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# Statement of Accounts

2012-2013



Council of the  
ISLES OF SCILLY

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## Explanatory Foreword

This foreword is primarily to provide the reader of the accounts with a concise and understandable guide to the most significant aspects of the Authority's financial performance, year end financial position and cash flows for the year 2012/13.

It is not formally part of the Statement of Accounts and the 'True and Fair View' and is not subject to the statutory requirements for an audit opinion or for certification by the Chief Financial Officer.

## Explanation of the Key Statements

The Statement of Accounts consists of four main statements and various disclosure notes as follows:

- **The Movement in Reserves Statement (MiRS)** – Shows the changes in the Authority's financial resources over the year to help readers to understand how the balances have changed over the year, whether the balances are still adequate, and what the balances mean in terms of future budgets and services. Information on the level of reserves can also be found in the Balance Sheet and related notes.
- **The Comprehensive Income and Expenditure Statement (CIES)** – Shows the gains and losses that contributed to these changes in resources. The CIES shows the economic cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation as shown in the MiRS above.
- **The Balance Sheet** – Shows how the resources available to the Authority are held in the form of assets and liabilities
- **The Cash Flow Statement** – Shows how the movement in resources has been reflected in cash flows generated and used during the year.

## Key Highlights of 2012/13

The key highlights are:

- General Fund Reserves have reduced by £242,000 to £1.922 million.
- General Fund Earmarked Reserves have reduced by £432,000 to £4.568 million.
- General Fund Housing Reserves have increased by £260,000 to £1.409 million.
- Bank balances have decreased by £2.164 million to £2.463 million.
- On the Revenue Account the Authority underspent against budget by £133,000. This would have been a £24,000 underspend had the unplanned write back of a £108,000 provision within Children & Young People's Committee (CYPS) not taken place at the year end.
- £5.540 million was spent on capital items and added to non-current assets in the Balance Sheet.

- The balance of untaken leave and hours worked in excess of contracted hours, known as Time off in Lieu (TOIL), reduced by £118,000 in 2012/13 following the decision by Full Council during the year not to approve the carrying over of significant untaken leave balances of two employees.
- The early retirement of the Chief Executive on the grounds of efficiency resulted in a total cost of £204,000.

## General Fund Reserves

The Authority holds a General Fund to meet unexpected cost pressures. It has been determined that a General Fund Minimum Reserve level of £626,000 would enable the Council to cope with unforeseen matters that may arise.

The actual General Fund balance is £1.922 million as at 31 March 2013.

## Revenue Outturn to Budget

Each year the Council sets its budget taking into account known, planned and estimated income and liabilities from various sources. As a result of this budget setting it sets its Council Tax and then monitors its performance to the budgets during the year. The year end is the one point in the year when we can review actual rather than anticipated outturn and consider performance to plans and budgets.

The Comprehensive Income and Expenditure Statement (CIES) shows the outturn on an accounting basis and that differs from how the Authority actually monitors its budgets during the year. Whilst the accounts contain a disclosure 'Amounts Reported for Resource Allocation Decisions', Note 25, this does not provide a comparison to budget and that is shown below.

Table 1: The revenue outturn by Committee against Budget:

Committee	2012/13 Approved Revised Budget	Amount in CIES	Adjust- ments	Adjusted Compara- tives to CIOS Budgets	Variance Under/ (Over) Spend	Variance	
						Controllable Under/ (Over) Spend	Un- Controllable Under/ (Over) Spend
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Health, Overview & Scrutiny Committee	49	48	(9)	39	10	11	(1)
General Purposes Committee	1,651	1,508	136	1,644	7	(438)	445
Community Services Committee	1,342	922	156	1,078	264	238	26
Transport Committee	256	243	13	256	0	(13)	13
Policy & Resources Committee	1,382	1,274	106	1,380	2	(54)	56
Children & Young People's Committee	1,443	1,002	92	1,094	349	310	39
Licensing Committee	14	7	0	7	7	4	3
Planning & Development Committee	310	372	(58)	314	(4)	(21)	17
Inshore Fisheries & Conservation Authority (IFCA)	123	120	0	120	3	3	0
Tourist Board	199	155	0	155	44	31	13
Standards Committee	17	12	0	12	5	5	0
<b>Net Cost of Services</b>	<b>6,786</b>	<b>5,663</b>	<b>436</b>	<b>6,099</b>	<b>687</b>	<b>76</b>	<b>611</b>
Other Operating Income and Expenditure	(1,297)	186	(1,022)	(836)	(461)		
Other Income from Grants and Taxation	(5,115)	(9,119)	4,097	(5,022)	(93)		
<b>Net drawing from / (contribution to) General Fund</b>	<b>374</b>	<b>(3,270)</b>	<b>3,511</b>	<b>241</b>	<b>133</b>		

The variation of the Budget less the Outturn has been divided between 'controllable' and 'uncontrollable / indirect' (those areas of the budget such as depreciation, impairment and support

costs where managers have no direct control) to help readers to understand the budget variations in more detail.

### **Key Variances**

The outturn for 2012/13 has resulted in a drawing from General Fund reserves of £242,000. The revised budget indicated that the Authority would need to draw £374,000 from its General Fund to balance the books.

However, the writing back of a provision that was set aside by the Children and Young People's Services Committee now deemed not required has reduced the drawing by £108,000. If that had not been written back the outturn would have seen a £350,000 drawing from the General Fund.

The main variances by spending committee are analysed below.

### **Health, Overview & Scrutiny Committee and Health and Well Being Board**

The Committees underspent by £10,000 in total. Of this there was a £1,000 overspend on uncontrollable or indirect costs and £11,000 underspend on controllable.

The underspend arose from the Health and Well Being Board where additional one-off grant income was brought in to offset the annual expenditure.

### **General Purposes Committee including Trading Services**

The Committee underspent by £7,000. Of this sum an underspend of £445,000 relates to uncontrollable or indirect costs arising from the non cash items for depreciation and capital financing shown for total cost purposes.

The costs that are classified as controllable were overspent in total by £438,000. There is no budget provision for the Direct Labour Force and their costs are recharged to services that use them in full. If their costs are excluded the variation is an underspend of £16,000. The largest variations arose in the following services.

Services that overspent included:

- Refuse collection by £11,000. Of this £6,000 is due to large contractor payments for the volumes of waste being sorted and baled to be sent to St. Mary's at the St. Martin's waste site.
- Public Conveniences by £9,000. The overspend is predominantly due to refurbishment works which have taken place at the various off-island locations and an additional public convenience being paid for by the Council which had previously been cleaned and maintained at no cost to the Council for many years.
- Highways by £8,000 due to more staff time costs allocated to complete work required.
- Cemeteries by £3,000.

Services that underspent included:

- Trading Standards by £4,000. The contract for the provision of the service commenced in October 2012 and fewer visits took place than anticipated.
- Coastal Monitoring by £8,000. There was a delay in starting the Holgates Green repair project and that is now due to take place in 2013/14.
- Open Spaces and Beaches by £8,000 on transport because fewer beach cleans were carried out over the whole year.
- Trade Waste Collection by £8,000. The underspend can be attributed to cost savings made on the usage of materials including refuse sacks, a budget line for salary costs which is no longer required as the cost is accounted for as part of the labour force recharges, and an underspend on vehicle usage due to efficiency savings made with less missed collections.
- Fire and Rescue underspent by £9,000 as a result of a vacancy saving on staff costs.
- Trading Accounts which are budgeted within the General Purposes Committee also contribute to the variance but the balance of their accounts are later moved to earmarked reserves.

### **Water Trading Account**

The Council is the only remaining public Water and Sewerage Authority left in England and Wales. It runs essential systems on St Mary's and Bryher.

The trading account contributed a net £16,000 to their reserves for 2012/13.

The balance on the Water reserve is £561,000 as at 31 March 2013.

### **Sewerage Trading Account**

The trading account contributed a net £44,000 to their reserves for 2012/13.

The balance on the Sewerage reserve is £744,000 as at 31 March 2013.

### **Community Services Committee**

The Committee underspent by a net £264,000. Of this £26,000 of the underspend relates to uncontrollable or indirect costs arising from the non cash items for depreciation and capital financing shown for total cost purposes.

The costs that are classified as Controllable were underspent in total by £238,000. The key variations arose in the following services:

- The General Fund Housing Account underspent by £254,000. An amount of £297,000 has been transferred to their earmarked reserve and the balance stands at £1.409 million as at 31 March 2013.



