed Asset Restatement Reserve.

Capital Receipts are utilised to reduce outstanding loan debt or to finance Capital Expenditure during the year.

## **Depreciation**

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

|                |  |
|----------------|--|
| Buildings      | - each property has been individually assessed to derive outstanding useful life, up to a maximum of 50 years. |
| Infrastructure | - the majority of infrastructure assets are depreciated over 40 years.   |
| Vehicles       | - varies between 3 and 15 years according to class of vehicle.   |
| Equipment      | - 5 years.   |

## **Capital Charges**

Capital charges are levied on all service revenue accounts under the Capital Accounting arrangements to reflect the true cost or value of fixed assets used in the delivery of local authority services. The capital charges include amounts for notional interest and depreciation based on the fixed asset values. The notional interest charge reflects the opportunity cost to the Islands Council of holding the fixed assets, while the depreciation charge reflects the loss in value of the assets over time. These capital charges are then reversed out below the line and replaced with actual capital finance charges using the Asset Management Revenue Account, so that these notional charges do not impact on the Local Taxpayer.

## **Deferred Charges**

Deferred Charges represent capital expenditure for which no tangible asset exists. As the Deferred Charges do not reflect continuing benefit to the Islands Council they have been amortised to the service revenue accounts.

## **Finance Leases**

Fixed assets acquired by means of finance leases are included in the Balance Sheet, along with any outstanding finance lease obligations which has yet to crystallise.

## **Loan Debt**

It is the policy of the Council to extinguish loan debt as quickly as possible and consequently some annual repayments of principal have been made on an accelerated basis. The Asset Management Revenue Account is charged with annual repayments of principal and an average rate of interest on the balance outstanding.

The average rate of interest charged by the fund in 2002/03 was as follows:

|                  |                       |
|------------------|-----------------------|
| Revenue balances | 4.00% (2001/02 5.12%) |
| Capital balances | 3.96% (2001/02 5.00%) |

## **Provisions**

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

Provisions have been made for doubtful debts.

## **Reserves**

### **Repairs and Renewals Funds**

Repairs and Renewals Funds are maintained in the General Fund for the purpose of replacing plant, vehicles and vessels.

### **Capital Fund**

A Capital Fund is maintained in terms of Schedule 3 of the Local Government (Scotland) Act 1975 for the purpose of financing expenditure on Capital Assets.

### **Harbour Authority Revenue Account Balances**

Surplus income from the Council's harbour operations is credited to the Harbour Reserve Fund. The Harbour Reserve Fund encompasses all the Harbour Authority Revenue Account Balances which can be used for purposes specified in the Orkney County Council Act 1974. The Relevant Services Contingency Fund is used to support General Fund expenditure.

### **Direct Service Organisation Revenue Account Balance**

This Reserve has been created from surpluses earned by the Council's Direct Service Organisations.

### **Valuation of Investments**

Investments are shown at cost less related provision. Investments held by the Pension Fund are valued at market value. Property investments and Fishing Vessel Track Record investments are valued at open market value.

### **Foreign Currency Translation**

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

### **Group Accounts**

The Islands Council has a major interest in the companies detailed in Note 7 to the Consolidated Balance Sheet on page 27.

Group accounts have however not been prepared in accordance with the Accounting Code of Practice. The overriding principle of the Code is to provide clarity. It is believed that preparation of group accounts would in fact hinder the reader's understanding of the Statement of Accounts.

## CONSOLIDATED REVENUE ACCOUNT

| 31-Mar-02<br>Net<br>Expenditure<br>£000 |  | Gross<br>Expenditure<br>£000 | Income<br>£000 | 31-Mar-03<br>Net<br>Expenditure<br>£000 |
|---|--|------------------------------|----------------|---|
|   | <b>Continuing Operations</b>                                       |                              |                |   |
| 22,474                                  | Education  | 26,270                       | 1,950          | 24,320                                  |
| 3,387                                   | Cultural and Recreation  | 4,411                        | 668            | 3,743                                   |
| 7,894                                   | Community Social Services  | 10,690                       | 1,958          | 8,732                                   |
| 1,271                                   | Police Services  | 1,225                        | -              | 1,225                                   |
| 963                                     | Fire Services  | 969                          | -              | 969                                     |
| 11,249                                  | Roads and Transportation   | 13,190                       | 373            | 12,817                                  |
| 999                                     | Planning and Development   | 1,333                        | 632            | 701                                     |
| 3,304                                   | Environmental Services   | 3,713                        | 325            | 3,388                                   |
| 1,379                                   | Central Services   | 5,511                        | 3,080          | 2,431                                   |
| 212                                     | Housing Services   | 3,915                        | 3,998          | (83)                                    |
| 1,758                                   | Harbour Authority  | 11,671                       | 10,731         | 940                                     |
| <b>54,890</b>                           | <b>NET COST OF SERVICES</b>  | <b>82,898</b>                | <b>23,715</b>  | <b>59,183</b>                           |
| (388)                                   | Net (Surplus)/Deficit on DSO's                                     |                              |                | (431)                                   |
| (72)                                    | Net (Surplus)/Deficit on Waste Disposal                            |                              |                | (58)                                    |
| 151                                     | Net (Surplus)/Deficit on Quarries                                  |                              |                | (157)                                   |
| 4,235                                   | Net (Surplus)/Deficit on Harbour Investment Income                 |                              |                | 1,697                                   |
| 234                                     | Net (Surplus)/Deficit on Orkney College                            |                              |                | 506                                     |
| (223)                                   | Interest on Balances   |                              |                | (276)                                   |
|   | Net(Income)/Expenditure on   |                              |                |   |
| (9,285)                                 | Asset Management Revenue Account                                   |                              |                | (10,273)                                |
| <b>49,542</b>                           | <b>NET OPERATING EXPENDITURE</b>                                   |                              |                | <b>50,191</b>                           |
| -                                       | Contribution from Reserves   |                              |                | (47)                                    |
| (54)                                    | Transfer to HRA Balances   |                              |                | -                                       |
| 100                                     | Contribution to Capital / Repairs and Renewals Funds               |                              |                | 1,335                                   |
| 348                                     | Capital expenditure financed from revenue - HRA                    |                              |                | 512                                     |
| 3,551                                   | Capital expenditure financed from revenue - Other accounts         |                              |                | 4,808                                   |
| (5,886)                                 | Reconciling amount for provisions for loan repayment               |                              |                | (6,593)                                 |
| <b>47,601</b>                           | <b>AMOUNT TO BE MET FROM GOVERNMENT GRANTS AND LOCAL TAXPAYERS</b> |                              |                | <b>50,206</b>                           |
| 34,019                                  | Revenue Support Grant  |                              |                | 38,128                                  |
| 6,708                                   | Non domestic Rate Income   |                              |                | 6,745                                   |
| 5,124                                   | Council Tax  |                              |                | 5,574                                   |
| <b>(1,750)</b>                          | <b>SURPLUS/(DEFICIT) FOR YEAR</b>                                  |                              |                | <b>241</b>                              |
| 177,938                                 | Balance at 1 April 2002  |                              |                | 176,188                                 |
| (1,750)                                 | Surplus/(Deficit) for year   |                              |                | 241                                     |
| <b>176,188</b>                          | <b>BALANCE AT 31 MARCH 2003</b>                                    |                              |                | <b>176,429</b>                          |

## Notes on Consolidated Revenue Account

### 1. Publicity Expenditure

Under Section 5(1) of the Local Government Act 1986, the Council is required to separately account for expenditure on publicity, as follows:

| <b>Restated</b> |                                | <b>2002/03</b> |
|-----------------|--------------------------------|----------------|
| <b>2001/02</b>  |                                | <b>£000</b>    |
| <b>£000</b>     |                                | <b>£000</b>    |
| 122             | Staff Recruitment Advertising  | 148            |
| 74              | Other Advertising              | 81             |
| 41              | Corporate Information Services | 47             |
| <b>237</b>      |                                | <b>276</b>     |

Corporate Information Services restated figure is due to a recalculation of distribution of overheads.

### 2. Section 83 Expenditure

The provisions of Section 83 of the Local Government (Scotland) Act 1973 as amended by Section 164 of the Local Government (Scotland) Act 1994 enables the Council to incur expenditure which in their opinion is in the interests of and will bring direct benefit to their area. The expenditure under this Section shall not exceed the amount produced by multiplying £3.80 by the relevant population. For 2002/03 the limit was £73,036.

In 2002/03 no projects were funded by the Orkney Islands Council under Section 83 of the Local Government (Scotland) Act 1994.

### 3. Capital and Repairs and Renewals Funds

Contributions were made to the following funds during the year:

| <b>2001/02</b> |                      | <b>2002/03</b> |
|----------------|----------------------|----------------|
| <b>£000</b>    |                      | <b>£000</b>    |
| 100            | Repairs and Renewals | 1,335          |
| -              | Capital Fund         | 108            |
| <b>100</b>     |                      | <b>1,443</b>   |

### 4. Trading Organisations

The Council operates two Direct Service Organisations under the Local Government Planning and Land Act 1980 and the Local Government Act 1988. For further details see page 20.

The Council operates a Quarrying operation and Waste Disposal operation to assist in discharging its responsibilities in respect of Roads and Cleansing Services as follows:

| <b>Quarries</b> | <b>Waste Disposal</b> |                             | <b>Quarries</b> | <b>Waste Disposal</b> |
|-----------------|-----------------------|-----------------------------|-----------------|-----------------------|
| <b>2001/02</b>  | <b>2001/02</b>        |                             | <b>2002/03</b>  | <b>2002/03</b>        |
| <b>£000</b>     | <b>£000</b>           |                             | <b>£000</b>     | <b>£000</b>           |
| 151             | (72)                  | Deficit / (Surplus) on Year | (157)           | (58)                  |
| 1,474           | 1,725                 | Turnover                    | 1,686           | 1,942                 |



## 5. Local Authority (Goods and Services) Act 1970

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

| 2001/02<br>Receipts<br>£000 | 2001/02<br>Payments<br>£000 |                                     | 2002/03<br>Receipts<br>£000 | 2002/03<br>Payments<br>£000 |
|-----------------------------|-----------------------------|-------------------------------------|-----------------------------|-----------------------------|
| -                           | 17                          | Deerness Community Association      | -                           | -                           |
| -                           | 3                           | Orkney Housing Association          | -                           | 13                          |
| -                           | 7                           | Northern Joint Police Board         | -                           | 13                          |
| -                           | 1                           | Highlands and Islands Fire Board    | -                           | 1                           |
| -                           | 23                          | RNLI                                | -                           | 1                           |
| -                           | -                           | Orkney Islands Property Development | -                           | 6                           |
| -                           | 1                           | Valuation Joint Board               | -                           | -                           |
| -                           | <b>52</b>                   |                                     | -                           | <b>34</b>                   |

## 6. Asset Management Revenue Account

The Asset Management Revenue Account (AMRA) is used to reconcile the capital charges applied for the use of fixed assets in service revenue accounts, with the cost of financing those assets on the Consolidated Revenue Account.

