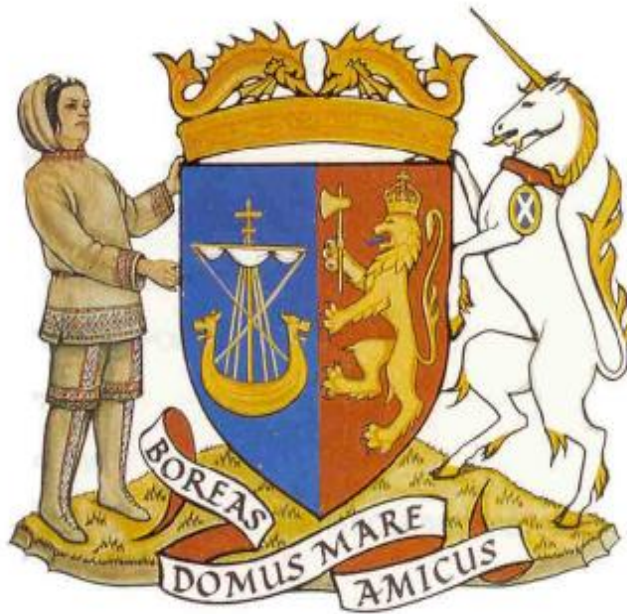


ORKNEY ISLANDS COUNCIL



STATEMENT OF ACCOUNTS

2008 / 2009

Orkney Islands Council
Statement of Accounts - 2008/2009
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Introduction

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

This foreword provides an explanation of the Statement of Accounts and of the most significant matters reported in the Accounts, together with a summary of the financial outturn for the year ended 31 March 2009.

Core Financial Statements

Income and Expenditure Account

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

Statement of Movement on the General Fund Balance

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

Statement of Total Recognised Gains and Losses

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

Balance Sheet

This statement brings together all the assets and liabilities in the Council's account as at 31 March 2009, with the exception of the Pension Fund, Charity, Trust and Common Good Funds, which are disclosed separately.

Cash flow Statement

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

Notes to the Core Financial Statements

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

Supplementary Single Entity Financial Statements

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

Harbour Authority Account

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

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

Orkney College

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

Housing Revenue Account

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

Council Tax and Non Domestic Rates Income Accounts

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

Pension Fund

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

Charity, Trust and Common Good Funds

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

Group Accounts

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

Group Income and Expenditure Account

This statement provides a summary of the expenditure and income for the year ending 31 March 2009 on the services which the group provides and demonstrates how the net costs has been financed.

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

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

Group Statement of Total Recognised Gains and Losses

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

Group Balance Sheet

This statement brings together all the assets and liabilities for the group as at 31 March 2009.

Group Cash Flow Statement

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

Group Notes to the Accounts

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

Statement on the System of Internal Financial Control

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

REVIEW OF THE YEAR

Local Taxation

The Islands Council on 14 February 2008 agreed a General Fund budget of £79.557M and under the Local Government Finance Act 1992 set Council Tax for Band D properties at £1,037. This was the second lowest Council Tax figure in Scotland being some £112 below the Scottish average.

During the year, it was necessary to revise the original budget upwards to £80.9M, to take account of additional resources being provided by the Scottish Government.

On a comparable basis, the actual net cost of General Fund services amounted to some £78.9M, while sources of finance were realised at £79.7M, including a contribution of £4.8M from reserves. Overall, this represents a surplus against budget for General Fund Services of £0.8M for the financial year ended 31 March 2009.

Council tax income contributed to this position, with the Islands Council maintaining its position as the top local authority for the collection of council tax in Scotland, with a collection rate of 97.4% in year (97.7% for 2007/08). At the same time it should be noted that the Council's policy is to provide in full for all prior year arrears, while on an ongoing basis expects to collect in excess of 99% of all prior year council tax income.

Income and Expenditure Account

The net cost of services provided by the Council for last year amounted to £81.5M, which after taking into account corporate activities resulted in a Net Operating Expenditure of £90.0M being realised for the Council as a whole.

Principal sources of finance were realised at £75.0M for the year, being Revenue Support Grant of £59.7M, Non Domestic Rate Income of £7.6M and Council Tax Income of £7.7M.

After taking into account the sources of finance, overall the activities of the Council returned a net deficit of £15.0M for the year.

The main source of this deficit can be attributed to losses in corporate investment income of £8.9M which were generated through the Harbour Authority's Strategic Reserve Fund.

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

Movement in General Fund Balances

During the year, General Fund Balances increased from £17.4M to £18.8M, being an increase of £1.4M.

This increase is represented by a surplus on general fund services of £0.8M and movement on earmarked balances of £0.6M. Existing policy is to use reserves each year to maintain the level of local authority services currently provided within the county, while keeping the council tax on or below the national average for all Scottish local authorities. The transfer of these funds forms part of a medium term financial strategy, and is intended to clarify the level of balances that are available to support General Fund Services and the Council Tax setting process, over the next five year period while recognising Scottish Governments commitment to freeze the council tax at 2007/08 levels.

After taking into account funds earmarked for specific projects and other purposes, a balance of £15.9M remains available for general fund purposes. At the same time, it is however considered prudent for the Council to maintain a general fund balance at a level not less than £8M, as a contingency for unforeseen events.

Net Worth of the Orkney Islands Council

The Council took the decision to refinance its capital financing requirement during the year, and commenced with a programme of borrowing while preferential market conditions existed.

As at 31 March 2009, the Islands Council carries a debt of £20m, while holding a significant level of reserves.

In financial terms, the Council remains in good health, despite its net worth decreasing from £314.9M to £283.1M for the financial year to 31 March 2009, being a decrease of £31.8M or 10.1%. This movement was largely the result of the banking crisis having an adverse impact on global financial markets, such that a significant fall in the value of investments has been recognised both in terms of strategic reserves and pension fund liabilities.

Harbour Authority Account

The Harbour Authority generated a trading loss of £3,038k from its various harbour operations for the year. This was mainly as a result of a downturn in the activity of the Scapa Flow Oil Port during the year including non recurring costs associated with a restructuring exercise.

In addition to this, the Harbour Authority Account generated a deficit on investment activities of £8,913k for the year, after netting off grants and other investment expenditure.

After taking into account the use of reserves during the year, which included a contribution of £4,177k to support general fund services, the net effect of this has been a decrease of £16,164k on the Harbour Authority Account Reserves for the year.

Orkney College

The range of higher and further educational activities provided by the College has resulted in a surplus of £166k being realised for last financial year (deficit £15k for 2007/08). After allowing for amounts required by statute and non statutory proper accounting practice, this resulted in a decrease in the accumulated deficit position on the College from £875k to £770k as at 31 March 2009.

The above figures include financial contributions from the Education Service of £250k to offset accumulated deficits and £36k from the Strategic Reserve Fund.

During the year an action plan was implemented, including staff redundancies.

Housing Revenue Account (HRA)

The HRA approved budget for the financial year 2008/09 included expenditure of £1,799k to be met from income generated on the year of £1,799k.

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

Capital Expenditure

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

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

Education

Orkney College - Trowel Trades Building
Stromness Academy Extension

Roads & Transportation

New Access Road into St Margaret's Hope

Recreation

Stromness Squash Club & Changing Rooms

Capital Expenditure for 2008/09 amounted to £12.0M, financed by internal borrowing £2.4M, capital and grant receipts £7.9M and revenue contributions £1.7M. Unapplied capital receipts decreased by £0.4M, from £3.2M to £2.8M.

To meet capital expenditure, the Islands Council as at 31 March 2009 now has a total internal borrowing requirement of £37.4M through the Loans Fund, borrowed against reserves and balances. The capital loan debt outstanding as at 31 March 2009 is in respect of General Fund Services only.

Pension Liability

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

In accordance with the FRS 17, the net pension fund liability as at 31 March 2009 is £20.206M. This represents an increase of £15.423M on the previous year, and is largely due to a significant fall in the value of investments which has been partly offset by the favourable movements in financial assumptions underlying the Present Value of the Scheme Liabilities.

The actuarial losses on the fund are regularly considered as part of a triennial revaluation process, with the last carried out for the Pension Fund as at 31 March 2008. At this time the actuarial valuation considered the appropriate level of employers contributions necessary for the three year period 2009/12, taking into account estimated revenues generated from investments in the future, to meet the fund's projected commitments in the long term. As a result the employers rate will see the implementation of a stepped increase from 17.4% in 2008 to 18.4% in 2009, rising to 20.4% in 2010 and 21.4% in 2011.

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
30 September 2009

Statement of Accounting Policies

General

The Statement of Accounts summarise the Council's transactions for the financial year 2008/09 and its position at the year end as at 31 March 2009. The Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom, using the historic cost convention modified by the revaluation of certain categories of assets. The Code of Practice has been developed by the CIPFA/LASAAC local authority SORP board. Any exceptions to the Code of Practice are disclosed in the notes to the Accounts.

Corporate and Democratic Core

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

Overheads

The costs of Central Support Services have been fully allocated using a time or unit based method of apportionment over the various accounts of the Authority after separately identifying the cost of Corporate and Democratic Core and Unapportioned Central Overheads in accordance with BVACOP. In 2008/09, £8.8M of Central Support Services were apportioned on this basis.

Accruals of Income and Expenditure

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

Pension Costs

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

Teachers

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

Other Employees

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

attributable assets of the scheme have been measured at fair value

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

scheme liabilities have been discounted at 3.8% in excess of inflation

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

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

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

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

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

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

The liabilities for retirement benefits as at 31 March 2009 have been assessed using a discount rate of 3.7% in excess of inflation, based on the current rate of return for high quality corporate bonds of equivalent currency and term to the scheme liabilities. When compared to a rate of 3.2% for the previous year. The increase in yield has had a positive impact on funding levels, reducing the liabilities by between 5% and 10%. Unfortunately, asset returns have not been so favourable with investment returns between -15% and -25% for the year to 31 March 2009. The actual asset returns has therefore had a negative impact on the FRS17 position, reducing funding levels between 10% and 20%. The overall position is a deterioration in the FRS deficit on the Pension Fund of £15.423M for the year. In summary, while poor investment returns have had an adverse effect on the FRS17 deficit for the year, this has been partly offset by the favourable movements in financial assumptions.

Grants

All Revenue Grants are matched with the expenditure to which they relate. Accruals have been made for balances known to be received for the period to 31 March 2009.

Capital Receipts

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

Stocks and Work in Progress

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

Tangible Fixed Assets

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

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

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

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

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

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

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

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

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

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

Depreciation

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

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

Infrastructure - each infrastructure asset has been individually assessed to derive outstanding useful life, up to a maximum of 60 years

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

Equipment - 5 years

Charges to Revenue for Fixed Assets

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

depreciation attributable to the assets used by the relevant service;

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

amortisation of intangible fixed assets attributable to the service.

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

Financial Assets

Financial assets are classified into two types:

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

for profit or loss assets - assets that are held for trading and have a quoted market price

Loans and Receivables

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Income and Expenditure Account for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable and interest credited to the Income and Expenditure Account is the amount receivable for the year in the loan agreement.

However, the council has made a number of loans to local businesses as part of its function to develop economic development at less than market rates (soft loans). When soft loans are made, a loss is recorded in the Income and Expenditure Account for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited at a marginally higher effective rate of interest than the rate receivable from the local businesses, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year - the reconciliation of amounts debited and credited to the Income and Expenditure Account to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Statement of Movement on the General Fund Balance.

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

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

For Profit or Loss Assets

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

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

instruments with quoted market prices - the market price

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

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

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

Loan Debt

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

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

The average rate of interest charged by the fund in 2008/09 based on returns generated by the Treasury Management function on cash flow balances were as follows:

Revenue Balances	3.95% (2007/08 5.26%)
Capital Balances	3.57% (2007/08 5.16%)

Reserves and Provisions

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

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

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

Provisions have been made for doubtful debts as follows:

Debt Outstanding 2-3 month – 10%
Debt Outstanding 4-6 month – 20%
Debt Outstanding 7-12 month – 30%
Debt Outstanding 2007/08 – 60%
Debt Outstanding 2006/07 – 80%
Debt Outstanding Pre 2006/07 - 100%

Harbour Authority Account Fund

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

Pension Reserve

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

Pension Fund Accounting Policies

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

Investments held by the Pension Fund are included at fair value. Overseas currencies are translated at the WM/Reuters London closing spot rates on the last business day of the reporting period, being 31 March 2009.

VAT

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

Foreign Currency Translation

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

Financial Relationship with Companies

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

Group Accounts

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

Changes in Accounting Policies

A review of the accounting arrangements for the Councils' investments was undertaken during the year. The outcome of this review was to reclassify those funds managed by external fund managers as financial assets held for "profit or loss", rather than "available for sale".

This change in accounting practice recognises that at least part of the managed funds are held primarily for the purposes of realising short-term profits, rather than the previous view that such investments were held individually for the longer term or until maturity.

The impact on the financial accounts of the authority has been to recognise in full an unrealised loss in value of £16.4M on the market value of these investments as at 31 March 2009, which has been partially offset by a prior year gain of £1.7M as at 31 March 2008.

As a result, it has been necessary to restate the prior year comparator figures accordingly.

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

THE AUTHORITY'S RESPONSIBILITIES

The authority is required :

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

THE DIRECTOR OF FINANCE'S RESPONSIBILITIES

The Director of Finance is responsible for the preparation of the authority's statement of accounts which, in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code of Practice'), is required to present fairly the financial position of the authority at the accounting date and its income and expenditure for the year ended 31 March 2009

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

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

The Director of Finance has also :

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

I confirm that this Statement of Accounts presents fairly the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2009.

