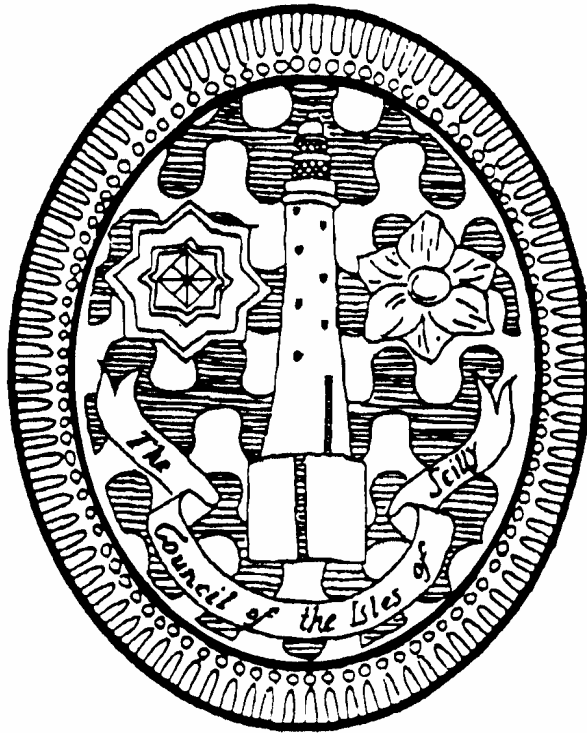


# **COUNCIL OF THE ISLES OF SCILLY**



## **ANNUAL STATEMENT OF ACCOUNTS**

**1<sup>st</sup> April 2005 to 31<sup>st</sup> March 2006**

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## **TREASURER'S FOREWORD**

The pages which follow are the Council's Final Accounts for 2005/06 and comprise:

- 1 Statement of Accounting Policies - this explains the basis of the figures in the accounts and the policies which have been followed in dealing with material items;
- 2 The Consolidated Revenue Account - the Council's main revenue account which shows the cost of the major functions it is responsible for providing;
- 3 Housing Revenue Account - which reflects a statutory obligation to account separately for local authority housing provision. It shows the major elements of housing revenue expenditure and how these are met by rents and other income;
- 4 Collection Fund - this shows the transactions of the Council in relation to Non-domestic Rates and Council Tax and indicates the way in which these have been distributed to the General Fund. The Collection Fund is consolidated with the other accounts of the Authority;
- 5 Consolidated Balance Sheet - which shows the end of year financial position and all assets and liabilities of the Council;
- 6 Statement of Total Movement in Reserves - which summarises the total movement in the Council's reserves;
- 7 Cash Flow Statement - which shows all the sources of cash and how the cash was disbursed throughout the year.

The Council incurs both revenue and capital expenditure. Revenue spending is generally on items consumed within a year and financed from Council Tax, Non-Domestic Rates or Government Grants. Expenditure on Fixed Assets is capitalised, provided that the asset yields benefits to the Authority and the services it provides for a period of more than one year.

Financial Reporting Standard 17 requires disclosure in the accounts of transactions, assets and liabilities in respect of the Pension Fund operated on our behalf by Cornwall County Council.

The Council of the Isles of Scilly pension liability stands at £2,067,000 which is significant; however, the deficit will be made good by increased contributions over the remaining working life of our employees, as assessed by the actuary.

This may mean increased burdens on the Council's revenue account over the forthcoming years.

## TREASURER'S FOREWORD (CONTINUED)

### Revenue Spending in 2005/06:

- 1 The Council's actual expenditure on services and income from all sources results in a surplus of £211,000 for the year. The overall expenditure and variances for each Committee's budget, excluding Trading Services, is set out below:

<b>Committee:</b>	<b>Actual 2004/05 £ '000</b>	<b>Budget 2005/06 £ '000</b>	<b>Actual 2005/06 £ '000</b>	<b>Variance 2005/06 £ '000</b>
Education	1,662	1921	1700	-221
Social Services	479	658	491	-167
General Purposes & Transport	1074	1109	1227	118
Economic Development	24	55	66	11
Tourism	79	90	93	3
Housing (excluding HRA)	214	231	99	-132
Planning	96	122	135	13
Sea Fisheries	7	7	7	0
Policy & Resources	762	991	883	-108
Total	4397	5184	4701	-483

- 2 Revenue Support Grant received for 2005/06 was £2,311,364 an increase of £45,000 over the previous year.
- 3 Revenue balances stand at £4,503,000 at the year end, of which £3,123,000 is set aside for specific purposes. This compares with £4,136,000 at the end of 2004/05 of which £2,977,000 was for specific purposes. Included in these totals are the balances of the General Fund, Housing Revenue Account, the Water and Sewerage Revenue Accounts, Earmarked Reserves and the Schools' balances.
- 4 The sums shown against the Airport Heading includes the net effect of Revenue Support Grant contribution made by Central Government towards loan charges for expenditure on the Airport Runway Scheme.

## TREASURER'S FOREWORD (CONTINUED)

### **Capital Spending:**

The Council spent £637,000 (£563,000 in 2004/05) on approved capital schemes during the year which are listed in the statement below:

	2005/06	2004/05
	£'000	£ '000
<b>Education:</b>		-
Modernisation 04/05	57	-
Modernisation	57	
Equipment	-	14
Learning Network		9
Nursery Disadvantaged Areas	-	19
Disability or Special Needs	-	35
 <b>Water/Sewerage Services:</b>		
Water - Mains Renewal	-	11
Infrastructure Resilience	21	-
Treatment Upgrade – St Mary's & Bryher	65	-
<b>General Purposes:</b>		
Incinerator	56	-
Highways	14	
 <b>Housing and Corporate Property:</b>		
Housing Improvements	22	26
		-
 <b>Airport:</b>		
Fittings and equipment	16	34
Appliances	-	7
Terminal	20	321
Helipad	-	8
Bungalow Drainage	27	-
Health & Safety	7	-
Met Equipment	2	
Apron Refurbishment	13	-
<b>Fire Service</b>		
Fittings & Equipment	4	9
<b>Resources</b>		
Implementing E-Government	256	67
Local Projects		3
	-	-
	-	-
	-----	-----
	637	563

The Capital Programme was principally funded by Reserves (32%) and Grants (56%).

## TREASURER'S FOREWORD (CONTINUED)

### Housing

In continuing to apply the Government's rent restructuring reforms, during 2005/06, increases or decreases of no more than 70p per week were applied.

### The Future

Spending pressures have not abated relating to Statutory Duties and Regulations which continue to affect both revenue and capital expenditure. It is essential; therefore, that committees undertake rigorous reviews of their service plans to ensure they can be achieved as efficiently and effectively as possible.

Finally I wish to thank all of my staff for their ongoing support, commitment and positive response in dealing with the challenge of continuous improvement in the provision of services to the Community.



B Archer  
Treasurer

11 October 2006

## Statement of Responsibilities and Certification of the Statement of Accounts

The following statement describes the respective responsibilities of the Council of the Isles of Scilly and the Council's Treasurer for the accounts.

### The Treasurer is responsible for:

- The preparation of the Council's Statement of Accounts so as to present fairly the financial position at the accounting date, and its income and expenditure for the year;
- Making reasonable and prudent judgments and estimates;
- Complying in all material aspects with the Code of Practice on Local Authority Accounting in the United Kingdom and applying accounting policies consistently;
- Keeping proper, up to date accounting records;
- Taking reasonable steps for the prevention and detection of fraud and other irregularities.

### The Council is responsible for:

Securing appropriate arrangements for the proper administration of its financial affairs ensuring that the nominated officer, namely the Treasurer, has responsibility for them.

### Certification by the Treasurer

I certify that in my opinion the Statement of Accounts presents fairly the financial position of the Council of the Isles of Scilly at 31 March 2006, and its income and expenditure for the year ended. The Accounts were authorised for issue to the Council on the date below.



Barry Archer  
Treasurer

11<sup>th</sup> October 2006

### Certification by the Chairman of the Council

I confirm that these accounts were approved by the Council.



Christine Scivill  
Chairman of Council  
11<sup>th</sup> October 2006

### Further information

Further information about these accounts is available from the Treasurer's Department, Council of the Isles of Scilly, Town Hall, Isles of Scilly, TR21 0LW. Interested members of the public have a statutory right to inspect the accounts before the audit is completed. The availability of the accounts for inspection is advertised at the appropriate time of year.

## **STATEMENT OF ACCOUNTING POLICIES**

### **General**

The accounts have been prepared in accordance with the historic cost convention and the Code of Practice on Local Authority Accounting issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) which is recognised by statute as representing proper accounting practices.

### **Intangible Assets**

An intangible asset is where access to the future economic benefits that the asset represents is controlled either through custody or legal protection. Any intangible assets are held at cost and are depreciated on a straight-line basis over a period of between 3 and 5 years.

### **Fixed Assets**

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

Operational assets have been included in the Balance Sheet at the lower of net current replacement cost or net realisable value in existing use. Non-operational assets have been included in the Balance Sheet at the lower of net current replacement cost or net realisable value.

In order to ensure accurate valuations of its assets, a rolling programme of revaluations was introduced, commencing 1<sup>st</sup> April 1998 with amendments being made each subsequent April. Additions since that date are included in the accounts at cost. Revaluations were carried out by the District Valuer in accordance with the Royal Institution of Chartered Surveyors' appraisal and valuation manual.

The basis of valuations is as follows:

Non-Specialised Operational Property - Open Market Value for Existing Use

Specialised Operational Property – Depreciated Replacement Cost

Non-Operational Property - Open Market Value

Infrastructure Assets - Historic Cost

Community Assets - at a Nominal Sum

### **Depreciation**

Assets other than land are being depreciated over their useful economic life.

Where depreciation is provided for, assets are being depreciated using the straight line method over the following periods:

Buildings	0-80 Years
Infrastructure	20-40 Years
Vehicles and Plant	0-10 Years

### **Deferred Charges**

Deferred Charges represent expenditure which may be properly capitalised but which does not represent tangible fixed assets. If no matching funding is available any outstanding deferred charge will be from the capital financing account. All deferred charges are written off in the year they are incurred.



## STATEMENT OF ACCOUNTING POLICIES (continued)

### Capital Charges

The Capital Charges made to service revenue accounts, central support services and the depot accounts, equate to the sum of depreciation plus a notional interest charge based on the net amount at which the fixed asset is included in the Balance Sheet at 31st March 2006. The notional rates of interest used are 3.5% for those fixed assets included at current value and 4.95% for infrastructure assets and community assets which are included in the Balance Sheet at historical cost.

External interest payable and the provision for depreciation are charged to the Asset Management Revenue Account, which account is credited with capital charges to services. Capital charges therefore have a neutral effect on the amounts required to be raised from local taxation.

### Government Grants

The Code of Practice requires Government Grants to be accounted for on an accruals basis, and income in respect of revenue grants to be credited to the appropriate revenue account. In respect of capital grants, the credit is to be taken to a Governments Grants - Deferred account; an appropriate share of the grant is to be released annually from this account to the Asset Management Revenue Account to offset any provision for depreciation charged to the revenue account in respect of the assets to which the grants relate. Capital grants principally relate to Education, Waste Disposal, Coastal Protection and the Airport.