Capital charges are levied on all service revenue accounts under the Capital Accounting arrangements to reflect the true cost or value of fixed assets used in the delivery of local authority services. The capital charges include amounts for notional interest and depreciation based on the fixed asset values. The notional interest charge reflects the opportunity cost to the Islands Council of holding the fixed assets, while the depreciation charge reflects the loss in value of the assets over time. These capital charges are then reversed out below the line and replaced with actual capital finance charges using the Asset Management Revenue Account, so that these notional charges do not impact on the Local Taxpayer.

| 2001/02<br>£000 |                                     | 2002/03<br>£000 |
|-----------------|-------------------------------------|-----------------|
|                 | <b>Expenditure</b>                  |                 |
| 1,391           | Interest                            | 1,342           |
| 20              | Debt Management                     | 20              |
| 7,412           | Provision for Depreciation          | 7,696           |
| <b>8,823</b>    | <b>TOTAL</b>                        | <b>9,058</b>    |
|                 | <b>Income</b>                       |                 |
| 16,781          | Capital Charges                     | 17,970          |
| 1,327           | Government Grants Deferred          | 1,361           |
| <b>18,108</b>   | <b>TOTAL</b>                        | <b>19,331</b>   |
|                 | (Surplus) / Deficit to Consolidated |                 |
| (9,285)         | Revenue Account                     | (10,273)        |

## 7. Revenue Support Grant

The Scottish Office provided the Islands Council with £43.8M of Aggregate External Finance for 2002/03 in the form of Revenue Support Grant and Non Domestic Rates income as follows:

| 2001/02       |                                 | 2002/03       |
|---------------|---------------------------------|---------------|
| £000          |                                 | £000          |
|               | <b>Original</b>                 |               |
| 34,829        | Revenue Support Grant           | 37,273        |
| 5,949         | Non Domestic Rates Income       | 6,544         |
| <b>40,778</b> |                                 | <b>43,817</b> |
| (51)          | Adjustment for Redeterminations | 1,056         |
|               | <b>Actual Results</b>           |               |
| 34,019        | Revenue Support Grant           | 38,128        |
| 6,708         | Non Domestic Rates Income       | 6,745         |
| <b>40,727</b> |                                 | <b>44,873</b> |

After adjustments have been made in respect of redeterminations and actual Non Domestic Rates receipts the final figure has increased by £1,056,000 to £44.873M. The Islands Councils collection of Non Domestic Rates is greater than the provisional distributable amount for 2002/03 due to changes in the year. This resulted in an underpayment from the National Non Domestic Rates pool of £239,000.

## 8. Pension Costs

### Teachers

In 2002/03 the Islands Council paid an employer's contribution of £666,264 to the Scottish Executive in respect of teachers' pension costs, which represented 7.15% of teachers' pensionable pay. In addition, the Islands Council is responsible for all pension payments relating to added years it has awarded, together with related increases. In 2002/03 these amounted to £173,810 representing 2% of pensionable pay.

### Other Employees

The majority of non teaching staff participate in the Orkney Islands Council Pension Fund. This is a defined benefit scheme related to pay and service. It is a multi employer scheme where individual employer's shares of assets and liabilities can be identified on a consistent and reasonable basis.

In 2002/03 the Council paid employer's contributions totalling £2,355,255 representing 13.43% of pensionable pay.

The following disclosure is made as at 31 March 2003 in terms of FRS 17:-

| 2001/02 |  | 2002/03 |
|---------|--|---------|
| %       | Financial Assumptions at 31 March        | %       |
| 2.8     | Price Increases                          | 2.5     |
| 4.3     | Salary Increases                         | 4.0     |
| 2.8     | Pension Increases                        | 2.5     |
| 6.4     | Rate used to discount scheme liabilities | 6.1     |

**Value of OIC Share of Pension Fund Assets  
and Long Term and Expected Returns**

|              | <b>Long Term<br/>Return<br/>% p.a.</b> | <b>Fund<br/>Value at<br/>31/3/2003<br/>£000</b> | <b>Expected<br/>Return<br/>p.a.<br/>£000</b> |
|--------------|--|---|--|
| Equities     | 8.0                                    | 32,177  | 2,574  |
| Bonds        | 4.8                                    | 8,614   | 413  |
| Property     | 6.0                                    | 0   | 0  |
| Cash         | 4.0                                    | 3,432   | 137  |
| <b>Total</b> | <b>7.1</b>                             | <b>44,223</b>                                   | <b>3,124</b>                                 |

| <b>2001/02 Net Pension Asset attributable to OIC<br/>£000</b> | <b>2002/03<br/>£000</b> |
|---|-------------------------|
| <b>52,955</b> Estimated Assets                                | <b>44,223</b>           |
| 55,442 Present Value of Scheme Liabilities                    | 59,141                  |
| 0 Present Value of Unfunded Liabilities                       | 5,518                   |
| <b>55,442</b> Total Value of Liabilities                      | <b>64,659</b>           |
| <b>(2,487)</b> Net Pension Asset                              | <b>(20,436)</b>         |

**Revenue Costs for Year to 31 March 2003**

|   | <b>£000</b>  | <b>% of Payroll</b> |
|---|--------------|---------------------|
| Amount charged to Operating Profit -                |              |                     |
| Service Cost  | 2,215        | 12.9                |
| Past Service Costs                                  | 192          | 1.1                 |
| Curtailment and Settlements                         | 0            | 0.0                 |
| Decrease in irrecoverable surplus                   | 0            | 0.0                 |
| <b>Total Operating Charge</b>                       | <b>2,407</b> | <b>14.0</b>         |
| Projected Amount credited to Other Finance Income - |              |                     |
| Expected Return on Corporate Assets                 | 3,675        | 21.4                |
| Interest on Pension Scheme Liabilities              | (3,548)      | (20.7)              |
|   | <b>127</b>   | <b>0.7</b>          |
| <b>Net Revenue Account Cost</b>                     | <b>2,280</b> | <b>13.3</b>         |

**Analysis of Amount recognised in Statement of Total Recognised  
Gains and Losses (STRGL)**

|  | <b>£000</b>     |
|--|-----------------|
| Actual Return less expected return on pension scheme assets                            | (12,902)        |
| Experience gains and losses arising on scheme liabilities                              | (5,113)         |
| Changes in financial assumption underlying the present value<br>of scheme liabilities  | (1)             |
| <b>Actuarial gain/(loss) in pension plan</b>   | <b>(18,016)</b> |
| Increase/(decrease) in irrecoverable surplus from membership<br>fall and other factors | 0               |
| <b>Actuarial gain/(loss) recognised in STRGL</b>                                       | <b>(18,016)</b> |

|   |                 |
|---|-----------------|
| <b>Movement in Surplus/Deficit during the year</b>          |                 |
| Surplus/(Deficit) at beginning of year                      | (2,486)         |
| Current Service Cost  | (2,214)         |
| Employer Contributions                                      | 2,346           |
| Other Income  | 0               |
| Other Outgoings (e.g. expenses etc.)                        | 0               |
| Past service costs  | (192)           |
| Impact of settlements and curtailments                      | 0               |
| Net return on assets  | 126             |
| Actuarial gains/(losses)                                    | (18,016)        |
| <b>Surplus/(deficit) at end of year</b>                     | <b>(20,436)</b> |
| <b>History of Experience Gains and Losses</b>               |                 |
| Difference between the expected and actual return on assets | (12,902)        |
| Value of assets   | 44,223          |
| <b>Percentage of assets</b>                                 | <b>(29.2%)</b>  |
| Experience gains/(losses) on liabilities                    | (5,114)         |
| Present value of liabilities                                | 59,141          |
| <b>Percentage of the present value of liabilities</b>       | <b>(8.6%)</b>   |
| Actuarial gains/(losses) recognised in STRGL                | 18,016          |
| Present value of liabilities                                | 59,141          |
| <b>Percentage of the present value of liabilities</b>       | <b>(30.5%)</b>  |

The employer's contribution rate is determined by the Fund's Actuary based on triennial actuarial valuations, the last review being 31 March 2002. Under Superannuation Fund Regulations contributions rates are set to meet the overall liabilities of the Fund. The employer's rates are set to meet the overall liabilities of the Fund. The employer's contribution was 235% of the employee's contribution for 2002/03.

In addition the Islands Council is responsible for all pension payments relating to added years benefits it has awarded, together with the related increases. In 2002/03 these amounted to £234,271 representing 1.3% of pensionable pay.

For further information see the Pension Fund Statement on pages 34-37.

## 9. SSAP 24 Requirements

The Fund's Actuary has advised that the pension costs it would have been necessary to provide for in the year in accordance with SSAP 24, "Accounting for Pension Costs" are £2,402,829 representing 13.7 % of pensionable pay.

## 10. Capitalisation of Discretionary Pensions

The capital cost of any discretionary increases in pension payments (e.g. discretionary added years) agreed by the Islands Council are calculated as £184,662 in the year, and £5,388,681 in earlier years for which payments are still being made whether funded by the pension scheme or by the Islands Council.

## 11. Related Party Transactions

During the year transactions with related parties arose as follows:

| 2001/02<br>Receipts<br>£000 | 2001/02<br>Payments<br>£000 |   | 2002/03<br>Receipts<br>£000 | 2002/03<br>Payments<br>£000 |
|-----------------------------|-----------------------------|---|-----------------------------|-----------------------------|
|                             |                             | <b>Central Government</b>   |                             |                             |
| 34,019                      | -                           | Revenue Grants<br>Being payments made in support of<br>Revenue Expenditure                                | 37,408                      |                             |
| 4,594                       | -                           | Capital Grants<br>Being payments made in support of<br>Capital Expenditure                                | 8,333                       |                             |
| -                           | 2,462                       | <b>Orkney Towage Company Limited</b><br>Being payments for the provision of<br>Towage Services            |                             | 2,563                       |
| -                           | 3,957                       | <b>Orkney Ferries Limited</b><br>Being subsidy payments made in<br>support of Ferry Services              |                             | 4,060                       |
| -                           | 1,271                       | <b>Northern Joint Police Board</b>  |                             | 1,225                       |
| -                           | 963                         | <b>Northern Joint Fire Board</b>  |                             | 968                         |
| -                           | 216                         | <b>Joint Valuation Board</b><br>Being payment of annual requisition<br>to Joint Boards                    |                             | 229                         |
| 20                          | 41                          | <b>Chief Officials</b><br>Being advances and repayments<br>of Car Loans                                   | 17                          | 43                          |
| -                           | 2,278                       | <b>Orkney Islands Pension Fund</b><br>Being payment of employers<br>contributions in respect of employees |                             | 2,742                       |

## 12. Members' Allowances and Officers' Emoluments

The total of Members' Allowances paid in the year amounted to £412,198.