A Tait, C.P.F.A., F.C.C.A.
Director of Finance
30 September 2009

Orkney Islands Council
Statement of Accounts-2008/2009

Income and Expenditure Account

PURPOSE

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

Income and Expenditure Account for year ended 31 March 2009

Restated 2007/08 Net Expenditure £'000		2008/09 Gross Expenditure £'000	2008/09 Gross Income £'000	2008/09 Net Expenditure £'000
25,837	Education	29,575	1,478	28,097
3,475	Cultural & Recreation	5,358	1,000	4,358
12,577	Community Social Services	19,987	5,104	14,883
1,769	Police Services	1,548	0	1,548
1,670	Fire Services	1,662	0	1,662
11,567	Roads and Transportation	13,761	573	13,188
1,487	Planning and Development	2,994	788	2,206
3,342	Environmental Services	4,802	969	3,833
1,911	Central Services	7,125	3,241	3,884
2,117	Corporate & Democratic Costs	2,387	25	2,362
350	Housing Services	5,221	4,265	956
1,000	Housing Revenue Account	2,931	1,855	1,076
452	Harbour Authority	9,293	7,219	2,074
116	Non Distributed Costs	0	(1,347)	1,347
1,112	Exceptional Items	0	0	0
68,782	Net Cost of Services	106,644	25,170	81,474
(398)	(Gain)/Loss on disposal of fixed assets			(77)
(10,190)	Net (Surplus)/Deficit on Harbour Investment Activities			8,913
15	Net (Surplus)/Deficit on Orkney College			(166)
(1,633)	Interest on Balances			(1,468)
(593)	Pensions Interest Cost & Expected Return on Pension Assets			0
1,873	Interest Payable and Similar Charges			1,288
57,856	Net Operating Expenditure			89,964
(51,714)	Revenue Support Grant			(59,754)
(7,149)	Distribution of Non-Domestic Rate Pool			(7,573)
(7,612)	Council Tax			(7,686)
(8,619)	(Surplus)/Deficit for Year			14,951

Orkney Islands Council
Statement of Accounts - 2008/2009

Statement of Movement on General Fund Balance

PURPOSE

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

- Capital investment is accounted for as it is financed, rather than when the fixed assets are consumed.
- Retirement benefits are charged as the amounts become payable to pension funds and pensioners, rather than as future benefits earned.

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

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

Statement of Movement on General Fund Balance as at 31 March 2009

	2008/09 £'000	Restated 2007/08 £'000
(Surplus)/Deficit for the Year on the Income and Expenditure Account	14,951	(8,619)
Net additional Amount required by statute and non-statutory proper practices to be debited or credited to the General Fund	<u>(16,305)</u>	7,105
(Increase)/Decrease in General Fund Balance for the year	(1,354)	(1,514)
General Fund Balance brought forward	(17,398)	(15,884)
GENERAL FUND BALANCE CARRIED FORWARD	(18,752)	(17,398)

Orkney Islands Council
Statement of Accounts-2008/2009

Statement of Total Recognised Gains and Losses

PURPOSE

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

Statement of Total Recognised Gains and Losses as at 31 March 2009

	2008/09	Restated
	£'000	2007/08 £'000
(Surplus)/Deficit for the year on the Income and Expenditure Account	14,951	(8,619)
(Surplus)/Deficit arising on revaluation of fixed assets	679	(806)
(Surplus)/Deficit arising from valuation of Financial Instruments	0	613
Actuarial (gains)/losses on pension fund assets and liabilities	16,205	(17,015)
TOTAL RECOGNISED (GAINS) AND LOSSES FOR THE YEAR	31,835	(25,827)

Orkney Islands Council
Statement of Accounts - 2008/2009

Balance Sheet

PURPOSE

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

Balance Sheet as at 31 March 2009

		31/03/09	Restated 31/03/08
		£'000	£'000
Fixed Assets			
Operational Assets			
Council Dwellings		14,418	14,975
Other Land and Buildings		95,318	93,906
Vehicles, Plant and Equipment		3,474	3,600
Infrastructure Assets		72,071	72,092
Community Assets		3,361	3,474
Non-Operational Assets			
Investment Properties		21,847	21,970
Assets Under Construction		419	2,676
Surplus Assets		3,127	649
TOTAL FIXED ASSETS	Note 10	214,035	213,342
Long-term Investments	Note 18	136,170	152,434
Long-term Debtors	Note 12	2,690	2,663
TOTAL LONG-TERM ASSETS		352,895	368,439
Stocks and Work in Progress	Note 13	645	745
Debtors	Note 14	6,342	5,745
Investments	Note 18	27,282	9,881
Cash and Bank	Note 15	9	8
CURRENT ASSETS		34,278	16,379
Creditors		7,987	8,348
Provisions	Note 16	0	1,112
Bank Overdraft	Note 15	44	638
Loan Debt	Note 15	20,000	0
Advances from Other Accounts	Note 15	1,305	1,034
CURRENT LIABILITIES		29,336	11,132
TOTAL ASSETS LESS CURRENT LIABILITIES		357,837	373,686
Net Pension Liability	Note 21	20,206	4,783
Government Grants Deferred	Note 19	54,553	53,990
LONG TERM LIABILITIES		74,759	58,773
TOTAL NET ASSETS		283,078	314,913
Represented by:			
Capital Reserves			
Revaluation Reserve		1,046	806
Capital Adjustment Account		103,201	105,241
Financial Instruments Adjustment Account		(542)	(613)
Capital Receipts Reserve		2,805	3,184
Capital Fund		2,820	2,531
		109,330	111,149
Revenue Reserves			
General Fund Balances		18,752	17,398
Harbour Authority Account Fund		166,450	182,614
Pension Reserve		(20,206)	(4,783)
Repairs and Renewals Fund		8,752	8,535
		173,748	203,764
TOTAL NET WORTH	Note 20	283,078	314,913

The unaudited accounts were issued on 30 June 2009 and the audited accounts were authorised for issue on 30 September 2009.

A Tait, C.P.F.A., F.C.C.A.
Director of Finance
30 September 2009

Orkney Islands Council
Statement of Accounts - 2008/2009

Cash Flow Statement

PURPOSE

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

Cash Flow Statement as at 31 March 2009

		2008/09		Restated 2007/08
		£'000	£'000	£'000
Revenue	Cash Outflows			
Activities	Cash paid to and on behalf of employees	59,247		56,817
	Other Operating Cash Payments	25,063		15,894
	Non Domestic Rates Payments - to pool	7,238		7,023
	Precepts Paid	1,915		1,775
	Housing Benefit paid out	<u>1,406</u>	<u>94,869</u>	<u>1,272</u> 82,781
	Cash Inflows			
	Housing Rents (net of rebates)	842		776
	Council Tax	9,750		9,696
	Non Domestic Rate Income - from national pool	7,573		7,149
	Non Domestic Rate Income - rate receipts	6,792		6,964
	Revenue Support Grant	59,754		51,714
	DWP Grants for Housing & Council Tax Benefit	3,215		3,209
	Other Government Grants (Note 26)	4,156		7,625
	Cash Received for Goods and Services	(1,303)		592
	Other Operating Cash Receipts		<u>90,779</u>	<u>0</u> 87,725
NET REVENUE ACTIVITIES (Note 22)			(4,090)	4,944
Returns on Investment and Servicing of Capital	Cash Outflows			
	Purchase of Harbour Investments	171,192		134,110
	Interest Paid	18		54
	Cash Inflows			
	Sale of Harbour Investments	175,888		128,334
	(Increase)/decrease in Harbour Cash Investments	(4,696)		5,776
	Interest Received	325		493
NET SERVICING OF CAPITAL			307	439
Capital Activities	Cash Outflows			
	Purchase of Fixed Assets	12,540		10,371
	Purchase of Long Term Investments	(2)		247
	Other Capital Cash Payments	<u>298</u>	<u>12,836</u>	<u>178</u> 10,796
	Cash Inflows			
	Sale of Fixed Assets	642		2,053
	Sale of Long Term Investments	6,000		45
	Other Capital Receipts	674		753
	Capital Grants Received	<u>7,027</u>	<u>14,343</u>	<u>3,212</u> 6,063
NET CASH INFLOW/(OUTFLOW) BEFORE FINANCING			1,507	(4,733)
Management of Liquid Resources	Net (Increase)/Decrease in Short Term Deposits (Note 24)		(17,401)	(518)
Financing	Cash Outflows			
	Repayment of Amounts Borrowed (Note 25)	(271)		374
	Cash Inflows			
	New Loans Raised	20,000		0
	New Short Term Loans	<u>0</u>	<u>20,271</u>	<u>0</u> (374)
INCREASE /(DECREASE) IN CASH (Note 23)			594	(242)

Orkney Islands Council Statement of Accounts - 2008/2009 Notes to Core Financial Statements
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1. Reconciling Items for the Statement of Movement in General Fund Balances

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

	2008/09	Restated 2007/08
	£'000	£'000
Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the year		
Depreciation and impairment of fixed assets	(11,152)	(11,777)
Government Grants Deferred amortisation	4,801	3,947
Net gain on sale of fixed assets	77	398
Grants and contributions applied to finance capital expenditure	327	483
Net charges made for retirement benefits in accordance with FRS 17	(5,218)	(4,672)
	(11,165)	(11,621)
Amounts not included in the Income and Expenditure Account but required by statute to be included when determining the Movement on the General Fund Balance for the year		
Loans fund principal repayments	1,809	2,006
Capital expenditure charged in-year to the General Fund Balance	1,689	1,795
Employers contributions payable to the Orkney Islands Council Pension Fund and retirement benefits direct to pensioners	6,000	5,006
	9,498	8,807
Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year		
Transfers to/(from) the Capital Fund	334	243
Transfers to/(from) the Repairs and Renewals Fund	1,192	1,152
Transfers to/(from) the Harbour Fund	(16,164)	8,524
	(14,638)	9,919
Net additional amount required to be credited to the General Fund balance for the year	(16,305)	7,105

2. Publicity Expenditure

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

Publicity expenditure was incurred as follows :-

	2008/09	2007/08
	£'000	£'000
Staff Recruitment Advertising	227	228
Other Advertising	121	101
Corporate Information Services	124	117
	472	446

<p>Orkney Islands Council Statement of Accounts - 2008/2009</p> <p>Notes to Core Financial Statements - (continued)</p>

3. Local Authorities (Goods and Services) Act 1970

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

	2008/09	2008/09	2007/08	2007/08
	Receipts	Payments	Receipts	Payments
	£'000	£'000	£'000	£'000
Orkney Housing Association	2	2	3	3
Northern Police Joint Board	5	4	1	3
Highlands and Islands Fire Joint Board	4	3	6	5
NHS Orkney	0	0	3	5
Historic Scotland	0	0	0	0
Orkney Islands Property Development	0	0	1	1
	11	9	14	17

4. Audit Fee

The fee payable to Audit Scotland in respect of external audit services undertaken in accordance with the Code of Practice is £211K (2007/08 £206K). No fees were paid in respect of other services provided by the appointed auditor.

5. Pensions (Teachers)

Teachers employed by the authority are members of the Teachers Pension Scheme, administered by the Scottish Public Pensions Authority. It provides teachers with defined benefits upon their retirement, and the authority contributes towards the costs by making contributions based on a percentage of members pensionable salaries.

In 2008/09 the Islands Council paid an employer's contribution of £1,557K to the Scottish Government in respect of teachers' pension costs, which represented 13.50% of teachers' pensionable pay. The figures for 2007/08 were £1,507K and 13.5%. There were no contributions remaining payable at the year end.

The scheme is a defined benefits scheme. Although the scheme is unfunded, Teachers Pensions use a notional fund as the basis for calculating the employers contribution rate paid by the local authority. However, it is not possible for the authority to identify a share of the underlying liabilities in the scheme attributable to its own employees. For the purposes of this Statement of Accounts it is therefore accounted for on the same basis as a defined contribution scheme.

In addition, the Islands Council is responsible for all pension payments relating to added years it has awarded, together with mandatory compensation and related increases. In 2008/09 these amounted to £270K representing 2.34% of pensionable pay. These benefits are fully accrued in the pensions liability described in note 21 to these accounts.

6. Local Government Pension Scheme

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

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

Income and Expenditure Account	2008/09	2008/09	2007/08	2007/08
	£'000	% of	£'000	% of
Amount charged to Operating Profit -		Payroll		Payroll
Service Cost	3,871	14.0	5,149	19.8
Past Service Costs	133	0.5	116	0.4
Curtailement and Settlements	1,214	4.4	0	0
Total Operating Charge	5,218	18.9	5,265	20.2
Amount credited to Other Finance Income -				
Expected Return on Corporate Assets	7,299	26.5	7,056	27.1
Interest on Pension Scheme Liabilities	(7,299)	(26.5)	(6,463)	(24.8)
Net Return on Assets	0	0.00	593	2.30
Net Revenue Account Cost	5,218	18.9	4,672	17.9

Included in the Statement of Movement on General Fund Balance is a transfer of £782K to the pension reserve. The net effect of these accounting entries is that expenditure met from government grants and local taxation equals the actual employers contributions made to the Scheme of £5,283K, representing 19.15% of pensionable pay.

Orkney Islands Council
Statement of Accounts - 2008/2009

Notes to Core Financial Statements - (continued)

6. Local Government Pension Scheme (continued)

In addition to the recognised gains and losses included in the income and expenditure account, actuarial losses of £16,205K were included in the Statement of Total Recognised Gains and Losses (a gain of £17,015K for 2007/08). The cumulative amount of actuarial losses recognised in the Statement of Total Recognised Gains and Losses is £296K.

The employer's contribution rate is determined by the Fund's Actuary based on triennial actuarial valuations. Under Pension Fund Regulations contributions rates are set to meet the overall liabilities of the Fund. The employer' rates are set to meet the overall liabilities of the Fund. The employer's contribution was 295% of the employee's contribution for 2008/09.

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 2008/09 these amounted to £522,994 representing 1.88% pensionable pay.

7. Members' Allowances and Officers' Emoluments

In May 2007, a new allowance scheme introduced the payment of salaries for members, replacing the previous allowance scheme. The total allowances paid to members for the year amounted to £445K being an increase of 35K on the previous year.