### Capital Receipts

Capital receipts from the disposal of assets are held in the Capital Receipts Unapplied Account until such time as they are used to finance other capital expenditure or to repay debt. As legislation does not enable local authorities to credit capital receipts to the General Fund or Housing Revenue Account, it is not possible to comply with SSAP6 which recommends that profits or losses arising from the disposal of capital assets be accounted for through such funds or accounts.

Under the Prudential Capital Code, which was introduced from 1 April 2004, a proportion of income received from the disposal of a fixed asset is required to be paid over to Central Government as a "pooled capital receipt". The amounts we must pay across to the Department for Communities and Local Government.

Council house sales	-	75%
Other Housing Revenue Account Assets	-	50% *
Other asset sales	-	Nil

*\* This can be reduced to nil to the extent that the receipt is used to fund specific social housing or regeneration schemes.*

We can use the rest of the income to fund new capital expenditure. Any unused income at the end of the year is recorded as Unapplied Capital Receipts in the Consolidated Balance Sheet on and is carried forward for use in future years.

### Debtors and Creditors

The Revenue Accounts of the Council are maintained on an accruals basis in accordance with the Code of Accounting Practice, which means that sums due to or from the Council during the year are included irrespective of whether the cash is actually received or paid in the year. An exception to this principle relates to electricity and similar quarterly payments which are charged at the date of the meter readings rather than being apportioned between financial years.

## **STATEMENT OF ACCOUNTING POLICIES (continued)**

### **Cost of Support Services**

These costs which include staff salaries, establishment costs and office expenses are fully allocated to the appropriate services on the basis of the estimated time spent by each member of staff. The exception is for Administrative buildings which are charged on an occupied floor area basis.

### **Stocks**

The Council holds stocks of stores, principally in its Airport, Waste Disposal, Water and Tourism Departments. The value of the stocks is recorded at the year end as the lower of historical cost or net realisable value.

### **Reserves**

The Council maintains reserves to meet future expenditure. The Capital Reserve is an amount set aside to finance capital expenditure when loan or other finance may not be available. The Airport Reserve will be available to support the funding of the airport in future years. Other reserves include amounts set aside in respect of the repair and replacement of various building, plant, equipment and highways.

### **Local Government Pension Scheme and FRS 17 – Retirement Benefits**

We pay an employer's contribution into the Cornwall County Council pension fund which provides staff who are members of the pension scheme with pensions and other benefits that are related to their pay and length of service.

Our rate of contribution is determined by the pension fund's actuary following a revaluation of the fund every 3 years and an assessment of the likely demand on the fund and performance of the fund's investments. The cost of early retirements, redundancies and retirements due to ill-health are also considered. The total cost is charged to our revenue services. Details of the costs included in these accounts are shown in Note 12 to the Consolidated Revenue Account. The introduction of Financial Reporting Standard 17 – *Retirement Benefits* requires disclosures in respect of our proportion of the pension scheme assets and liabilities. These have been incorporated into Note 14 to the Balance Sheet.

### **Investments**

These are shown in the Consolidated Balance Sheet at historic cost. The Council has no share capital in private companies.

### **Trading Services:**

The Council has a number of trading services: Airport, Building Control, Commercial Refuse Collection, Tourism (Brochures), Water and Sewerage.

These services are all non-profit making accounts and expenses are met wholly by fees and charges to service users. The accounts summarise the activity of these services for the year and the total surplus or deficit is transferred to the Consolidated Revenue Account in accordance with the SORP.

## **STATEMENT OF ACCOUNTING POLICIES (continued)**

### **VAT**

VAT is separately accounted for in accordance with SSAP5 – Accounting for VAT. It is not included as expenditure except where it is not recoverable.

### **Post Balance Sheet Events**

In the occurrence of a material post balance event, this will be treated in accordance with SSAP17 – Accounting for Post Balance Sheet Events.

### **Contingent Assets, Liabilities or Provisions**

Contingent Assets and Liabilities have been accounted for in accordance with FRS12 – Provisions, Contingent Liabilities and Assets.

### **Internal Interest**

Interest is credited to the Housing Repairs Account based upon the level of balances throughout the year. The amount is calculated using the average London Interbank Bid rates for 2005/06

## CONSOLIDATED REVENUE ACCOUNT

This Statement shows the gross expenditure, income and net cost of the main services of the Council, and how the latter compared with the precept made on the Collection Fund.

2004/05 Net Expenditure £'000		2005/06 Gross Expenditure £'000	2005/06 Income £'000	2005/06 Net Expenditure £'000
786	Central Services	1,144	(193)	951
942	Cultural, environmental and planning services	1,406	(419)	987
1,622	Education services	2,963	(1,293)	1,670
97	Highways, roads and transport	104	-	104
701	Housing services	926	(330)	596
480	Social Services	709	(219)	490
57	Corporate and democratic core	231	(179)	52
312	Fire	350	(13)	337
-	Non-distributed costs	-	-	-
<b>4,997</b>	<b>Net cost of services</b>	<b>7,833</b>	<b>(2,646)</b>	<b>5,187</b>
(57)	(Surpluses)/deficits on trading operations - Note 7			(12)
(1,138)	Asset Management Revenue Account - Note 1			(1,113)
-	Contribution of housing capital receipts to Government Pool			-
(73)	Interest and investment income			(103)
(4)	Pensions interest costs and expected returns on pension assets - Note 12			27
<b>3,725</b>	<b>Net operating expenditure</b>			<b>3,986</b>
(41)	Transfer to HRA balances			66
138	Transfer to / (from) earmarked reserves			24
-	Capital expenditure financed from revenue			202
(4)	Contribution from the pensions reserve			(27)
(528)	Excess depreciation over Minimum Revenue Provision - Note 2			(595)
-	Deferred charges written off			-
174	Exchequer grants released from Government Grants Deferred Account			216
<b>3,464</b>	<b>Amount to be met from Government grants and local taxation</b>			<b>3,872</b>
(2,266)	General government grants			(2,311)
(625)	Non-domestic rates redistribution			(734)
(879)	Demand on the Collection Fund			(928)
(12)	Transfers to / (from) Collection Fund re prior years surplus/deficit			(110)
<b>(318)</b>	<b>Net General Fund (surplus) / deficit for the year</b>			<b>(211)</b>
<b>(720)</b>	<b>Balance on General Fund brought forward</b>			<b>(1,038)</b>
<b>(1,038)</b>	<b>Balance on General Fund carried forward</b>			<b>(1,249)</b>
<b>(152)</b>	<b>General Fund balance attributable to schools budgets</b>			<b>(208)</b>

**NOTES TO THE CONSOLIDATED REVENUE ACCOUNT**

<b>Note 1 - Asset Management Revenue Account:</b>		
<b>2004/05</b>		<b>2005/06</b>
<b>£'000</b>	<b>Income</b>	<b>£'000</b>
	Capital Charges, General Fund	
(572)	Cost of Capital	(577)
(735)	Depreciation	(773)
<u>(1,307)</u>		<u>(1,350)</u>
	Capital Charges, Housing Revenue Account	
(505)	Cost of Capital	(421)
(179)	Depreciation	(152)
<u>(684)</u>		<u>(573)</u>
(174)	Government Grants Deferred	(216)
<u>(2,165)</u>		<u>(2,139)</u>
	<b>Expenditure:</b>	
113	Interest Paid to Lenders	101
914	Provision for depreciation of assets	925
<u>1,027</u>		<u>1,026</u>
<u>(1,138)</u>	<b>Transfer to Consolidated Revenue Account</b>	<u>(1,113)</u>

<b>2004/05</b>	<b>Note 2 - Minimum Revenue Provision</b>	<b>2005/06</b>
<b>£'000</b>		<b>£'000</b>
235	Minimum Revenue Provision	348
(24)	Less Commutation Adjustment	(18)
<u>211</u>		<u>330</u>
(739)	Less depreciation (excluding Major Repairs Allowance)	(925)
<u>(528)</u>	<b>Transfer to Consolidated Revenue Account</b>	<u>(595)</u>

**Note 3 - Section 137 Expenditure**

Section 137(3) of the Local Government and Housing Act 1989, empowers a Local Authority to incur expenditure which in its opinion is in the interests of its area and/or its inhabitants. The Council was able to spend up to £8090 under its power; its actual expenditure amounted to £2100.

## NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

### Note 4 - Publicity

Each Local Authority is required to keep a separate account of its expenditure on publicity. The Council's expenditure in 2005/06 was as follows:-

2004/05		2005/06
£'000		£'000
4	Education	-
6	Planning	10
1	Lighthouse	2
11		12
11		12

### Note 5- Income from Goods and Services

The Council is obliged to disclose the amount of income it receives under the Local Authorities (Goods and Services) Act 1970. Since the Council does not supply goods or services to any other local authority or similar body there is no income receivable.

### Note 6 - Officer Emoluments

The number of employees(\*) whose remuneration, excluding pensionable contributions was £50,000 or more in bands of £10,000 were:

2004/05	<u>Remuneration Band</u>	2005/06
Number		Number
4	£50,000 to £59,999	3
1	£60,000 to £69,999	1

\* This includes all staff employed within the Five Islands School.

### Note 7 - Trading Services

2004/05		Gross	Income	2005/06
(Surplus)/		Expenditure		(Surplus)/
Deficit		£'000	£'000	Deficit
£'000				£'000
(30)	Airport	999	944	55
(7)	Building Control	20	24	(4)
21	Water	318	326	(8)
(35)	Sewerage	104	164	(60)
(16)	Tourism (Brochures)	62	80	(18)
10	Commercial Trade Refuse	119	96	23
(57)		1,622	1,634	(12)
(57)		1,622	1,634	(12)

## NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

### Note 8 - Members' Allowances

The Council has 21 Members representing the 5 inhabited islands. Under the Local Authorities (Members Allowances) Regulations 2001, they are entitled to receive Basic and Attendance Allowances, and the Chairman of the Council; also the Chairmen of Committees are entitled to a Special Responsibility Allowance.

<b>2004/05</b>		<b>2005/06</b>
<b>£'000</b>	Allowances paid in year -	<b>£'000</b>
27	Basic/Attendance	28
9	Special Responsibility	13
<b>36</b>		<b>41</b>

### Note 9 - Related Party Transactions

A Statement of Recommended Practice (SORP) has been issued, applicable to these accounts, which is designed to ensure that financial statements contain the disclosures necessary to draw attention to the possibility that the reported financial position and results may have been affected by the existence of related parties and by material transactions with them. The disclosure information is intended to enable users to judge the extent of any effect.

During the year, none of the Members of the Council, nor any of the Chief Officers, nor any persons related to them, have had any material transactions with the Authority. The following bodies are considered to be related parties, and during the year the Authority has had a significant number of material transactions with them.

<b>2004/05</b>		<b>2005/06</b>
<b>£'000</b>		<b>£'000</b>
	Central Government and related quangos -	
3,934	-Revenue Support and other Grants	3,728
215	Cornwall County Council - Pension contributions	286
	Devon and Cornwall Police Authority -	
139	-Precept on Council Tax	156
140	Teachers' Pension Agency - Pension Contributions	102

**NOTES TO THE CONSOLIDATED REVENUE ACCOUNT**

**Note 10 - Building Control Trading Account**

The Building (Local Authority Charges) Regulations 1998 require the disclosure of information regarding the setting of charges for the administration of the building control function - 'details of scheme for setting charges'. However, certain activities performed by the Building Control Unit cannot be charged for, such as providing general advice and liaising with other statutory authorities. The statement below shows the total cost of operating the Building Control Unit divided between the chargeable and non-chargeable activities.