An analysis of employees' remuneration (excluding pension costs) above £40,000, in bands of £10,000 is as follows:

| 2001/02                |                      | 2002/03                |
|------------------------|----------------------|------------------------|
| Number of<br>Employees | Remuneration<br>Band | Number of<br>Employees |
| 22                     | £40,000 - £49,999    | 33                     |
| 12                     | £50,000 - £59,999    | 12                     |
| 2                      | £60,000 - £69,999    | 6                      |
| 1                      | £70,000 - £79,999    | 1                      |

## HARBOUR AUTHORITY SUMMARY ACCOUNT

This statement shows the trading position of the Harbour Authority and net movements in reserves for the year.

| 2001/02<br>Net<br>Expenditure<br>£000             | Gross<br>Expenditure<br>£000            | Income<br>£000                   | 2002/03<br>Net<br>Expenditure<br>£000   |
|---|---|----------------------------------|---|
| (502) Scapa Flow Oil Port                         | 6,453                                   | 8,094                            | (1,641)                                 |
| 2,311 Miscellaneous Piers and Harbours            | 5,064                                   | 2,393                            | 2,671                                   |
| (51) Oil Pollution Account                        | 154                                     | 244                              | (90)                                    |
| <b>1,758</b> (Profit)/Loss for year               | <b>11,671</b>                           | <b>10,731</b>                    | <b>940</b>                              |
| (2,348) Adjustments for Capital Financing Costs   |   |                                  | (3,014)                                 |
| <b>(590)</b> Transfer to Harbour Reserve Fund     |   |                                  | <b>(2,074)</b>                          |
| <br><b>Represented by :</b>                       |   |                                  |   |
|   | <b>Balance at<br/>01/04/02<br/>£000</b> | <b>Net<br/>Movement<br/>£000</b> | <b>Balance at<br/>31/03/03<br/>£000</b> |
| Strategic Reserve Fund                            | 107,523                                 | 756                              | 108,279                                 |
| Flotta Terminal Decline &<br>Decommissioning Fund | 42,000                                  | -                                | 42,000                                  |
| Relevant Services Contingency                     | 21,481                                  | (389)                            | 21,092                                  |
| Conservation Fund                                 | 160                                     | 7                                | 167                                     |
| Talented Performers Fund                          | 47                                      | 2                                | 49                                      |
| Travel Fund                                       | 72                                      | 2                                | 74                                      |
| Talented Young Persons Fund                       | 44                                      | (1)                              | 43                                      |
| <b>TOTAL</b>                                      | <b>171,327</b>                          | <b>377</b>                       | <b>171,704</b>                          |

### Notes

1. The net movement on the Harbour Authority includes the trading profit on the Harbour Authority Revenue Account of £2.074M and a deficit generated on investment activities, of £1.697M after netting off grants and other non investment expenditure.
2. A contribution from the Harbour Funds to finance revenue and capital expenditure during the year was made as follows:-

| 2001/02<br>£000                          | 2002/03<br>£000 |
|--|-----------------|
| <b>Revenue Expenditure</b>               |                 |
| - Relevant Services Contingency Fund     | 47              |
| <b>Capital Expenditure</b>               |                 |
| 1,345 Relevant Services Contingency Fund | 1,200           |
| 629 Strategic Reserve Fund               | 1,835           |
| <b>1,974 Total</b>                       | <b>3,082</b>    |

## ORKNEY COLLEGE OF FURTHER EDUCATION

The Islands Council maintains accounting records on behalf of the Orkney College. The College is funded by direct grant from the Scottish Further Education Funding Council.

| <b>2001/02</b> |   | <b>2002/03</b> |
|----------------|---|----------------|
| <b>£000</b>    |   | <b>£000</b>    |
|                | <b>Expenditure</b>                          |                |
| 1,482          | Staff Costs                                 | 1,583          |
| 183            | Property Costs                              | 184            |
| 358            | Supplies & Services                         | 428            |
| 48             | Transport Costs                             | 48             |
| 70             | Administration Costs                        | 74             |
| 17             | Apportioned Costs                           | 18             |
| 360            | Capital Charges                             | 624            |
| <b>2,518</b>   |   | <b>2,959</b>   |
|                | <b>Income</b>                               |                |
| 1,833          | Grants                                      | 1,866          |
| 352            | Fees & Charges                              | 430            |
| 99             | Other Income                                | 157            |
| 234            | Deficit/(Surplus) for Year                  | 506            |
| <b>2,518</b>   |   | <b>2,959</b>   |
| (115)          | Orkney College Reserve 1 April 2002         | (257)          |
| (234)          | Deficit for year                            | (506)          |
| 92             | Adjust for Capital Financing Costs          | 284            |
| (142)          | Transfer to Reserves                        | (222)          |
| <b>(257)</b>   | <b>Orkney College Reserve 31 March 2003</b> | <b>(479)</b>   |

## HOUSING REVENUE ACCOUNT

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

| <b>2001/02</b> |                                       | <b>2002/03</b> |
|----------------|---------------------------------------|----------------|
| <b>£000</b>    |                                       | <b>£000</b>    |
| -              | Housing Support grant                 | -              |
| 1,725          | Dwelling Rents(gross)                 | 1,735          |
| 35             | Non-Dwelling Rents(gross)             | 22             |
| 46             | Other Income                          | 104            |
| <b>1,806</b>   | <b>TOTAL INCOME</b>                   | <b>1,861</b>   |
| 542            | Repairs and Maintenance               | 593            |
| 373            | Supervision and Management            | 403            |
| 841            | Capital Finance Costs                 | 785            |
| 31             | Bad Debts and voids                   | 31             |
| 73             | Other Expenditure                     | 49             |
| <b>1,860</b>   | <b>TOTAL EXPENDITURE</b>              | <b>1,861</b>   |
| 54             | (Surplus)/Deficit for Year            | -              |
| (54)           | (Surplus)/Deficit from Previous Years | -              |
| -              | Accumulated (Surplus)/Deficit         | -              |

### Housing Revenue Account Notes

#### 1. Housing Stock

The numbers and types of dwellings included in the Council's Housing Stock as at 31 March 2003 are as follows:

| <b>2001/02</b>   |             | <b>2002/03</b>   |
|------------------|-------------|------------------|
| <b>Number of</b> |             | <b>Number of</b> |
| <b>Dwellings</b> |             | <b>Dwellings</b> |
| 53               | 1 Apartment | 52               |
| 308              | 2 Apartment | 302              |
| 275              | 3 Apartment | 267              |
| 241              | 4 Apartment | 235              |
| 16               | 5 Apartment | 14               |
| <b>893</b>       |             | <b>870</b>       |

#### 2. Rent Arrears

| <b>2001/02</b> |                              | <b>2002/03</b> |
|----------------|------------------------------|----------------|
| £44,555        | Dwelling Arrears             | £52,958        |
| £27,339        | Non Dwelling & Other Arrears | £29,538        |
| <b>£71,894</b> |                              | <b>£82,496</b> |
| 153            | Number of Tenants in Arrears | 148            |



### 3. Provision for Bad Debts

| <b>2001/02</b> |                              | <b>2002/03</b> |
|----------------|------------------------------|----------------|
| £23,256        | Dwelling Arrears             | £25,785        |
| £16,292        | Non Dwelling & Other Arrears | £13,862        |
| <b>£39,548</b> |                              | <b>£39,647</b> |

### 4. Reconciliation to Consolidated Revenue Account

The reconciliation of the HRA to the Consolidated Revenue Account is as follows:-

| <b>2001/02</b> |                             | <b>2002/03</b> |
|----------------|-----------------------------|----------------|
| <b>£000</b>    |                             | <b>£000</b>    |
| 54             | Net Expenditure             | -              |
|                | Less:                       |                |
| 493            | Loan Charges                | 273            |
| 348            | CFCR                        | 512            |
|                | Add:                        |                |
| 493            | Capital Charges             | 273            |
| (294)          | Net Cost of Service         | (512)          |
|                | Add:                        |                |
| 348            | CFCR                        | 512            |
| 54             | Transferred to HRA Balances | -              |

## COUNCIL TAX INCOME ACCOUNT

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

| <b>2001/02</b> |   | <b>2002/03</b> |
|----------------|---|----------------|
| <b>£000</b>    |   | <b>£000</b>    |
| 6,228          | <b>Gross Council Tax Levied</b>                     | 6,894          |
| 1,109          | Less Relieved, Remitted and Written Off             | 1,226          |
| <b>5,119</b>   | <b>Net Council Tax Due for Year</b>                 | <b>5,668</b>   |
| (20)           | Provision for Bad Debts                             | 45             |
| 42             | Less Council Tax Benefit (Net of Government Grants) | 58             |
| <b>5,097</b>   | <b>Net Council Tax Income</b>                       | <b>5,565</b>   |
|                | Adjustment for previous years:                      |                |
| 23             | Council Tax   | 8              |
| 4              | Community Charge                                    | 1              |
| <b>5,124</b>   | <b>Transfers to General Fund</b>                    | <b>5,574</b>   |

### Notes

#### 1. Calculation of Council Tax Base

|                                   | @        | <b>Bands</b> |              |              |              |            |            |           |          | <b>Total</b> |
|-----------------------------------|----------|--------------|--------------|--------------|--------------|------------|------------|-----------|----------|--------------|
|                                   |          | <b>A</b>     | <b>B</b>     | <b>C</b>     | <b>D</b>     | <b>E</b>   | <b>F</b>   | <b>G</b>  | <b>H</b> |              |
| Number of Dwellings               | -        | 3,052        | 2,620        | 1,835        | 1,346        | 807        | 159        | 16        | 2        | 9,837        |
| Exemption                         | -        | (571)        | (107)        | (67)         | (25)         | (11)       | (4)        | -         | -        | (785)        |
| Disabled Relief                   | 9        | 12           | -            | (4)          | (3)          | (12)       | (2)        | -         | -        | -            |
| Discounts (25%)                   | (2)      | (302)        | (232)        | (123)        | (70)         | (25)       | (4)        | (1)       | -        | (759)        |
| Discounts (50%)                   | -        | (203)        | (91)         | (50)         | (23)         | (7)        | (2)        | (1)       | -        | (377)        |
| <b>Equivalent Dwellings</b>       | <b>7</b> | <b>1,988</b> | <b>2,190</b> | <b>1,591</b> | <b>1,225</b> | <b>752</b> | <b>147</b> | <b>14</b> | <b>2</b> | <b>7,916</b> |
| Ratio                             | 5/9      | 6/9          | 7/9          | 8/9          | 9/9          | 11/9       | 13/9       | 15/9      | 18/9     |              |
| <b>Band D Equivalents</b>         | <b>4</b> | <b>1,325</b> | <b>1,703</b> | <b>1,414</b> | <b>1,225</b> | <b>919</b> | <b>212</b> | <b>23</b> | <b>4</b> | <b>6,829</b> |
| Less provision for non-collection |          |              |              |              |              |            |            |           |          | (189)        |
| <b>Council Tax Base</b>           |          |              |              |              |              |            |            |           |          | <b>6,640</b> |

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

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

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

## 2. Details of Charges Levied

| 2001/02                                    | 2002/03 |
|--|---------|
| £  | £       |
| 754.00 Council Tax - Band D - General Rate | 824.00  |

### Council Tax Charges for 2002/2003

| Band | Property Value       | Proportion of Band D | Council Tax<br>£ |
|------|----------------------|----------------------|------------------|
| A    | Up to £27,000        | 6/9                  | 549.33           |
| B    | £27,000 to £35,000   | 7/9                  | 640.89           |
| C    | £35,000 to £45,000   | 8/9                  | 732.44           |
| D    | £45,000 to £58,000   | 9/9                  | 824.00           |
| E    | £58,000 to £80,000   | 11/9                 | 1,007.11         |
| F    | £80,000 to £106,000  | 13/9                 | 1,190.22         |
| G    | £106,000 to £212,000 | 15/9                 | 1,373.33         |
| H    | Above £212,000       | 18/9                 | 1,648.00         |

The above table shows the Council Tax Charges due for 2002/03 on a domestic dwelling with an unmetered public water supply, based on two or more people aged 18 years or over resident in the property before any exemption, discounts or relief is applied.