	2008/09	2007/08
Remuneration	£'000	£'000
Salaries	375	356
Expenses		
Travel, Accommodation and Subsistence	77	69
Telephones/Communications	9	1
Conferences and Seminars	5	0
Less Reimbursement from Other Bodies	(21)	(16)
Total Members Allowances	445	410

Reimbursement of expenses do not include the cost of council provided transport, training and development by in-house providers or insurance cover under the Council policy. The annual salary is subject to tax and national insurance.

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

	2008/09	2007/08
	Number of	Number of
	Employees	Employees
Remuneration Band		
£50,000 - £59,999	30	27
£60,000 - £69,999	11	9
£70,000 - £79,999	1	6
£80,000 - £89,999	4	0
£90,000 - £99,999	1	1

8. Related Parties

	Receipts	Payments	Receipts	Payments
	2008/09	2008/09	2007/08	2007/08
	£'000	£'000	£'000	£'000
Central Government				
Revenue Grants	59,754		51,714	
Being payments made in support of Revenue Expenditure				
Capital Grants	2,885		2,371	
Being payments made in support of Capital Expenditure				
Orkney Towage Company Limited				
Being payments made for the provision of Towage Services		3,338		2,672
Orkney Ferries Limited				
Being subsidy payments made in support of Ferry Services		6,715		5,317
Northern Police Joint Board		1,548		1,769
Highlands and Islands Fire Joint Board		1,662		1,670
Orkney and Shetland Valuation Joint Board		280		278
Being payments of annual requisition to Joint Boards				
Chief Officials				
Being advances and repayments of Car Loans	16	0	9	13
Orkney Islands Pension Fund				
Being payments of employers contributions in respect of employees		5,283		4,536

Orkney Islands Council
Statement of Accounts - 2008/2009

Notes to Core Financial Statements - (continued)

9. Exceptional Items

No exceptional items arose during the financial year 2008/09.

	2008/09	2007/08
	£'000	£'000
Staff Costs	0	1,112
	<u>0</u>	<u>1,112</u>

10. Fixed Assets

The following represents an analysis of fixed assets owned by the Islands Council at 31 March 2009

	Number of Items		Number of Items	
	31/03/09	31/03/09	31/03/08	31/03/08
		£000		£000
Council Dwellings				
Council Dwellings	755	14,418	759	14,975
	755	14,418	759	14,975
Operational Buildings				
Concert Halls and Theatres	1	332	1	347
Other Housing Properties	64	882	48	1,075
Depots and Workshops	65	6,748	81	5,456
Museums	2	760	2	786
Community/Day Centres	14	12,113	13	12,425
Sports Centres and Pools	2	1,583	2	1,567
Libraries	2	3,321	2	3,387
Schools	28	58,495	30	57,756
Office Buildings	13	8,150	16	8,739
Park and Amenity Properties	3	794	3	421
Miscellaneous :				
Public Conveniences	40	1,321	37	1,164
Refuse Sites	5	640	4	590
Quarries	2	179	2	193
	241	95,318	241	93,906
Infrastructure				
Sea Defences	16	204	16	230
Roads (Kilometres)	979	19,236	979	17,670
Piers and Harbours	54	51,535	54	52,277
Airfields	7	819	8	843
Car Parks	23	277	24	1,072
	1,079	72,071	1,081	72,092
Community Assets				
Cemeteries	41	185	41	215
Historic Buildings/Monuments	20	2,892	22	2,935
Parks	9	284	12	324
	70	3,361	75	3,474
Operational Equipment				
Computers	11	296	11	308
Mechanical Plant	158	990	143	626
Vehicles	235	1,501	236	2,017
Other Equipment	136	593	121	464
Ferries	12	94	12	185
	552	3,474	523	3,600
Non Operational Property				
Surplus Assets	51	3,127	17	649
Investment Properties	191	21,847	225	21,970
Assets Under Construction	2	419	3	2,676
	244	25,393	245	25,295
TOTAL	2,941	214,035	2,924	213,342

Orkney Islands Council
Statement of Accounts - 2008/2009

Notes to Core Financial Statements - (continued)

10. Fixed Assets (continued)

Fixed Asset Transactions

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

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

	Council	Land &		Community	Plant &	Non	
	Dwellings	Buildings	Infrastructure	Assets	Vehicles	Operational	Total
	£'000	£'000	£'000	£'000	£'000	£000	£'000
Gross Book Value	16,688	116,842	105,420	4,789	25,550	25,588	294,877
Aggregate Depreciation	1,713	22,936	33,328	1,315	21,950	293	81,535
Net Book Value at 1 April 2008	14,975	93,906	72,092	3,474	3,600	25,295	213,342
Additions	1,001	4,823	2,794	15	1,772	1,622	12,027
Disposals	(102)	(174)	0	(11)	2	(193)	(478)
Revaluation and restatements	0	614	43	(38)	0	(323)	296
Reclassifications	0	0	0	0	0	0	0
Depreciation	(530)	(2,383)	(2,803)	(64)	(1,369)	(154)	(7,303)
Impairments	(926)	(1,468)	(55)	(15)	(531)	(854)	(3,849)
Net Book Value at 31 March 2009	14,418	95,318	72,071	3,361	3,474	25,393	214,035

Valuation of Fixed assets carried at current value

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

	Council	Land &		Community	Plant &	Non	
	Dwellings	Buildings	Infrastructure	Assets	Vehicles	Operational	Total
	£'000	£'000	£'000	£'000	£'000	£000	£'000
Valued at historic cost			72,071	3,361	3,474		78,906
Current NBV of assets in:							
31 March 2009							
31 March 2008							
31 March 2007						25,393	25,393
31 March 2006	14,418						14,418
31 March 2005		95,318					95,318
Total	14,418	95,318	72,071	3,361	3,474	25,393	214,035

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

Assets Employed

The net book value of assets employed as at 31 March 2009 can be broken down as follows:

	2008/09	2007/08
	£'000	£'000
Assets employed by the General Fund	116,550	114,912
Assets employed by the Housing Revenue Account	14,964	15,237
Assets employed by Harbour Fund	75,188	75,900
Assets employed by Orkney College	7,333	7,293
Total Assets Employed	214,035	213,342

Sources of Finance for Fixed Assets Acquired

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

	2008/09	2007/08
	£'000	£'000
Loans	2,405	4,236
Capital Receipts	2,406	1,814
Grant Receipts	5,527	2,855
CFCR	1,689	1,795
	12,027	10,700

10. Fixed Assets (continued)

Commitments Under Capital Contracts

The following significant contracts for capital investment have been entered into by the Islands Council and extend beyond 31 March 2009 :

Project Name	Purpose	Approx. Value £'000	Anticipated Completion
Stromness Academy	School Extension	984	December - 2009
Orkney College	Trowel Trades Building	152	May - 2009
St Margaret's Hope	New Access Road	273	September - 2009
Stromness Squash Court	Extension / Upgrade	94	May - 2009

11. Leases

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

	2008/09 £'000	2007/08 £'000
Asset Value	14,266	13,601
Rental Income	1,016	1,186

During the year £412K of properties were constructed or acquired for this purpose.

The value of rental income generated from these activities amounted to £1,106K for the year.

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

12. Long Term Debtors

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

	2008/09 £'000	2007/08 £'000
Housing Loans	187	221
Car Loans	47	78
Harbours	2,456	2,364
	2,690	2,663

13. Stocks and Works In Progress

	2008/09 £'000	2007/08 £'000
Stocks		
General Fund	474	566
Harbours	171	179
	645	745
Work in Progress		
General Fund	0	0

14. Debtors and Creditors

Debtors are shown net of bad debt provision, and represents the net amount due to the Council as at 31 March 2009.

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 2009 the Bad Debt Provision has increased from £1,086,000 to £1,226,000 being an increase of £140,000 on the year.

Creditors represent amounts due by the Council as at 31 March 2009.

15. Loan Debt

	2008/09 £'000	2007/08 £'000
Short Term : Bank Overdraft	44	638
Cash In Hand	(9)	(8)
Loan Debt	20,000	0
Advances from Other Accounts	1,305	1,034
	21,340	1,664

Orkney Islands Council
Statement of Accounts - 2008/2009

Notes to Core Financial Statements - (continued)

16. Provisions

The following movements in provisions were made during the year.

	2008/09			2007/08
	31/03/09	31/03/08	Movement	Movement
	£'000	£'000	£'000	£'000
Provision in respect of Single Status	0	1,112	(1,112)	1,112
	0	1,112	(1,112)	1,112

17. Net Assets Employed

The value of net assets employed as at 31 March 2009 are analysed as follows :

	2008/09	2007/08
	£'000	£'000
General Fund	47,453	58,643
Harbour Fund	220,834	241,082
Housing Revenue Account	14,791	15,188
	283,078	314,913

18. Investments

The investments shown in the consolidated balance sheet consist of a number of individual funds, each valued at fair value. The following is a summary of the investments held by the Islands Council as at 31 March 2009:

	Market	Restated
	Value	Market
	2008/09	2007/08
	£'000	£'000
Investments		
Long Term		
Bonds and Equities	114,790	134,526
Land and Buildings	0	0
Private Companies	662	962
Fishing Quota	1,240	1,208
Deposits	19,045	14,323
Miscellaneous	433	1,415
	136,170	152,434
Short Term		
Cash Deposits	27,282	9,881

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

	Orkney Cheese Company Ltd	Orkney Herring Company Ltd	Orkney Towage Company Ltd	Weyland Farms Ltd	Orkney Ferries Ltd	Orkney Meat Ltd
Principal Activity	Food Processing	Food Processing	Tug Operation	Mixed Farming	Sea Transport	Meat Processing
Shares Held	10%	33%	100%	100%	100%	38%
	£'000	£'000	£'000	£'000	£'000	£'000
Investments Less Provision	100	0	501	0	0	61
Net Assets	4,739	(233)	5,350	76	(525)	948
Profit/(Loss) After Tax	139	(224)	1,851	86	(30)	(66)
Profit/(Loss) Before Tax	168	(224)	1,851	88	0	(69)
2007/08						
Net Assets	4610	(10)	(1,720)	10	32	1,013
Profit/(Loss) After Tax	189	(309)	(1,436)	(33)	(26)	67
Profit/(Loss) Before Tax	218	(309)	(1,436)	(33)	0	70

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

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

A dividend of 10p per share (£2,721.33) was received from Orkney Meat during the year.

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

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

18. Investments (continued)

During the year the Islands Council's Reserve Fund loan to Weyland Farms Limited was repaid in full. The Islands Council is committed to ensure an orderly winding up of the Company should it cease trading and will ensure that all bona fide creditors are paid in full.

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

Orkney Cheese Company Limited, Crowness Road, Hatston Industrial Estate, Kirkwall, Orkney, KW15 1RG

Orkney Herring Company Limited, Garson Industrial Estate, Stromness, KW16 3JN

Orkney Towing Company Limited, School Place, Kirkwall, Orkney, KW15 1NY

Weyland Farms Limited, School Place, Kirkwall, Orkney, KW15 1NY

Orkney Ferries Limited, Shore Street, Kirkwall, Orkney, KW15 1LG

Orkney Meat Limited, Grainshore Road, Hatston Industrial Estate, Kirkwall, Orkney, KW15 1FL

19. Government Grants - Deferred Account

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

	Gross Receipts £000	Grants Applied £000	Net Balance £000
Balance at 1 April 2008	76,118	22,128	53,990
Add Grant Receipts	5,690	0	5,690
Add Grants Deferred Adjustment	(328)	0	(328)
Less Grant Applied	0	4,799	(4,799)
Balance at 31 March 2009	81,480	26,927	54,553

20. Summary of Statement of Reserves

The following table provides a detailed analysis of the Reserves held by the Islands Council as at 31 March 2009 :

	Balance at 31/3/09 £'000	Gain/(Loss) £'000	Transfers £'000	Restated Balance at 31/3/08 £'000
Capital Reserves				
Revaluation Reserve	1,046	240		806
Capital Adjustments Account	103,201	(2,040)		105,241
Financial Instruments Adjustment Account	(542)	71		(613)
Capital Receipts Reserve	2,805	(379)		3,184
Capital Fund	2,820	289		2,531
	109,330	(1,819)	0	111,149
Revenue Reserves				
General Fund Balances :				
General Fund	15,941	846		15,095
Modernising Government Fund	17	0		17
Corporate Development Fund	40	(36)		76
Modernising Teachers Fund	53	(15)		68
Community Council	274	64		210
Devolved School Management Fund	111	(56)		167
Orkney College	(770)	105		(875)
Single Status Fund	1,545	(55)		1,600
ALCO Development Fund	365	234		131
Training Fund	190	89		101
Efficiency & Reform Fund	0	(567)		567
Energy Advice Centre Transitional Fund	8	(13)		21
Masterplans Studies Fund	0	(140)		140
Energy Efficiency Fund	84	4		80
Care Facility Fund	421	421		0
Shared Services Fund	163	163		0
Spend to Save Fund	310	310		0
	18,752	1,354	0	17,398
Repairs and Renewals Fund	8,752	217		8,535
Harbour Authority Account	166,450	(16,164)		182,614
Pension Reserve	(20,206)	(15,423)		(4,783)
	173,748	(30,016)	0	203,764
TOTAL RESERVES	283,078	(31,835)	0	314,913

20. Summary of Statement of Reserves (continued)

DESCRIPTION OF RESERVES

Capital

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

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

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

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

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

Revenue

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

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

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

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

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

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

The Orkney College deficit represents the balance of College losses.

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

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

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

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

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

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

The Care Facility Fund represents general balances earmarked to provide for future running costs of a new elderly care facility.

The Shared Services Fund represents general balances earmarked for the development of joint working initiatives.

The Spend to Save Fund represents general balances earmarked as part of a programme of efficiency measures.