<b>Total Building Control 2004/2005</b>		<b>Chargeable 2005/2006</b>	<b>Non- Chargeable 2005/2006</b>	<b>Total Building Control 2005/2006</b>
<b>£000s</b>		<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
	<b>Building Regulations Charging Account</b>			
	<b>Expenditure</b>			
2	Employee expenses	1	-	1
4	Transport	4	-	4
1	Supplies and services	1	-	1
21	Central and support service charges	14	-	14
<b>28</b>	<b>Total Expenditure</b>	<b>20</b>	<b>-</b>	<b>20</b>
	<b>Income</b>			
(35)	Building Regulation charges	(24)	-	(24)
-	Miscellaneous income	-	-	-
<b>(35)</b>	<b>Total Income</b>	<b>(24)</b>	<b>-</b>	<b>(24)</b>
<b>(7)</b>	<b>(Surplus)/Deficit for Year</b>	<b>(4)</b>	<b>-</b>	<b>(4)</b>

**2004/05**     **Note 11 - Audit Commission Fees**

**2005/06**  
**£'000**

**£'000**

Fees Payable to the Audit Commission with regard to:

43	External audit services carried out by the appointed auditor under the Audit Commission's Code of Audit Practice in accordance with Section 5 of the Audit Commission Act 1998.	45
4	Statutory inspection under Section 10 of the Local Government Act 1999.	8
3	Certification of grant claims and returns by the appointed auditor under Section 28 of the Audit Commission Act 1998.	2
3	Any other services provided by the appointed auditor not disclosed above.	-

**53**

**55**



## NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

### Note 12 - Local Government Pension Scheme

The Council of the Isles of Scilly offers retirement benefits as part of the terms and conditions of its employees. Although these benefits will not actually be payable until employees retire, the Authority has a commitment to make the payments and this needs to be disclosed at the time that employees earn their future entitlement.

The Authority participates in the Local Government Pension Scheme administered by Cornwall County Council. This is a funded scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets. An employer's contribution of £275,000 representing 18.5% of Superannuable Pay, (2004/05 £222,000 16.5%) was made in respect of all participating staff to the Cornwall County Council Superannuation Fund.

We recognise the cost of retirement benefits in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the Consolidated Revenue Account after the Net Cost of Services line. The following transactions have been made in the Consolidated Revenue Account in the year:

2004/05 £'000		2005/06 £'000
	<b>Net Cost of Services:</b>	
232	· Current service cost	271
-	· Past service costs, curtailment and settlement	-
232		271
	<b>Net Operating Expenditure:</b>	
330	· Interest Cost	399
(334)	· Expected return on assets in the scheme	(372)
	<b>Amounts to be met from Government Grants and Taxation:</b>	
(4)	· Movement on pensions reserve	27
	<b>Actual amount charged to council tax for pensions in the year:</b>	
228	· Employer's contributions payable to the scheme	298

**CONSOLIDATED BALANCE SHEET as at 31st MARCH 2006**

2004/05 £'000		Notes	£'000	2005/06 £'000
-	<b>Intangible fixed assets</b>	1 to 3		-
	<b>Tangible fixed assets</b>			
	<u>Operational Assets</u>	1 to 3		
13,930	Council Dwellings		11,663	
8,336	Other land and buildings		7,701	
1,261	Vehicles, plant, furniture & equipment		1,244	
5,376	Infrastructure		5,256	
	Community Assets		-	
<u>28,903</u>				<u>25,864</u>
	<u>Non Operational Assets</u>	1 to 3		
266	Investment Properties			266
<u>29,169</u>	<b>Total fixed assets</b>			<u>26,130</u>
10	Long Term Investments	4		10
<u>29,179</u>	<b>Total long term Assets</b>			<u>26,140</u>
	<b>Current Assets</b>			
90	Stocks	5	99	
691	Debtors	6	690	
153	Cash in Hand		209	
1,747	Bank Balance		2074	
-	Short Term Investments		-	
<u>2,681</u>			<u>3,072</u>	
	<b>Current Liabilities</b>			
(701)	Short term borrowing	9	(701)	
(1392)	Creditors	7	(1,772)	
5	Provisions	8	(32)	
<u>(2,088)</u>			<u>(2,505)</u>	
<u>593</u>	<b>Current assets less current liabilities</b>			<u>567</u>
<u>29,772</u>	<b>Total assets less current liabilities</b>			<u>26,707</u>
	<b>Long term liabilities</b>			
(2072)	Pensions Liability	14	(2,067)	
(1271)	Long term borrowing	9	(1,070)	
<u>(3,343)</u>				<u>(3,137)</u>
<u>26,429</u>	<b>Total Fixed and Current Assets</b>			<u>23,570</u>
	<b>Financed by:</b>			
2,805	Grants deferred account		13	2,827
1,225	Capital Contributions Deferred			780
19,213	Fixed Asset Restatement Account			16,461
848	Capital Financing Account			792
274	Useable Capital Receipts Reserve			274
(2,072)	Pensions Reserve		14	(2,067)
2,378	Earmarked Reserves			2,402
1,758	General Fund			2,101
<u>26,429</u>	<b>Total Net Worth</b>			<u>23,570</u>

**NOTES TO THE CONSOLIDATED BALANCE SHEET**

**Note 1 - Fixed Assets**

	<b>Council</b>	<b>Dwellings</b>	<b>Other Land and Buildings</b>	<b>Vehicles, Plant and Equipment</b>	<b>Infrastructure</b>	<b>Investment Properties</b>	<b>TOTAL</b>
	<b>Housing Revenue</b>	<b>General Fund</b>					
	<b>£ '000</b>	<b>£ '000</b>	<b>£ '000</b>	<b>£ '000</b>	<b>£ '000</b>	<b>£ '000</b>	<b>£ '000</b>
Gross value at 1st April 2005	14,105	2,472	6,481	2,620	6,589	266	32,533
Revaluations and Restatements	(2,294)	-	10	-	-	-	(2284)
Adjusted gross value at 1st April 2005	11,811	2,472	6,491	2,620	6,589	266	30,249
Additions in 2005/06	-	-	20	273	113	-	406
Disposals and other receipts	-	(425)	-	-	-	-	(425)
<b>Gross book value at 31st March 2006</b>	<b>11,811</b>	<b>2,047</b>	<b>6,511</b>	<b>2,893</b>	<b>6,702</b>	<b>266</b>	<b>30,230</b>
Cumulative amount of Depreciation at 31st March 2005	175	56	561	1359	1213	-	3,364
Adjustments to Value of Depreciation	(175)	( 10)	(4)	-	-	-	(189)
Depreciation in 2005/06	148	56	198	290	233	-	925
<b>Cumulative amount of Depreciation at 31st March 2006</b>	<b>148</b>	<b>102</b>	<b>755</b>	<b>1,649</b>	<b>1,446</b>	<b>-</b>	<b>4,100</b>
<b>Net Book Value of Assets as at 31st March 2006</b>	<b>11,663</b>	<b>1,945</b>	<b>5,756</b>	<b>1,244</b>	<b>5,256</b>	<b>266</b>	<b>26,130</b>
<b>Net Book Value as at 31st March 2005</b>	<b>13,930</b>	<b>2,416</b>	<b>5,920</b>	<b>1,261</b>	<b>5,376</b>	<b>266</b>	<b>29,169</b>

## NOTES TO THE CONSOLIDATED BALANCE SHEET

### **Note 2 - Fixed Assets**

Major assets held at 31st March 2006 are as follows:

Council Houses	108
General Fund Houses	10
Garages	20
Education: - School Buildings	1
- Hostel	1
Residential care establishment	1
Administrative buildings	4
Public conveniences	6
Airport	1
Airport - vehicles and moveable plant	4
Works depot	1
Works vehicles and plant	19
Incinerator	1
Reservoirs	3
Desalination plant	1
Water/Sewerage pumping stations	4
Industrial Estate	1
Fire Station (St Mary's)	1
Fire Service Vehicles	7
Fire stations (Off-Islands)	4
Cemetery	1
Park/Garden	1
Miscellaneous Buildings	4
Roads (Adopted)	14.5 km

### **Note 3 - Capital Expenditure and Financing**

**2005/06**

**£'000**

Opening Capital Financing Requirement at 1 April 2005 6,303

#### Capital investment

Operational assets	637
Non-operational assets	-
Deferred charges	-

#### Sources of finance

Capital receipts	-
Government grants and other contributions	(357)
Revenue contribution to capital expenditure	(202)
Minimum Revenue Provision	(331)

**Closing Capital Financing Requirement as at 31 March 2006** **6,050**

#### Explanation of movements in the year

Increase in underlying need to borrowing (supported by Government financial assistance) 7

Increase in underlying need to borrowing (unsupported by Government financial assistance) 246

**Increase / (decrease) in Capital Financing Requirement** **253**

**NOTES TO THE CONSOLIDATED BALANCE SHEET**

<b>Note 4 - Long Term Investments</b>		
<b>2004/05</b>	Association of District Councils 1996-2011 Debenture Stock.	<b>2005/06</b>
<b>£'000</b>		<b>£'000</b>
<u>10</u>		<u>10</u>

<b>2004/05</b>	<b>Note 5 - Stock</b>	<b>2005/06</b>
<b>£'000</b>		<b>£'000</b>
1	Stone	1
2	Tiles	2
1	Cylinders	1
54	Water and Desalination Plant	65
3	Tourist Information Centre	2
10	Airport	9
19	Incinerator	19
<u>90</u>		<u>99</u>

<b>2004/05</b>	<b>Note 6 - Debtors</b>	<b>2005/06</b>
<b>£'000</b>		<b>£'000</b>
60	Government grants	131
57	Rate and Taxpayers	46
21	Housing tenants	18
699	Sundry debtors	615
<u>837</u>		<u>810</u>
(146)	Less Provision for Bad and Doubtful debts	(120)
<u>691</u>		<u>690</u>

<b>2004/05</b>	<b>Note 7 - Creditors and Receipts in Advance</b>	<b>2005/06</b>
<b>£'000</b>		<b>£'000</b>
508	Sundry creditors	631
* 858	Government grants overpaid	931
13	Rate and Taxpayers	16
2	Housing tenants	2
8	Capital creditors	188
3	Rents accrued	4
<u>1,392</u>		<u>1772</u>

<b>Note 8 - Provisions</b>			
This sum represents a timing difference for the recovery rates of the Direct Labour Force.			
<b>2004/05</b>		<b>2005/06</b>	<b>2005/06</b>
<b>year-end</b>		<b>+</b>	<b>-</b>
<b>£'000</b>		<b>£'000</b>	<b>£'000</b>
<u>(5)</u>	Provision	<u>( 5)</u>	<u>37</u>
			<u>32</u>

2004/05 £'000	<b>Note 9 - Analysis of loans by maturity</b>	2005/06 £'000
<b>701</b>	<b>Loans maturing within 1 year</b>	<b>701</b>
201	Loans maturing after 1 year	201
500	Loans maturing in 2 to 5 years	441
397	Loans maturing in 5 to 10 years	308
173	Loans maturing in more than 10 years	120
<b>1,271</b>	<b>Long term loans</b>	<b>1,070</b>

The loans are borrowed from the Public Works Loan Board and have Interest rates, ranging from 3% to 8.125% with an average rate of 4.5%. Only one other loan exists, which is a short term loan borrowed from Ipswich Building Society at an interest rate of 4.97%.