The balance of the £17,000 overspend is distributed over the following services:

- Adult Care Strategy budget overspent by £29,000 due to costs of a secondment to Adult Social Care.
- The Residential Care budget overspent by £8,000 due to additional staffing costs as a result of overtime arising from vacant posts.
- Sports facilities including the Sports Hall and the Pool overspent by £11,000.
- Adult Learning overspent by £4,000 on the LAG funded project where claim conditions have not yet been satisfied.
- Homelessness by £5,000 arising from void period of property.

Those services that underspent included:

- The Library by £6,000 as a result of an underspend on staffing.
- Housing Strategy by £6,000 as professional fees were lower than anticipated.
- General Fund properties by £28,000 due to fewer works on repairs & maintenance being required than anticipated.

### **Transport Committee**

The budget for the Committee was on budget.

The Transport Committee became responsible for the governance of St Mary's Airport during 2012/13 following a transfer from the General Purposes Committee.

It was an historic year for the islands as the helicopter service that had operated for 49 years ceased at the end of October 2012. Passenger numbers had been reducing year on year and the airport had recorded a 21% reduction over the last 5 years. During the year passenger numbers were down 11% against those anticipated. As a result of this and other factors the Authority commissioned expert aviation consultants to review the commercial and technical aspects of the operation. This has resulted in a plan to develop the airport and ensure the future maintenance of its assets.

The Airport Trading Account has contributed £23,266 to its reserves, the balance of which is £199,000 as at 31 March 2013. However, a total of £15,000 of that sum will be released in 2013/14 to meet the costs of airport development work that slipped from 2012/13.

Looking forward into 2013/14 the airport has revised its fees and charges and plans to add £200,000 to its reserves each year as part of its asset management plan.

### **Policy & Resources Committee**

The Committee underspent by a net £2,000. Of this £56,000 underspend relates to uncontrollable or indirect costs arising from the non cash items for depreciation and capital financing shown for total cost purposes.

The costs that are classified as Controllable were overspent by £54,000. The key variations arose in the following services.

The main areas of the overspend were as follows:

- The costs of an early retirement had been built into the support services budget but accounting rules require that the costs are recorded as Non Distributed Costs. As a result there has been an overspend of £91,000 on one budget offset by an underspend of £79,000 on the Support Services budget. The total cost of the package including the pension strain was £204,000.
- Internal ICT Services overspent by £23,000 of which £10,000 related to the failure of our website provider, an additional £10,000 for a secure government IT connection and other minor variations.
- Housing Benefits overspent by £15,000. £8,000 relates to higher than accrued audit costs and another £7,000 set aside for benefits paid.
- Corporate Management overspent by £7,000. There were a number of variations over the budget including the impairment of a debenture of £10,000, a small underspend on the one off legal costs budget set aside, the transfer of New Homes bonus income to contribute to the Porthcressa housing costs and reduce the borrowing requirement and other minor variations.

Those services that underspent included:

- Support Services - The costs of accountancy, human resources, revenues services, front desk, valuation fees and management support that are not directly attributable to any one service area. These costs are administered and controlled centrally in this budget area and are recharged to service budgets in full at the end of the financial year to reflect actual usage and enable each service budget to fully assess their costs for fee recovery purposes. This group underspent in total by £54,000 mostly due to vacant posts.
- Council Tax Collection by £4,000 as a result of higher than expected income.
- Health Watch (Formerly LiNK) by £4,000.
- Registration – Births, Marriages, Deaths and Civil Partnerships by £5,000 on premises costs during its temporary relocation in the old secondary school building.
- Democratic Representation and Management £8,000. The Chairman’s Allowance and civic functions budget was underspent by £3,500, due in part to the cancellation of the Christmas reception and fewer civic events. There was also a £7,000 underspend on staffing due to vacancies offset by an overspend of £2,000 on travel.
- Emergency Planning £8,000. The majority of the underspend was on a buildings repairs and maintenance budget set aside for repairs to a flat roof and work on the pyrotechnic store that have not yet taken place.

### **Children and Young People's Committee**

The Committee underspent by £349,000. Of this £39,000 underspend relates to uncontrollable or indirect costs arising from the non cash items for depreciation and capital financing shown for total cost purposes.

The costs that are classified as Controllable were underspent by £310,000. The key variations arose in the following services:

- £108,000 relates to a prior year creditor provision that is no longer required.
- £95,000 set aside for project work that is due to commence after the sign-off of the new School and Sports Hall project, and a request will be made to spend this in 2013/14.
- The remaining £107,000 is made up across the service budgets including: slippage in Children's Social Care and Strategic Management and School Development; costs being contained and therefore outturn being less than originally anticipated across several departments; and small contingencies, within Special Educational Needs and Youth Services, not being required.

### **Licensing Committee**

The Committee underspent by £7,000. £4,000 underspend on controllable and £3,000 underspend on non controllable costs.

The underspend on controllable costs resulted from lower than budgeted transport costs and because no legal support costs were incurred due to there being no appeals.

### **Planning & Development Committee**

The Committee overspent by £4,000. Of this a £17,000 underspend relates to uncontrollable or indirect costs arising from the non cash items for depreciation and capital financing shown for total cost purposes.

The costs that are classified as controllable were overspent by £21,000. The key variations arose in the following services:

- Economic Development overspent by £20,000 as a result of staffing costs and additional costs in relation to the Quay Project study.
- The Area of Outstanding Natural Beauty (AONB) was overspent by £7,000. The service is 75% funded from DEFRA grant.
- Building Control generated more income and its costs were less than anticipated leading to a £5,000 underspend to budget.

### **Inshore Fisheries and Conservation Authority (IFCA)**

The Authority was overspent by £3,000. The Authority is funded by a general grant allocation of £110,000 and £10,000 by the Council. This includes a transfer of £2,600 to its asset replacement earmarked reserve.

## Tourist Board

The Tourist Board underspent by a net £44,000. Of this £13,000 of the underspend relates to uncontrollable or indirect costs arising from the non cash items for depreciation and capital financing shown for total cost purposes.

The costs that are classified as controllable were underspent by £31,000. The key variations arose due to:

- Staff vacancies and efficiencies generated a £7,000 underspend.
- A saving against the New Mind contract for the Simply Scilly website. The proposed budget of £7,000 was not needed as the existing contract (the extension of the Cornwall Enterprise and CIOS agreement, now managed by CDC/Visit Cornwall) was extended for another year.
- An underspend of £6,000 against website improvements - these were delayed pending a long term decision on the future of the Simply Scilly website by the Islands Partnership. A request will be made to spend on this activity in 2013/14.
- A circulation of 45,000 brochures was achieved for the 2012 brochure and consequently the £5,000 contingency for brochure issues (the 2013 brochure production and distribution was passed to the Islands Partnership) was not required. This sum can now be realised as a saving.
- An underspend of £5,000 against post Blue Sail activities, awaiting developments from the Islands Partnership. A request will be made to spend on this activity in 2013/14.

## Standards Committee

The Committee underspent by £5,000 all of which are classified as controllable costs. A budget set aside for the increased costs of investigations was not needed.

## Capital

The Authority has had a busy capital programme during 2012/13 and spent £5.5 million developing, building and enhancing its assets.

Table 2: Spend by Committee:

Committee	2012/13 £000's
Children & Young People	219
Planning & Development	116
General Purposes	760
Transport - Airport	97
Fire & Rescue	36
Policy & Resources	3,991
Community Services	321
<b>Total</b>	<b>5,540</b>

The capital expenditure for 2012/13 was funded by a mixture of grant, reserves, revenue and borrowing. No actual borrowing took place to fund the capital as cash reserves have been sufficient to defer any such commitment.

Table 3: Sources of Funding:

Type of Funding Applied	2012/13	
	£000's	%
Grants	3,867	69.80%
Revenue	604	10.90%
Capital Receipts Unapplied Reserve	274	4.95%
Other Earmarked Reserves	253	4.57%
Prudential Borrowing	542	9.78%
<b>Total</b>	<b>5,540</b>	<b>100.00%</b>

### Highlights

During 2012/13 the capital programme has included a wide variety of schemes.

#### Children and Young People's Committee

The majority of the expenditure related to the Five Islands School project. All expenditure for the project was expected to be finalised by the end of March but some final snagging and minor works are still to be completed in 2013/14.