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

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

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

21. Pension Assets and Liabilities

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

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

Assets and liabilities in relation to retirement benefits

Reconciliation of present value of scheme liabilities:

	31/3/2009	31/03/2008
	£'000	£'000
Opening Defined Benefit Obligation	104,573	117,460
Current Service Cost	3,871	5,149
Interest Cost	7,299	6,463
Contributions by Members	1,710	1,584
Actuarial Losses / (Gains)	(10,319)	(23,832)
Past Service Costs / (Gains)	133	116
Losses / (Gains) on Curtailments	1,214	0
Estimated Unfunded Benefits Paid	(717)	(470)
Estimated Benefits Paid	(3,609)	(1,897)
 Closing Defined Benefit Obligation	 104,155	 104,573

Reconciliation of fair value of employer assets:

	31/3/2009	31/03/2008
	£'000	£'000
Opening Fair Value of Employer Assets	99,790	95,328
Expected return on Assets	7,299	7,056
Contributions by Members	1,710	1,584
Contributions by the Employer	5,283	4,536
Contribution in respect of Unfunded Benefits	717	470
Actuarial Gains / (Losses)	(26,524)	(6,817)
Estimated Unfunded Benefits Paid	(717)	(470)
Estimated Benefits Paid	(3,609)	(1,897)
 Closing Fair Value of Employer Assets	 83,949	 99,790

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual return on scheme assets in the year was a loss of £19,127K (2007/08 a gain of £239K)

Scheme History	31/3/2009	31/03/2008	31/3/2007	31/03/2006	31/3/2005
	£'000	£'000	£'000	£'000	£'000
Fair Value of Employer Assets	83,949	99,790	95,330	87,612	68,454
Present Value of Defined Benefit Obligation	(104,155)	(104,573)	(117,462)	(117,036)	(93,684)
Surplus / (Deficit)	(20,206)	(4,783)	(22,132)	(29,424)	(25,230)

The liabilities show the underlying commitment that the authority has in the long run to pay retirement benefits. The total liability of £20,206K has a significant on the net worth of the authority as recorded in the Balance Sheet, however statutory arrangements for funding a deficit mean that the financial position of the authority remains healthy. The deficit on the local government pension scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.

The total contributions expected to be made to the local government pension scheme by the council in the year to 31 March 2010 is £4,839K.

21. Pension Assets and Liabilities (continued)

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The Islands Council Fund liabilities have been assessed by Hymans Robertson, an independent firm of actuaries, estimates for the Local Government Pension Scheme being based on the full valuation of the scheme as at 1 April 2008.

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

The principal assumptions used by the actuary have been:

	31/3/2009	31/03/2008
Long-term expected rate of return on assets in the scheme:		
Equities	7.0%	7.7%
Bonds	5.4%	5.7%
Property	4.9%	5.7%
Cash	4.0%	4.8%
Mortality assumptions:		
Longevity at 65 for current pensioners:		
Men	20.7 years	20.7 years
Women	23.8 years	23.8 years
Longevity at 65 for future pensioners:		
Men	22.0 years	22.0 years
Women	25.0 years	25.0 years
Inflation / Pension Increase Rate	3.1%	3.6%
Salary Increase Rate	4.6%	5.1%
Expected Return on Assets	6.5%	7.2%
Discount Rate	6.9%	6.9%
Take-up Option to Convert Annual Pension into Retirement Lump Sum	50.0%	50.0%

The liabilities for retirement benefits as at 31 March 2009 have been assessed using a discount rate of 3.7% in excess of inflation, based on the current rate of return for high quality corporate bonds of equivalent currency and term to the scheme of liabilities. When compared to a rate of 3.2% for the previous year, this represents a significant change reducing some 5-10% to projected scheme liabilities. Unfortunately, asset returns for the whole fund have not been so favourable at around -15% to -25 for the year to 31 March 2009. As a result poor investment returns have been partly offset by favourable movements in financial assumptions. The overall position has increased the FRS deficit on the Pension Fund by £15.333M for the year.

The Pension Fund assets attributable to the Orkney Islands Council consists of the following categories, by proportion of the total assets held:

	31/3/2009	31/03/2008
	%	%
Equities	70.0	76.0
Bonds	26.0	17.0
Property	0.0	0.0
Cash	4.0	7.0
Total	100.0	100.0

History of Experience Gains and Losses

The actuarial gains identified as movements on the pension reserve in 2008/09 can be analysed into the following categories, measured as a percentage of assets or liabilities as at 31 March 2009:

	31/3/2009	31/03/2008	31/3/2007	31/03/2006	31/3/2005
	%	%	%	%	%
Differences Between the Expected and Actual Return on Assets	(31.6)	(6.8)	(2.5)	16.7	3.8
Experience Gains and Losses on Liabilities	(0.1)	0.7	0.1	(4.1)	(0.2)

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

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

	2008/09	Restated 2007/08
	Total	Total
	£'000	£'000
Operating Surplus/(Deficit) for Year	1,354	1,514
Non Cash Transactions		
Contributions to Reserves	(14,331)	(5,068)
Adjustments not Involving the Movement of Funds	9,689	4,186
Contributions to Capital	2,002	3,056
Increase/(Decrease) in Bad Debt Provision	140	(255)
	<u>(1,146)</u>	<u>3,433</u>
Items on an Accruals Basis		
(Increase)/Decrease in Stock and Work in Progress	100	(24)
(Increase)/Decrease in Debtors	(2,084)	(395)
Increase/(Decrease) in Creditors	(960)	1,930
	<u>(2,944)</u>	<u>1,511</u>
Cash Outflow from Revenue Activities	(4,090)	4,944

23. Movement in Cash

	2008/09			2007/08
	31/03/09	31/03/08	Movement	Movement
	£'000	£'000	£'000	£'000
Bank Overdraft	(44)	(638)	594	(243)
Cash	9	9	0	0
Increase/(Decrease) in Cash	(35)	(629)	594	(243)

24. Reconciliation of Liquid Resources

	2008/09			2007/08
	31/03/09	31/03/08	Movement	Movement
	£'000	£'000	£'000	£'000
Temporary Lending	27,282	9,881	17,401	518

25. Reconciliation of Financing

	2008/09			2007/08
	31/03/09	31/03/08	Movement	Movement
	£'000	£'000	£'000	£'000
Revenue Advances from Common Good, Charities and Trusts	(1,305)	(1,034)	(271)	374

26. Analysis of Government Grants

	2008/09	2007/08
	£'000	£'000
Other Education Grants	576	993
National Priorities Action Fund	0	1,537
Other Miscellaneous Grants	1,637	449
Homelessness Strategy	0	334
Community Social Services - Specific Training	124	361
Supporting People	0	616
Mental Illness Specific Grant	0	133
Offender Services	28	5
Strategic Waste Fund	7	296
Scottish Funding Council for Further Education	1,741	1,580
Transport - Rural Initiative	43	1,321
Total Government Grants Per Cash Flow Statement	4,156	7,625

27. Loan Debt

The Council has externalised its capital financing requirement by means of borrowing from the UK Debt Management Office as follows:-

	2008/09	2007/08
	£'000	£'000
1 Year	20,000	0
3-5 Years	0	0
5-10 Years	0	0
10-20 Years	0	0
20-30 Years	0	0
Total	20,000	0

28. Date of Accounts Authorised for Issue

The Director of Finance and Housing, being the proper officer for the financial administration of the Islands Council, signed the Annual Accounts on 30 September 2009. Events after the 31 March 2009, being the date of the Balance Sheet, and up until the date of signing have been considered.

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Notes to Core Financial Statements - (continued)

29. Note to the Accounts on Financial Instrument Balances

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

	Long-Term		Current	
	31 March 2008	31 March 2009	31 March 2008	31 March 2009
	£'000	£'000	£000	£'000
Financial liabilities at amortised costs	0	0	0	20,000
Financial liabilities at fair value through profit and loss	0	0	0	0
TOTAL BORROWINGS	0	0	0	20,000
Loans and receivables	2,663	2,690	9,881	27,282
For profit or loss financial assets	151,019	135,737	0	0
Unquoted equity investment at cost	1,415	433	0	0
TOTAL INVESTMENTS	155,097	138,860	9,881	27,282

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

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

	Financial Liabilities	Financial Assets	Total
	Liabilities measured at amortised cost	Loans and Receivables	
	£'000	£'000	£'000
Interest expense	0	0	0
Losses on derecognition	0	0	0
Impairment losses	0	0	0
INTEREST PAYABLE AND SIMILAR CHARGES	0	0	0
Interest income	0	0	0
Gains on derecognition	0	0	0
INTEREST AND INVESTMENT INCOME	0	0	0
Gains on revaluation	0	0	0
Losses on revaluation	0	0	0
Amounts recycled to the Income and Expenditure Account after impairment	0	71	71
SURPLUS/(DEFICIT) ARISING ON REVALUATION OF FINANCIAL ASSETS	0	71	71
NET GAIN/(LOSS) FOR THE YEAR	0	71	71

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

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

Estimated interest rates at 31 March 2009 of 5.5% for loans receivable and payable

No early repayment or impairment is recognised

Where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value

The fair value of trade and other receivables is taken to be the invoiced or billed amount

The fair values calculated are as follows:

	31 March 2008		31 March 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£'000	£'000	£'000	£'000
Financial Liabilities	0	0	20,000	19,342

The fair value of the financial instruments are lower than the carrying amount due to the fact that the authority's portfolio of loans includes a number of fixed rate loans on where the interest rate payable is lower than the prevailing rates at the balance sheet date.

Loans and receivables	3,276	2,663	3,232	2,690
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The fair value of the financial instruments are lower than the carrying amount due to the fact that the authority's portfolio of investments includes a number of loans on interest free terms.

32. Nature and Extent of Risks Arising from Financial Instruments

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

credit risk - the possibility that other parties might fail to pay amounts due to the authority

liquidity risk - the possibility that the authority might not have funds available to meet its commitments to make payments

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

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

Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposure to the authority's customers. Deposits are not made with banks and financial institutions unless they are rated independently with minimum score of A1/P1/F1 short term debt ratings with Moodys, Standard & Poors or Fitch. The authority has a policy of not lending more than £10M of its surplus balances to individual institutions at any one time.

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

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

	Amount at 31 March 2009	Historic Experience of Default	Historic Adjusted for Market Conditions at 31 March 2009	Estimated Maximum Exposure to Default and Uncollectability
	£000	%	%	£000
Deposits with banks and financial institutions	27,282	0.01	0.01	3
Local Authorities	0	0.01	0.01	0
Trade Debtors	7,568	5.00	16.2	1,226
	34,850			1,229

Trade debtors of £7,568K are stated before any provision for default and uncollectability. A provision for this purpose amounting to £1,226K has been set aside for this purpose.

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

The authority does not generally allow credit for customers, such that £1,754K of the £3,320K balance is past its due date for payment. The past due amount can be analysed by age as follows:

	£000	£000
	31 March 2008	31 March 2009
Less than three months	345	389
Three to six months	208	178
Six months to one year	185	172
More than one year	791	1015
	1,529	1,754

Liquidity Risk

As the authority maintains a temporary loans portfolio, with lending of surplus funds on the money markets as an integral part of its day to day cash flow management activities, there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. In addition, the authority has ready access to borrowings from the money markets and the debt management office.

Market Risk

Interest rate risk

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

borrowings at variable rates - the interest expense charged to the Income and Expenditure Account will rise.

borrowings at fixed rates - the fair value of the liabilities borrowings will fall.

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

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

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Income and Expenditure account or STRGL. However, changes in interest receivable on variable rate investments will be posted to the Income and Expenditure Account and affect the General Fund Balance £ for £. Movements in fair value of fixed rate investments will be reflected in the STRGL.

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

According to this assessment strategy, at 31 March 2009, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	2007/08	2008/09
	£'000	£'000
Increase in interest payable on variable rate borrowings	0	0
Increase in interest receivable on variable rate investments	(242)	(463)
Increase in government grant receivable for financing costs	0	0
Impact on Income and Expenditure Account	(242)	(463)
Share of overall impact debited to the HRA	0	0
Decrease in fair value of fixed rate investment assets	74	71
Impact on STRGL	0	0
Decrease in fair value rate borrowings liabilities (no impact on I&E Account or STRGL)	74	71

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

Price Risk

The authority held £117,125K of investments as at 31 March 2009 in the form of equity shares and bonds, including £433K in a number of joint ventures and in local industry. The authority is consequently exposed to losses arising from movement in the price of the shares.

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

These clearly defined shares are all classified as 'for profit or sale', meaning that all movements in price will impact directly on the income and expenditure account. A general shift of 5% in the general price of shares (positive or negative) would have resulted in a £5,856K gain or loss being recognised in the income and expenditure account.