2004/05 £'000	<b>Note 10 - Deferred Charges</b>	2005/06 £'000
-	Balance at 1st April 2005	-
-	Payment of Disabled Facilities Grant	-
-	Exchequer Subsidy at 60%	-
-	Amount written off to Consolidated Revenue Account	-
<b>-</b>	<b>Balance at 31st March 2006</b>	<b>-</b>

**Note 11 - Impairment**

Financial Reporting Standard 11 requires a report relating to impairment, which then means a reduction in the value of a fixed asset below the carry-forward amount in the Balance Sheet, and where there is reason to believe that any reduction in value is material. Examples of impairment include -

- a a significant decline in market values during the period, and
- b obsolescent or physical damage to the asset.

The District Valuer has certified that as at the 31st March 2006, there was no evidence of any impairment to any fixed asset of the Council.

**Note 12 - Capital commitments:**

At 31st March 2006, payments due to contractors relating to existing contracts were committed as follows:

Waste Management	£44,000
Implementing Electronic Government	£62,000

	Incinerator	Airport	Coast Protection	Other	Total
	£'000	£'000	£'000	£'000	£'000
Gross Value at 1st April 2005	318	334	1,686	467	2,805
Additions in year	0	-	-	238	238
	318	334	1,686	705	3,043
Grants released in year	42	33	54	87	216
<b>Gross Value at 31st March 2006</b>	<b>276</b>	<b>301</b>	<b>1,632</b>	<b>618</b>	<b>2,827</b>

## NOTES TO THE CONSOLIDATED BALANCE SHEET

### **Note 14 - Local Government Pension Scheme**

Note 10 to the Consolidated Revenue Account contains details of the Authority's participation in the Local Government Pensions Scheme (administered by Cornwall County Council). The underlying assets and liabilities for retirement benefits attributable to the Council at 31<sup>st</sup> March 2006 are as follows:

	<b>31<sup>st</sup> March 2005</b>	<b>31<sup>st</sup> March 2006</b>
	<b>£'000</b>	<b>£'000</b>
Estimated funded liabilities in scheme	(7,346)	(8,734)
Estimated unfunded liabilities in scheme	(33)	(36)
Estimated Assets in scheme	5,307	6,703
<b>Net asset / (liability)</b>	<b>(2,072)</b>	<b>(2,067)</b>

The liabilities show the underlying commitments that the Authority has in the long run to pay retirement benefits. Whilst the net liability of £2,067,000 at 31<sup>st</sup> March 2006 is significant, statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy. This is because the deficit on the scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.

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 liabilities have been assessed by Hymans Robertson, an independent firm of actuaries. They are based on the latest full valuation of the scheme as at 31<sup>st</sup> March 2006.

The main assumptions used in their calculations are as follows:

	<b>31<sup>st</sup> March 2005</b>	<b>31<sup>st</sup> March 2006</b>
<b>Assumptions at -</b>	<b>% Per Annum</b>	<b>% Per Annum</b>
Price increases	2.90%	3.10%
Salary increases	4.90%	5.10%
Pension increases	2.90%	3.10%
Discount rate	5.4%	4.90%

Assets in the scheme are valued at fair value, principally market value for investments, and consist of the following categories:

	<b>Long Term Return at 31<sup>st</sup> March 2005</b>	<b>31<sup>st</sup> March 2005</b>	<b>Long Term Return at 31<sup>st</sup> March 2006</b>	<b>31<sup>st</sup> March 2006</b>
<b>Assets (Employer)</b>		<b>£'000</b>		<b>£'000</b>
Equities	7.70%	3,864	7.40%	4,979
Bonds	4.80%	770	4.60%	849
Property	5.70%	513	5.50%	650
Cash	4.80%	160	4.60%	225
<b>Total</b>	<b>7.00%</b>	<b>5,307</b>	<b>6.80%</b>	<b>6,703</b>

## HOUSING REVENUE ACCOUNT

2004/05 £'000		Note	2005/06 £'000
	<b>Income:</b>		
301	Council House Rents		296
7	Other Property Rents		6
11	Charges for services and facilities		11
319	<b>Total Income</b>		313
	<b>Expenditure:</b>		
80	Contribution to Housing Repair Account		88
58	Supervision and Management		75
15	Special Support Services		15
-	Increased Provision for Bad/Doubtful Debts		-
40	Notional Surplus Paid to Exchequer	10	16
505	Cost of Capital		421
	<u>Depreciation of Fixed Assets</u>		
175	Dwellings	7	148
4	Other Assets	7	4
1	Debt Management Costs		1
878	<b>Total Expenditure</b>		768
<b>559</b>	<b>Net Cost of Services</b>	11	<b>455</b>
(475)	Adjustment Transfer – Asset Management Revenue Account		(391)
(3)	Interest Received on Balance		(10)
<b>81</b>	<b>Net Operating Expenditure/Surplus</b>		<b>54</b>
	<b>Appropriations</b>		
-	Minimum Revenue Provision for Repaying Borrowing		-
(117)	Transfer to / (from) Major Repairs Reserve	2	(120)
<b>(36)</b>	<b>Deficit (Surplus) for the Year</b>		<b>(66)</b>
(84)	Housing Revenue Account Balance brought forward 1 April 2005		(120)
<b>(120)</b>	<b>Housing Revenue Account Balance brought forward 31 March 2006</b>		<b>(186)</b>



**NOTES TO THE HOUSING REVENUE ACCOUNT**

<b>2004/05</b> <b>£'000</b>	<b>Note 1 - Housing Repairs Account</b>	<b>2005/06</b> <b>£'000</b>
(137)	Balance of Account at 1 April 2005	(169)
(80)	Contribution from Housing Revenue Account	(88)
(5)	Interest Earned on Balance	-
53	Expenditure on Housing Repairs in Year	121
<hr/> <b>(169)</b>	<b>Balance of Account at 31 March 2006</b>	<hr/> <b>(136)</b>

<b>2004/05</b> <b>£'000</b>	<b>Note 2 - Major Repairs Reserve</b>	<b>2005/06</b> <b>£'000</b>
	<b>Depreciation of Fixed Assets.</b>	
(175)	Dwellings	(148)
(4)	Garages	(4)
<hr/> (179)	Total Income	<hr/> (152)
4	Transfer to General Fund - depreciation on non-dwellings	4
113	Transfer to General Fund - depreciation in excess of MRA	115
-	HRA Appropriation – Other Fixed Assets	-
4	Major Repairs Expenditure	-
<hr/> <b>(58)</b>	<b>Surplus at End of Year</b>	<hr/> <b>(33)</b>
(100)	Balance at 1 <sup>st</sup> April 2005	(158)
<hr/> <b>(158)</b>	<b>Balance at 31<sup>st</sup> March 2006</b>	<hr/> <b>(191)</b>

<b>2005</b>	<b>Note 3 - Council Housing Stock</b>	<b>2006</b>
	<b>The Council's housing stock at 31st March is analysed as follows.</b>	
	<b>Flats and Bedsits</b>	
37	One bedroom	37
14	Two bedrooms	14
1	Three bedrooms	1
<hr/> <b>52</b>	<b>Total of Flats and Bedsits</b>	<hr/> <b>52</b>
	<b>Houses and Bungalows</b>	
3	One bedroom	3
10	Two bedrooms	10
39	Three bedrooms	39
4	Four and more bedrooms	4
<hr/> <b>56</b>	<b>Total of Houses and Bungalows</b>	<hr/> <b>56</b>
<hr/> <b>108</b>	<b>Total number of dwellings</b>	<hr/> <b>108</b>
-	<b>Number sold in year</b>	-

## NOTES TO THE HOUSING REVENUE ACCOUNT

<b><u>Note 4 - Value of HRA Assets</u></b>	<b>Operational assets</b>			<b>Total £'000</b>
	<b>Houses £'000</b>	<b>Garages £'000</b>	<b>Land £'000</b>	
Value at 1st April 2005	<b>13,930</b>	<b>199</b>	<b>150</b>	<b>14,279</b>
Additions in year	-	-	-	-
Revaluation in year	(2119)	9	4	(2106)
Disposals	-	-	-	-
Depreciation in Year	(148)	(4)	-	(152)
<b>Value at 31st March 2006</b>	<b>11,663</b>	<b>204</b>	<b>154</b>	<b>12,021</b>

### **Note 5 - Vacant Possession Value of Council Houses**

The introduction of Resource Accounting in the Housing Revenue Account requires all HRA assets to be revalued as at 1st April each year. The basis of the valuation is Existing Use Value for Social Housing (EUV-SH) as defined by the Royal Institute of Chartered Surveyors. The method of valuation prescribed by the RICS to arrive at EUV-SH is based on the vacant possession value of the properties, adjusted to reflect the occupation by a secure tenant. The Adjustment Factor for the South West is 44% (56% in 2004/05) of the Vacant Possession Value. The values thus arrived at for this authority's HRA is as follows. The value of the adjustment, in effect, reflects the cost of providing Council Housing at less than Market Value.

At 1<sup>st</sup> April 2005 the vacant possession value of dwellings within the Council's HRA was £26,843k

## NOTES TO THE HOUSING REVENUE ACCOUNT

2004/05 £'000	<b><u>Note 6 - Capital Expenditure</u></b>	2005/06 £'000
26	Total Capital Outlay in year	22
(26)	Financed by: Reserves and temporary borrowing	(22)
	<b><u>Capital Receipts</u></b>	
-	- Sale of Council Houses - net sale proceeds	-
-	- Sale proceeds set-aside for debt redemption (at 75%)	-
-	- Net usable receipt from sale	-
	<b><u>Capital Charges</u></b>	
<p>The Housing Revenue Account reflects both the cost of capital employed and the depreciation of those assets. The cost of capital employed is calculated at 3.5% in respect of the net book value for fixed assets, and at 4.625% for infrastructure (both at 6% in earlier years): plus depreciation, which represents the consumption, or using-up, of those assets over their expected life.</p>		

2004/05 £'000	<b><u>Note 7 - Total Depreciation in year</u></b>	2005/06 £'000
175	Council Houses	148
4	Garages	4
<u>179</u>		<u>152</u>

<b><u>Note 8 - Impairment/Deferred charges</u></b>		
<p>There has been no material decline in the value of any HRA assets, and no deferred charges have been incurred.</p>		

2004/05 £'000	<b><u>Note 9 - Rent Arrears</u></b>	2005/06 £'000
13	Gross Rent Arrears at 31st March	12
(1)	Prepaid Rent	(2)
<u>12</u>	Net Rent Arrears	<u>10</u>
<u>3</u>	Value of Bad or Doubtful Debt Provision	<u>3</u>
<p>The arrears of £12,192 (£13,313 in 2004/05) represents 3.83% (4.07%) of the gross rent income for the year.</p>		

## NOTES TO THE HOUSING REVENUE ACCOUNT

### Note 10 - HRA - Exchequer Subsidy

The following is a breakdown of the various elements in the Housing Subsidy calculation. The net result of this calculation is that the Council does not receive any Government Subsidy in aid of the Housing Revenue Account; the calculation reveals in fact the opposite, which is termed a Negative Subsidy.