#### Planning and Development Committee

The works on the Porthmellon Road project (£90,000 spend) that are to be funded by European Regional Development Fund grant (ERDF) were expected to be completed by the end of March and within estimated budget. However, the project was still not completed at the start of June 2013 due to inclement weather and staff illness.

£26,000 was spent on the refurbishment to the Town Hall project. The project with a total value of £286,000 will be completed in the summer of 2013.

#### General Purposes Committee

Planned capital expenditure on the waste management programme slipped during 2012/13 to 2013/14. The purchase of a metal baler and glass recycling machine will now occur in 2013/14.

A £2 million grant was awarded for a new desalination plant, part of the Water Infrastructure Improvement Programme, and most of the work to construct and purchase the new water desalination plant took place in 2012/13. The project is expected to be completed in the first quarter of 2013/14.

### **Transport Committee – Airport**

A total of £77,000 was spent on the Airport Development plan including the drawing up of plans for the resurfacing of the runway. The refurbishment works to the airport bungalows and repairs to the fire tender were also completed during the year.

### **Fire**

The replacement of the paging system and purchase of other equipment made up the majority of the capital spend for the Fire and Rescue service.

### **Policy and Resources Committee**

The majority of the capital spend took place on the Porthcressa regeneration project. This included the construction of a new library, register office, housing and commercial units. The £3.8 million has been funded from a combination of ERDF grants, reserves and borrowing, with actual borrowing commitment deferred with the use of cash balances. The project was officially opened on the 8 May 2013.

The installation of new audio conferencing equipment in the Council Chamber was completed at a cost of £26,000. The new equipment utilises wireless technology to provide sound to a speaker system and for webcasting of meetings.

Preliminary work was also completed for the construction of a new Innovation and Enterprise Centre on the Porthmellon Industrial Estate. It is an economic development project that will provide flexible workspaces for rent funded by an ERDF grant of £900,000.

### **Community Services Committee**

A total of £36,000 was spent on the construction of a new reception at the Normandy Swimming pool.

The programme of upgrades and improvements to the housing stock totalled £37,000.

The majority of the spend (£233,000) took place on the redevelopment of the former Carn Gwaval School into a Health and Wellbeing Centre. The total project cost will be in the region of £580,000 and will be completed in the first half of 2013/14.

### **Capital - Looking Forward**

Grant funding continues to provide a vital source of income for the Authority to develop its capital asset base. Bids have also been prepared to both the Regional Growth Fund and the ERDF programme for improvements to the St Mary's Airport and the Quay. The Quay development does not currently show in the Council's Capital Programme because the asset belongs to the Duchy of Cornwall. The Quay scheme is likely to be funded by the Department for Transport and EU Convergence funding and since it is possible that the Council could take on the role of the accountable body, it may feature in the programme in the future.

Planning work on developing the airport including the resurfacing and extension of the runways and airport buildings is now completed and works should start during 2013 once final funding approvals have been obtained.

The Waste Management Programme will also be an important feature of 2013/14 and beyond utilising the significant grant funds pledged by DEFRA. This could include the construction of an Energy-from-Waste plant in the future should funds be secured.

## Untaken Staff Leave and TOIL

This relates to the costs of untaken annual leave and Time Off in Lieu (TOIL - time worked in excess of contracted hours) balances carried over from one year to the next. The disclosure – known as Accumulated Absences - is useful in that it highlights the levels of untaken leave and TOIL balances built up by staff and costs if it was paid as at the balance sheet date. The Council's leave policy states that a maximum of 5 days untaken leave can be carried over each year unless there are valid and exceptional reasons why a greater balance arose. Examples include maternity leave or medical absence where annual leave cannot be taken. There is no policy restriction on the amount of TOIL that could be carried over during 2012/13.

The account shows the liability for untaken leave and TOIL that was owed to employees as at 31 March 2013 was £110,908. This is a significant in year reduction.

Table 4: Accumulated Absences Analysis by Type:

	<b>Change 2011/12 to 2012/13</b>	<b>2012/13</b>	<b>2011/12</b>	<b>2010/11</b>	<b>2009/10</b>
CIOS Staff Leave	(99,617)	58,749	158,366	170,256	166,540
Teachers	(24,169)	26,969	51,138	40,608	44,258
School Non-Teaching	(844)	0	844	0	0
CIOS Staff (TOIL)	6,538	25,190	18,652	13,896	19,350
<b>Net Change</b>	<b>(118,092)</b>	<b>110,908</b>	<b>229,000</b>	<b>224,760</b>	<b>230,148</b>

The reduction in the teaching staff accrual is partly due to changes in pay and vacant posts and partly due to the proportion of leave allocated by term time.

The analysis of the CIOS staff Leave and TOIL is shown in the table.

Table 5: Council staff Leave and TOIL balances in days:

CIOS Staff	<b>2012/13 Days</b>	2011/12 Days	Change Days	Change %
Leave	446	700	(254)	(36%)
TOIL	194	147	47	32%
<b>Total</b>	<b>640</b>	<b>847</b>	<b>(207)</b>	<b>(24%)</b>

There has been a significant reduction in the value of untaken leave in 2012/13 following the decision by Full Council during the year not to approve the carrying over of significant untaken leave

balances of two employees. However, TOIL has increased by 47 days to 194 days. Whilst the flexibility of staff to work beyond their contracted hours is sometimes essential to meet fluctuating work demands the growing balance is a concern that will need to be reviewed by managers during 2013/14.

## **Pensions Reserve**

As an Authority we are required to maintain a pensions reserve within our Balance Sheet. The reserve is termed 'unusable' as it is not cash backed but contains book entries to recognise the potential liability over the full life of the pension fund. The fund is valued using an actuarial valuation and can fluctuate dependent on external factors. The liability has increased by £1.017 million during 2012/13.

The Government has made various announcements on the future of the Local Government Pension Scheme (LGPS). No final decisions have yet been made as to the extent of the reform to the scheme. However, a timetable for implementing a new scheme in England and Wales from April 2014 has been established. There will be no change to the LGPS in the coming year and therefore no account of any potential changes is included in the figures and disclosure notes in the accounts.

## **Borrowing Facilities and Capital Borrowing**

- We have not taken out any new external loans during 2012/13. However, the Authority did agree a borrowing approval for its project to regenerate the Porthcressa area of Hugh Town, St Mary's. That project is currently being cash flowed from cash balances but borrowing may need to take place in future to cover any cash shortfalls.
- We have continued to repay our existing debt to the Public Works Loans Board (PWLB). The profile of the loans shows that we will repay our existing debts by 2019.

## **Significant Write Offs and Provisions**

We account for income when it is due and not when it is paid so from time to time we need to consider, following debt recovery action, whether certain unpaid debts will be paid. During the year unpaid debts to the value of £25,000 were identified as doubtful and were written down in the accounts (impaired) to reflect that they would not or could not be expected to be received.

There were no provisions set aside in the accounts for 2012/13.

The provision for the purchasing of specialist services we thought we owed was reversed and returned to the General Fund.

The Fire pay settlement was paid in the year and the liability is now fully discharged.



## **Other Issues and Impacts in Future Years**

### **Council Tax Localisation**

From 1 April 2013 a grant will be paid to the General Fund to replace the current Council Tax Benefit paid into the Collection Fund. The major change for recipients is that the grant will cover only around 90% of the current benefits and Local Authorities are expected to introduce revised local benefit schemes that, with the exclusion of certain recipients, will in total reduce benefits by 10% overall. The Authority took the decision to maintain benefits at the full level with the difference between the core grant received and benefits paid to be funded from the one off grant of £84,000 which was provided to set up the new system. This decision will be reviewed annually.

### **Technical Reforms of Council Tax**

The Authority was given local discretion from 1 April 2013 to vary the discounts given to some properties subject to Council Tax. These new discretions have been utilised by the Authority with the abolition of the second homes discount of 10% and changes to the tax free period for empty properties. These changes have had the effect of increasing the tax base and therefore increasing the amount of council tax that can be levied.

### **Public Health Transfer**

Responsibility for Public Health transferred to Local Authorities from the NHS from 1 April 2013. The Authority now has a responsibility to secure services to prevent disease, prolong life and promote health. To support the commissioning of Public Health services the Authority will receive a £71,000 ring fenced grant in 2013/14 but the costs are expected to be between £83,000 and £103,000 with the shortfall adding additional pressure to the Authority's resources.