Foreign Exchange Risk

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

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Harbour Authority Account

PURPOSE

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

This statement shows:

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

Income and Expenditure Account for year ended 31 March 2009

	2008/09 Expenditure £'000	2008/09 Income £'000	2008/09 Net Expenditure £'000	Restated 2007/08 Net Expenditure £
Scapa Flow Oil Port	6,691	4,700	1,991	1,696
Miscellaneous Piers and Harbours	2,511	2,432	79	(1,236)
Oil Pollution Account	91	87	4	(8)
NET COST OF HARBOUR SERVICES	9,293	7,219	2,074	452
(Gain) or Loss on sale of Harbour fixed assets	0	0	0	0
Interest payable and similar charges	24	0	24	119
Pensions interest cost and expected return on pension assets	0	0	0	(44)
(SURPLUS)/DEFICIT FOR THE YEAR ON HARBOUR SERVICES	9,317	7,219	2,098	527

Statement of Movement on Harbour Authority Account Fund Balance as at 31 March 2009

	2008/09 £'000	2007/08 £'000
(Surplus)/Deficit for the Year on the Income and Expenditure Account	2,098	527
Net additional Amount required by statute and non-statutory proper practices to be debited or credited to the Harbour Authority Account Fund	940	69
(INCREASE)/DECREASE IN HARBOUR AUTHORITY ACCOUNT FUND BALANCE	3,038	596

HARBOUR AUTHORITY ACCOUNT INVESTMENT SUMMARY

Income Receivable

Net (Surplus)/Deficit on Harbour Investment Activities	-8,991	12,913
Rents	1,021	1,215
Interest on Revenue Balances	533	780
Other	0	0
	(7,437)	14,908

Expenditure

Payments of Grants	1,192	4,443
Other	284	275
	1,476	4,718

NET RETURN ON INVESTMENT ACTIVITIES	(8,913)	10,190
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Appropriations :

Deficit on Harbour Authority activities	(3,038)	(596)
Transfer to General Fund	(4,177)	(325)
Transfer to Orkney College	(36)	
Transfer to Capital Financing Account	0	(745)

NET INCREASE IN FUND DURING THE YEAR	(16,164)	8,524
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Orkney Islands Council Statement of Accounts - 2008/2009 Harbour Authority Account - (continued)

Represented by :	Restated Balance at 31/03/2008 £'000	Net Movement £'000	Balance at 31/03/2009 £'000
Strategic Reserve Fund	132,014	(15,541)	116,473
Flotta Terminal Decline and Decommissioning Fund	43,341	(2,222)	41,119
Conservation Fund	185	1	186
Talented Performers Fund	55	2	57
Travel Fund	93	(1)	92
Fisheries Fund	5,122	367	5,489
Orkney Memorial Fund	648	19	667
Talented Young Persons Fund	35	(2)	33
Miscellaneous Piers Vessel Reserve Fund	1,121	(813)	308
Renewable Energy Fund	0	2,026	2,026
TOTAL	182,614	(16,164)	166,450

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

	2008/09 £'000	2007/08 £'000
Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the Harbour Authority Account Fund Balance for the year		
Depreciation and impairment of fixed assets	(2,091)	(2,342)
Government Grants Deferred amortisation	1,541	1,442
Net gain on sale of fixed assets	0	0
Net charges made for retirement benefits in accordance with FRS 17	(441)	(340)
	(991)	(1,240)
Amounts not included in the Income and Expenditure Account but required by statute to be included when determining the Movement on the Harbour Authority Fund Account Balance for the year		
Loans fund principal repayments	0	434
Capital expenditure funded by the Harbour Authority	1,247	512
Employers contributions payable to the Orkney Islands Council Pension Fund and retirement benefits direct to pensioners	684	363
	1,931	1,309
Net additional amount required to be credited to the Harbour Authority Account Fund balance for the year	940	69

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

Fund Manager	Type	Value £(M)	Performance (%)	Benchmark (%)
Prudential	Cash and Bonds	51.60	3.43	7.05
Schroders	Cash and Bonds	43.80	6.30	5.60
Schroders	Equities	38.60	-25.20	-29.30
TOTAL FUNDS		134.00		

The movement on the Harbour Authority Account managed funds represents a loss of £8.7M for the year.

Orkney Islands Council
Statement of Accounts-2008/2009
Orkney College of Further Education

PURPOSE

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

Income and Expenditure Account for year ended 31 March 2009

	2008/09 £'000	2007/08 £'000
EXPENDITURE		
Staff Costs	2,708	2,540
Property Costs	335	318
Supplies and Services	767	705
Transport Costs	133	111
Administration Costs	124	111
Apportioned Costs	46	43
Depreciation and impairment of fixed assets	55	53
TOTAL EXPENDITURE	4,168	3,881
INCOME		
Grants	3,221	2,995
Fees and Charges	1,093	864
Other Income	22	7
TOTAL INCOME	4,336	3,866
NET COST OF ORKNEY COLLEGE PER AUTHORITY INCOME AND EXPENDITURE ACCOUNT	(168)	15
Interest payable and similar charges	0	0
Pensions interest cost and expected return on pension assets	0	(29)
(SURPLUS)/DEFICIT FOR THE YEAR ON ORKNEY COLLEGE SERVICES	(168)	(14)

Statement of Movement on Orkney College Balance as at 31 March 2009

	2008/09 £'000	2007/08 £'000
(Surplus)/Deficit for the Year on the Income and Expenditure Account	(168)	(14)
Net additional Amount required by statute and non-statutory proper practices to be debited or credited to the Orkney College Balance	63	(34)
(Increase)/Decrease in the Orkney College Balance	(105)	(48)
Orkney College deficit brought forward	875	923
ORKNEY COLLEGE DEFICIT CARRIED FORWARD	770	875

Orkney Islands Council Statement of Accounts - 2008/2009 Orkney College of Further Education - (continued)

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

	2008/09	2007/08
	£'000	£'000
Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the Orkney College Balance for the year		
Depreciation and impairment of fixed assets	(173)	(164)
Government Grants Deferred amortisation	118	111
Net charges made for retirement benefits in accordance with FRS 17	(208)	(224)
	<u>(263)</u>	<u>(277)</u>
Amounts not included in the Income and Expenditure Account but required by statute to be included when determining the Movement on the Orkney College Balance for the year		
Loans fund principal repayments	0	0
Capital expenditure funded by the Orkney College	3	16
Employers contributions payable to the Orkney Islands Council Pension Fund and retirement benefits direct to pensioners	323	227
	<u>326</u>	<u>243</u>
Net additional amount required to be (credited) or debited to the Orkney College Balance for the year	63	(34)

Orkney Islands Council
Statement of Accounts-2008/2009
Housing Revenue Account

PURPOSE

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

Income and Expenditure Account for year ended 31 March 2009

	2008/09	2007/08
	£'000	£'000
EXPENDITURE		
Repairs and maintenance	789	735
Supervision and management	643	613
Depreciation and impairment of fixed assets	1,471	1,422
Increase in bad debt provision	8	24
Other expenditure	20	13
TOTAL EXPENDITURE	2,931	2,807
INCOME		
Dwelling rents (gross)	1,777	1,720
Non-dwelling rents (gross)	16	16
Other Income	62	71
TOTAL INCOME	1,855	1,807
NET COST OF HRA SERVICES PER AUTHORITY INCOME AND EXPENDITURE ACCOUNT		
	1,076	1,000
(Gain) or Loss on sale of HRA fixed assets	(110)	(146)
Interest receivable and similar credits	(53)	(75)
Pensions interest cost and expected return on pension assets	0	(6)
(SURPLUS)/DEFICIT FOR THE YEAR ON HRA SERVICES	913	773

Statement of Movement on HRA Balance as at 31 March 2009

	2008/09	2007/08
	£'000	£'000
(Surplus)/Deficit for the Year on the Income and Expenditure Account	913	773
Net additional Amount required by statute and non-statutory proper practices to be debited or credited to the HRA Balance	(913)	(773)
HRA BALANCE CARRIED FORWARD	0	0

Orkney Islands Council
Statement of Accounts - 2008/2009
Housing Revenue Account - (continued)

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

	2008/09	2007/08
	£'000	£'000
Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the HRA Balance for the year		
Depreciation and impairment of fixed assets	(1,474)	(1,437)
Government Grants Deferred amortisation	3	15
Gain/(Loss) on sale of HRA fixed assets	110	146
Net charges made for retirement benefits in accordance with FRS 17	(33)	(47)
	(1,394)	(1,323)
Amounts not included in the Income and Expenditure Account but required by statute to be included when determining the Movement on the HRA Balance for the year		
Capital expenditure funded by the HRA	430	499
Employers contributions payable to the Orkney Islands Council Pension Fund and retirement benefits direct to pensioners	51	51
	481	550
Net additional amount required to be (credited) or debited to the HRA Balance for the year	(913)	(773)

2. Housing Stock

The numbers and types of dwellings included in the Council's Housing Stock as at 31 March 2009 are as follows:

	2008/09	2007/08
	Number of Dwellings	Number of Dwellings
1 Apartment	38	42
2 Apartment	282	278
3 Apartment	225	227
4 Apartment	196	199
5 Apartment	14	14
	755	760

3. Rent Arrears

	2008/09	2007/08
	£	£
Dwelling Arrears	78,193	86,994
Non Dwelling & Other Arrears	57,163	50,695
	135,356	137,689
Number of Tenants in Arrears	89	102

4. Provision for Bad Debts

	2008/09	2007/08
	£	£
Dwelling Arrears	46,189	44,694
Non Dwelling & Other Arrears	35,076	28,295
	81,265	72,989

Orkney Islands Council
Statement of Accounts - 2008/2009
Council Tax Income Account

PURPOSE

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

	2008/09 £'000	2007/08 £'000
Gross Council Tax Levied	9,084	8,921
Less Relieved, Remitted and Written Off	(1,150)	(1,108)
NET COUNCIL TAX DUE FOR YEAR	7,934	7,813
Reduced Discount on Second Homes	(181)	(165)
Provision for Bad Debts	(31)	(3)
Council Tax Benefit (Net of Government Grants)	0	0
NET CURRENT YEAR COUNCIL TAX INCOME	7,722	7,645
PRIOR YEARS' COUNCIL TAX		
Adjustments to Charges	10	(16)
Reduction Previous Years Council Tax Liability	(46)	(17)
COMMUNITY CHARGE		
Adjustments to Charges	0	0
TRANSFER TO INCOME AND EXPENDITURE ACCOUNT	7,686	7,612

1. Details of Charges Levied

	2008/09 £	2007/08 £
Council Tax - Band D - General Rate	1037.00	1037.00

Council Tax Charges for 2008/09

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

The above table shows the Council Tax Charges due for 2008/09 on a domestic dwelling with an unmetered public water supply, based on two or more people aged 18 years or over resident in the property before any exemption, discounts or relief is applied.

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

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

Orkney Islands Council
Statement of Accounts-2008/2009
Council Tax Income Account - (continued)

2. Calculation of the Council Tax Base 2008/09

	@	Valuation Band								TOTAL
		A	B	C	D	E	F	G	H	
Total Number of Properties	0	2,572	2,685	2,005	1,508	1,012	197	16	3	9,998
Less Exemptions/Deductions	0	201	99	65	26	7	1	1	0	400
Less Disabled Relief	(13)	(6)	(6)	4	5	15	1	0	0	0
Less Adjustment for Single Discounts	1	284	245	146	84	34	6	1	0	801
Less Adjustment for Double Discounts	0	140	70	48	23	14	3	0	0	298
Effective Number of Properties	12	1953	2277	1742	1370	942	186	14	3	8499
Band D Equivalent Factor (Ratio)	(5/9)	(6/9)	(7/9)	(8/9)	(9/9)	(11/9)	(13/9)	(15/9)	(18/9)	
Band D Equivalent Number of Properties	7	1302	1771	1548	1370	1151	269	23	6	7,447
Less Provision for Non-Collection %										(55)
										COUNCIL TAX BASE 2008/09
										<u>7,502</u>

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

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

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

3. Arrears of Council Tax and Community Charge

	31/03/2009	31/03/2008
	£	£
Council Tax Arrears	758,358	689,852

Orkney Islands Council
Statement of Accounts - 2008/2009
Non-Domestic Rate Income Account

PURPOSE

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

	2008/09	2007/08
	£'000	£'000
Gross Rates Levied and Contributions in Lieu	8,394	8,245
Adjust for :		
Reliefs and Other Deductions	(1,545)	(1,218)
Interest on Overpaid Rates	(58)	(2)
Provision for Bad Debts	(8)	(4)
Reduction in Rates Liability for previous years	(698)	(45)
NET NON DOMESTIC RATES INCOME	6,085	6,976
Contribution from National Non-Domestic Rate Pool	1,489	173
TRANSFER TO INCOME AND EXPENDITURE ACCOUNT	7,574	7,149

1. Rateable Values and Number of Subjects (1 April 2008)

Non-Domestic Rateable Subjects	Number of	RV 01/04/08	Number of	RV 01/04/07
	subjects	£000	subjects	£000
Shops	270	1,602	266	1,598
Public Houses/Hotels	61	718	60	648
Offices	142	1,448	148	1,450
Industrial Subjects	502	2,694	496	2,720
Leisure/Entertainment	283	764	261	740
Garages & Petrol Stations	81	306	85	310
Cultural/Sporting/Education	84	1,865	83	1,793
Public Services Subjects	176	1,774	175	1,848
Miscellaneous	328	7,680	323	7,643
	1,927	18,851	1,897	18,750

2. Non-Domestic Rate Poundage

	2008/09	2007/08
	£0.458	£0.441
Property Rate		

Non Domestic Rates are levied by the Islands Council on local Commercial and Industrial properties. The rate is, however, set by Central Government. An additional supplement of £0.004 is applied to properties with a rateable value exceeding £29,000, while small business relief is available for properties with a rateable value of £15,000 or less.

3. Non-Domestic Rate Arrears

	31/03/09	2007/08
	£	£
Arrears of Non Domestic Rates	123,775	110,645

4. Contribution due to National NDR Pool for year

	2008/09	2007/08
	£000	£000
Provisional Contributable Amount	7,238	7,023
Difference from Notified Amount	(1,143)	(45)
Contribution due to National NDR Pool for year	6,095	6,978

Orkney Islands Council
Statement of Accounts - 2008/2009

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 13 other organisations of a statutory and voluntary nature which have been accepted into the fund as admitted bodies. The members of the scheme reduced from 1,678 employees at 31 March 2008 to 1,652 employees at 31 March 2009 and the number of pension payments increased from 462 at 31 March 2008 to 505 at 31 March 2009.

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

The monies belonging to the Pension Fund are entirely managed by external investment managers Baillie Gifford & Co, and are held separately from any of the employing bodies which participate in the Pension Fund. During the financial year 2008/09 the Fund's return on investments was -18.8% against a benchmark of -19.2%.

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

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

Employees contributions are fixed by statute, with employers contributions being assessed every three years by an independent Actuary to determine the level of contribution necessary by employing bodies to ensure that the fund is able to meet all future benefits. The standard employee contribution rate is 6% with some manual workers retaining the right to pay 5%. Following completion of the 2008 Actuarial valuation, the employers rate will see the implementation of a stepped increase from 17.4% in 2008 to 18.4% in 2009, rising to 20.4% in 2010 and 21.4% in 2011.