<b>2004/05</b>		<b>2005/06</b>
<b>£'000</b>		<b>£'000</b>
70	Management Allowance	87
62	Maintenance Allowance	73
61	Major Repairs Allowance	65
4	Charges for Capital -	2
-	Admissible set-aside	-
34	Interest charge	35
34	Debt Management	35
-	Rent Rebates	-
265		297
(305)	Less Notional Rent Income	(313)
(40)		(16)
-	Adjustment (per rules)	-
<b>(40)</b>	<b>Total of Negative Subsidy</b>	<b>(16)</b>

### Note 11 - The inclusion of the Net Cost of Housing Services in the Consolidated Revenue Account has been adjusted by the transfers between accounts, as follows -

<b>2004/05</b>		<b>2005/06</b>
<b>£'000</b>		<b>£'000</b>
559	Net cost of services, as in HRA	455
(80)	Deduct Transfer to Housing Repairs Account	(88)
48	Add actual Housing Repairs expenditure	121
<b>527</b>	<b>Net cost of services included in Consolidated Revenue Account</b>	<b>488</b>

## COLLECTION FUND

This account reflects the statutory requirement for billing authorities to maintain a separate Collection Fund which shows the transactions of the billing authority in relation to non-domestic rates and the council tax, and illustrates the way in which these have been distributed to the precepting authority and the Consolidated Revenue Account. The Collection Fund is consolidated with other accounts of the authority.

2004/05 £'000	Notes	2005/06 £'000	2005/06 £'000
<u>Income from Council Tax</u>			
(1262) Council Tax - gross due	1	(1,328)	
90 Less Discounts		96	
31 Exemptions		25	
- Write offs		-	
49 Benefits		56	
4 Previous years adjustment		3	
(1,088)			(1148)
<u>Transfers from General Fund</u>			
(49) re Council Tax benefits			(56)
(928) <u>Income collectable from business ratepayers</u>	2		(964)
<b>(2,065) Total income</b>			<b>(2,168)</b>
<u>Expenditure:</u>			
Precepts -			
879 General Fund		928	
138 Police		149	
1,017			1,077
<u>Business Rate -</u>			
906 Payment to National Pool		941	
22 Costs of collection		23	
- Interest		-	
928			964
Provision for bad debts		-	
<u>Distribution of previous year's surplus</u>			
13 General Fund		110	
2 Police		7	
15			117
<b>(105) (Surplus) / Deficit for year</b>			<b>(10)</b>
<b>(16) Balance - 1st April</b>			<b>(121)</b>
<b>(121) Balance - 31st March</b>			<b>(131)</b>

## NOTES TO THE COLLECTION FUND

### Note 1 - Council Tax Base

Valuation Band	Range of Values	Relationship to Band D	Dwellings on Valuation List	Discounted Dwellings	Dwellings Tax Base
A	Up to £40,000	6/9	14	12	8
B	£40,001 to £52,000	7/9	30	22	17
C	£52,001 to £68,000	8/9	69	55	47
D	£68,001 to £88,000	9/9	217	168	164
E	£88,001 to £120,000	11/9	315	264	314
F	£120,001 to £160,000	13/9	315	263	371
G	£160,001 to £320,000	15/9	150	127	206
H	Over £320,000	18/9	7	7	13
			1,117	918	1,140

Council Tax for 2005/06 was set at £814.10 (£779.04 in 2004/05) for Band D with each other Band being calculated in its weighted relationship to the Band D charge. The Police Precept was £119.62 (£113.39 in 2004/05) making a Band D total £933.72 (£892.43 in 2004/05).

### Note 2 - Business Rates

Under the arrangements for Uniform Business Rates, the Council collects non-domestic rates for its area which are based on Rateable Values multiplied by the national rate of 42.2p in the £ (45.6p in 2004/05). The total amount, less reliefs granted, is then paid into a central pool. The Government redistributes the sums paid into the pool back to authorities on the basis of a fixed amount per head of population. The amounts collected on behalf of the Government can be analysed as follows:

2004/05 £'000		2005/06 £'000
975	NNDR debit	1239
(44)	Less Transitional Relief, etc	(272)
(3)	Less previous years' adjustments	(3)
928	Net income from Business Ratepayers	964
625	Redistributed amount from Pool	734

## STATEMENT OF TOTAL MOVEMENT IN RESERVES

The following statement of total movements in Reserves covers the gains and losses of the authority in the last year, and separately identifies those movements between Capital and Revenue Reserves

2004/05 £'000	Notes	2005/06 £'000	2005/06 £'000
<u>Surplus / (deficit) for the year :</u>			
318	General Fund	211	
	Collection Fund	10	
72	Housing Revenue Account	66	
	Schools	56	
132	Add back Movements on earmarked reserves	24	
	Set Aside from Revenue	(595)	
4	Deduct appropriation from pensions reserve	27	
(754)	Actuarial gains and (losses) relating to pensions	(22)	
<b>(228)</b>	<b>Total increase / (decrease) in revenue resources</b>		<b>(224)</b>
	- Increase / (decrease) in useable capital receipts	-	
(292)	Increase / (decrease) in unapplied capital grants and contributions	(445)	
<b>(292)</b>	<b>Total increase / (decrease) in realised capital resources</b>		<b>(445)</b>
5,360	Gains / (losses) on revaluation of fixed assets	( 2,096)	
	Impairment losses on fixed assets due to general change in prices	(231)	
<b>5,360</b>	<b>Total increase / (decrease) in unrealised value of fixed assets</b>		<b>(2,327)</b>
	- <b>Value of assets sold, disposed of or decommissioned</b>		<b>(425)</b>
	Capital receipts set aside	-	
641	Revenue resources set aside	202	
(388)	Movement of Government Grants Deferred	357	
	Movement on Major Repairs Reserves	-	
<b>253</b>	<b>Total increase / (decrease) in amounts set aside to finance capital investment</b>		<b>559</b>
	- Increase / (decrease) on the pensions reserve		-
<b>5,093</b>	<b>Total recognised gains and losses</b>		<b>(2862)</b>

**NOTES TO THE STATEMENT OF TOTAL MOVEMENT IN RESERVES**

	General Fund Balances £'000	HRA balances £'000	Earmarked revenue reserves £'000	Pensions reserve £'000
<b><u>Note 1 - Movements in revenue resources</u></b>				
(Surplus) / deficit for 2005/06	(211)	(66)	-	-
Appropriations (to) / from revenue account	-	-	(24)	(27)
Write off from Bad Debt Provision	-	-	-	-
Actuarial gains and losses relating to pensions	-	-	-	22
	<hr/>	<hr/>	<hr/>	<hr/>
	(211)	(66)	(24)	(5)
Balance brought forward at 1 April 2005	<hr/>	<hr/>	<hr/>	<hr/>
	(1038)	(447)	(2,378)	2,072
<b>Balance carried forward at 31 March 2006</b>	<hr/> <b>(1,249)</b>	<hr/> <b>(513)</b>	<hr/> <b>(2,402)</b>	<hr/> <b>2,067</b>

Notes 4 and 5 to the Statement of Total Movements in Reserves show the movements on each General Fund and Earmarked Reserve during the year.

	Useable capital receipts £'000	Capital Contributions Deferred £'000
<b><u>Note 2 - Movements in realised capital resources</u></b>		
Amounts receivable in 2005/06	-	(322)
Amounts applied to finance new capital investment in 2005/06	-	<b>357</b>
<b>Total increase / (decrease) in realised capital resources in 2005/06</b>	<hr/>	<hr/>
	-	<b>35</b>
Balance brought forward at 1 April 2005	<hr/>	<hr/>
	(274)	(1225)
<b>Balance carried forward at 31 March 2006</b>	<hr/> <b>(274)</b>	<hr/> <b>(1190)</b>

The Useable Capital Receipts Reserve represents the value of receipts from asset sales which the Council can use to finance capital expenditure. The Capital Grants and Contributions Account Deferred Account shows the value of capital grants received but not used to finance capital expenditure. As the grants are used, they are transferred to the Government Grants Deferred Account. The balance on this account is shown on the Balance Sheet at the end of the financial year.



**NOTES TO THE STATEMENT OF TOTAL MOVEMENT IN RESERVES**

	<b>Fixed Asset Restatement Account £'000</b>
<b>Note 3 - Movements in unrealised value of fixed assets</b>	
(Gains)/losses on restatement of assets in 2005/06	2,096
Impairment loss due to general change in prices in 2005/06	-
Difference between cost of fixed asset enhancements and Increase in fixed asset value.	231
<b>Total increase/decrease in unrealised capital resources in year</b>	<u>2327</u>
<b>Value of Assets sold or otherwise disposed of</b>	
Amounts written off to fixed asset balances for disposals	425
<b>Total movement on Reserve in 2005/06</b>	
Balance brought forward at 1 April 2005	<u>(19,213)</u>
<b>Balance carried forward at 31 March 2006</b>	<u><u>(16,461)</u></u>
<p>The system of capital accounting requires the establishment of the Fixed Asset Restatement Account. The balance represents the difference between the valuation of assets under the previous system of capital accounting and their subsequent revaluation. The Reserve will be written down by the net book value of assets as they are disposed of, and debited or credited with the deficits or surpluses arising on future revaluations. The Reserve Account is not represented by cash.</p>	

	<b>Capital Financing Account £'000</b>	<b>Government Grants Deferred £'000</b>	<b>Total £'000</b>
<b>Note 4 - Movement in amounts set aside to finance capital investment</b>			
Capital receipts set-aside in 2005/06	-	-	-
Usable receipts applied	-	-	-
<b>Total capital receipts set aside and used in year</b>	<u>-</u>	<u>-</u>	<u>-</u>
Revenue resources set aside in 2005/06			
- Capital expenditure financed from revenue(reserves)	(202)	-	(202)
- Depreciation less MRP	507	-	507
- HRA depreciation in excess of Major Repairs Allowance	87	-	87
<b>Total revenue resources set aside in year</b>	<u>392</u>	<u>-</u>	<u>392</u>
Grants applied to capital investment in year	(119)	(238)	(357)
Amounts credited to the Asset Management Revenue Account	(216)	216	-
<b>Total movement of grants in year</b>	<u>(335)</u>	<u>(22)</u>	<u>(357)</u>
<b>Total increase/decrease in amounts set aside to finance capital investment</b>	<b>57</b>	<b>(22)</b>	<b>35</b>
Balance brought forward at 1 April 2005	<u>(849)</u>	<u>(2805)</u>	<u>(3654)</u>
<b>Balance carried forward at 31 March 2006</b>	<u><b>(792)</b></u>	<u><b>(2827)</b></u>	<u><b>(3,619)</b></u>