### **Non-Domestic Rates Income**

From 1 April 2013 the regime around the income that Local Authorities collect from National Non Domestic Rates (NNDR), Business Rates, changes from one where the Authority collects purely on behalf of Central Government to one where this income is shared between Central Government and Local Authorities.

This change affects the retention of that income collected and also carries a risk to the Council for failure to collect rates in comparison with a predetermined "Start-Up" funding assessment.

Risks of non-collection include rates billed from 1 April 2013, but also rates owed from prior years and valuation appeals that were not resolved before that date.

## **Closing the Budget Gap**

The Authority is forecasting a significant budget shortfall from 2013/14 onwards as costs have increased and income reduced. A number of budget strategies are being implemented in 2013/14 and beyond to close the gap and embed financial sustainability within our budgets. A senior management restructuring programme commenced in June 2013 to modernise it and make it fit for purpose. Budget reduction proposals will also be worked through during the summer and presented to the Council for appraisal and approval.

**Peter Lawrence-Roberts**  
**Director of Finance and Resources**  
**June 2013**

## **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 Authority's Chief Finance Officer, the Director of Finance & Resources, for the accounts.

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

The Authority is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority that officer is the Director of Finance and Resources.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts.

### **The Director of Finance and Resources Responsibilities**

The Director of Finance and Resources is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the Chartered Institute of Public Finance and Accountancy (CIPFA) / The Local Authority (Scotland) Accounts Advisory Committee (LASAAC) Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Director of Finance and Resources has:

- Selected suitable accounting policies and then applied them consistently.
- Made judgements and estimates that were reasonable and prudent.
- Complied with the Code.

The Director of Finance and Resources has also:

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

## Certification

*by the Director of Finance & Resources*

I certify that in my opinion the Statement of Accounts presents a true and fair view of the financial position of the Council of the Isles of Scilly as at 31 March 2013, and its income and expenditure for the year then ended.

The Accounts were authorised for issue to the Council on the date below.



**Peter Lawrence-Roberts MA ACA**  
Director of Finance and Resources  
Date: 17 September 2013

*by the Chairman of the Council*

I confirm that these accounts were approved by the Full Council.



**Amanda Martin**  
Chairman of Council  
Date: 17 September 2013

## Further Information

Further information about these accounts is available from the Finance & Resources Department, Council of the Isles of Scilly, Town Hall, St. Mary's, 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.

## Movement in Reserves Statement

This Statement shows the movement in the year on the different reserves held by the Authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The 'surplus or (deficit) on the provision of services' line shows the true economic cost of providing the Authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement (CIES). These are different from the statutory amounts required to be charged to the General Fund Balance and Housing Revenue Account for Council Tax setting and dwellings rent setting purposes. The 'Net Increase / (Decrease) before transfers to earmarked reserves' line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the Authority.

### Movement in Reserves – 2011/12

£000's	General Fund Balance	General Fund - Earmarked	Housing Revenue Account	HRA - Earmarked	Capital Receipts Unapplied	Major Repairs Account	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves <small>Note</small>
Balance as at 31 March 2011	1,743	4,823	296	105	274	367	167	7,775	23,751	31,526
Surplus/ (deficit) on the provision of services	7,724	0	108	0	0	0	0	7,832	0	7,832
<b>Other Comprehensive Income and Expenditure:</b> (Surplus) or Deficit on										
Revaluation of Non-Current Assets	0	0	0	0	0	0	0	0	1,318	1,318
Actuarial (Gains) or Losses on Pension Assets and Liabilities	0	0	0	0	0	0	0	0	(1,204)	(1,204)
<b>Total Comprehensive Income and Expenditure</b>	<b>7,724</b>	<b>0</b>	<b>108</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>7,832</b>	<b>114</b>	<b>7,946</b>
Adjustments between Accounting Basis and Funding Basis under Regulations	(7,455)	185	275	0	0	(5)	125	(6,875)	6,875	0
<b>Net Increase/(Decrease) before Transfers to Earmarked Reserves</b>	<b>269</b>	<b>185</b>	<b>383</b>	<b>0</b>	<b>0</b>	<b>(5)</b>	<b>125</b>	<b>957</b>	<b>6,989</b>	<b>7,946</b>
Transfers to/(from) Earmarked Reserves	152	(209)	(81)	(1)	0	85	0	(54)	55	1
Other Movements (School bank balance)	0	134	0	0	0	0	0	134	0	134
Increase/(Decrease) in 2011/12	421	110	302	(1)	0	80	125	1,037	7,044	8,081
<b>Balance as at 31 March 2012</b>	<b>2,164</b>	<b>4,933</b>	<b>598</b>	<b>104</b>	<b>274</b>	<b>447</b>	<b>292</b>	<b>8,812</b>	<b>30,795</b>	<b>39,607</b>

## Movement in Reserves – 2012/13

£000's	General Fund Balance	General Fund - Earmarked	Housing Revenue Account	HRA - Earmarked	Capital Receipts Unapplied	Major Repairs Account	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
Balance as at 31 March 2012	2,164	4,933	598	104	274	447	292	8,812	30,795	39,607
Surplus/ (deficit) on the provision of services	3,270	0	0	0	0	0	0	3,270	0	3,270
<b>Other Comprehensive Income and Expenditure:</b> (Surplus) or Deficit on										
Revaluation of Non-Current Assets	0	0	0	0	0	0	0	0	103	103
Actuarial (Gains) or Losses on Pension Assets and Liabilities	0	0	0	0	0	0	0	0	(984)	(984)
<b>Total Comprehensive Income and Expenditure</b>	<b>3,270</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3,270</b>	<b>(881)</b>	<b>2,389</b>
Adjustments between Accounting Basis and Funding Basis under Regulations	(3,756)	520	0	0	(274)	0	182	(3,328)	3,328	0
<b>Net Increase/(Decrease) before Transfers to Earmarked Reserves</b>	<b>(486)</b>	<b>520</b>	<b>0</b>	<b>0</b>	<b>(274)</b>	<b>0</b>	<b>182</b>	<b>(58)</b>	<b>2,447</b>	<b>2,389</b>
Transfers to/(from) Earmarked Reserves	244	651	(598)	(104)	0	(447)	0	(254)	254	0
Other Movements (School bank balance)	0	(127)	0	0	0	0	0	(127)	0	(127)
Increase/(Decrease) in 2012/13	(242)	1,044	(598)	(104)	(274)	(447)	182	(439)	2,701	2,262
<b>Balance as at 31 March 2013</b>	<b>1,922</b>	<b>5,977</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>474</b>	<b>8,373</b>	<b>33,496</b>	<b>41,869</b>

Note

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## Comprehensive Income and Expenditure Statement

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

2011/12			2012/13			
Gross Expenditure £000's	Gross Income £000's	Net Expenditure £000's		Gross Expenditure £000's	Gross Income £000's	Net Expenditure £000's
374	(166)	208	Central Services	426	(254)	172
530	(91)	439	Cultural Services	606	(113)	493
1,212	(156)	1,056	Environmental Services	1,481	(461)	1,020
1,444	(1,220)	224	Planning Services	1,586	(1,214)	372
4,455	(3,568)	887	Children's & Education Services	4,698	(3,665)	1,033
480	(7)	473	Fire & Rescue Services	488	(25)	463
204	(5)	199	Highways, Roads & Transport Services	199	(65)	134
890	(729)	161	Housing Services	704	(765)	(61)
1,075	(316)	759	Adult Social Services	1,186	(447)	739
981	(1)	980	Corporate & Democratic Core	1,192	(5)	1,187
0	0	0	Non Distributed Gain - Pension credit arising from change in indexation method used	111	0	111
<b>11,645</b>	<b>(6,259)</b>	<b>5,386</b>	<b>Net Cost of Services</b>	<b>12,677</b>	<b>(7,014)</b>	<b>5,663</b>
			<b>Financing and Investment Income and Expenditure:</b>			
21	0	21	Interest Payable and Similar Charges	22	0	22
			Pensions Interest Costs and Expected			
681	(675)	6	Return on Pension Assets	680	(578)	102
0	(28)	(28)	Interest and Investment Income	0	(75)	(75)
43	(11)	32	Investment Properties	95	0	95
2,203	(1,853)	350	(Surplus)/Deficit on Trading Services	1,772	(1,730)	42
			<b>Taxation and Non-Specific Grant Income:</b>			
0	(1,365)	(1,365)	Council Tax Collection Fund	0	(1,384)	(1,384)
0	(1,872)	(1,872)	General Government Grants - Revenue	0	(1,058)	(1,058)
0	(8,377)	(8,377)	General Government Grants - Capital	0	(4,097)	(4,097)
0	(1,985)	(1,985)	Non-Domestic Rates	0	(2,580)	(2,580)
<b>14,593</b>	<b>(22,425)</b>	<b>(7,832)</b>	<b>(Surplus)/Deficit on the Provision of Services for the Year</b>	<b>15,246</b>	<b>(18,516)</b>	<b>(3,270)</b>
			(Surplus) or Deficit on Revaluation of Non-Current Assets	0	(103)	(103)
1,204	0	1,204	Actuarial (Gains) or Losses on Pension Assets and Liabilities	984	0	984
<b>15,797</b>	<b>(23,743)</b>	<b>(7,946)</b>	<b>TOTAL Comprehensive (Income) and Expenditure</b>	<b>16,230</b>	<b>(18,619)</b>	<b>(2,389)</b>