The funds have been invested in accordance with the investment controls laid down in the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 1998 as amended, and quoted investments of the fund have been revalued to market value at 31 March 2009 with the loss on revaluation being debited to the fund.

Orkney Islands Council
Statement of Accounts - 2008/2009

Pension Fund Account - (continued)

FUND ACCOUNT	2008/09	2007/08
Contributions Receivable	£'000	£'000
Employer Contributions - Normal	5,497	5,201
Employer Contributions - Additional	821	12
Employees Contributions - Normal	1,934	1,828
Transfers In - Individual Transfers in from Other Schemes	988	1,925
TOTAL CONTRIBUTIONS RECEIVABLE	9,240	8,966
Benefits Payable		
Pensions	2,563	2,274
Commutation of Pensions and Lump Sum Retirement Benefits	1,860	547
Lump Sum Death Benefits	100	222
Refund of Contributions	13	22
State Scheme Premiums	5	9
Transfers Out - Group Transfers out to Other Schemes	0	0
Transfers Out - Individual Transfers out to Other Schemes	266	709
Fund Administration	293	215
TOTAL BENEFITS PAYABLE	5,100	3,998
NET ADDITIONS FROM DEALING WITH MEMBERS	4,140	4,968
Returns on Investments		
Investment Income		
Interest from Fixed Interest Securities	164	159
Dividend from Equities	2,073	2,047
Income from Index Linked Securities	144	85
Income from Pooled Investment Vehicles	942	608
Interest on Cash Deposits	319	379
Recoverable Tax	17	13
Gain in Market Value of Investments:		
Realised	(2,499)	5,272
Unrealised	(22,839)	(6,362)
Irrecoverable Withholding Tax	(181)	(196)
Investment Management Expenses	(302)	(310)
NET RETURN ON INVESTMENTS	(22,162)	1,695
NET INCREASE IN FUND DURING YEAR	(18,022)	6,663
Closing Net Assets of Fund at 31 March 2008	110,542	
Restatement in Opening Balance (see note below)	416	
Opening Net Assets of Fund at 1 April 2008	110,958	103,879
Net Increase/(Decrease) in Fund During the Year	(18,022)	6,663
CLOSING NET ASSETS OF FUND	92,936	110,542
Net Assets Statement (as at 31 March)		
Investment Assets		
Fixed Interest - Public Sector	3,127	2,281
Fixed Interest - Other	281	577
Index Linked - Public Sector	8,103	6,749
Index Linked - Other	0	222
Equities - Quoted	55,465	65,766
Pooled Investment Vehicles - Other Managed Funds	22,471	24,763
Funds held by Investment Managers - Other (Cash)	3,732	10,685
TOTAL INVESTMENT ASSETS	93,179	111,043

Orkney Islands Council
Statement of Accounts - 2008/2009

Pension Fund Account - (continued)

Current Assets

Sundry Debtors	0	2
Loans Fund Deposit	0	0

Less Current Liabilities

Sundry Creditors	101	84
Loans Fund Advance	142	419

NET CURRENT ASSETS	(243)	(501)
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NET ASSETS	92,936	110,542
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Financed by :

ACCUMULATED FUND	92,936	110,542
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A Tait, C.P.F.A., F.C.C.A.
Director of Finance
30 September 2009

A change in the valuation method of Pension Fund investment assets, effective from the 2008/09 financial year, was introduced by the Financial Reports of Pension Scheme- A Statement of Recommended Practice (May 2007). The change amounted to an increase reduction in value of £416k as at 31 March 2008. As this represented 0.1% of the value of the Fund it was not material for the 2007/08 accounts and a prior period adjustment is not required. However, the Notes to the Pension Fund Accounts show restated figures for comparative purposes.

The Pensions SORP also required a change in disclosure requirements for 2008/09 and in these cases the figures for 2007/08 above have also been adjusted for comparison purposes.

NOTES

Accounting Policies

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

All investments are valued at their market value at 31 March 2009, determined as follows:

Investments listed on recognised Stock Exchanges are included at their official closing price on the last business day of the reporting period and adjusted, where applicable, for accrued interest to the valuation date.

Overseas currencies are translated at the WM Reuters London closing spot rates ruling at the last business day of the reporting period.

Open Ended Companies are valued using a single price reflecting the official closing price of the underlying shares.

Private equity assets are independently valued by the appointed fund manager.

Unlisted investments are valued using one of the following methodologies:

- Discounted Cash Flows or Earnings from Underlying Business
- Independent appraisal of company valuations

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

Pension Fund Account - (continued)

1. Actuarial Valuation Reports

The level of funding in terms of the percentage of assets to meet liabilities was 86% (compared to 87% at 31 March 2005).

The Council has prepared a Funding Strategy Statement which sets out its funding objectives for the Fund as follows:

To ensure the long-term solvency of the Fund as a whole and the solvency of each of the notional sub-funds allocated to individual employers.

To ensure that sufficient funds are available to meet all benefits as they fall due for payment.

Not to restrain unnecessarily the investment strategy of the Fund so that the Authority can seek to maximise investment returns (and hence minimise the cost of benefits) for an appropriate level of risk.

To help employers recognise and manage pension liabilities as they accrue with consideration to the effect on the operation of their business where the Authority considers it reasonable to do so.

To use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from defaulting on its obligations.

To maintain the affordability of the Fund to employers as far as is reasonable over the longer term.

The Council has adopted the following objectives to achieve the funding objectives:

A stepped increase over 3 years for employer contributions.

A deficit recovery period of 20 years for the Fund.

In determining the deficit recovery period the Council has had regard to the following factors:

Current deficit on valuation.

Actual investment returns to date.

Changes in financial assumptions.

Stability of contributions for employers.

Actuarial report was provided in 2009 after undertaking valuations on the fund as at 31 March 2008. Information from this actuarial valuation is undernoted:

(a)	Market value of assets at valuation £110,542,000.	
(b)	Members Contributions	
	Officers	6.00%
	Manual Workers before 01/04/98	5.00%
	Manual Workers after 01/04/98	6.00%
(c)	Employers contributions as a percentage of employees contributions	
	1 April 2009	18.4%
	1 April 2010	20.4%
	1 April 2011	21.4%

Orkney Islands Council
Statement of Accounts - 2008/2009

Pension Fund Account - (continued)

1. Actuarial Valuation Reports (continued)

(d)	Actuarial assumptions	Funding Position
		31 March 2008
	Annual rate of price inflation	3.6%
	Annual rate of pension increases:	
	on pension in excess of GMPs	3.6%
	on pension accrued after April 1997	3.6%
	on post-88 GMPs in payment	2.8%
	on pre-88 GMPs in payment	0.0%
	Annual rate of increase of deferred pensions	3.6%
	Annual rate of pay increases	5.1%
	Discount rate	6.1%
	Expenses	0.6%

(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 86% (compared to 87% at 31 March 2005)

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.

	2008/09		2007/08	
	£'000	%	£'000	%
Baillie Gifford and Company	93,288	100.26	111,043	100.46
Loans Fund Advance	(142)	(0.15)	(418)	-0.38
Sundry Debtors Less Creditors	(101)	(0.11)	(83)	-0.08

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 :

	2008/09	2007/08
	£'000	£'000
UK Listed	52,251	66,447
UK Unlisted	0	0
Foreign Listed	41,037	44,596
Foreign Unlisted		0
	93,288	111,043

(c) Two of the investments held by the Pension Fund exceed 5% of the total value of net assets.

Company	Nature of Investment	2008/09 £'000
Baillie Gifford & Company	Open Ended Investment Company	5,172
Baillie Gifford & Company	Open Ended Investment Company	8,251

Orkney Islands Council
Statement of Accounts - 2008/2009

Pension Fund Account - (continued)

2. Investment Assets (continued)

(d) Investment Movement Summary.

	Value at 1 April 2008	Purchases at Cost	Sales Proceeds	Change in Market Value	Value at 31 March 2009
	£'000	£'000	£'000	£'000	£'000
Fixed Interest - Public Sector	2,281	2,191	(1,557)	212	3,127
Fixed Interest - Other	577	0	(266)	(30)	281
Index Linked - Public Sector	6,749	3,570	(1,933)	(283)	8,103
Index Linked - Other	222	30	(250)	(2)	0
Equities - Quoted	63,931	27,044	(20,354)	(15,156)	55,465
Pooled Investment - Other Managed Funds	26,513	4,385	(1,348)	(7,079)	22,471
Cash Deposits	10,685	0	0	(6,953)	3,732
	110,958	37,220	(25,708)	(29,291)	93,179

Transaction costs are included in the cost of purchases and sale proceeds. These include costs charged directly to the Fund such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £177K (2007/08 £164K). In addition to the transaction costs disclosed above, indirect costs may be incurred through the bid-offer spread on some pooled investment vehicles, the amount of any such costs is not separately provided to the fund.

(e) Fund Performance.

In the year to 31 March the fund fell 18.8%, performing slightly better than its benchmark which fell 19.2%. Equity markets fell sharply in the period under review as problems in the financial sector moved into the wider economy and contributed to an unprecedented collapse in world trade and industrial production. Problems in the financial sector dominated the earlier part of the period and reached a new height in September with the bankruptcy of Lehman Brothers in the US, which worsened the crisis as credit markets froze in its wake. LIBOR, the rate at which banks are willing to lend to each other, soared and commercial paper markets ceased functioning. Governments around the world responded to the crisis by cutting interest rates to record lows, taking stakes in major banks whose financial positions looked increasingly uncertain and, in some cases, buying bonds from banks in order to encourage them to lend more - a process known as quantitative easing. There is still uncertainty about the extent to which the government bailout plans will work, but since the end of the review period markets have become more optimistic, rallying sharply. At a portfolio level, the main focus is still on the bottom up analysis of companies to ensure as far as possible that the businesses we are invested in have the balance sheet strength and cash flow characteristics to survive the downturn and offer shareholders the potential for long term value.

3. Contributions Receivable and Benefits Payable

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

	2008/09	2007/08
	£'000	£'000
Administering Authority :		
Contributions Receivable	6,590	6,126
Benefits Payable	4,343	2,934
Admitted Bodies		
Contributions Receivable	841	903
Benefits Payable	180	109

4. Investment Sub Committee

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

Pension Fund Account - (continued)

5. Admitted Bodies

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

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

6. Additional Voluntary Contributions

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

Members contributions are invested in "with profits" funds. During the year, the value of AVC investments increased by £145K from £977K to £1,122K as at 31 March 2009.

Orkney Islands Council
Statement of Accounts - 2008/2009

Charitable Trust Funds

PURPOSE

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

INCOME AND EXPENDITURE ACCOUNT FOR YEAR ENDED 31 MARCH 2009

	2008/09	2007/08
	£'000	£'000
EXPENDITURE		
Supplies and Services	25	8
Advertising	1	1
Transfer Payments	3	2
Miscellaneous Costs	7	5
TOTAL EXPENDITURE	36	16
INCOME		
Interest	13	16
Donations	2	3
Legacies	0	(3)
Miscellaneous Income	0	1
TOTAL INCOME	15	17
DEFICIT ON YEAR	(21)	1

Orkney Islands Council Statement of Accounts - 2008/2009 Charitable Trust Funds - (continued)
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BALANCE SHEET AS AT 31 MARCH 2009	2008/09	2007/08
	£'000	£'000
Investments		
Listed Securities	18	16
Property	2	2
TOTAL LONG TERM ASSETS	20	18
Current Assets		
Loans Fund Deposit	271	294
Less Current Liabilities	0	0
NET CURRENT ASSETS	271	294
NET ASSETS	291	312
Represented By :		
Orkney Educational Trust	66	66
Sheriff Thoms' Bequest	21	21
Baron Stewart Moncrieff's Bequest	2	2
Frances Taylor's Bequest	6	6
James Cumming's Bequest	1	1
Ms Annie Peace's Bequest	1	1
PC Flett's Bequest	42	41
William Orkney Reid's Bursary Fund	11	10
Baikie Bursary Fund	1	1
Mowat Bequest	1	1
Mrs Flett's Bequest	4	4
County Home Comfort Fund	60	81
St Peter's House Comfort Fund	46	48
North Ronaldsay Common Good Fund	12	12
Isabella Sutherland Isbister Bequest	1	1
Miss Maggie A Sutherland Bequest	2	2
Anderson Trust	1	1
Queens Own Highlanders Fund	2	2
Lord Lieutenants Orkney Relief Fund	4	4
John Murray Slater's Bequest	1	1
PC Flett's Bequest	6	6
ACCUMULATED FUNDS	291	312

NOTES

Accounting Policies

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

A Tait, C.P.F.A., F.C.C.A.
Director of Finance
30 September 2009

**Orkney Islands Council
Statement of Accounts - 2008/2009**

Non Charitable Trust Funds

PURPOSE

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

INCOME AND EXPENDITURE ACCOUNT FOR YEAR ENDED 31 MARCH 2009

	2008/09 £'000	2007/08 £'000
EXPENDITURE		
Staff Costs	0	1
Supplies and Services	13	8
Third Party Payments	3	33
Transfer Payments	9	6
Miscellaneous Costs	24	9
TOTAL EXPENDITURE	49	57
INCOME		
Sales	3	3
Interest	24	31
Fees & Charges	1	1
Donations	13	16
Legacies	24	3
Miscellaneous Income	3	4
TOTAL INCOME	68	58
SURPLUS ON YEAR	19	1

BALANCE SHEET AS AT 31 MARCH 2009

	2008/09 £'000	2007/08 £'000
Investments		
Listed Securities	1	1
Property	0	0
TOTAL LONG TERM ASSETS	1	1
Current Assets		
Loans Fund Deposit	615	597
Less Current Liabilities		1
NET CURRENT ASSETS	615	596
NET ASSETS	616	597

Represented By :