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

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

## 3. Residual Community Charge Income

During the year Community Charge arrears were collected as follows:

| 2001/02                                | 2002/03  |
|--|----------|
| £000                                   | £000     |
| 5 Reduction in Provision for Bad Debts | 2        |
| - Less Written Off                     | -        |
| 1 Less Cost of Collection              | 1        |
| <b>4 Net Community Charge Income</b>   | <b>1</b> |

## 4. Arrears of Council Tax and Community Charge

| 31-Mar-02                      | 31-Mar-03 |
|--------------------------------|-----------|
| £                              | £         |
| 431,730 Council Tax Arrears    | 459,667   |
| 8,219 Community Charge Arrears | 6,271     |

## NON DOMESTIC RATES INCOME ACCOUNT

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

| 2001/02<br>£000 |   | 2002/03<br>£000 |
|-----------------|---|-----------------|
| 7,483           | <b>Gross Rates Levied and Contributions in Lieu</b>                           | 7,462           |
| 765             | Less Relieved, Remitted and Written Off                                       | 706             |
| -               | Interest on Overpaid Rates  | 2               |
| 10              | Provision for Bad Debt  | 9               |
| <b>6,708</b>    | <b>Net Non Domestic Rates Income</b>  | <b>6,745</b>    |
| 80              | Adjustment for years prior to introduction of national non-domestic rate pool | -               |
| <b>6,788</b>    | <b>Contribution to national non-domestic rate pool</b>                        | <b>6,745</b>    |

### Notes

#### 1. Rateable Values and Number of Premises as at 1 April 2002

| Number<br>of<br>Subjects | Rateable<br>Value<br>01-Apr-01<br>£000 |                               | Number<br>of<br>Subjects | Rateable<br>Value<br>01-Apr-02<br>£000 |
|--------------------------|--|-------------------------------|--------------------------|--|
| 136                      | 6,725                                  | Industrial & Freight Subjects | 136                      | 6,368                                  |
| 5                        | 816                                    | Public Utilities              | 6                        | 1,247                                  |
|                          |  | Commercial Subjects :         |                          |  |
| 266                      | 1,271                                  | Shops                         | 265                      | 1,256                                  |
| 158                      | 1,032                                  | Offices                       | 147                      | 1,016                                  |
| 194                      | 788                                    | Hotels, Boarding Houses etc.  | 201                      | 790                                    |
| 544                      | 2,679                                  | Other                         | 555                      | 2,658                                  |
| <b>1,303</b>             | <b>13,311</b>                          |                               | <b>1,310</b>             | <b>13,335</b>                          |
| 480                      | 3,350                                  | Miscellaneous                 | 476                      | 3,448                                  |
| <b>1,783</b>             | <b>16,661</b>                          | <b>TOTAL</b>                  | <b>1,786</b>             | <b>16,783</b>                          |

#### 2. Non Domestic Rate Poundage

| 2001/02             | 2002/03 |
|---------------------|---------|
| 47.0p Property Rate | 47.8p   |

Non Domestic Rates are levied by the Islands Council on local Commercial and Industrial properties. The rate is, however, set by Central Government.

#### 3. Non Domestic Rates Arrears

| 31-Mar-02                            | 31-Mar-03 |
|--------------------------------------|-----------|
| £                                    | £         |
| 56,537 Arrears of Non Domestic Rates | 80,200    |

#### 4. Contribution to National NDR Pool

| 2001/02<br>£000 |  | 2002/03<br>£000 |
|-----------------|--|-----------------|
| 6,760           | Provisional Contributable Amount         | 6,984           |
| 28              | Difference from Notified Amount          | (239)           |
| <b>6,788</b>    | <b>Contribution to National NDR Pool</b> | <b>6,745</b>    |

**DIRECT SERVICE ORGANISATION SUMMARY  
REVENUE AND APPROPRIATION ACCOUNT**

The operation of Direct Services by Local Authorities is regulated by the Local Government Planning and Land Act 1980 and the Local Government Act 1988.

The Council operates two separate Direct Services Organisations. The following statement summarises their operations.

The statutory Direct Service Accounts can be obtained from the Director of Finance.

|                                    | <b>Income<br/>£000</b> | <b>Expenditure<br/>£000</b> | <b>Surplus<br/>£000</b> |
|------------------------------------|------------------------|-----------------------------|-------------------------|
| General Highways                   | 4,628                  | 4,471                       | 157                     |
| Ground Maintenance                 | -                      | -                           | -                       |
| Refuse Collection                  | 615                    | 509                         | 106                     |
| Maintenance                        | 805                    | 783                         | 22                      |
| New Construction Over £50,000      | -                      | -                           | -                       |
| Building Cleaning                  | 1,031                  | 959                         | 72                      |
| Other Cleaning                     | 464                    | 405                         | 59                      |
| Catering                           | 1,083                  | 1,081                       | 2                       |
| Vehicle Maintenance                | 700                    | 691                         | 9                       |
| Non Statutory                      | 33                     | 29                          | 4                       |
| <b>Net Surplus on DSO for Year</b> | <b>9,359</b>           | <b>8,928</b>                | <b>431</b>              |
| Previous Year 2001/2002            | 8,507                  | 8,119                       | 388                     |
|                                    |                        | <b>£000</b>                 |                         |
| DSO Reserve 1 April 2002           |                        | 2,292                       |                         |
| Surplus for Year                   |                        | 431                         |                         |
| Transfer to General Fund           |                        | (439)                       |                         |
| <b>DSO Reserve 31 March 2003</b>   |                        | <b>2,284</b>                |                         |

**Notes**

1. The Council's Direct Service Organisations (DSO) are required to break even, in each financial year and for each type of work after meeting the following charges:
  - a. a capital financing charge of 6% on the value of fixed assets used by the DSO, including all assets acquired under financing leases;
  - b. depreciation charges based on the current value of all such assets which are liable to depreciation; and
  - c. a financing charge of 6% on stock balances held by the DSO.
2. Failure by a DSO to achieve the financial objective of break even may result in the Secretary of State removing the Authority's power to carry out work on a particular defined activity.
3. The required financial objective has been achieved for each category of work and each defined activity.

**CONSOLIDATED BALANCE SHEET  
AS AT 31st MARCH 2003**

| <b>31-Mar-02</b> |  | <b>Notes</b> | <b>31-Mar-03</b> |
|------------------|--|--------------|------------------|
| <b>£000</b>      |  |              | <b>£000</b>      |
|                  | <b>Fixed Assets</b>                          | <b>1</b>     |                  |
|                  | Operational Assets                           |              |                  |
| 13,511           | Council Dwellings                            |              | 15,687           |
| 88,577           | Other Land and Buildings                     |              | 86,441           |
| 5,950            | Vehicles and Plant                           |              | 4,993            |
| 54,654           | Infrastructure                               |              | 68,439           |
| 2,967            | Community Assets                             |              | 3,153            |
| 7,897            | Non Operational Assets                       |              | 8,827            |
| <b>173,556</b>   | <b>Total Fixed Assets</b>                    |              | <b>187,540</b>   |
| 127,939          | <b>Long Term Investments</b>                 | <b>7</b>     | 138,615          |
| 6,606            | <b>Long Term Debtors</b>                     | <b>3</b>     | 4,930            |
| <b>308,101</b>   | <b>TOTAL LONG TERM ASSETS</b>                |              | <b>331,085</b>   |
|                  | <b>Current Assets</b>                        |              |                  |
| 618              | Stocks and Work in Progress                  | <b>4</b>     | 792              |
| 8,512            | Debtors                                      |              | 7,717            |
| 6                | Cash in Hand                                 |              | 6                |
| 23,785           | Investments                                  | <b>7</b>     | 11,712           |
| <b>32,921</b>    |  |              | <b>20,227</b>    |
|                  | <b>Less Current Liabilities</b>              |              |                  |
| 3,599            | Creditors                                    |              | 3,353            |
| 3,790            | Bank Overdraft                               |              | 1,641            |
| 3,094            | Advances from Other Accounts                 |              | 4,127            |
| <b>10,483</b>    |  |              | <b>9,121</b>     |
| <b>330,539</b>   | <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b> |              | <b>342,191</b>   |
| -                | <b>Loan Debt</b>                             |              | -                |
| <b>330,539</b>   | <b>TOTAL ASSETS LESS LIABILITIES</b>         | <b>8</b>     | <b>342,191</b>   |
|                  | <b>REPRESENTED BY:</b>                       |              |                  |
|                  | <b>Capital Reserves</b>                      |              |                  |
| 118,953          | Fixed Asset Restatement Reserve              |              | 116,013          |
| 780              | Capital Financing Reserve                    |              | 2,353            |
| 612              | Usable Capital Receipts                      |              | 729              |
| 27,833           | Government Grants Deferred                   |              | 39,139           |
| 1,634            | Capital Fund                                 |              | 1,526            |
| <b>149,812</b>   |  |              | <b>159,760</b>   |
|                  | <b>Revenue Reserves</b>                      |              |                  |
| 2,569            | General Fund Balances                        |              | 2,441            |
| 171,327          | Harbour Authority Fund                       |              | 171,704          |
| 2,292            | DSO Fund                                     |              | 2,284            |
| 4,539            | Repairs and Renewals Fund                    |              | 6,002            |
| <b>180,727</b>   |  |              | <b>182,431</b>   |
| <b>330,539</b>   | <b>TOTAL EQUITY</b>                          |              | <b>342,191</b>   |

**A TAIT, C.P.F.A., F.C.C.A.**  
**Director of Finance**  
**25 June 2003**

## Notes on the Consolidated Balance Sheet

### 1. Fixed Assets

The following represents an analysis of fixed assets owned by the Islands Council as at 31 March 2003.

| <b>Number<br/>of Items<br/>2001/02</b> |                                 |                              | <b>Number<br/>of Items<br/>2002/03</b> |
|--|---------------------------------|------------------------------|--|
| 893                                    | <b>Council Dwellings</b>        | Council Dwellings            | 870                                    |
| 1                                      | <b>Operational Buildings</b>    | Concert Halls & Theatres     | 1                                      |
| 41                                     |                                 | Other Housing Properties     | 42                                     |
| 87                                     |                                 | Depots & Workshops           | 82                                     |
| 2                                      |                                 | Museums                      | 2                                      |
| 11                                     |                                 | Community/Day Centres        | 11                                     |
| 2                                      |                                 | Sports Centres & Pools       | 2                                      |
| 2                                      |                                 | Libraries                    | 2                                      |
| 28                                     |                                 | Schools                      | 29                                     |
| 9                                      |                                 | Office Buildings             | 9                                      |
| 2                                      |                                 | Parks & Amenity Properties   | 3                                      |
|  |                                 | Miscellaneous :              |  |
| 37                                     |                                 | Public Conveniences          | 37                                     |
| 10                                     |                                 | Refuse Sites                 | 10                                     |
| 2                                      |                                 | Quarries                     | 2                                      |
| 16                                     | <b>Infrastructure</b>           | Sea Defences                 | 16                                     |
| 977                                    |                                 | Roads (Kilometres)           | 977                                    |
| 55                                     |                                 | Piers & Harbours             | 55                                     |
| 9                                      |                                 | Airfields                    | 9                                      |
| 24                                     |                                 | Car Parks                    | 24                                     |
| 41                                     | <b>Community Assets</b>         | Cemetries                    | 41                                     |
| 21                                     |                                 | Historic Buildings/Monuments | 21                                     |
| 12                                     |                                 | Parks                        | 12                                     |
| 6                                      | <b>Operational Equipment</b>    | Computers                    | 6                                      |
| 179                                    |                                 | Mechanical Plant             | 194                                    |
| 228                                    |                                 | Vehicles                     | 219                                    |
| 65                                     |                                 | Other Equipment              | 78                                     |
| 13                                     |                                 | Ferries                      | 13                                     |
| 37                                     | <b>Non Operational Property</b> | Surplus Assets               | 22                                     |
| 135                                    |                                 | Commercial Property          | 96                                     |
| 7                                      |                                 | Land Awaiting Development    | 6                                      |
| 3                                      |                                 | Assets Under Construction    | 7                                      |
| <b>2,955</b>                           | <b>TOTAL</b>                    |                              | <b>2,898</b>                           |