Note

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33.2

33.1

## Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Authority. The net assets of the Authority (assets less liabilities) are matched by the reserves held by the Authority. Reserves are reported in two categories: the first category of reserves are usable reserves, i.e. those reserves that the Authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is unusable reserves, i.e. those that the Authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are disposed of or sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

31 March 2012 £000's		31 March 2013 £000's	Note
39,521	Property, Plant & Equipment	43,687	9
106	Heritage Assets	116	10
55	Assets Held for Sale	0	11
68	Investment Properties	68	12
73	Long Term Debtors	96	13
<b>39,823</b>	<b>Long Term Assets</b>	<b>43,967</b>	
143	Inventories	130	15
2,940	Debtors	4,406	13, 16
4,560	Cash and Cash Equivalents	2,463	17
<b>7,643</b>	<b>Current Assets</b>	<b>6,999</b>	
(68)	Short Term Borrowing	(55)	13
(1,937)	Creditors	(2,085)	13, 18
(132)	Provisions	0	19
<b>(2,137)</b>	<b>Current Liabilities</b>	<b>(2,140)</b>	
(1)	Long Term Creditors	(1)	13
(285)	Long Term Borrowing	(231)	13
(3,632)	Liability Related to Pension Schemes*	(4,727)	38.3*
(1,804)	Capital Grants Receipts in Advance	(1,998)	33.4
<b>(5,722)</b>	<b>Long Term Liabilities</b>	<b>(6,957)</b>	
<b>39,607</b>	<b>Net Assets</b>	<b>41,869</b>	
	<b>Usable Reserves</b>		
2,164	General Fund Balance	1,922	
6,648	Other Usable Reserves	6,451	20
30,795	<b>Unusable Reserves</b>	33,496	21
<b>39,607</b>	<b>Total Reserves</b>	<b>41,869</b>	

*\*Also includes the £213,000 (2011/12 - £135,000) relating to the Firefighters' Pension Scheme (see page 94)*



## Cash Flow Statement

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

2011/12 £000's		2012/13 £000's	Note
(7,832)	(Surplus) or Deficit on the Provision of Services (CIES)	(3,270)	
(1,288)	Adjustments to surplus or deficit on the provision of services for non-cash movements	(414)	22
8,515	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	4,654	22
<b>(605)</b>	<b>Net Cash Flows from Operating Activities</b>	<b>970</b>	
<b>4,659</b>	Investing activities	<b>1,060</b>	23
<b>81</b>	Financing activities	<b>67</b>	24
<b>4,135</b>	<b>Net (Increase) or Decrease in Cash and Cash Equivalents</b>	<b>2,097</b>	
(8,695)	Cash and Cash Equivalents at 1 April	(4,560)	
<b>(4,560)</b>	Cash and Cash Equivalents at 31 March	<b>(2,463)</b>	17

# Notes to the Accounts

## Note 1 Accounting Policies

### 1.1 General Principles

The Statement of Accounts summarises the Authority's transactions for the 2012/13 financial year and its position at the year end of 31 March 2013. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011 which require them to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 and the Service Reporting Code of Practice 2012/13 (SeRCOP), supported by International Financial Reporting Standards (IFRS). The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

**Going Concern** – The accounts are prepared on the assumption that the Authority will continue in operational existence into the foreseeable future i.e. there is no intention to significantly curtail the scale of the operation.

**Legislative Requirements** – It is a fundamental principle that where specific legislative requirements and accounting principles conflict, legislative requirements take precedence.

### 1.2 Accruals of Income and Expenditure

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

- Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption they are carried as inventories on the Balance Sheet. Exceptions include school balances and utility bills that are recorded at the date of meter readings.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is provided for and a charge made to revenue for the income that might not be collected.

### **1.3 Cash and Cash Equivalents**

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

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts, if they exist, that would be repayable on demand.

### **1.4 Exceptional Items**

When items of income and expenditure are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Authority's financial performance.

### **1.5 Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors**

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change, and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

### **1.6 Charges to Revenue for Non-Current Assets**

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

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

The Authority is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisations although it may set aside sums for the replacement of assets. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement (equal to an amount calculated on a prudent basis determined by the

Authority) in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance [Minimum Revenue Provision (MRP)], by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

### **1.7 Employee Benefits - Benefits Payable During Employment**

Short-term employee benefits are those due to be settled within 12 months of the year end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

### **1.8 Employee Benefits - Termination Benefits**

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the Non-Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Authority is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

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

### **1.9 Employee Benefits - Post Employment Benefits**

Employees of the Authority are members of three separate pension schemes:

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE).
- The Local Government Pension Scheme, administered by Cornwall Council.
- Fire Fighters' Pension Scheme, administered by Cornwall Council.

All schemes provide defined benefits to members (retirement lump sums and pensions), earned whilst employees work for the Authority.

However, the arrangements for the teachers' scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the Authority. The scheme is therefore accounted for as if it were a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Children's and Education Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year as part of the overall payment to the Five Islands School.

### 1.10 The Local Government Pension Scheme

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

- The liabilities of the Cornwall Pension Fund attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates and projections of anticipated earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 4.8% (based on the single average gilt yield over 20 years plus the median credit spread on AA corporate bonds).
- The assets of Cornwall Pension Fund attributable to the Authority are included in the Balance Sheet at their fair value:

quoted securities	current bid price
unquoted securities	professional estimate
unitised securities	current bid price
property	market value

- The change in the net pensions liability is analysed into seven components:
  - Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees work.
  - Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non-Distributed Costs.
  - Interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
  - Expected return on assets – the annual investment return on the fund assets attributable to the Authority, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
  - Gains or losses on settlements and curtailments – the result of actions to relieve the Authority of liabilities or events that reduce the expected future service or accrual of

benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.

- Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve.
- Contributions paid to the Cornwall Pension Fund – cash paid as employer’s contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

#### **1.11 Discretionary Benefits**

The Authority has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

#### **1.12 Fire Fighters’ Pension Scheme**

The accounts for the scheme are prepared in accordance with the Code of Practice on Local Authority Accounting issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), and with guidance notes issued by CIPFA on the application of accounting standards to Local Authorities. They do not take account of liabilities to pay pensions and other benefits in the future. Information on the Authority's long term pensions obligations can be found from page 84.

Income and expenditure have been accounted for on an accruals basis for contributions and benefits payable.

#### **1.13 Events after the Balance Sheet Date (Reporting Period)**

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events.

- Those that are indicative of conditions that arose after the reporting period – the Statement of Accounts are not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

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

#### **1.14 Financial Instruments - Financial Liabilities**

Financial liabilities are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

This means that all of the borrowings presented in the Balance Sheet are the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

#### **1.15 Financial Instruments - Financial Assets**

Financial assets are classified into two types:

- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market.
- Available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments. The Council of the Isles of Scilly does not hold such assets.

## Loans and Receivables

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

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

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise where an asset is no longer held are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

### 1.16 Government Grants and Contributions

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

- The Authority will comply with the conditions attached to the payments; and
- the grants or contributions will be received.

Amounts recognised as due to the Authority are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied.



Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

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

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

### **General Grant**

General grants are allocated by central government directly to local authorities as additional revenue funding. Such grants are non ring-fenced and are credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement.

#### **1.17 Heritage Assets**

The Authority has a small number of assets that it holds for the purposes of increasing the knowledge, understanding and appreciation of its history and local area. For the purposes of this statement they are known as Heritage Assets. They are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Authority's accounting policies on property, plant and equipment.

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Authority's general policies on impairment – see page 38.