Cathedral Promotion Fund	21	22
Cathedral Fabric Fund	83	75
Educational	357	334
Social	137	139
Community and Cultural	13	13
Burial Grounds	5	14
ACCUMULATED FUNDS	616	597

NOTES

Accounting Policies

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

A Tait, C.P.F.A., F.C.C.A.
Director of Finance
30 September 2009

Orkney Islands Council Statement of Accounts - 2008/2009 Common Good Fund
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PURPOSE

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

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

INCOME AND EXPENDITURE ACCOUNT FOR YEAR ENDED 31 MARCH 2009

	2008/09	2007/08
	£'000	£'000
EXPENDITURE		
Property Costs	3	10
Supplies and Services	1	3
Third Party Payments	0	3
Transfer Payments	40	40
Miscellaneous Costs	1	0
TOTAL EXPENDITURE	45	56
INCOME		
Rent & Lettings	23	19
Interest	21	28
TOTAL INCOME	44	47
DEFICIT ON YEAR	(1)	(9)

BALANCE SHEET AS AT 31 MARCH 2009

	Stromness	Kirkwall	Total	Total
	2008/09	2008/09	2008/09	2007/08
			£'000	£'000
Investments				
Property	1	26	27	27
Capital Deposits	0	149	149	149
TOTAL LONG TERM ASSETS	1	175	176	176
Current Assets				
Loans Fund Deposit	16	395	411	412
Less Current Liabilities	0	0	0	0
NET CURRENT ASSETS	16	395	411	412
NET ASSETS	17	570	587	588
Represented By :				
Capital Reserve	0	149	149	149
Revenue Reserve	17	421	438	439
ACCUMULATED FUNDS	17	570	587	588

NOTES

Accounting Policies

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

A Tait, C.P.F.A., F.C.C.A.
Director of Finance
30 September 2009

Orkney Islands Council Statement of Accounts - 2008/2009 Group Accounting Policies

PURPOSE

The Code of Practice on Local Authority Accounting in the United Kingdom 2004: A Statement of Recommended Practice (the 2004 SORP) placed a requirement on authorities to consider all their interests in external organisations including limited companies and other statutory organisations. This includes other local authorities or similar bodies defined in section 106 of the Local Government (Scotland) Act 1973 e.g. statutory bodies such as Police, Fire and Valuation Boards. Authorities are required to prepare a full set of group accounts in addition to their own Council's accounts where they have a material interest in such entities. The group Financial Statements to 31 March 2009 represents the consolidation of the balances and transactions of the Council its subsidiaries and associates.

Combining Entities

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

Name of combining entity	Method of Accounting	Date of Consolidation	Date of Dissociation
Orkney Towage Company Ltd	Subsidiary		
Orkney Ferries Ltd	Subsidiary		
Weyland Farms Ltd	Subsidiary		1 April 2009
Orkney Islands Property Development Ltd	Subsidiary		1 April 2009
Pickaquoy Centre Trust	Associate		
Orkney Meat Ltd	Associate		1 April 2009
Orkney Herring Company Limited	Associate	31 March 2008	1 April 2009
Northern Joint Police Board	Associate		
Highlands and Islands Fire Board	Associate		
Orkney and Shetland Valuation Joint Board	Joint Venture		1 April 2009
HITRANS	Associate	31 March 2007	1 April 2009

To comply with the 2004 SORP, the Council has identified a number of companies where the Council has a "controlling interest" - these are termed "subsidiaries". The Council holds 100% of the shares in 2 Companies (Orkney Towage Company Limited and Orkney Ferries Limited). Under accounting standards, the council is required to include the results of organisations termed as "associates", or "joint ventures" because it has a "significant influence" over financial and operating policies. The Council has no shares nor ownership of any of these organisations which are entirely independent of the Council under law and for taxation.

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

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

		2008/09	2007/08
		%	%
Pickaquoy Centre Trust		100.00	100.00
Orkney Meat Ltd	Share Holding	n/a	38.00
Orkney Herring Company Limited	Share Holding	n/a	33.30
Northern Joint Police Board	% Revenue Contribution	5.51	6.15
Highlands and Islands Fire Board	% Revenue Contribution	7.17	7.43
Orkney and Shetland Valuation Joint Board	% Revenue Contribution	n/a	48.18
HITRANS	% Revenue Contribution	n/a	8.50

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

Orkney Islands Council
Statement of Accounts - 2008/2009
Group Accounting Policies - (continued)

Materiality

A number of other organisations were also considered for consolidation

Name of considered entity

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

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

Basis of Combination & Going Concern

In line with the principles contained within the 2004 SORP, the Group Financial Statement for the year ended 31 March 2009 has been prepared on the basis of a full consolidation of the financial transactions and balances of the Council and its subsidiaries.

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

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

The effect of inclusion of the above bodies on the Group Balance Sheet is to reduce both Reserves and Net Assets by £13.829 million net liabilities in these entities. As above, this reflect the combined pension liability of these organisations, particularly those recorded for the Police and Firemen's Pension Schemes.

All consolidated organisations consider it appropriate that their Statement of Accounts should follow the "going concern" basis of accounting Arrangements with the constituent local authorities for the funding of the deficits of Police and Fire Joint Boards means that the financial position of these Boards remains assured. The Council have procedures in place to ensure the funding of deficits of the subsidiaries.

Disclosure of Differences with Main Statement of Accounting Policies

The financial statements in the Group Accounts of Orkney Islands Council are prepared in accordance with the accounting policies set out set out on pages 5 to 9 with the additions and exceptions shown in the following section.

GROUP INCOME AND EXPENDITURE ACCOUNT

Retirement Benefits

In common with Orkney Islands Council, the subsidiaries participate in the Council's Pension Scheme. This is explained on pages 25 and 26. The subsidiaries have accounting policies for pensions accounting that are consistent with those of the Council.

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

Orkney Islands Council
Statement of Accounts - 2008/2009
Group Accounting Policies - (continued)

Grants and Contributions

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

Value Added Tax

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

Proceeds from Disposals of Fixed Assets

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

GROUP BALANCE SHEET

Valuation of Fixed Assets

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

Depreciation

The periods and categories of assets for the Group are:

	Useful Life
Buildings	10 – 100 years
Infrastructure	60 years
Plant & Equipment, Furniture & Fittings	3 – 15 years
Vehicles	3 – 15 years

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

Stock

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

Goodwill

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

Investments

All investments are initially measured and carried at fair value.

Orkney Islands Council
Statement of Accounts - 2008/2009

The Group Income And Expenditure Account

PURPOSE

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

Group Income and Expenditure Account for year ended 31 March 2009

Restated 2007/08		2008/09 Gross Expenditure	2008/09 Gross Income	2008/09 Net Expenditure
Net		£'000	£'000	£'000
Expenditure		Expenditure	Income	Expenditure
25,837	Education	29,575	1,478	28,097
3,475	Cultural and Recreation	5,358	1,000	4,358
12,577	Community Social Services	19,987	5,104	14,883
1,769	Police Services	1,548	0	1,548
1,670	Fire Services	1,662	0	1,662
11,641	Roads and Transportation	13,950	692	13,258
1,487	Planning and Development	2,994	788	2,206
3,342	Environmental Services	4,802	969	3,833
1,911	Central Services	7,125	3,241	3,884
2,117	Corporate & Democratic Costs	2,387	25	2,362
215	Housing Services	5,221	4,265	956
1,000	Housing Revenue Account	2,931	1,855	1,076
764	Harbour Authority	8,221	7,515	706
210	Net (Surplus)/Deficit on Associate			156
14	Net (Surplus)/Deficit on Joint Ventures			0
2,269	Exceptional Items	44	(1,347)	1,391
116	Non Distributed Cost			0
70,414	NET COST OF SERVICES	105,805	25,585	80,376
(400)	(Profit)/Loss on Disposal of Fixed Assets			(77)
(10,188)	Net (Surplus)/Deficit on Harbour Investment Activities			8,398
57	Net (Surplus)/Deficit on Orkney College			(166)
(1,682)	Interest on Balances			(1,502)
(66)	Share of Interest Receivable of Associate			(35)
(680)	Pensions Interest Cost & Expected Return on Pensions Assets			(54)
1,266	Pensions Interest Cost & Expected Return on Pensions Assets of Associates			1,330
1,930	Net (Income)/Expenditure on Interest Payable			1,277
60,651				89,547
24	Transfer to/(from) Reserves			0
26	Tax on profit on Ordinary Activities			29
1	Share of tax of Associate			0
60,702	NET EXPENDITURE			89,576
(51,714)	Revenue Support Grant			(59,754)
(7,149)	Distribution on Non-Domestic Rate Pool			(7,573)
(7,612)	Council Tax			(7,686)
(5,773)	(SURPLUS)/DEFICIT FOR YEAR			14,563
	Statement of Movement on General Fund Balance			
14,309	Balance at 1 April 2008			14,295
7,105	Net additional amount required by statute and non-statutory proper practices to be debited or credited to General Fund Balance for the year			(16,305)
(5,773)	(Surplus)/Deficit for year			14,563
12,977	BALANCE AT 31 MARCH 2009			16,037

Orkney Islands Council
Annual Accounts-2008/2009

Reconciliation of the Single Entity to the Group

PURPOSE

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

Reconciliation of the Single Entity Surplus or Deficit for the Year to the Group Surplus or Deficit as at 31 March 2009

	2008/09	Restated	
	£'000	£'000	2007/08
		£'000	£'000
(Surplus) or deficit on the authority's single Income and Expenditure Account for the year	14,951		(8,619)
Less Adjustments for transactions with group entities	(12,224)		(9,724)
SURPLUS IN GROUP INCOME AND EXPENDITURE ACCOUNT			
ATTRIBUTABLE TO THE AUTHORITY	2,727		(18,343)

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

Subsidiaries

Orkney Towage Company Limited	2,358		3,657	
Orkney Ferries Limited	8,027		7,369	
Weyland Farms Limited	0		(11)	
Orkney Islands Property Development Limited	0		142	
The Pickaquoy Centre Trust	52	10,437	(243)	10,914

Associates

Orkney Meat	0		(24)	
Orkney Herring	0		103	
Northern Joint Police Board	1,116		1,174	
Highlands and Islands Fire Board	283	1,399	403	1,656

GROUP ACCOUNT (SURPLUS) OR DEFICIT FOR THE YEAR	14,563		(5,773)	
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Orkney Islands Council
Statement of Accounts - 2008/2009

Group Statement of Total Recognised Gains and Losses

PURPOSE

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

Group Statement of Total Recognised Gains and Losses as at 31 March 2009

	2008/09	Restated 2007/08
	£'000	£'000
(Surplus)/Deficit for the year on the Income and Expenditure Account	14,563	(5,773)
(Surplus)/Deficit arising on revaluation of fixed assets	(6,591)	(806)
(Surplus)/Deficit arising from valuation of financial instruments	0	613
Actuarial (gains)/losses on pension fund assets and liabilities	17,610	(18,934)
Any other (gains) and losses required to be included in the STRGL		
- Gain on Associates Reserves for year	954	205
- Prior year movements on Group Balances	(3,696)	(2,014)
TOTAL RECOGNISED (GAINS) AND LOSSES FOR THE YEAR	22,840	(26,709)

Notes to Group Statement of Total Recognised Gains and Losses as at 31 March 2009

	2008/09	2007/08
	£'000	£'000
1. (Surplus)/Deficit arising on revaluation of fixed assets		
Orkney Islands Council	(679)	806
Orkney Islands Property Developments	(5,912)	0
	(6,591)	806
2. Actuarial (gains)/losses on pension fund assets and liabilities		
Orkney Island Council	16,205	(17,015)
Orkney Towage Company Limited	692	(676)
Weyland Farms Limited	0	(19)
Orkney Ferries Ltd	614	(1,144)
Pickaquoy Centre Trust	99	(80)
	17,610	(18,934)

Orkney Islands Council
Statement of Accounts - 2008/2009

The Group Balance Sheet

PURPOSE

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

Group Balance Sheet as at 31 March 2009

	2008/09 £'000	Restated 2007/08 £'000
Fixed Assets		
Operational Assets		
Council Dwellings	14,418	14,975
Other Land and Buildings	95,318	96,595
Vehicles, Plant and Equipment	9,562	4,016
Infrastructure Assets	72,071	72,092
Community Assets	3,361	3,474
Non-Operational Assets		
Investment Properties	21,847	21,970
Assets Under Construction	419	2,676
Surplus Assets	3,127	649
TOTAL FIXED ASSETS	220,123	216,447
Long Term Investments	136,169	150,663
Share of Net Assets of Associate	6,692	8,191
Share of Gross Assets of Joint Ventures	0	9
Share of Gross Liabilities of Joint Ventures	0	(9)
Long-term Debtors	2,690	2,311
TOTAL LONG-TERM ASSETS	365,674	377,612
Current Assets		
Stocks and Work in Progress	869	1,149
Debtors	5,968	5,146
Investments	27,282	9,881
Cash in Hand	1,265	847
TOTAL CURRENT ASSETS	35,384	17,023
Less Current Liabilities		
Creditors	9,173	10,057
Provisions	0	1,112
Bank Overdraft	44	638
Loan Debt	20,000	0
Advances from Pension, Charity and Trust Funds	1,305	1,034
TOTAL CURRENT LIABILITIES	30,522	12,841
TOTAL ASSETS LESS CURRENT LIABILITIES	370,536	381,794
Net Pension Liability	21,373	4,663
Government Grants Deferred	54,553	53,990
Liability in Associates	25,346	30,020
Long Term Creditors	15	1,032
TOTAL ASSETS LESS LIABILITIES	269,249	292,089
Represented by:		
Capital Reserves		
Revaluation Reserve	6,958	2,086
Capital Adjustment Account	103,201	105,241
Financial Instruments Adjustment Account	(542)	(613)
Capital Receipts Reserve	2,805	3,184
Capital Fund	2,820	2,531
	115,242	112,429
Revenue Reserves		
General Fund Balances	18,832	15,364
Harbour Authority Fund	166,450	182,614
Pension Reserve	(21,373)	(4,663)
Repairs and Renewals Fund	8,752	8,535
Reserves of Associates	(18,654)	(22,190)
	154,007	179,660
TOTAL EQUITY	269,249	292,089