**NOTES TO THE STATEMENT OF TOTAL MOVEMENT IN RESERVES**

<b>Details of General Fund Balances</b>				
	<b>1 April 2005</b>	<b>Transfer to reserve</b>	<b>Transfer from reserve</b>	<b>31 March 2006</b>
	<b>£'000</b>	<b>£'000</b>		<b>£'000</b>
General Fund	(1038)	(211)	-	(1,249)
Collection Fund	(121)	(10)	-	(131)
School Balances	(152)	(56)	-	(208)
Housing Account Balances	(447)	(66)	-	(513)
				-
	<b>(1,758)</b>	<b>(343)</b>	-	<b>(2,101)</b>

<b>Earmarked Reserves</b>				
	<b>1 April 2005</b>	<b>Transfer from reserve</b>	<b>Transfer to reserve</b>	<b>31 March 2006</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Capital	(238)	-	-	(238)
Airport	(690)	88	-	(602)
Repairs Fund	(551)	71	(203)	(683)
Plant Fund	(79)	-	(10)	(89)
Water Revenue	(573)	86	(8)	(495)
Sewerage Revenue	(225)	-	(60)	(285)
Equipment Fund	(22)	12	-	(10)
I.T. Revenue	-	-	-	-
	<b>(2,378)</b>	<b>257</b>	<b>(281)</b>	<b>(2,402)</b>

**HISTORY OF EXPERIENCE – GAINS AND LOSSES**

	Year to 31 Mar 2006 £(000)	Year to 31 Mar 2005 £(000)
Actual Return Less Expected Return on Pension Scheme Assets	1,006	226
Experience Gains and Losses arising on the Scheme Liabilities	(2)	229
Changes in Financial assumptions underlying the Present Value of Scheme Liabilities	(978)	(1,209)
<b>Actuarial Gain / (Loss) in Pension Plan</b>	<b>26</b>	<b>(754)</b>
Increase / (Decrease) in irrecoverable surplus from Membership Fall and Other factors	-	-
<b>Actuarial Gain/ (Loss) Recognised in STMR</b>	<b>26</b>	<b>(754)</b>

**CASHFLOW STATEMENT**

2004/05 £'000	Notes	2005/06 £'000	2005/06 £'000
<b><u>Revenue Activities</u></b>			
<b><u>Cash outflows</u></b>			
3473		3,839	
3359		3,073	
216		239	
140		156	
906		941	
8,094			8,248
<b><u>Cash inflows</u></b>			
(546)		(588)	
(1,092)		(1,172)	
(831)		(885)	
(2,266)		(2,311)	
(625)		(734)	
(224)		(251)	
(1,475)		(1,733)	
(1,510)		(902)	
(725)		(512)	
(9,294)			(9,088)
<b>(1,200)</b>	<b>Total revenue activities cash flow</b>		<b>(840)</b>
<b><u>Returns on investments and servicing of finance</u></b>			
<b><u>Cash outflows</u></b>			
113	Interest paid	101	
<b><u>Cash inflows</u></b>			
(73)	External Interest received	(103)	
<b>40</b>	<b>Total returns on investments and servicing of finance</b>		<b>(2)</b>
<b><u>Capital Activities</u></b>			
<b><u>Cash outflows</u></b>			
563	Purchase of fixed assets	637	
<b><u>Cash inflows</u></b>			
-	Sale of fixed assets	-	
(199)	Capital Grants received	(322)	
-	Other Capital	-	
<b>364</b>	<b>Total capital activities</b>		<b>315</b>
<b>(796)</b>	<b>Net Cash Flow before Financing</b>		<b>(527)</b>
<b><u>Financing</u></b>			
<b><u>Cash outflows</u></b>			
983	Repayments of amounts borrowed	701	
	Investment of Funds	-	
<b><u>Cash inflows</u></b>			
	New loans raised	-	
(500)	Short Term loans raised	(500)	
<b>483</b>	<b>Total Financing</b>		<b>201</b>
<b>(313)</b>	<b>Increase / (decrease) in cash and bank balances</b>		<b>(326)</b>

**NOTES TO THE CASHFLOW STATEMENT**

**Note 1 - Reconciliation of Net Surplus to Cash Inflow from Revenue Activities**

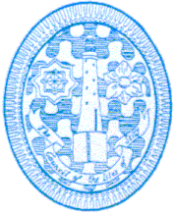
<b>2004/05</b>		<b>2005/06</b>	<b>2005/06</b>
<b>£'000</b>		<b>£'000</b>	<b>£'000</b>
318	General Fund (Surplus) / Deficit		211
105	Collection Fund (Surplus) / Deficit		10
<u>423</u>			<u>221</u>
	<u>Adjustment for non-cash transactions</u>		
324	Minimum Revenue Provision	330	
138	Contributions to Reserves	24	
(20)	Provisions	37	
	Grants used for Revenue Financing	(410)	
	Revenue Financing	202	
(41)	Transfer to HRA	66	
<u>401</u>			<u>249</u>
	<u>Adjustments for items on an accruals basis</u>		
771	(Increase) / Decrease in total Creditors	380	
(9)	Increase / (Decrease) in total Stocks	(9)	
(426)	Increase / (Decrease) in total Debtors	1	
<u>336</u>			<u>372</u>
	<u>Items classified elsewhere in cash flow statement</u>		
(73)	Interest received	(103)	
113	Interest Paid	101	
<u>40</u>			<u>(2)</u>
<u><b>1,200</b></u>	<b>Net revenue cash flow</b>		<u><b>840</b></u>

<b>31/03/2005</b>		<b>At 1 April</b>	<b>Movement</b>	<b>At 31</b>
<b>£'000</b>	<b><u>Note 2 - Movement in cash resources</u></b>	<b>2005</b>	<b>in year</b>	<b>March</b>
		<b>£'000</b>	<b>£'000</b>	<b>2006</b>
				<b>£'000</b>
1,900	Bank and cash in hand	1,900	353	2,283
(152)	School bank accounts	(152)	(56)	(208)
<u>1,748</u>	<b>Subtotal</b>	<u>1,748</u>	<u>327</u>	<u>2,075</u>
-	Investments of surplus cash	-	-	-
(1,972)	Loans we have not repaid	(1,972)	201	(1,771)
<u>(224)</u>	<b>Net cash balances</b>	<u>(224)</u>	<u>528</u>	<u>(304)</u>

**NOTES TO THE CASHFLOW STATEMENT**

<b>2004/05</b>	<b><u>Note 3 - Government Grants</u></b>	<b>2005/06</b>
<b>£'000</b>		<b>£'000</b>
28	Transitional Relief	191
90	Council Tax Discounts	96
22	Cost of Collection	23
725	Standards Fund	719
610	Other	704
<u>1,475</u>		<u>1733</u>

<b>2004/05</b>	<b><u>Note 4 - Reconciliation of net cash flow to movement in net debt.</u></b>	<b>2005/06</b>
<b>£'000</b>		<b>£'000</b>
	<u>Increase / decrease in cash in the period.</u>	
(500)	Cash inflow from new debt	(500)
-	Investment	-
983	Cash outflow from debt repaid and finance lease payments	701
224	Cash inflow / outflow from decrease / increase in liquid resources	327
<u>707</u>	<b>Change in net debt resulting from cash flows</b>	<u>528</u>
<u>(931)</u>	Net debt as at 1 April 2005	<u>(224)</u>
<u>(224)</u>	<b>Net debt as at 31 March 2006</b>	<u>(304)</u>



# COUNCIL OF THE ISLES OF SCILLY

## STATEMENT ON INTERNAL CONTROL 2005/06

### 1. SCOPE OF RESPONSIBILITY

The Council of the Isles of Scilly is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council of the Isles of Scilly also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council of the Isles of Scilly (members and officers) is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Council of the Isles of Scilly's functions and which includes arrangements for the management of risk.

### 2. THE PURPOSE OF THE SYSTEM OF INTERNAL CONTROL

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, ambitions and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an on-going process designed to:

- a) Identify and prioritise the risks to the achievement of the Council's policies, ambitions and objectives;
- b) Evaluate the likelihood of those risks being realised;
- c) Evaluate the impact should they be realised; and
- d) Manage them efficiently, effectively and economically.

A system of internal control arrangements have been in place at the Council of the Isles of Scilly for the year ended 31<sup>st</sup> March 2006 and up to the date of approval of the annual accounts. However, the Council recognise there are a number of internal control issues at section 6 which need to be addressed and the Council should continue to review the control environment to ensure it operates effectively.

### 3. THE INTERNAL CONTROL ENVIRONMENT

The key elements of the Council's internal control environment are:

#### **Performance Management**

The Council of the Isles of Scilly has a developing performance management framework that supports the effective monitoring and management of performance, the main elements of this framework are:

- 3.1 The Council's priorities are reflected in the Community Strategy 2020 and Corporate Best Value Plan 2005-06. These plans set out the Council's strategic and service objectives together with individual service plans. These strategies provide direction for the Council and are accessible to officers, Councillors, partners and the public. The strategies are supported by action plans with targets and progress is monitored by regular reporting to the appropriate parent committee.

- 3.2 Measures are being introduced to ensure that performance issues can be communicated and addressed across the Authority. Objectives, targets and action plans are publicised in accessible formats through the Best Value Performance Plan, service plans and are included on the Council's new website and intranet.
- 3.3 Councillors are made aware of significant policy related proposals and service reviews through reports taken to the appropriate committee. Councillors have the opportunity to discuss and/or challenge the performance of the Council.
- 3.4 Best Value reviews and service managers identify key performance indicators and assist in challenging the services contribution to Strategic Objectives.
- 3.5 Performance Indicator results which are included in the Best Value Performance Plan are approved annually.
- 3.6 Recruitment processes followed up by induction training for Members, Officers and staff, (which includes information on the Members Handbook, key policies, procedures, laws and regulations appropriate to the post and experience of the post holder) and on-going training and development.
- 3.7 Appraisals for chief officers are carried out annually and appraisals for all staff to SO1 have been undertaken within the last year. The Authority is planning to extend this to all staff within the following year.
- 3.8 A Communication Strategy is being developed this year to establish and maintain effective channels of communication between directors, managers and employees, to enable the Council's goals and objectives to be clearly understood, acted upon and achieved.
- 3.9 Each Chief Officer is responsible for ensuring that internal channels of communication are operating, and monitoring that information is cascaded appropriately in both directions, with Chief Officers reporting feedback at Management Team meeting. In addition in 2005 the Council has established regular meetings between middle managers and the Chief Officer Management team, to ensure the effective cascading of strategy and new developments from the management team and to ensure the flow of information from senior officers back to Chief Officers.

## **Financial Management**

A range of financial management measures are in place to ensure the effective use and management of resources. These include:

- 3.10 Financial Papers for Members, covering both revenue and capital spend and setting out fees and charges, provides for the planning and monitoring of resources required
- 3.11 The commissioning of the Asset Management Plan for Capital Strategy aims to ensure that investment is linked to strategic objectives. Bids for capital and other asset management funding and the progress in delivering projects are formally monitored by the Chief Officer/Management Team and Members of the parent Committee and is evidenced by minutes of the committee meetings.
- 3.12 Chief Officers are accountable to their Committees for the operational control and management of Capital and Revenue budgets, having regard for the achievement of economy, efficiency and effectiveness and is evidenced by reports and minutes of the Members meetings.
- 3.13 Chief Officers are authorised to take the appropriate action for the implementation of the Capital programme approved for the year, but subject also to such actions being in compliance with any Central Government expenditure controls.
- 3.14 The Council of the Isles of Scilly has adopted CIPFA's "Code for Treasury Management in Local Authorities".