## Fixed Asset Transactions

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

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

|                                      | <b>Council Dwellings<br/>£000</b> | <b>Other Land &amp; Buildings<br/>£000</b> | <b>Plant and Vehicles<br/>£000</b> | <b>Infrastructure<br/>£000</b> | <b>Community<br/>£000</b> | <b>Non Operational<br/>£000</b> | <b>Total<br/>£000</b> |
|--------------------------------------|-----------------------------------|--|------------------------------------|--------------------------------|---------------------------|---------------------------------|-----------------------|
| Net book value of assets at 01/04/02 | 13,511                            | 88,577                                     | 5,950                              | 54,654                         | 2,967                     | 7,897                           | 173,556               |
| <b>Movement in 2002/03</b>           |                                   |  |                                    |                                |                           |                                 |                       |
| Additions                            | 835                               | 4,441                                      | 1,045                              | 16,155                         | 252                       | 1,892                           | 24,620                |
| Disposals                            | (354)                             | (20)                                       | (86)                               | -                              | -                         | (11)                            | (471)                 |
| Revaluations                         | 2,165                             | (3,401)                                    | (265)                              | -                              | -                         | (968)                           | (2,469)               |
| Reclassifications                    | -                                 | (164)                                      | -                                  | -                              | -                         | 164                             | -                     |
| Depreciation                         | (470)                             | (2,992)                                    | (1,651)                            | (2,370)                        | (66)                      | (147)                           | (7,696)               |
| Impairments                          | -                                 | -  | -                                  | -                              | -                         | -                               | -                     |
| Net book value of assets at 31/03/03 | <b>15,687</b>                     | <b>86,441</b>                              | <b>4,993</b>                       | <b>68,439</b>                  | <b>3,153</b>              | <b>8,827</b>                    | <b>187,540</b>        |

Assets to the value of £23K are held on behalf of the Community Councils.

### 1(a) Valuation of Fixed assets carried at current value

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

|                             | <b>Council Dwellings<br/>£000</b> | <b>Other Land &amp; Buildings<br/>£000</b> | <b>Plant and Vehicles<br/>£000</b> | <b>Infrastructure<br/>£000</b> | <b>Community<br/>£000</b> | <b>Non Operational<br/>£000</b> | <b>Total<br/>£000</b> |
|-----------------------------|-----------------------------------|--|------------------------------------|--------------------------------|---------------------------|---------------------------------|-----------------------|
| Valued at historic cost     | -                                 | -  | 4,993                              | 68,439                         | 3,153                     | -                               | 76,585                |
| Valued at Current Value in: |                                   |  |                                    |                                |                           |                                 |                       |
| 31 March 2003               | 3,000                             | 8,770                                      | -                                  | -                              | -                         | 4,306                           | 16,076                |
| 31 March 2002               | -                                 | 2,412                                      | -                                  | -                              | -                         | 330                             | 2,742                 |
| 31 March 2001               | -                                 | 17,165                                     | -                                  | -                              | -                         | 1,176                           | 18,341                |
| 31 March 2000               | 12,687                            | 58,094                                     | -                                  | -                              | -                         | 3,015                           | 73,796                |
| <b>Total</b>                | <b>15,687</b>                     | <b>86,441</b>                              | <b>4,993</b>                       | <b>68,439</b>                  | <b>3,153</b>              | <b>8,827</b>                    | <b>187,540</b>        |

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



The value of assets employed as at 31 March 2003 are analysed as follows:

| <b>2001/02</b> |                               | <b>2002/03</b> |
|----------------|-------------------------------|----------------|
| <b>£000</b>    |                               | <b>£000</b>    |
| 113,630        | General Fund                  | 110,698        |
| 37,790         | Harbour Fund                  | 51,113         |
| 13,719         | Housing Revenue Account       | 16,263         |
| 1,420          | Direct Services Organisations | 1,452          |
| 6,364          | Orkney College                | 7,425          |
| 608            | Quarries                      | 571            |
| 25             | Waste Disposal                | 18             |
| <b>173,556</b> | <b>Total Assets Employed</b>  | <b>187,540</b> |

#### **1(b) Comparison with Section 94 consents**

Capital expenditure must not exceed the sum of capital consents issued by the Secretary of State for Scotland, capital receipts from the disposal of assets, European Union grants and Capital Financed from Current Revenue (CFCR).

|  | <b>Programmes</b> |                | <b>Total</b>  |
|--|-------------------|----------------|---------------|
|  | <b>Composite</b>  | <b>Housing</b> |               |
|  | <b>£000</b>       | <b>£000</b>    | <b>£000</b>   |
| Allocation as Applied for 2002/03                      | 16,797            | 207            | 17,004        |
| Enhanced by Capital Receipts and Revenue Contributions | 10,866            | 621            | 11,487        |
| <b>Total Section 94 Consents Available</b>             | <b>27,663</b>     | <b>828</b>     | <b>28,491</b> |
| <b>Total Capital Payments for 2002/03</b>              | <b>26,030</b>     | <b>817</b>     | <b>26,847</b> |
| Underspend Carried Forward to 2003/04                  | <b>1,633</b>      | <b>11</b>      | <b>1,644</b>  |
| <b>Reconciliation of Capital Payments</b>              |                   |                |               |
| Capital Payments                                       | 26,030            | 817            | 26,847        |
| <b>Adjusted for:</b>                                   |                   |                |               |
| Reserve Fund Lending                                   | (671)             | -              | (671)         |
| Car Loans  | (165)             | -              | (165)         |
| Central Heating Scheme                                 | -                 | 90             | 90            |
| Sundry Creditors                                       | (53)              | (38)           | (91)          |
| <b>TOTAL CAPITAL EXPENDITURE</b>                       | <b>25,141</b>     | <b>869</b>     | <b>26,010</b> |
| <b>Represented by</b>                                  |                   |                |               |
| Fixed Assets   |                   |                | 24,620        |
| Deferred Charges                                       |                   |                | 1,345         |
| Long Term Debtors                                      |                   |                | 45            |
|  |                   |                | <b>26,010</b> |

### 1(c) Sources of Finance for Fixed Assets acquired

The following statement shows how capital expenditure in the year has been financed. The total of fixed asset and deferred charge expenditure in the year should match the sum of the individual sources of finance.

| 2001/02<br>£000      | 2002/03<br>£000 |
|----------------------|-----------------|
| 5,346 Loans          | 7,517           |
| 579 Capital Receipts | 748             |
| 5,501 Grant Receipts | 12,119          |
| 3,899 CFCR           | 5,320           |
| 410 Other Income     | 306             |
| <b>15,735</b>        | <b>26,010</b>   |

### 1(d) Commitments under Capital Contracts

The following significant contracts for capital investment have been entered into by the Islands Council and extend beyond the 31 March 2003:

| Project Name                        | Purpose                | Approximate Value<br>£000 | Anticipated Completion |
|-------------------------------------|------------------------|---------------------------|------------------------|
| One Stop Shop                       | Office Accommodation   | 1,442                     | Nov-2003               |
| Abattoir                            | Upgrade & Extension    | 2,088                     | Aug-2003               |
| St Andrews School                   | Extension              | 128                       | Jul-2003               |
| New Orkney Library                  | Library                | 1,659                     | Aug-2003               |
| Glaitness Development               | Private Building Sites | 166                       | Jul-2003               |
| North Isles Passenger Ferry Service | Terminal Building      | 352                       | Jun-2003               |
| North Isles Passenger Ferry Service | Transportation Pier    | 4,900                     | Nov-2003               |
| Stromness Harbour Development       | Marina                 | 920                       | Aug-2003               |

### 2. Deferred Charges

Deferred charges represent capital expenditure for which no tangible asset exists. As deferred charges do not reflect continuing benefit to the Islands Council they are amortised in full in the year the expenditure is incurred.

|                    | Balance as at<br>01-Apr-02<br>£000 | Expenditure<br>in Year<br>£000 | Amortised Balance as at<br>in Year<br>£000 | 31-Mar-03<br>£000 |
|--------------------|------------------------------------|--------------------------------|--|-------------------|
| Improvement Grants | -                                  | 745                            | 745  | -                 |
| Other              | -                                  | 600                            | 600  | -                 |
| <b>Total</b>       | -                                  | <b>1,345</b>                   | <b>1,345</b>                               | -                 |

### 3. Long Term Debtors

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

| 2001/02<br>£000   | 2002/03<br>£000 |
|-------------------|-----------------|
| 496 Housing Loans | 465             |
| 353 Car Loans     | 330             |
| 5,650 Harbours    | 4,031           |
| 107 Others        | 104             |
| <b>6,606</b>      | <b>4,930</b>    |

#### 4. Stocks and Work in Progress

| 2001/02    |                         | 2002/03    |
|------------|-------------------------|------------|
| £000       |                         | £000       |
|            | <b>Stocks</b>           |            |
| 106        | General Fund            | 160        |
| 78         | Quarries                | 103        |
| 167        | Harbours                | 195        |
| 136        | Orkney Direct           | 183        |
| 131        | DLO Vehicle Maintenance | 151        |
| <b>618</b> |                         | <b>792</b> |
|            | <b>Work in Progress</b> |            |
| -          | Orkney Direct           | -          |

#### 5. Debtors

Debtors are shown net of bad debt provision, and represents the net amount due to the Council as at 31 March 2003.

The Islands Council provides for any bad or doubtful debts at the end of each financial year, based on the age of debtors outstanding. At 31 March 2003 the Bad Debt Provision has increased from £803,000 to £897,000 being a increase of £94,000 on the year.

#### 6. Loan Debt

##### Long Term

The Islands Council has no long term debt as at 31 March 2003.