#### **1.18 Inventories**

The Authority holds inventories at its Airport, Waste Disposal, Water, Tourism services and leisure facilities. The Authority holds stores of consumable items so that it can rapidly repair key equipment within the Airport, incinerator plant and water installations. Stores have been valued at cost less an allowance for loss in value. The Tourism Office and leisure facilities hold stocks of items for resale and these have been valued at the lower of cost or net realisable value.

### **1.19 Long-term Contracts**

Long-term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

### **1.20 Investment Property**

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

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's length. Properties are not depreciated but are revalued on a five year rolling valuation or earlier if the carrying amount does not differ materially with market conditions at the Balance Sheet date.

Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

### **1.21 Leases**

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards fundamental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases. Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

### **1.22 The Authority as Lessee**

#### **Finance Leases**

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Authority are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability; and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Authority at the end of the lease period).

The Authority is not required to raise Council Tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

### **Operating Leases**

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

## **1.23 The Authority as Lessor**

### **Finance Leases**

Where the Authority grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Authority's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal i.e. offset against the carrying value of the asset at the time of disposal and matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- A charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received); and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is transferred out of the General Fund Balance and into the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is transferred out of the General Fund Balance and into the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against Council Tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

### **Operating Leases**

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

#### **1.24 Overheads and Support Services**

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2012/13 (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Authority’s status as a multifunctional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

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

#### **1.25 Property, Plant and Equipment**

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

## Recognition

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

The Authority operates a de minimus level of £6,000 when capitalising expenditure unless it is creating or enhancing a group of assets, when amounts below this level can be capitalised.

## Measurement

Assets are initially measured at cost, comprising:

- The purchase price.
- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
- The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The Authority does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Authority). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Authority.

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

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

- Infrastructure, community assets and assets under construction – depreciated historical cost.
- Dwellings – fair value, determined using the basis of existing use value for social housing (EUV-SH).
- All other assets – fair value, determined as the amount that would be paid for the asset in its existing use value (EUV).

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

Where non-property assets that have short useful lives and/or low values, depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year end, and as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. (Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service).

Where decreases in value are identified, they are treated in the following way:

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

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

### **Impairment**

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

Where impairment losses are identified, they are accounted for in the following way:

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

Where an impairment loss is subsequently reversed, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, but adjusted for the depreciation that would have been charged if the loss had not been recognised.

## Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life i.e. freehold land and certain Community Assets (the majority of community assets held by the Authority are land assets which have an unlimited useful life and therefore depreciation is not charged) and assets that are not yet available for use i.e. assets under construction.

Depreciation is calculated on the following bases:

- Council Dwellings - Straight-line allocation over the useful life of the property as estimated by the valuer currently between 0 to 55 years.
- Other Land and Buildings – Straight-line allocation over the useful life of the property as estimated by the valuer currently between 0 to 80 years.
- Vehicles, Plant, Furniture and Equipment – Straight-line allocation over the useful life of the asset class, as advised by a suitably qualified officer between 0 to 20 years.
- Infrastructure – Straight-line allocation of between 0 to 40 years.

Where an item of Property, Plant and Equipment, whose cost or valuation is greater than 2.5% of the total value of assets held by the Authority, has major components that are greater than 10% of the value of the individual asset, the components are depreciated separately.

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

### 1.26 Disposals and Non-current Assets Held for Sale

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

If assets no longer meet the criteria to be classified as Assets Held for Sale they are reclassified as non-current assets and valued at the lower of their carrying amount before they were classified as Held for Sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable value at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

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

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Authority's underlying need to borrow the capital financing requirement. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against Council Tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

## **1.27 Provisions, Contingent Liabilities and Contingent Assets**

### **Provisions**

Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance the Authority may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Authority becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party, eg from an insurance claim, this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Authority settles the obligation.



## **Contingent Liabilities**

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

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

## **Contingent Assets**

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

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

### **1.28 Landfill Allowance Schemes**

The Authority does not operate a landfill waste disposal site but does receive allowances as part of a national scheme. Landfill allowances, whether allocated by the Department for Environment, Food and Rural Affairs (DEFRA) or purchased from another Waste Disposal Authority (WDA) are recognised as current assets and are initially measured at fair value. Landfill allowances allocated by DEFRA are accounted for as a government grant.

After initial recognition, allowances are measured at the lower of cost and net realisable value.

As landfill is used, a liability and an expense are recognised. The liability is discharged either by surrendering allowances or by payment of a cash penalty to DEFRA (or by a combination). The liability is measured at the best estimate of the expenditure required to meet the obligation, normally the market price of the number of allowances required to meet the liability at the reporting date. However, where some of the obligation will be met by paying a cash penalty to DEFRA, that part of its liability is measured at the cost of the penalty.

### **1.29 Reserves**

The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against Council Tax for the expenditure.

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

### **1.30 Revenue Expenditure Funded from Capital under Statute (ReFCUS)**

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

### **1.31 VAT**

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

## **Note 2 Accounting Standards Issued but not yet Adopted**

Changes to International Accounting Standard 19 (IAS19) applicable to the Local Government Pension Scheme will come into effect for the financial year ended 31 March 2014. The changes will be adopted retrospectively for the prior year, in accordance with IAS8. The effect of the change to IAS19 on the pension income statement disclosure to 31 March 2013 will be an increase of £73,000. This will be disclosed in the report covering the year to 31 March 2014.

## **Note 3 Critical Judgements in Applying Accounting Policies**

In applying the accounting policies set out in Note 1, the Authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

### **Future Funding**

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

### **School Buildings**

The Authority is an Education Authority and provides services from a number of fixed sites over the five islands. The main school site on St Mary's is an asset which is fully owned by the Authority and is therefore included on the Balance Sheet. However, the other school sites are of mixed ownership. No finalised guidance has been issued with regard to the inclusion of these assets on Local Authority Balance Sheets.

The Duchy of Cornwall leases land to the Truro Diocesan Board of Finance Limited and the Truro Diocesan Board of Finance Limited own the buildings. In some cases the Authority may carry out capital works to improve some of the Truro Diocesan Board of Finance Limited's premises where grant funding has been provided specifically for schools but this has been treated as Revenue

Funded by Capital Under Statute (ReFCUS) and therefore not included on the Authority's Balance Sheet.

The Authority has continued to adopt the same criteria in assessing the voluntary controlled school assets for inclusion in this Statement of Accounts, as it did in 2010/11 and 2011/12. The assessment carried out supports a decision not to recognise these assets on the Balance Sheet of the Authority.

#### **Note 4 Assumptions and Estimation Uncertainty about the Future**

The Statement of Accounts contains estimated figures that are based on assumptions made by the Authority about the future or other factors that are otherwise uncertain. Estimates are made by taking into account historical experience, current trends, expert advice and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. Where this has potential to impact on figures or value it has been disclosed in the relevant note.

##### **Pension Liability Estimation**

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets.

A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied.

The effects on the net pension liability of changes in individual assumptions can be seen below and in Note 38.5.

31 March 2012		Change in assumptions at year ended	31 March 2013	
Approx % increase to Employer	Approx monetary amount £000's		Approx % increase to Employer	Approx monetary amount £000's
10%	1,410	0.5% decrease in Real Discount Rate	10%	1,756
3%	413	1 year increase in member life expectancy	3%	502
3%	422	0.5% increase in the Salary Increase Rate	3%	547
7%	977	0.5% increase in the Pension Increase Rate	7%	1,181

#### **Note 5 Material Items of Income and Expenditure**

A provision of £108,000 has been set aside since 2010/11 in relation to amounts owed to Cornwall Council for services in relation to Children's Social Services. The situation has been now been resolved and the provision has been released.

#### **Note 6 Events after the Reporting Period**

New arrangements for the retention of business rates came into effect on 1 April 2013 and from then local authorities assumed the liability for refunding ratepayers who have successfully appealed against the rateable value of their properties on the rating list. Even though these liabilities may

relate to the period prior to 1 April 2013, they are not a liability until after that date, so are disclosed here as a non-adjusting event after the reporting period estimated at £45,000.

The Council agreed on 11 June 2013 to restructure the senior management positions within the authority. As both the event and the impact will occur after the balance sheet date no adjustment has been made.

### **Note 7    Adjustments between Accounting/Funding Basis under Regulations**

This note details the adjustments that are made to the total Comprehensive Income and Expenditure Statement, recognised by the Authority in the year in accordance with proper accounting practice, to the resources that are specified by statutory provisions as being available to the Authority to meet future capital and revenue expenditure.