- 3.15 Sound financial management is provided in the form of budget and monitoring reports to Service Managers monthly and to Members at each meeting of each committee.
- 3.16 The Treasurer as the statutory appointed Section 151 Officer is charged inter alia with the obligation to ensure the provision of a programme (currently through the engagement of Cornwall County Council) of Internal Audit and timely accounts.
- 3.17 The management of investments is the responsibility of the Treasurer under the direction of the Policy and Resources Committee and at all times follow the principles laid down in CIPFA's "Code of Guidance on Treasury Management for Local Authorities".
- 3.18 Chief Officers are responsible for periodic checks of items on the inventory records of the department, at least annually.
- 3.19 Financial Regulations contained within the Council's Handbook set out the overall framework that governs the management of the Council's finances.

## **Risk Management**

The Council of the Isles of Scilly has mechanisms to identify, assess and control risk throughout the Authority. The main mechanisms in place include:

- 3.20 A Corporate Risk Register identifies the benefits of active risk management. The process for ongoing risk management are the responsibilities of the Strategic Management Team and Chief Officers.
- 3.21 Departmental Risk Registers have been implemented this year to identify risk management at lower level and are the responsibility of the Service Managers.
- 3.22 The Risk Management Policy has the full support of the Councillors and Strategic Management Team and is approved by Senior Members.
- 3.23 Periodic reviews of all insurances are the responsibility of the Chief Officers.
- 3.24 Chief Officers and Chairmen have the responsibility to monitor and review the risk management process and Corporate Risk Register, and report to the Modernising Local Government Group every 6 months.
- 3.25 Training and communication of Risk Management is the responsibility of the Modernisation Officer and Member training has been implemented last year. Further training is planned for 2006/07 and will be included in the Council's existing Induction Training.
- 3.26 A Register of gifts and hospitality and a Register of Interests, identifying the declarable interests of Members and Officers in relation to community and life interests, is reviewed and updated annually.
- 3.27 Communication of internal control processes to staff forms part of the staff induction process and includes Confidential Reporting, Managing Financial Irregularities (whistle-blowing) and Code of Conduct policies.
- 3.28 Training and communication of Health and Safety is the responsibility of the Assistant Chief Technical Officer and regular training is undertaken.
- 3.29 Standing Orders are contained within the Council's Handbook and are reviewed periodically, the last review being March 2005.
- 3.30 Nominated Officers of the Council of the Isles of Scilly are included in the Fidelity Guarantee Policy.
- 3.31 Members of the public are made aware of the complaints procedure and policy in operation by leaflet distribution and will be included on the new website and intranet.
- 3.32 The Council of the Isles of Scilly employ Cornwall County Council to supply Internal Audit during 2006/07. The risk based audit plan is determined by Internal Audit and discussed with the Treasurer and approved by Members. During the year Internal Audit prepare



reports and action plans which are reported to the Treasurer and are reported to the appropriate committee. The Head of Internal Audit supplies the Council with an Internal Audit opinion that sets out any significant weaknesses in the system of internal financial control that they have identified during the year and this opinion provides assurance of the Internal Control environment. The Council of the Isles of Scilly have received this opinion and have noted that there is a need to improve the response time as noted in significant issues at section 6.

#### **4. REVIEW OF EFFECTIVENESS**

The Council of the Isles of Scilly has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal controls. The review of the effectiveness of the system of internal controls is informed by the work of internal audit, the senior managers within the authority who have responsibility for the development and maintenance of the internal control environment and also by comments made by the external auditors and other review agencies and inspectorates.

The process that has been applied in maintaining and reviewing the effectiveness of the system of internal control includes:-

- Annual reviews of the Council's systems by Internal Audit against known and evolving risks. Reports are taken to the appropriate committee, evidenced by the minutes of the meetings.
- Reviews by Internal Audit of internal controls in operation within each service area against known and evolving risks to be undertaken.
- Reviews by Social Services Inspectorate, Audit Commission, Benefit Fraud Inspectorate and CPA have been reported to the appropriate committee evidenced by the minutes of the meetings.
- Reviews of the Corporate and Service Planning Guide, the developing framework for annual service planning to align service development against strategic objectives.
- Ongoing review of the business of and the decisions taken by the Council by the Monitoring Officer which include an assurance that the Council has acted lawfully and that agreed standards of the Standards Committee have been met.
- Review of Corporate Risks are reported to the appropriate committee evidenced by minutes of the meetings. Departmental Risk Registers have been implemented this year and are to be reported to the appropriate committee. Some work is still needed in the mitigations section of the Corporate Risk Register and further development of the Departmental Risk Register in 2006/07(see Significant Issues at Section 6)
- Reviews of the conduct of risk analysis and management of major projects undertaken by the Council.
- A monitoring checklist has been established for collection of assurances by the assigned person for the Statement on Internal Control
- Evidence has been provided by Service Providers to ensure accuracy of the indicators and are to be monitored annually
- The Authority has commissioned a Corporate Asset Management plan to assist Members and Officers assess priority based on an audit of need

- Closedown arrangements reviewed to ensure compliancy with the target date for the preparation of accounts to be set for approval by members
- The Council's Financial Regulations, Terms of Reference and Standing Orders were reviewed in March 2005 and are updated as appropriate.

Corporate assessments carried out by the Audit Commission from 2005 onwards have changed in that there is now a greater focus on leadership, partnership working, value for money and the achievement of local priorities. The scoring framework has also been revised and for this reason they are not directly comparable with corporate assessments in previous years.

The Audit Commission, during 2005, assessed the overall performance of the Council of the Isles of Scilly as 1 star, not improving adequately. The table below shows the score of the core service areas reviewed in 2005 by the Audit Commission. Scores are from 1 (lowest) to 4 (highest).

<b>Performance of the main services of the Council of the Isles of Scilly</b>	<b>Score 2005</b>
<b>Service</b>	
<b>Benefits</b>	
Providing housing and council tax benefit services assessed by the BFO and based primarily on achievement against the 2005 Housing benefits/council tax benefits performance standards	3
<b>Children and young people</b>	
Providing children's services, the joint assessment being made by CSCI and OfSTED following a review of Council overall performance and key indicators	2
<b>Culture</b>	
Contribution to culture services and outcomes, assessed by the Audit Commission, combines culture inspection reports with a range of performance indicators. For 2005 the overall score used for CPA will be the higher of the 2005 score, or the score from the 2004 libraries and leisure block score	3
<b>Environment</b>	
Providing environmental services, assessed by the Audit Commission, combines environmental inspection reports with a range of performance indicators.	1
<b>Housing</b>	
Providing community housing and, where applicable, housing management is assessed by the Audit Commission by combining housing inspection reports with a range of performance indicators	2
<b>Social care (adults)</b>	
Providing adult social care is assessed by CSCI following a review of the Council's overall performance and key indicators	2
<b>How the Council of the Isles of Scilly uses its resources</b>	<b>Score 2005</b>
The use of resources judgement is derived from five individual scores provided by the Council's appointed auditor.	1
<b>How the Council of the Isles of Scilly is run</b>	<b>Score</b>

	<b>2005</b>
<b>Council ability</b>	
The score for 2005 is from the 2002 corporate assessment	3

There are several areas where improvements must be made and the key issues identified for improvement are included in significant internal control issues section 6, with action plans.

In addition to the Annual Audit letters, the Council has over the past few year received CPA assessment from the Audit Commission.

We have been advised on the implications of the review of the effectiveness of the system of internal control by the Authority, the chief officers, Internal Audit and external review, and plan to address weaknesses and ensure continuous improvement of the system is in place.

## **5. CORPORATE GOVERNANCE**

Corporate Governance is concerned with the procedures associated with the decision-making, performance and control of the Council, providing overall direction to the organisation and to satisfy reasonable expectations of accountability. The Council has adopted a Code of Conduct that is in line with suggested best practice principles and expects all its members, officers and contractors to adhere to the highest standards of public service, with particular reference to the Code of Conduct and policies of the Council and applicable statutory requirements. Members keep the Code operating effectively.

The Chairman of the Council is responsible for risk management and the key officer is the Modernisation Officer. The corporate risk management function seeks to integrate risk management into the business planning process including the provision of appropriate awareness and training which is continuing;

The following steps have been initiated during the year 2006/07 to further improve the Corporate Governance arrangements of the Council:

- Management training in 2005 has resulted in 7 Managers being awarded NVQ Level 4 in Management in 2006, 3 of which are undertaking NVQ Level 5 in Management this year
- Implementation of a second wave of Management training
- Development of a Corporate Calendar in order to pinpoint dates for monitoring reviews and achieving deadlines for statutory documents
- Development of the role of risk management, with training in respect of risk management and embedding this within the culture of the Council
- External consultants have been engaged during 2005 to improve the Capacity Building facility
- Arrangements have been made with Dorset County Council to provide professional social services support to the Social Services department and strategic support to the Director commencing April 2006
- Further development of a framework of Service Plans
- Further development of the risk analysis and mitigation procedures, including departmental risk registers
- Appraisals for all staff planned to develop and monitor individual work programmes and SMART targets, linking them to corporate priorities and objectives during 2006/07

- A Communication Strategy in relation to the Code of Corporate Governance is being developed in 2006 and implementation is planned to take place during 2006/07
- A Medium Term Finance Strategy was prepared during 2005 and is to be further developed during 2006/07
- An Improvement Plan linked to the Medium Term Finance Strategy has been developed to be implemented for 2006/07
- A Children and Young People's Plan has been developed during 2005/06 following the merging of the Education Committee with Social Services for children, and is to be implemented for 2006/07
- In 2005 regular meetings were established between middle managers and the Chief Officer Management team, to ensure the effective cascading of strategy and new developments from the management team and to ensure the flow of information from senior officers back to Chief Officers
- Development and implementation of impact assessments on all Corporate Policies, Procedures and working documents with regards to equality and diversity issues and the six strands
- Development of a staff Counselling Services policy
- Further development of a Procurement Strategy to be approved and implemented for 2006/07
- Development of key performance indicators for procurement

## 6. SIGNIFICANT INTERNAL CONTROL ISSUES

The following significant internal control issues have been identified:

No	Issue	Action
1.	Improvements needed within the Benefits Service in accordance with the recommendations of the BFI CPA report including <ul style="list-style-type: none"> <li>- Claim form to meet Standard of the Benefit Service Department's HCTB1</li> <li>- BVPIs</li> <li>- Supporting evidence for self assessment</li> <li>- checking system in accordance with HB and CTB Circulars S1/2000 and S5/2000 and analysis of the checks</li> <li>- corporate overpayment policy and procedures</li> <li>- written guidance on fraud referral, fraud awareness to staff, a fraud hotline and issue all benefits post in the Royal Mail's 'do not redirect' envelopes</li> <li>- Service Level Agreement with Jobcentre Plus in place and monitored and reviewed</li> <li>- quarterly performance measure data to validate user input and</li> </ul>	Each point to be reviewed by the Treasurer and relevant improvements to be actioned by November 2006

	ensure that all recommendations made by Internal and External Audit and the BFI are implemented	
2.	IOS Fire and Rescue Authority need to: <ul style="list-style-type: none"> <li>- implement a competency-based assessment system to focus training &amp; development on the needs of the staff</li> <li>- fully utilise its staffing capacity due to a lack of human resources strategy</li> <li>- measure areas of achievement against objectives by implementing a performance management system</li> </ul>	The IOS F&RA have produced a CPA Improvement Plan in December 2005 highlighting the identified weaknesses and action plans for improvement
3.	The BVPP & PI Compliance audit recommended that <ul style="list-style-type: none"> <li>- performance indicators are calculated and appropriate systems and controls are established to ensure performance information is calculated in accordance with the relevant guidance</li> </ul>	Control systems for BVPIS reinforced by CR/MO
4.	The BVPI audit recommended that <ul style="list-style-type: none"> <li>- analytical review techniques are used to identify errors in collation of PIs, potential for improvement in estimation, achievable targets and accuracy of reported performance and significant and/or unexpected variances</li> <li>- sample testing of indicators to ensure PIs are properly prepared and supported</li> <li>- guidance on setting BVPI targets issued to officers in timely manner</li> <li>- findings of the quality assurance arrangements summarised for Members</li> <li>- the way PIs are presented should be reformatted</li> <li>-</li> </ul>	Careful consideration of each BVPI applied to the Authority with the Audit Commission to ensure compliance.
5.	The BVPP should <ul style="list-style-type: none"> <li>- ensure that all required PIs are reported</li> <li>- officers are aware of how to derive PI information</li> <li>- education contractors provide appropriate working papers to support education BVPIs included in the BVPP</li> </ul>	Definitions carefully discussed with each officer responsible for BVPI  Member and Officer training
6.	The Annual Performance Assessment showed the following areas for improvement: <i>Being Healthy:</i>	Significant progress in many areas  Formal letter of partnership received

- formalising the partnership with PCT in strategic plans	from PCT
<i>Staying Safe:</i>	Dorset CC support for SS arrangements both strategic and in provision of a qualified Social Worker started April 1 2006
- identification, assessment and response to risks	
- quality assurance framework for the audit of case files	
- access to a comprehensive range of specialist support services	Cornwall CC SLA
- assuring the safeguarding of young people leaving the island for further education or training at post-16	Youth Support Worker appointed Sept 05
- co-ordination of police, health and other agencies for the detention, interview and medical examination of juveniles	CSDARG to pursue
<i>Enjoying and Achieving:</i>	Addressed thorough extended schools
- formal mechanisms for pooling resources	Key worker housing 13 since 2004 and 6 social housing units building
- inclusion for primary aged pupils on the off-islands	
- recruitment and retention of staff	
<i>Making a Positive Contribution:</i>	Completed (Membership of CYPP Committee)
- more systematic engagement of children and young people	
- action on the recent review of boarding arrangements	Completed
- co-ordination of provision for the small numbers of vulnerable children with high demands on services	Though existing partnership arrangements
<i>Achieving Economic Well-Being:</i>	
- Remodelling of the secondary curriculum	By Cambridge linked to the School Improvement Plan by Sept 06
- systematic arrangements to provide pastoral support and assure protection to young people at post 16	Youth Support Workers and CFCWG by May 2006
- data on the achievement and qualifications of young people who are in education or training post 16, and value for money of provision	LSC to provide by May 2006/Youth Support Worker to lead
<b>7.</b> SORP compliant accounts to be prepared and the necessary support/training provided for staff preparing the financial statements.	To be link into Cornwall County Council Treasurer's Department to ensure accounts SORP complaint by June 2006.
<b>8.</b> The Council should decide whether to prepare summary accounts or an annual report.	Treasurer to decide and report to Members by May 2006.
<b>9.</b> The Council should publish the audited accounts on its website.	Best practice in publishing accounts to be determined by January 2006.
<b>10.</b> The Council should publish the Audit Commission's Annual Audit and	Statutory obligation to publish the Audit Commission reports finding and a copy

<p>Inspection Letter on its website.</p>	<p>can now be held online. Copy of the Audit Letter should also be displayed in the reception of the Town Hall.</p>
<p><b>11.</b> Development of a 3 – 5 year rolling medium-term financial strategy (MTFS), setting out the Council's financial plans and taking into account local and national priorities.</p> <p>This strategy should be reviewed annually when setting the budget.</p>	<p>Strategy has been completed using external support.</p> <p>Treasurer to update by July 2006 and reviewed annually and reported to the appropriate committee.</p>
<p><b>12.</b> Prudential indicators are to be considered before decisions are taken on how to fund capital projects.</p>	<p>The Prudential Indicators continue to be considered and is planned to be included in a handbook for members to use when making decisions on capital spend by July 2006.</p>
<p><b>13.</b> The finalised budget should be profiled before being loaded onto the main accounting system.</p>	<p>The new Sage System will allow accounts to be profiled. Profiled accounts introduced from 2007/08 by March 2007.</p>
<p><b>14.</b> The budget monitoring reports should be improved to include the expected outturn for the year.</p> <p>Reports to members should be brief and include explanations for variances over defined tolerance limits. Action plans should be monitored and reported to subsequent committee meetings.</p> <p>Budget monitoring reports for individual departments should be consolidated to provide a budget monitoring information for the Council as a whole.</p>	<p>Members to receive a less detailed summary of spend with a covering report that explains major variances to spend by August 2006.</p>
<p><b>15.</b> The Asset Management Plan should link into the corporate strategy and is translated into an annual programme of planned maintenance, with clear links to its capital strategy.</p> <p>The delivery of the AMP and planned maintenance programme should be monitored and reported to an appropriate committee.</p> <p>The terms of reference for the committee chosen to monitor the AMP delivery should be updated to reflect this responsibility.</p>	<p>Asset management plan commissioned and linked to the capital programme.</p> <p>Policy and Resources Committee terms of reference has been modified to reflect monitoring duty with regard to asset management.</p>
<p><b>16.</b> Future budgets should reflect its true operating income and expenditure and that the general fund reserve</p>	<p>Linked to medium-term financial strategy and the budget setting process. Members to ensure that resources are</p>

balance is considered when setting the level of council tax.	linked to corporate priorities. Further review of level of reserves to be carried out by March 2006.
<b>17.</b> The Council should ensure that the mitigating controls or action required to address risks is clearly set out in the risk register. The risk register should also set out the officer, member or committee who is taking the action forward.	Risk register to be reviewed monthly and mitigation sections completed by May 2006
<b>18.</b> The Council should ensure that the mitigating controls or action required to address risks is clearly set out in the risk register. The risk register should also set out the officer, member or committee who is taking the action forward.	Corporate Risk register will be reviewed monthly and mitigation sections completed by May 2006  Service Managers to complete Departmental Risk Registers by May 2006
<b>19.</b> The Council should continue to develop its processes for identifying and reviewing its internal controls, setting out how it will gain assurance over their effectiveness and concluding with a formal review of the evidence to support the Statement on Internal Control	Monitoring checklist and evaluation checklists in place for reviewing internal controls throughout the year
<b>20.</b> An existing committee's remit should be changed to ensure that the core functions of an audit committee are met.	Policy and Resources Committee terms of reference amended by March 2006.
<b>21.</b> Business critical systems and processes are documented to allow for these processes to continue following the loss or retirement of key staff.	Documentation in respect of business critical processes are being developed to be rolled out by September 2006.
<b>22.</b> Committee reports not requiring consideration of legal issues should be clearly annotated as such with a brief explanation of the reason for no advice being required.	New system for legal checking reports according to risk in place. Check to be carried out by either by a chief officer or by Cornwall County Council legal team by March 2006.

Signed: 

Dated: 29 June 2006  
Chairman of the Council

Signed: 

Dated: 29 June 2006  
Chief Executive



# **Independent Auditors' Report to the Council of the Isles of Scilly**

## **Opinion on the financial statements**

I have audited the financial statements of The Council of the Isles of Scilly for the year ended 31 March 2006 under the Audit Commission Act 1998, which comprise the Consolidated Revenue Account, the Housing Revenue Account, the Collection Fund, the Consolidated Balance Sheet, the Statement of Total Movements in Reserves, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to The Council of the Isles of Scilly in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission<sup>1</sup>.

## **Respective responsibilities of the Chief Finance Officer and auditors**

The Chief Finance Officer's responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005 are set out in the Statement of Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements presents fairly the financial position of the Authority in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005.

I review whether the statement on internal control reflects compliance with CIPFA's guidance, 'The Statement on Internal Control in Local Government: Meeting The Requirements of the Accounts and Audit Regulations 2003' published on 2 April 2004. I report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the statement on internal control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

I read 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. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

## **Basis of audit opinion**

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial

statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinion

In my opinion the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005, the financial position of the Authority as at 31 March 2006 and its income and expenditure for the year then ended.

Auditor Peter Lawrence Signature *Peter Lawrence*

Address Audit Commission  
3-6 Blenheim Court  
Matford Business Park  
Lustleigh Close  
Exeter  
EX2 8PW

Date 11 October 2006

## ***Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources***

### **Authority's Responsibilities**

The authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to regularly review the adequacy and effectiveness of these arrangements.

Under the Local Government Act 1999, the authority is required to prepare and publish a best value performance plan summarising the authority's assessment of its performance and position in relation to its statutory duty to make arrangements to ensure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

### **Auditor's Responsibilities**

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. I report if significant matters have come to my attention which prevent me from concluding that the authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

I am required by section 7 of the Local Government Act 1999 to carry out an audit of the authority's best value performance plan and issue a report:

- certifying that I/we have done so;
- stating whether I/we believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and
- where relevant, making any recommendations under section 7 of the Local Government Act 1999.

## **Conclusion**

I have undertaken my audit in accordance with the Code of Audit Practice and I am not satisfied that, having regard to the criteria for principal local authorities specified by the Audit Commission and published in July 2005, in all significant respects, The Council of the Isles of Scilly made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2006 in that it failed to meet the following criteria:

- put in place arrangements for setting, reviewing and implementing its strategic and operational objectives;
- put in place arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary, and reporting to members;
- put in place arrangements to monitor the quality of its published performance information, and to report the results to members;
- put in place arrangements to maintain a sound system of internal control;
- put in place arrangements to manage its significant business risks;
- put in place arrangements to manage and improve value for money;
- put in place a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities;
- put in place arrangements to ensure that its spending matches its available resources;
- put in place arrangements for managing performance against budgets; and
- put in place arrangements for the management of its asset base.

## **Best Value Performance Plan**

I issued my statutory report on the audit of the authority's best value performance plan for the financial year 2005/06 in December 2005. On the basis of my audit work, I recommended that the authority should consider certain procedures in relation to the plan.

## **Certificate**

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Auditor Peter Lawrence Signature *Peter Lawrence*

Address Audit Commission  
3-6 Blenheim Court  
Matford Business Park  
Lustleigh Close  
Exeter  
EX2 8PW

Date 11 October 2006