##### Short Term

| 2001/02      |                | 2002/03      |
|--------------|----------------|--------------|
| £000         |                | £000         |
| <b>3,790</b> | Bank Overdraft | <b>1,641</b> |

#### 7. Investments

The investments shown in the Consolidated Balance Sheet consist of a number of individual funds, each valued at the lower of cost or market value. The following is a summary of the investments held by the Islands Council as at 31 March 2003:

| Lower of<br>Cost &<br>Market<br>Value | Market<br>Value | Investments                   | Lower of<br>Cost &<br>Market<br>Value | Market<br>Value |
|---------------------------------------|-----------------|-------------------------------|---------------------------------------|-----------------|
| 2001/02<br>£000                       | 2001/02<br>£000 |                               | 2002/03<br>£000                       | 2002/03<br>£000 |
|                                       |                 | <b>Long Term</b>              |                                       |                 |
| 99,658                                | 105,526         | Bonds and Equities            | 116,630                               | 116,630         |
| 4,607                                 | 4,607           | Land and Buildings            | 7,109                                 | 7,109           |
| 672                                   | 672             | Private Companies (see below) | 672                                   | 672             |
| 900                                   | 900             | Fishing Quota                 | 511                                   | 511             |
| 22,075                                | 22,075          | Cash Deposits                 | 12,766                                | 12,766          |
| 27                                    | 27              | Miscellaneous                 | 927                                   | 927             |
| <b>127,939</b>                        | <b>133,807</b>  |                               | <b>138,615</b>                        | <b>138,615</b>  |
|                                       |                 | <b>Short Term</b>             |                                       |                 |
| <b>23,785</b>                         | <b>23,785</b>   | Cash Deposits                 | <b>11,712</b>                         | <b>11,712</b>   |

The Islands Council has controlling interest in the following private limited companies:

| <b>2001/02</b>             | <b>Orkney Towage<br/>Company Ltd</b> | <b>Weyland<br/>Farms Ltd</b> | <b>Orkney<br/>Ferries Ltd</b> | <b>Orkney<br/>Meat Ltd</b> |
|----------------------------|--------------------------------------|------------------------------|-------------------------------|----------------------------|
| Principal Activity         | Tug Operation                        | Mixed Farming                | Sea Transport                 | Meat Processing            |
| Shares Held                | 75%                                  | 100%                         | 100%                          | 38%                        |
|                            | <b>£000</b>                          | <b>£000</b>                  | <b>£000</b>                   | <b>£000</b>                |
| Investments Less Provision | 1                                    | 510                          | -                             | 61                         |
| Net Assets                 | 941                                  | 152                          | 31                            | 1,066                      |
| Profit / (Loss) After Tax  | (675)                                | (8)                          | -                             | 222                        |
| Profit / (Loss) Before Tax | (675)                                | (8)                          | -                             | 276                        |
| <b>2000/01</b>             |                                      |                              |                               |                            |
| Net Assets                 | 1,616                                | 160                          | 31                            | 863                        |
| Profit / (Loss) After Tax  | (472)                                | 2                            | -                             | 94                         |
| Profit / (Loss) Before Tax | (472)                                | 2                            | -                             | 122                        |

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

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

A dividend of £5,555 was received during the year on the Ordinary Share Holding in Orkney Meat Limited. No dividends were received from any other of the above companies.

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

At the 31 March 2003 the Islands Council's Reserve Fund loan to Weyland Farms Limited stood at £119,480, a increase of £60,000 on the year. The Loan Balance has been provided for in full. The Islands Council is committed to ensure an orderly winding up of the Company should it cease trading and will ensure that all bona fide creditors are paid in full.

Copies of the companies' audited accounts are available for inspection from the Director of Finance.

## **8. Net Assets Employed**

The value of net assets employed as at 31 March 2003 are analysed as follows:

| <b>2001/02</b> |                              | <b>2002/03</b> |
|----------------|------------------------------|----------------|
| <b>£000</b>    |                              | <b>£000</b>    |
| 98,569         | General Fund                 | 93,118         |
| 209,519        | Harbour Fund                 | 222,817        |
| 13,719         | Housing Revenue Account      | 16,263         |
| 3,712          | Direct Service Organisations | 3,736          |
| 4,347          | Orkney College               | 5,334          |
| 574            | Quarries                     | 765            |
| 99             | Waste Disposal               | 158            |
| <b>330,539</b> |                              | <b>342,191</b> |

## 9. Description of Reserves

The Fixed Asset Restatement Reserve accounts for any surpluses or deficits arising from the revaluation or disposal of fixed assets.

The Capital Financing Reserve records all the transactions relating to the financing of capital expenditure, such as Capital Receipts Applied, Capital Receipts Set Aside and Capital Financed from Current Revenue. It also records the difference between loans fund principal charges and the amount of depreciation provided for in the Consolidated Revenue Account.

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

Government Grants Deferred arise where the acquisition of a fixed asset is financed wholly or in part by a government grant, the amount of the grant should be credited to the government grants - deferred account, and written-off over the useful life of the asset matching the depreciation of the asset to which it relates. The balance of deferred grants carried forward has been written down in respect of assets no longer held by the Islands Council.

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

The Housing Revenue Account balances represent accumulated surpluses generated on the housing revenue account. These funds are ring fenced as required under the Housing (Scotland) Act 1987.

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

The DSO Reserve represents the balance of DSO surpluses not transferred to the General Fund as at 31 March 2003.

Repairs and Renewals funds are maintained for the purpose of providing for the replacement of plant and vehicles on the General Fund of the Islands Council.

The General Fund balance as at 31 March 2003 represents the surplus on General Fund Services after crediting all income due and debiting the cost of providing the appropriate services, and after taking account of transfers from Reserves. Included in this balance are the following funds :-

Community Councils Fund of £174K being the balance of the accumulated fund held on behalf of the Community Councils as at 31 March 2003.

The DSM Fund of £38K represents the balance of the funds held on behalf of the schools under the Devolved School Management Scheme as at 31 March 2003. The DSM funds are committed solely to the Education Service and are not available for use by other services.

The Quarries Reserve of £194,000 represents the balance of Quarry surpluses as at 31 March 2003.

The Waste Disposal Reserve of £141,000 represents the balance of Waste Disposal surpluses as at 31 March 2003.

The Orkney College deficit of £479,000 represents the balance of College losses as at 31 March 2003.

## STATEMENT OF TOTAL MOVEMENT IN RESERVES

This statement represents a summary of all gains and losses for the Authority during the financial year, and identifies those which have been recognised in the Consolidated Revenue Account. The statement further separates the movements between revenue and capital reserves.

| <b>2001/02</b> |  | <b>2002/03</b> |
|----------------|--|----------------|
| <b>£000</b>    |  | <b>£000</b>    |
|                | Surplus/(Deficit) for year   |                |
| 1,987          | General Fund   | (128)          |
| (54)           | Housing Revenue Account  | -              |
| (3,514)        | Add back Movements on specific revenue reserves  | 1,832          |
| <b>(1,581)</b> | <b>Total Increase / (Decrease) in revenue resources</b>  | <b>1,704</b>   |
| 99             | Increase / (Decrease) in useable capital receipts  | 117            |
| -              | Increase / (Decrease) in unapplied capital grants and contributions                            | -              |
| <b>99</b>      | <b>Total Increase / (Decrease) in realised capital resources (note 1)</b>                      | <b>117</b>     |
| (5,095)        | Gains / (Losses) on revaluation of fixed assets  | (2,469)        |
| -              | Impairment losses on fixed assets due to general changes in prices                             | -              |
| <b>(5,095)</b> | <b>Total Increase / (Decrease) in unrealised value of fixed assets (note 2)</b>                | <b>(2,469)</b> |
| <b>(682)</b>   | <b>Value of assets sold, disposed of or decommissioned (note 3)</b>                            | <b>(471)</b>   |
| 1,900          | Capital receipt set aside  | 2,846          |
| (1,987)        | Revenue resources set aside  | (1,273)        |
| 4,006          | Movement on Government Grants Deferred   | 11,306         |
| <b>3,919</b>   | <b>Total Increase / (Decrease) in amounts set aside to finance capital investment (note 4)</b> | <b>12,879</b>  |
|                | <b>Specific Capital Reserves</b>   |                |
| (216)          | Capital Fund - Movement  | (108)          |
| <b>(3,556)</b> | <b>Total recognised gains and losses</b>   | <b>11,652</b>  |

## Notes to the Statement of Total Movements in Reserves

### 1. Movements in realised capital resources

| <b>Usable Capital<br/>Receipts<br/>2001/02<br/>£000</b> |   | <b>Usable Capital<br/>Receipts<br/>2002/03<br/>£000</b> |
|---|---|---|
| 734   | Amounts receivable in 2002/03   | 590   |
| <b>(635)</b>  | <b>Amounts applied to finance new capital<br/>investments in 2002/03</b>        | <b>(473)</b>  |
| <b>99</b>   | <b>Total increase / (Decrease) in realised capital<br/>resources in 2002/03</b> | <b>117</b>  |
| 513   | Balance brought forward at 1 April 2002   | 612   |
| 612   | Balance carried forward at 31 March 2003  | 729   |

### 2. Movements in unrealised value of fixed assets

| <b>Fixed asset<br/>restatement<br/>reserve<br/>2001/02<br/>£000</b> |   | <b>Fixed asset<br/>restatement<br/>reserve<br/>2002/03<br/>£000</b> |
|---|---|---|
| (5,095)   | Gains / (losses) on revaluation of fixed assets in 2002/03                    | (2,469)   |
| -   | Impairment losses on fixed assets due to general changes<br>in prices 2002/03 | -   |
| <b>(5,095)</b>  | <b>Total increase / (decrease) in unrealised value of fixed assets</b>        | <b>(2,469)</b>  |

### 3. Value of assets sold, disposed of or decommissioned

| <b>2001/02<br/>£000</b> |  | <b>2002/03<br/>£000</b> |
|-------------------------|--|-------------------------|
| (682)                   | Amounts written off fixed asset balances for<br>disposals in 2002/03 | (471)                   |
| (5,777)                 | Total movement on reserve in 2002/03                                 | (2,940)                 |
| 124,730                 | Balance brought forward at 1 April 2002                              | 118,953                 |
| 118,953                 | Balance carried forward at 31 March 2003                             | 116,013                 |

#### 4. Movements in amounts set aside to finance capital investment

| 2001/02<br>£000 |  | Capital<br>Financing<br>Reserve<br>£000 | Gov't<br>Grants<br>Deferred<br>£000 | Total<br>2002/03<br>£000 |
|-----------------|--|---|-------------------------------------|--------------------------|
|                 | Capital receipts set aside in 2002/03  |   |                                     |                          |
| 1,621           | - reserved receipts  | 2,693                                   |                                     |                          |
| 279             | - useable receipts applied   | 153                                     |                                     |                          |
| <b>1,900</b>    | <b>Total capital receipts set aside in 2002/03</b>                                     | <b>2,846</b>                            |                                     | <b>2,846</b>             |
|                 | Revenue resources set aside in 2002/03   |   |                                     |                          |
| 3,899           | - capital expenditure financed from revenue  | 5,320                                   |                                     |                          |
| (5,886)         | - reconciling amount for provisions for loan repayment                                 | (6,593)                                 |                                     |                          |
| <b>(1,987)</b>  | <b>Total revenue resources set aside in 2002/03</b>                                    | <b>(1,273)</b>                          |                                     | <b>(1,273)</b>           |
| 5,333           | Grants applied to capital investment in 2002/03  |   | 12,667                              |                          |
| (1,327)         | Amounts credited to the asset management revenue account in 2002/03                    |   | (1,361)                             |                          |
| <b>4,006</b>    | <b>Movement on Government Grants Deferred</b>  |   | <b>11,306</b>                       | <b>11,306</b>            |
| <b>3,919</b>    | <b>Total Increase / (Decrease) in amounts set aside to finance capital investments</b> |   |                                     | <b>12,879</b>            |
|                 | Total movement on reserve in 2002/03   | 1,573                                   | 11,306                              |                          |
|                 | Balance brought forward at 1 April 2002  | 780                                     | 27,833                              |                          |
|                 | Balance carried forward at 31 March 2003   | 2,353                                   | 39,139                              |                          |