A Tait, C.P.F.A., F.C.C.A.
 Director of Finance
 30 September 2009

Orkney Islands Council
Statement of Accounts - 2008/2009

The Group Cash Flow

PURPOSE

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

Group Cash Flow Statement as at 31 March 2009

		2008/09		Restated 2007/08	
		£'000	£'000	£'000	£'000
Net Cash Inflows from Revenue Activities			(3,654)		4,346
Returns on Investment					
and Servicing					
of Finance					
Cash Outflows					
	Purchase of Harbour Investments	171,192		134,110	
	Interest Paid	18		122	
Cash Inflows					
	Sale of Harbour Investments	175,888		128,334	
	(Increase)/decrease in Harbour Cash Investments	(4,696)		5,776	
	Interest Received	360		542	
NET CASH INFLOW FROM INVESTMENTS AND SERVICING OF FINANCE			342		420
Taxation			26		27
Capital					
Activities					
Cash Outflows					
	Purchase of Fixed Assets	(12,567)		(10,437)	
	Purchase of Long Term Investments	2		(247)	
	Other Capital Cash Payments	(298)	(12,863)	(178)	(10,862)
Cash Inflows					
	Sale of Fixed Assets	642		2,058	
	Capital Grants Received	7,027		3,212	
	Sale of Long Term Investments	6,000		45	
	Other Capital Receipts	674	14,343	753	6,068
NET CAPITAL ACTIVITIES			1,480		(4,794)
NET CASH INFLOW/(OUTFLOWS) BEFORE FINANCING			(1,858)		(55)
Management of Liquid Resources			(17,401)		(518)
Financing					
Cash Outflows					
	Repayment of Amounts Borrowed	(271)		(374)	
Cash Inflows					
	New Loans Raised	20,000	20,271	0	374
(INCREASE) / DECREASE IN CASH			1,012		(199)

Orkney Islands Council
Statement of Accounts - 2008/2009
Notes to Core Group Financial Statements

PURPOSE

The notes required for the accounts of Orkney Islands Council itself are disclosed separately in the preceding pages. The following notes provide material additional amounts and details in relation to the other combining entities.

1. Details of Combining Entities

In addition to the information included in the consolidated Group Accounts on the preceding pages, the accounting regulations require specific disclosures about the combining entities and the nature of their business. The accounting period for the entities are the twelve months to 31 March 2009.

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

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

The latest set of audited accounts is for the year to 31 March 2009. Copies of these accounts can be obtained from Orkney Islands Council, School Place, Kirkwall, Orkney, KW15 1NY.

The net liability of the company at 31 March 2009 was £5.350M compared to £1.721M at 31 March 2008. The profit before taxation for the period to 31 March 2009 was £1.851M compared to a loss of £1.421M for the period to 31 March 2008. In 2008-09, Orkney Islands Council contributed £3.354M or 89.1% of the companies turnover. No dividend payments were due to, or received by, the Council in respect of its investment.

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

The latest set of audited accounts is for the year to 31 March 2009. Copies of these accounts can be obtained from Orkney Ferries Ltd, Shore Street, Kirkwall, Orkney, KW15 1LG.

The net liability of the company at 31 March 2009 was £0.525M compared to net assets of £0.032M at 31 March 2008. There was no profit or loss before taxation for the period to 31 March 2009 or the period to 31 March 2008. In 2008-09, Orkney Islands Council contributed £6.919M or 75.8% of the companies turnover.

Orkney Ferries is deficit funded, whereby, any surpluses or deficits earned by the Company will be repaid to, or recovered from the Council.

No dividend payments were due to, or received by, the Council in respect of its investment.

Orkney Islands Council
Statement of Accounts-2008/2009

Notes to Core Group Financial Statements - (continued)

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

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

The latest set of unaudited accounts is for the year to 31 March 2009. When available, copies of these accounts can be obtained from The Pickaquoy Centre, Muddisdale Loan, Kirkwall KW15 1LR.

In 2008-09, Orkney Islands Council contributed £0.729M or 58.5% of the company's turnover and its share of the year-end net asset of £0.108M (2007-08 assets of £0.159M) is included in the Group Balance Sheet. The following additional disclosures are required under accounting regulations for the Pickaquoy Centre Trust because the Council's share of the net assets of the Company exceeds 25%.

	2008/09	2007/08
Council's Share of Pickaquoy Centre Trust Limited	100.00%	100.00%
	£M	£M
Turnover	1.253	1.263
Profit/(Loss) before tax	0.047	0.108
Interest Payable/Receivable	0.006	0.006
Taxation	Nil	Nil
Profit/(Loss) after tax	0.047	0.114
Fixed Assets	0.117	0.056
Current Assets	0.153	0.212
Liabilities due within one year	(0.116)	(0.162)
Liabilities due after one year or more	(0.046)	0.053
Net Liabilities	0.108	0.159
Contingent Liabilities	None	None
Capital Commitments	None	None

Northern Joint Police Board is the statutory body established under the Local Government Reorganisation in 1975, and provides a vast range of policing services on behalf of the 4 local authorities in the Highlands and Islands of Scotland. In 2008-09, Orkney Islands Council contributed £1.633M or 5.51% of the Board's estimated running costs and its share of the year-end net liability of £279.933M (2007-08 £18.506M) is included in the Group Balance Sheet. Copies of its accounts may be obtained from the Highland Council.

The following additional disclosures are required under accounting regulations:

	2008/09	2007/08
Council's Share of Northern Joint Police Board	5.51%	6.15%
	£M	£M
Turnover	0.367	0.407
Fixed Assets	2.581	2.956
Current Assets	0.870	0.77
Liabilities due within one year	(0.520)	(0.361)
Liabilities due after one year or more	(18.355)	(21.870)
Net Liabilities	(15.424)	(18,505)
Contingent Liabilities	None	None
Capital Commitments	0.208	0.958

Highlands and Islands Fire Board is the statutory body established under the Local Government Reorganisation in 1975, and provides fire services on behalf of the 4 local authorities in the Highlands and Islands of Scotland. In 2008-09, Orkney Islands Council contributed £1.662M or 7.17% of the Board's estimated running costs and its share of the year-end net liability of £46.532M (2007-08 £3.839M) is included in the Group Balance Sheet. Copies of its accounts may be obtained from the Highland Council.

The following additional disclosures are required under accounting regulations:

	2008/09	2007/08
Council's Share of Highlands and Islands	7.17%	7.43%
Fire Board	£M	£M
Turnover	0.076	0.085
Fixed Assets	2.901	2.943
Current Assets	0.232	0.26
Liabilities due within one year	(0.199)	(0.229)
Liabilities due after one year or more	(6.271)	(6.813)
Net Liabilities	(3.349)	(3.839)
Contingent Liabilities	None	None
Capital Commitments	0.053	0.966

2. Financial Impact of Consolidation

The effect of inclusion of the above bodies on the Group Balance Sheet is to reduce both Reserves and Net Assets by £13.829M representing the Council's share of the net liabilities in these entities. As above, this reflects the combined pension liability of these organisations, particularly those recorded for the Police and Firemen's Pension Schemes.

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

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

The Council paid a market price for its consideration in Orkney Towage Company Ltd.

There is no deferred or contingent purchase consideration.

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

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

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

4. Exceptional Items

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

	2008/09	2007/08
	£'000	£'000
Staff Costs	44	2,269
Pension Costs	1,347	0
	1,391	2,269

5. Taxation

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

6. Other Pension Schemes

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

Merchant Navy Officers Pension Plan (MNOFF)

Some employees contribute to this defined contribution pension plan. The contribution rate is 5.1%. Contributions payable in the year amounted to £3,265.

Merchant Navy Officers Pension Fund (MNOFF)

The MNOFF is closed to new members however some existing employees may qualify to contribute to the MNOFF, a defined benefit scheme, with a contribution rate of 11.9%. The group made contributions to this fund of £186,053 in the year. It is a multiple employer scheme and the company is unable to identify its share of the underlying assets and liabilities. As at the last valuation in March 2006, the pre-78 (Old) section of the MNOFF had a surplus of assets over liabilities of £223M, while the post-78 (New) section had a deficit of £309M.

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

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

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

Merchant Navy Rating Pension Plan (MNRPP)

Some employees may qualify to contribute to the MNRPP, a defined benefit scheme, with a contribution rate of 11.9%. The group made contributions to this fund of £2,591 in the year. It is a multiple employer scheme and the group is unable to identify its share of the underlying assets and liabilities. As at the last full valuation in March 2005, the MNRPP had a deficit of assets over liabilities. The trustees of the New section have requested deficit contributions from each and the group has made additional contributions totalling £79,509 during the current year. The additional contributions are subject to change dependent on the results of the future actuarial valuations of the fund.

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

	2008/09	Restated 2007/08
	Total	Total
	£'000	£'000
Operating Surplus/(Deficit) for Year	(1,742)	1,332
Non Cash Transactions		
Contributions to Reserves	(8,674)	(5,083)
Adjustments not Involving the Movement of Funds	7,158	4,631
Contributions to Capital	2,002	3,056
Increase/(Decrease) in Bad Debt Provision	140	(255)
	626	2,349
Items on an Accruals Basis		
(Increase)/Decrease in Stock and Work in Progress	280	(46)
(Increase)/Decrease in Debtors	(822)	(2,746)
(Increase)/Decrease in Creditors	(1,996)	3,457
	(2,538)	665
Cash Inflow from Revenue Activities	(3,654)	4,346

Orkney Islands Council
Statement of Accounts-2008/2009

Notes to Core Group Financial Statements - (continued)

8. Movement in Cash	2008/09			2007/08
	31/03/09	31/03/08	Movement	Movement
	£'000	£'000	£'000	£'000
Bank Overdraft	(44)	(638)	594	(243)
Cash	1,265	847	418	44
Increase/(Decrease) in Cash	1,221	209	1,012	(199)

9. Reconciliation of Liquid Reserves	2008/09			2007/08
	31/03/09	31/03/08	Movement	Movement
	£'000	£'000	£'000	£'000
Temporary Lending	27,282	9,881	17,401	518

10. Reconciliation of Financing	2008/09			2007/08
	31/03/09	31/03/08	Movement	Movement
	£'000	£'000	£'000	£'000
Revenue Advances from Common Good, Charities and Trusts	(1,305)	(1,034)	(271)	374

Orkney Islands Council
Statement of Accounts - 2008/2009
System of Internal Financial Control

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

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

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

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

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

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

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

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

- 6 The development of budgetary control procedures was again progressed during 2008/09, with additional resources allocated towards the provision of support and training to budget holders. As a direct result, budget monitoring and control of spending in general has improved across the Council.

The Council went live with a new Payroll System on 1 April 2008, replacing the previous service provided by Highland Council. This development has eliminated the communication problems which were a feature of the previous arrangement, and gives the Council greater control over the development of the Payroll Service in the future.

With regard to risk management, work remains ongoing with the implementation of a risk management framework across the Council, facilitated by the Council's general insurers Zurich Municipal. During the 2008/09, the corporate risk register has been reviewed and updated with action plans developed for each significant risk, while work remains ongoing to refine individual service risk registers and produce action plans to mitigate the identified risks.

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

A number of joint working arrangements currently exists between Community Social Services and National Health Service Orkney, which have yet to be formalised by way of a Service Level Agreement

The Council is currently reviewing the way that the finances of some of its clients are managed on the basis that current practice does not meet best practice.

The Council currently operates decentralised arrangements for the procurement of goods and services, and lacks a corporate procurement strategy. While the absence of a formal risk assessment as part of the procurement process remains an issue, during the year the Council has been able to appoint a Head of Procurement jointly with NHS Orkney. As a direct result, the profile of the procurement function in general has been raised across the Council, along with the introduction of a more consistent approach to the way goods and services are procured in the future. It should be noted that Procurement is one of the workstreams currently being reviewed as part of the Council's Efficient Government agenda.

Several weaknesses previously identified in relation to asset management and planning arrangements currently remain outstanding. The Council does not have an asset management strategy which links to the asset plans for services. While this has been identified as a priority for development in the corporate improvement plan, progress has been delayed by a number of factors including changes in personnel during the past year. Work currently remains ongoing to improve the systems for recording the Council's assets.

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

A Tait, C.P.F.A., F.C.C.A.
Director of Finance
30 September 2009

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

We certify that we have audited the financial statements of Orkney Islands Council and its group for the year ended 31 March 2009 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Income and Expenditure Account, Statement of Movement on the General Fund Balance, Statement of Total Recognised Gains and Losses, Balance Sheet and Cash Flow Statement, the Harbour Authority Account, Orkney College of Further Education Account, the Housing Revenue Account Income and Expenditure Account, Statement of Movement on the HRA Balance, the Council Tax Income Account, the Non-Domestic Rate Income Account, the Pension Fund Account and Net Assets Statement, Charitable Trust Funds, Non Charitable Trust Funds, Common Good Fund and the related notes and the Statement of Accounting Policies together with the Group Accounts. These financial statements have been prepared under the accounting policies set out within them.

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

Respective responsibilities of the Director of Finance & Housing and auditor

The Director of Finance & Housing's responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 - A Statement of Recommended Practice (the 2008 SORP) are set out in the Statement of Responsibilities for the financial statements.

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

We report our opinion as to whether the financial statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the 2008 SORP, of the financial position of the local authority and its group and its income and expenditure for the year, and have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

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

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

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

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements

- give a true and fair view, in accordance with relevant legal and regulatory requirements and the 2008 SORP, of the financial position of Orkney Islands Council and its group as at 31 March 2009 and its income and expenditure for the year then ended; and

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