*Continued overleaf..*

2011/12	Usable						Movement in Unusable Reserves
	General Fund Balance	Earmarked Reserves	Housing Revenue Account (HRA)	Capital Receipts Unapplied	Major Repairs Account (HRA)	Capital Grants Unapplied	
£000's							
<b>Adjustment primarily involving the Capital Adjustment Account</b>							
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Account</b>							
Charges for Depreciation and Impairment of Non-Current Assets	1,274	0	274	0	(5)	0	(1,543)
Capital Grants and Contributions Applied	(8,137)	0	0	0	0	(157)	8,294
Revenue Expenditure Funded from Capital Under Statute	8	0	0	0	0	0	(8)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	150	0	0	0	0	0	(150)
<b>Insertion of items debited or credited to the Comprehensive Income and Expenditure Account</b>							
Statutory provision for the financing of capital investment - Minimum Revenue Provision (MRP)	(214)	0	0	0	0	0	214
Capital Expenditure charged against the General Fund and HRA Balances	(21)	0	0	0	0	0	21
Net transfer to/from earmarked reserves required by legislation (earmarking of revenue grants with no conditions)	(185)	185	0	0	0	0	0
<b>Adjustment primarily involving the Capital Grants Unapplied Account</b>							
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(282)	0	0	0	0	282	0
<b>Adjustments primarily involving the Pensions Reserve Account</b>							
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement net of Employer's pension contributions and direct payments to pensioners payable in the year	(47)	0	1	0	0	0	46
<b>Adjustments primarily involving the Collection Fund Adjustment Account</b>							
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(5)	0	0	0	0	0	5
<b>Adjustment primarily involving the Accumulated Absences Account</b>							
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	4	0	0	0	0	0	(4)
<b>Total Adjustments</b>	<b>(7,455)</b>	<b>185</b>	<b>275</b>	<b>0</b>	<b>(5)</b>	<b>125</b>	<b>6,875</b>

Continued overleaf.

2012/13 £000's	Usable					Movement in Unusable Reserves
	General Fund Balance	Earmarked Reserves	Capital Receipts Unapplied	Major Repairs Account	Capital Grants Unapplied	
<b>Adjustment primarily involving the Capital Adjustment Account</b>						
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Account</b>						
Charges for Depreciation and Impairment of Non-Current Assets	1,442	0	0	0	0	(1,442)
Capital Grants and Contributions Applied	(3,875)	0	0	0	0	3,875
Revenue Expenditure Funded from Capital Under Statute	29	0	0	0	0	(29)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	80	0	0	0	0	(80)
<b>Insertion of items debited or credited to the Comprehensive Income and Expenditure Account</b>						
Statutory provision for the financing of capital investment (MRP)	(208)	0	0	0	0	208
Capital Expenditure charged against the General Fund	(604)	0	0	0	0	604
Net transfer to/from earmarked reserves required by legislation (earmarking of revenue grants with no conditions)	(520)	520	0	0	0	0
<b>Adjustment primarily involving the Capital Grants Unapplied Account</b>						
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(203)	0	0	0	203	0
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	0	0	(21)	21
<b>Adjustment primarily involving the Capital Receipts Reserve</b>						
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	(274)	0	0	274
<b>Adjustments primarily involving the Pensions Reserve</b>						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement net of Employer's pension contributions and direct payments to pensioners payable in the year	111	0	0	0	0	(111)
<b>Adjustments primarily involving the Collection Fund</b>						
<b>Adjustment Account</b>						
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	110	0	0	0	0	(110)
<b>Adjustment primarily involving the Accumulated Absences Account</b>						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(118)	0	0	0	0	118
<b>Total Adjustments</b>	<b>(3,756)</b>	<b>520</b>	<b>(274)</b>	<b>0</b>	<b>182</b>	<b>3,328</b>

## Note 8 Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the General Fund into earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2011/12 and 2012/13.

	<b>31 March 2011 £000's</b>	Transfers (Out) £000's	Transfers In £000's	<b>31 March 2012 £000's</b>	Transfers (Out) £000's	Transfers In £000's	<b>31 March 2013 £000's</b>
Five Island School Fund	370	0	134	504	(127)	0	377
<b>Other Project &amp; Specific Earmarked Reserves</b>							
Water reserve	509	(15)	52	546	(1)	16	561
Sewerage Fund	699	0	2	701	(13)	56	744
Airport	243	(60)	0	183	(7)	23	199
Capital	168	0	0	168	0	0	168
Repairs Funds	595	(30)	0	565	(77)	0	488
Plant fund	46	(21)	0	25	(17)	0	8
Equipment fund	10	0	0	10	0	0	10
Pollution Control	11	0	0	11	0	0	11
Children's Services	100	0	0	100	0	0	100
Porthcressa Project	180	0	0	180	(180)	0	0
One-Stop Shop	20	0	0	20	0	0	20
Buzza Bus	0	0	0	0	0	14	14
IFCA	0	0	5	5	0	3	8
Housing Reserve	105	(1)	0	104	(37)	1,342	1,409
Revenue Grants Unapplied	1,872	(142)	185	1,915	(575)	520	1,860
<b>All Earmarked Reserves</b>	<b>4,928</b>	<b>(269)</b>	<b>378</b>	<b>5,037</b>	<b>(1,034)</b>	<b>1,974</b>	<b>5,977</b>

## Note 9 Property, Plant and Equipment

Comparative Movements 2011/12	Council Dwellings £000's	Other Land & Buildings £000's	Vehicles, Plant & Equipment £000's	Infrastructure £000's	Community Assets £000's	Assets Under Construction £000's	Total £000's
<b>Cost or Valuation</b>							
At 1 April 2011	10,249	8,471	1,534	6,436	44	9,147	35,881
Additions	22	66	640	21	0	7,666	8,415
Disposals	0	(144)	(121)	0	0	0	(265)
Reclassifications	0	16,144	1	0	(30)	(16,145)	(30)
Revaluations to Revaluation Reserve	4	1,233	0	0	0	0	1,237
Revaluations to CIES	(322)	(594)	0	0	0	0	(916)
<b>As at 31 March 2012</b>	<b>9,953</b>	<b>25,176</b>	<b>2,054</b>	<b>6,457</b>	<b>14</b>	<b>668</b>	<b>44,322</b>
<b>Depreciation and Impairments</b>							
At 1 April 2011	(222)	(912)	(851)	(2,295)	(14)	0	(4,294)
Charge for the Year	(139)	(536)	(135)	(273)	0	0	(1,083)
Depreciation on Disposals	0	15	101	0	0	0	116
Reclassifications	0	(33)	33	0	0	0	0
Revaluations to Revaluation Reserve	0	5	0	0	0	0	5
Revaluations to CIES	124	331	0	0	0	0	455
<b>As at 31 March 2012</b>	<b>(237)</b>	<b>(1,130)</b>	<b>(852)</b>	<b>(2,568)</b>	<b>(14)</b>	<b>0</b>	<b>(4,801)</b>
<b>Net Book Value at 31 March 2012</b>	<b>9,716</b>	<b>24,046</b>	<b>1,202</b>	<b>3,889</b>	<b>0</b>	<b>668</b>	<b>39,521</b>
<b>Net Book Value at 31 March 2011</b>	<b>10,027</b>	<b>7,559</b>	<b>683</b>	<b>4,141</b>	<b>30</b>	<b>9,147</b>	<b>31,587</b>