**CASH FLOW STATEMENT FOR THE  
YEAR ENDED 31 MARCH 2003**

| 2001/02        |  | 2002/03         |
|----------------|--|-----------------|
| £000           |  | £000            |
|                | <b>Revenue Activities</b>  |                 |
|                | <b>Cash Outflows</b>   |                 |
| 34,118         | Cash paid to and on behalf of Employees                          | 36,893          |
| 15,663         | Other Operating Payments   | 23,949          |
| 451            | Housing Benefit Payments   | 460             |
| 7,015          | NNDR Payments to Pool  | 7,012           |
| 1,632          | Precepts Paid  | 1,598           |
| <b>58,879</b>  | <b>Total Payments</b>  | <b>69,912</b>   |
|                | <b>Cash Inflows</b>  |                 |
| 822            | Rents (after Rebate)   | 782             |
| 6,268          | Council Tax Income   | 6,701           |
| 3              | Community Charge Income  | 1               |
| 5,949          | NNDR Receipts from Pool  | 6,544           |
| 6,771          | Non Domestic Rates receipts                                      | 6,706           |
| 34,853         | Revenue Support Grant  | 37,609          |
| 2,289          | DWP Grant for Benefits   | 2,375           |
| 3,969          | Other Government Grants  | 4,190           |
| 2,193          | Cash received for Goods and Services                             | 6,193           |
| <b>63,117</b>  | <b>Total Receipts</b>  | <b>71,101</b>   |
| <b>4,238</b>   | <b>Net Cash Inflows from Revenue Activities</b>                  | <b>1,189</b>    |
|                | <b>Returns on Investments and Servicing of Finance</b>           |                 |
|                | <b>Cash Outflows</b>   |                 |
| 204            | Interest Paid  | 123             |
| -              | Finance Lease Interest   | -               |
| <b>204</b>     | <b>Total Payments</b>  | <b>123</b>      |
|                | <b>Cash Inflows</b>  |                 |
| 1,648          | Interest Received  | 903             |
| <b>1,648</b>   | <b>Total Receipts</b>  | <b>903</b>      |
| <b>1,444</b>   | <b>Net Cash Inflow from Investments and Servicing of Finance</b> | <b>780</b>      |
|                | <b>Capital Activities</b>  |                 |
|                | <b>Cash Outflows</b>   |                 |
| 14,632         | Purchase of Fixed Assets   | 24,711          |
| 3,222          | Purchase of Long Term Investments                                | 531             |
| 2,000          | Other Capital Payments   | 1,636           |
| <b>19,854</b>  | <b>Total Payments</b>  | <b>26,878</b>   |
|                | <b>Cash Inflows</b>  |                 |
| 735            | Sale of Fixed Assets   | 515             |
| 4,046          | Capital Grants received  | 11,469          |
| 1,322          | Sale of Long Term Investments                                    | 188             |
| 4,543          | Other Capital Receipts   | 1,780           |
| <b>10,646</b>  | <b>Total Receipts</b>  | <b>13,952</b>   |
| <b>(9,208)</b> | <b>Net Cash Outflow before Financing</b>                         | <b>(12,926)</b> |
|                | <b>Management of Liquid Resources</b>                            |                 |
| <b>6,065</b>   | <b>Net (Increase)/Decrease in Short Term Deposits</b>            | <b>12,073</b>   |
|                | <b>Management of Financing</b>                                   |                 |
|                | <b>Cash Outflows</b>   |                 |
| 3,083          | Repayments of Amounts Borrowed                                   | (1,033)         |
| -              | Capital Element of Finance Lease                                 | -               |
| <b>3,083</b>   |  | <b>(1,033)</b>  |
|                | <b>Cash Inflows</b>  |                 |
| -              | New Loans raised   | -               |
| <b>(3,083)</b> | <b>Net Cash Outflow from Financing</b>                           | <b>1,033</b>    |
| <b>(544)</b>   | <b>Increase / (Decrease) in Cash</b>                             | <b>2,149</b>    |

## Notes to the Cashflow Statement

### 1. Reconciliation of Operating Surplus to net cash inflow from Revenue Activities

| 2001/02<br>£000 |   | 2002/03<br>£000 |
|-----------------|---|-----------------|
| (1,750)         | <b>Operating Surplus</b>                          | 241             |
|                 | <b>Non Cash Transactions</b>                      |                 |
| 363             | Contributions to Reserves                         | 1,662           |
| 1,459           | Adjustments not Involving the Movement of Funds   | (9,998)         |
| 5,053           | Contributions to Capital                          | 8,473           |
| (128)           | Increase/(Decrease) in Bad Debt Provision         | 94              |
| <b>4,997</b>    |   | <b>472</b>      |
|                 | <b>Items on an Accruals Basis</b>                 |                 |
| 136             | Increase/(Decrease) in Stock and Work in Progress | (174)           |
| (1,196)         | Increase/(Decrease) in Debtors                    | 868             |
| 301             | Increase/(Decrease) in Creditors                  | 23              |
| <b>(759)</b>    |   | <b>717</b>      |
| <b>4,238</b>    | <b>Cash Inflow from Revenue Activities</b>        | <b>1,189</b>    |

### 2. Movement in Cash

| 2001/02<br>£000 |                                      | 31-Mar-03<br>£000 | 31-Mar-02<br>£000 | Movement<br>£000 |
|-----------------|--------------------------------------|-------------------|-------------------|------------------|
| (544)           | Bank Overdraft                       | (1,641)           | (3,790)           | 2,149            |
| -               | Cash                                 | 6                 | 6                 | -                |
| <b>(544)</b>    | <b>Increase / (Decrease) in Cash</b> | <b>(1,635)</b>    | <b>(3,784)</b>    | <b>2,149</b>     |

### 3. Reconciliation of Liquid Resources

| 2001/02<br>£000 |                   | 31-Mar-03<br>£000 | 31-Mar-02<br>£000 | Movement<br>£000 |
|-----------------|-------------------|-------------------|-------------------|------------------|
| (6,065)         | Temporary Lending | 11,712            | 23,785            | (12,073)         |

### 4. Reconciliation of Financing

| 2001/02<br>£000 |  | 31-Mar-03<br>£000 | 31-Mar-02<br>£000 | Movement<br>£000 |
|-----------------|--|-------------------|-------------------|------------------|
| 3,083           | Revenue Advances from Common<br>Good, Charities & Trusts | (4,127)           | (3,094)           | (1,033)          |

### 5. Analysis of Government Grants

| 2001/02<br>£000 |  | 2002/03<br>£000 |
|-----------------|--|-----------------|
|                 | <b>Grants Received</b>                         |                 |
| 47              | Teacher Training                               | 94              |
| 271             | Other Education Grants                         | 273             |
| 600             | Pre - School Funding                           | 26              |
| 625             | Excellence Fund                                | 629             |
| 28              | Social Inclusion Partnership                   | 38              |
| 50              | Other Miscellaneous Grants                     | 359             |
| 67              | Housing Stock Transfer                         | -               |
| 414             | Community Social Services - Specific Training  | 843             |
| 126             | Mental Illness Specific Grant                  | 122             |
| 309             | Offender Services                              | 333             |
| 1,238           | Scottish Funding Council for Further Education | 1,261           |
| 194             | Transportation - Rural Initiative              | 212             |
| <b>3,969</b>    | <b>Total</b>                                   | <b>4,190</b>    |

## PENSION FUND ACCOUNT

The Orkney Islands Council Pension Fund is constituted under the various Local Government Pension Fund Acts and related regulations and provides pension benefits to all local government employees, excluding principally teachers, of Orkney Islands Council, together with 11 other organisations of a statutory and voluntary nature which have been accepted into the fund as admitted bodies. The members of the fund increased from 1155 employees at 31 March 2002 to 1221 employees at 31 March 2003 and the number of pension payments increased from 357 at 31 March 2002 to 366 at 31 March 2003.

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

The monies belonging to the Pension Fund are entirely managed by appointed Investment Fund managers and are held separate from any of the employing bodies which participate in the Pension Fund. After meeting the cost of current benefits, all surplus cash income is invested and the increasing value of investment is then available to meet future liabilities to employees within the Fund. In addition to a contingent liability to meet future pension benefits payable to existing employees, the funds must also provide for the future payment of deferred pension benefits which have been preserved by former employees in respect of service prior to their leaving.

Employees contributions are fixed by statute, with employers contributions being assessed every three years by an independent Actuary to determine the level of contribution necessary by employing bodies to ensure that the fund is able to meet all future benefits. For employees, officers contribute 6% whilst manual workers contribute 5%. Following completion of the 2002 Actuarial valuation, the employers rate will see the implementation of a stepped increase in contribution rates for a period of three years commencing in 2003 at 250%, rising to 275% in 2004 and 295% in 2005.

The funds have been invested in accordance with the investment controls laid down in the Local Government Pension (Scotland) Regulations 1989 and quoted investments of the fund have been revalued to market value at 31 March 2003 with the gain on revaluation being credited to the fund.

## PENSION FUND ACCOUNT

| <b>2001/02</b> | <b>FUND ACCOUNT</b>                                | <b>2002/03</b>  |
|----------------|--|-----------------|
| <b>£000</b>    |  | <b>£000</b>     |
|                | <b>Contributions Receivable</b>                    |                 |
| 1,103          | Employees Contributions                            | 1,222           |
| 2,278          | Employer Contributions                             | 2,743           |
| 762            | Transfer Values                                    | 205             |
| 302            | Contributions from Services (Pension Increases)    | 406             |
| <b>4,445</b>   |  | <b>4,576</b>    |
|                | <b>Benefits Payable</b>                            |                 |
|                | Pension Benefits:                                  |                 |
| 1,706          | Retirement Pensions                                | 1,816           |
| 439            | Retirement Allowances                              | 351             |
| 128            | Death Gratuities                                   | 148             |
| 16             | Refund of Contributions                            | 7               |
| 779            | Transfer Values                                    | 36              |
| 2              | Equivalent Payment Contributions                   | 1               |
| 122            | Fund Administration                                | 106             |
| <b>3,192</b>   |  | <b>2,465</b>    |
| <b>1,253</b>   | <b>Net Additions from Dealings with Members</b>    | <b>2,111</b>    |
|                | <b>Returns on Investments</b>                      |                 |
| 1,627          | Investment Income                                  | 1,444           |
|                | Gain in Market Value of Investments:               |                 |
| (342)          | Realised   | (2,684)         |
| 386            | Unrealised   | (11,017)        |
| (139)          | Investment Management Expenses                     | (137)           |
| <b>1,532</b>   | <b>Net Return on Investments</b>                   | <b>(12,394)</b> |
| <b>2,785</b>   | <b>Net Increase in Fund during year</b>            | <b>(10,283)</b> |
| 54,371         | Opening Net Assets of Fund                         | 57,156          |
| <b>57,156</b>  | <b>Closing Net Assets of Fund</b>                  | <b>46,873</b>   |
|                | <b>Net Assets Statement ( as at 31 March )</b>     |                 |
|                | <b>Investment Assets</b>                           |                 |
| 4,943          | Fixed Interest - Public Sector                     | 5,480           |
| 2,626          | Fixed Interest - Overseas                          | 1,627           |
| 28,732         | Equities - UK                                      | 22,224          |
| 13,894         | Equities - Overseas                                | 11,881          |
| 1,936          | Index Linked - UK                                  | 1,377           |
| -              | Index Linked - Overseas                            | 645             |
| 3,708          | Funds held by Investment Managers - Other ( Cash ) | 1,272           |
| <b>55,839</b>  |  | <b>44,506</b>   |
|                | <b>Current Assets</b>                              |                 |
| 18             | Sundry Debtors                                     | 102             |
| 1,337          | Loans Fund Deposit                                 | 2,299           |
|                | <b>Less Current Liabilities</b>                    |                 |
| 38             | Sundry Creditors                                   | 34              |
| <b>1,317</b>   | <b>Net Current Assets</b>                          | <b>2,367</b>    |
| <b>57,156</b>  | <b>Net Assets</b>                                  | <b>46,873</b>   |
|                | <b>Financed by:</b>                                |                 |
| <b>57,156</b>  | Accumulated Fund                                   | <b>46,873</b>   |

A TAIT, C.P.F.A., F.C.C.A.  
 Director of Finance  
 25 June 2003

## Notes to the Pension Fund Account

### 1. Actuarial Valuation Reports

Actuarial report was provided in 2003 after undertaking valuations on the fund as at 31 March 2002. Information from this actuarial valuation is undernoted:

(a) Market value of assets at valuation £57,156,000.

(b) Members Contributions

|                                |      |
|--------------------------------|------|
| Officers                       | 6.0% |
| Manual Workers before 01/04/98 | 5.0% |
| Manual Workers after 01/04/98  | 6.0% |

(c) Employers contributions as a percentage of employees contributions

|              |      |
|--------------|------|
| 1 April 2003 | 250% |
| 1 April 2004 | 275% |
| 1 April 2005 | 295% |

(d) Valuation assumptions:

|  |       |
|--|-------|
| Investment Return:                       |       |
| Equities                                 | 6.65% |
| Bonds                                    | 5.20% |
| Pay Increases                            | 4.10% |
| Price Inflation / Pension Increases      | 2.60% |
| Rate used to discount scheme liabilities | 6.30% |

(e) The Projected Unit method was used for the valuation of the fund

(f) The level of funding in terms of the percentage of assets available to meet liabilities was 96%

### 2. Investment Assets

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

| 2001/02       |               |                               | 2002/03       |               |
|---------------|---------------|-------------------------------|---------------|---------------|
| £000          | %             |                               | £000          | %             |
| 55,839        | 97.70         | Baillie Gifford and Company   | 44,506        | 94.95         |
| 1,337         | 2.33          | Loans Fund Deposit            | 2,299         | 4.90          |
| (20)          | (0.03)        | Sundry Debtors less Creditors | 68            | 0.15          |
| <b>57,156</b> | <b>100.00</b> |                               | <b>46,873</b> | <b>100.00</b> |

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

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

| 2001/02       |         |          | 2002/03       |
|---------------|---------|----------|---------------|
| £000          |         |          | £000          |
| 35,611        | UK      | Listed   | 29,081        |
| -             |         | Unlisted | -             |
| 16,520        | Foreign | Listed   | 14,153        |
| -             |         | Unlisted | -             |
| <b>52,131</b> |         |          | <b>43,234</b> |

### 3. Purchases and Sales

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

| 2001/02 |           | 2002/03 |
|---------|-----------|---------|
| £000    |           | £000    |
| 23,930  | Purchases | 25,552  |
| 19,696  | Sales     | 20,699  |

### 4. Contributions Receivable and Payable

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

| Contributions<br>Receivable | Contributions<br>Payable |                         | Contributions<br>Receivable | Contributions<br>Payable |
|-----------------------------|--------------------------|-------------------------|-----------------------------|--------------------------|
| 2001/02                     | 2001/02                  |                         | 2002/03                     | 2002/03                  |
| £000                        | £000                     |                         | £000                        | £000                     |
| 2,894                       | 2,241                    | Administering Authority | 3,409                       | 2,259                    |
| 487                         | 32                       | Admitted Bodies         | 556                         | 56                       |
| <b>3,381</b>                | <b>2,273</b>             |                         | <b>3,965</b>                | <b>2,315</b>             |

### 5. Investment Sub Committee

The Orkney Islands Council carries out its administration functions through its Investment Sub Committee which comprises the Convener H Halcro-Johnston, Vice Convener J Sinclair, Councillor A K Johnson, Councillor F J Groundwater and Councillor T S Hagan.

### 6. Admitted Bodies

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

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

## CHARITY, TRUST AND COMMON GOOD FUNDS

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

|                                   | <b>2001/02</b> |                    |               | <b>2002/03</b>   |
|-----------------------------------|----------------|--------------------|---------------|------------------|
|                                   | <b>Net</b>     | <b>Expenditure</b> | <b>Income</b> | <b>Net</b>       |
|                                   | <b>£000</b>    | <b>£000</b>        | <b>£000</b>   | <b>£000</b>      |
| 1 Educational Trust               |                | 3                  | 4             | (1)              |
| (13) Education Bequests           |                | 3                  | 11            | (8)              |
| (51) Social Bequests              |                | 36                 | 55            | (19)             |
| (4) Miscellaneous                 |                | 1                  | 2             | (1)              |
| - Sheriff Thom's Bequest          |                | -                  | 1             | (1)              |
| (44) Common Good Fund             |                | 3                  | 41            | (38)             |
| - Cathedral Promotion Fund        |                | -                  | 3             | (3)              |
| (7) Cathedral Fabric Fund         |                | 2                  | 3             | (1)              |
| <b>(118)</b>                      |                | <b>48</b>          | <b>120</b>    | <b>(72)</b>      |
| <b>31-Mar-02 Balance Sheet</b>    |                |                    |               | <b>31-Mar-03</b> |
| <b>£000</b>                       |                |                    |               | <b>£000</b>      |
| <b>Investments</b>                |                |                    |               |                  |
| 14 Listed Securities              |                |                    |               | 16               |
| 29 Property                       |                |                    |               | 29               |
| <b>43</b>                         |                |                    |               | <b>45</b>        |
| 149 Capital Deposits              |                |                    |               | 149              |
| <b>192 Total Long Term Assets</b> |                |                    |               | <b>194</b>       |
| <b>Current Assets</b>             |                |                    |               |                  |
| 1,609 Loan Fund Deposit           |                |                    |               | 1,678            |
| 7 <b>Less Current Liabilities</b> |                |                    |               | 6                |
| <b>1,602 Net Current Assets</b>   |                |                    |               | <b>1,672</b>     |
| <b>1,794 Net Assets</b>           |                |                    |               | <b>1,866</b>     |
| <b>Financed by:</b>               |                |                    |               |                  |
| 65 Educational Trusts             |                |                    |               | 66               |
| 276 Education Bequests            |                |                    |               | 284              |
| 752 Social Bequests               |                |                    |               | 771              |
| 87 Miscellaneous Trusts           |                |                    |               | 88               |
| 393 Common Good Funds             |                |                    |               | 431              |
| - Cathedral Promotion Fund        |                |                    |               | 3                |
| 51 Cathedral Fabric Fund          |                |                    |               | 52               |
| 21 Sheriff Thom's Bequest         |                |                    |               | 22               |
| 149 Unapplied Capital Receipts    |                |                    |               | 149              |
| <b>1,794</b>                      |                |                    |               | <b>1,866</b>     |

A TAIT, C.P.F.A., F.C.C.A.  
**Director of Finance**  
25 June 2003

## STATEMENT ON THE SYSTEM OF INTERNAL FINANCIAL CONTROL

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

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

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

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

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

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



5 Our review of the effectiveness of the system of internal financial control is informed by:

- the work of managers within the Council;
- the best value review process
- the work of the internal auditors as described above; and
- the external auditors in their annual audit letter and other reports

6 The staffing resource of the internal audit section, which has doubled in the past year, remains small relative to the potential areas of activity that require to be covered. However the level of that resource needs to be considered within the context of the framework set out in paragraph 3 above and the close working arrangements operated with the external audit function. In conjunction with the developing remit of the Monitoring and Audit Committee the role remit and staffing resource of the internal audit function will continue to be kept under review by the Council.

An audit report for 2002/03 audit, regarding a budgetary control follow up audit that was carried out, was received from the Council's external auditors. This report raised specific concerns regarding the authority's budgetary control system. Managers have agreed a plan of recommendations to address the weaknesses identified and to improve the system of internal control.

Aligned to planned improvements in the budgetary control system the Council has recently approved the adoption of proposals to integrate the strategic planning processes within the budget preparation arrangements. Improvements have also been agreed for the capital appraisal arrangements. Support and training for budget holders to be provided by the Finance Department is also planned to start from August 2003.

Taken together with the other previously agreed actions these should address the concerns raised within the audit report.

A further area where action needs to be progressed relates to Corporate Governance. Specific areas of activity have been identified and reported upon to the Monitoring and Audit Committee as requiring urgent attention such as the early adoption of a local code of corporate governance and the introduction of formal risk management systems with structured processes, including quality control, to identify and evaluate all significant operational risks. Work is also needed to bring forward a fraud and corruption policy supported by a fraud plan setting out detailed procedures and operational guidelines.

Work also needs to be further progressed and finalised on confirming that all significant sums given by way of grant assistance are duly documented, monitored and reported upon in accordance with the "Following the Public Pound" guidance. A related issue is the need to clearly define the role, responsibilities, liability and probity of members and officers of the Council being appointed to external bodies funded by the Council. Both of these issues are currently being reviewed.

**A TAIT, C.P.F.A., F.C.C.A.**  
**Director of Finance**  
**25 June 2003**

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

### **The Authority's Responsibilities**

The authority is required:

to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Finance.

to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

### **The Director of Finance's Responsibilities**

The Director of Finance is responsible for the preparation of the authority's statement of accounts which, in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ("the Code of Practice"), is required to present fairly the financial position of the authority at the accounting date and its income and expenditure for the year ended 31 March 2003.

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

selected suitable accounting policies and then applied them consistently;

made judgements and estimates that were reasonable and prudent;

complied with the Code of Practice.

The Director of Finance has also:

kept proper accounting records which were up to date;

taken reasonable steps for the prevention and detection of fraud and other irregularities.

I confirm that this Statement of Accounts presents fairly the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2003.

**A TAIT, C.P.F.A., F.C.C.A.**  
**Director of Finance**  
**25 June 2003**

## INDEPENDENT AUDITOR'S REPORT

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

I certify that I have audited the financial statements on pages 3 to 38 under the Local Government (Scotland) Act 1973. The financial statements have been prepared in accordance with the accounting policies set out on pages 3 to 5.

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and the Code of Audit Practice approved by the Accounts Commission and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by Audit Scotland, dated July 2001.

### Respective responsibilities of the Director of Finance and Auditors

As described on page 41 the Director of Finance of the Council is responsible for the preparation of the financial statements in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom, a Statement of Recommended Practice ("the SORP"). My responsibilities, as independent auditor, are established by statute and the Code of Audit Practice approved by the Accounts Commission, and guided by the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements present fairly the financial position of the Council at 31 March 2003 and its income and expenditure for the year. I also report if, in my opinion, the Council has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the Statement on the System of Internal Financial Control on pages 39 to 40 complies with the requirements of the SORP. I report if, in my opinion, the statement does not comply with the requirements or if it is misleading or inconsistent with other information I am aware of from my audit. I am not required to consider whether the statement covers all risks and controls, or form an opinion on the effectiveness of the Council's corporate governance procedures or risk and control procedures.

I read the other information published with the financial statements and consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

### Basis of audit opinion

I conducted my audit in accordance with Part VII of the Local Government (Scotland) Act 1973 and the Code of Audit Practice, which requires compliance with relevant United Kingdom Auditing Standards issued by the Auditing Practices Board.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Director of Finance in the preparation of the financial statements and of whether the accounting policies are appropriate to the Council's circumstances, consistently applied and adequately disclosed.

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

### Opinion

In my opinion the financial statements present fairly the financial position of the Council as at 31 March 2003 and its income and expenditure for the year then ended.

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30 September 2003