Movements 2012/13	Council Dwellings £000's	Other Land & Buildings £000's	Vehicles, Plant & Equipment £000's	Infrastructure £000's	Community Assets £000's	Assets Under Construction £000's	Total £000's
<b>Cost or Valuation</b>							
At 1 April 2012	9,953	25,176	2,054	6,457	14	668	44,322
Additions	37	228	139	106	0	5,030	5,540
Not Previously Recognised	0	0	0	0	1	0	1
Disposals	0	(25)	(7)	0	0	0	(32)
Reclassifications	0	0	21	14	(14)	(21)	0
Revaluations to Revaluation Reserve	0	34	0	0	0	0	34
Revaluations to CIES	(22)	(11)	0	0	0	0	(33)
<b>As at 31 March 2013</b>	<b>9,968</b>	<b>25,402</b>	<b>2,207</b>	<b>6,577</b>	<b>1</b>	<b>5,677</b>	<b>49,832</b>
<b>Depreciation and Impairments</b>							
At 1 April 2012	(237)	(1,130)	(852)	(2,568)	(14)	0	(4,801)
Charge for the Year	(140)	(805)	(202)	(284)	0	0	(1,431)
Depreciation on Disposals	0	1	6	0	0	0	7
Reclassifications	0	0	0	(14)	14	0	0
Revaluations to Revaluation Reserve	0	58	0	0	0	0	58
Revaluations to CIES	10	12	0	0	0	0	22
<b>As at 31 March 2013</b>	<b>(367)</b>	<b>(1,864)</b>	<b>(1,048)</b>	<b>(2,866)</b>	<b>0</b>	<b>0</b>	<b>(6,145)</b>
<b>Net Book Value at 31 March 2013</b>	<b>9,601</b>	<b>23,538</b>	<b>1,159</b>	<b>3,711</b>	<b>1</b>	<b>5,677</b>	<b>43,687</b>
<b>Net Book Value at 31 March 2012</b>	<b>9,716</b>	<b>24,046</b>	<b>1,202</b>	<b>3,889</b>	<b>0</b>	<b>668</b>	<b>39,521</b>

## 9.1 Depreciation

The following useful lives and depreciation rates have been used in the calculation of depreciation:

- Council Dwellings - 0 to 55 years
- Other Land and Buildings - 0 to 80 years
- Vehicles, Plant & Equipment - 0 to 20 years
- Infrastructure - 0 to 40 years

## 9.2 Capital Commitments

As at 31 March 2013, the Authority has entered into several contracts for capital development for which the works are to continue into 2013/14. These include:

31 March 2012 £000's		Project Value £000's	31 March 2013 £000's
	<b>Project:</b>		
3,678	Porthcressa Redevelopment	4,284	538
0	Carn Gwaval Community Hub	632	419
0	Town Hall Improvements	279	253
0	Porthmellon Innovation & Enterprise Centre - initial phase	2,400	17
0	Desalination plant & reservoir	1,127	256
<b>3,678</b>	<b>Total</b>	<b>8,722</b>	<b>1,483</b>

## 9.3 Effects of Changes in Estimates

In 2012/13 the Authority made no material changes to its accounting estimates for Property, Plant & Equipment.

## 9.4 Revaluation

The Authority carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. All valuations were carried out by the District Valuation Office in accordance with the required practice.

The Property, Plant & Equipment revaluation resulted in a net increase of £81,000. This resulted in an increase to the revaluation reserve of £92,000 and a charge to the Comprehensive Income & Expenditure Statement of £11,000.

There were several revaluations in the year. The key valuations are detailed below:

- Public Conveniences increased in value by £60,000.
- Tresco Fire Station Increased in value by £12,000.
- Off-Island Waste Transfer Sites increased in value by £11,000.
- Porthcressa Play Area increased in value by £10,000.
- The Social Housing Properties decreased in value by £12,000.

## 9.5 Valuation Schedule

	Council Dwellings	Other Land & Buildings	Vehicles, Plant, Furniture & Equipment	Total
		£000's	£000's	£000's
Valued at historical cost	0	93	1,159	1,252
Valued at current value in:				
2012/13	7,598	331	0	7,929
2011/12	237	18,666	0	18,903
2010/11	0	0	0	0
2009/10	1,766	4,310	0	6,076
2008/09	0	138	0	138
<b>Total Cost or Valuation</b>	<b>9,601</b>	<b>23,538</b>	<b>1,159</b>	<b>34,298</b>

### Note 10 Heritage Assets

31 March 2012 £000's		31 March 2013 £000's
0	<b>Cost or Valuation as at 1 April</b>	106
30	Reclassifications	0
76	Revaluations	0
0	Assets not previously recognised	10
<b>106</b>	<b>Net Book Value as at 31 March</b>	<b>116</b>

The Authority's collection of historical assets is valued in the Balance Sheet at insurance valuation, which is based on market values. These insurance valuations are updated regularly.

The collection of historical assets includes a pair of 18-inch library globes made by J. Cary, London, two antique chairs, a George I coat of arms, the Chairman's regalia, a collection of rifles, pistols and swords and a working clock mechanism from the former St Mary's Church clock.

There have been no additions or disposals of heritage assets in the year (2011/12 - £Nil). However the Clock Mechanism was a previously unrecognised asset.

#### Five Year Summary of transactions

	2008/09 £000's	2009/10 £000's	2010/11 £000's	2011/12 £000's	2012/13 £000's
<b>Reclassification to Heritage Assets in the Period</b>					
Historical Assets	0	0	0	30	0
<b>Previously Unrecognised Assets in the Period</b>					
Historical Assets	0	0	0	0	10
<b>Revaluation of Heritage Assets in the Period</b>					
Historical Assets	0	0	0	76	0

## Note 11 Assets Held For Sale

At 1 April 2012, the asset held for sale, which was land at Well Cross Lane on St Mary's, was transferred to a housing association for social housing. As at 31 March 2013 the Authority had no assets (31 March 2012 - one) classified as held for sale with a current book value totalling £Nil (2011/12 - £55,000).

## Note 12 Investment Properties

There are no restrictions on the Authority's ability to realise the value inherent in its investment properties or on the Authority's right to the remittance of income and the proceeds of disposal. The Authority has no ongoing contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancement.

The value of investment properties was £68,000 (31 March 2012 - £68,000).

## Note 13 Financial Instruments

The following categories of financial instrument are carried in the Balance Sheet:

31 March 2012			31 March 2013	
Long term	Current		Long term	Current
£000's	£000's		£000's	£000's
		<b>Debtors</b>		
73	2,590	Debtors	95	3,758
73	2,590	<b>Total Debtors</b>	95	3,758
0	4,560	Cash & Bank	0	2,463
0	4,560	<b>Total Cash &amp; Bank</b>	0	2,463
		<b>Borrowings</b>		
(280)	(66)	Financial Liabilities at Amortised Costs	(227)	(54)
(5)	(2)	Accrued Interest	(4)	(1)
(285)	(68)	<b>Total Borrowings</b>	(231)	(55)
		<b>Creditors</b>		
(1)	(1,796)	Financial Liabilities at Amortised Cost	(1)	(2,041)
(1)	(1,796)	<b>Total Creditors</b>	(1)	(2,041)

## Income, Expense, Gains and Losses

2011/12			2012/13		
Financial Liabilities at Amortised Costs	Financial Assets: Loans and Receivables	Total	Financial Liabilities at Amortised Costs	Financial Assets: Loans and Receivables	Total
£000's	£000's	£000's	£000's	£000's	£000's
21	0	21	22	0	22
Interest Expense			Interest Expense		
<b>21</b>	<b>0</b>	<b>21</b>	<b>22</b>	<b>0</b>	<b>22</b>
<b>Total Expense in (Surplus) or Deficit on the provision of services</b>			<b>Total Expense in (Surplus) or Deficit on the provision of services</b>		
0	(28)	(28)	0	(77)	(77)
Interest Income			Interest Income		
0	0	0	0	2	2
Impairment Losses			Impairment Losses		
0	(28)	(28)	0	(75)	(75)
<b>Total Income in (Surplus) or Deficit on the provision of services</b>			<b>Total Income in (Surplus) or Deficit on the provision of services</b>		
<b>21</b>	<b>(28)</b>	<b>(7)</b>	<b>22</b>	<b>(75)</b>	<b>(53)</b>
<b>Net (Gain)/Loss for the year</b>			<b>Net (Gain)/Loss for the year</b>		

### 13.1 Fair Values of Assets and Liabilities

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

- The range of interest rates as at 31 March 2013 was between 5.125% and 5.375%. All loans are held with Public Works Loans Board (PWLB).
- No early repayment or impairment is recognised.
- Where an instrument will mature in the next 12 months, the carrying amount is assumed to approximate to fair value.
- The fair value of trade and other receivables is taken to be the invoiced or billed amount

The fair values calculated are as follows:

31 March 2012		31 March 2013	
Carrying Amount	Fair Value	Carrying Amount	Fair Value
£000's	£000's	£000's	£000's
353	404	286	324
1,796	1,796	2,041	2,041
1	1	1	1
<b>2,150</b>	<b>2,201</b>	<b>2,328</b>	<b>2,366</b>

The fair value of the liabilities is higher than the carrying amount because the figures reflect early repayment penalties that would be applied by PWLB should the loans be repaid early.

31 March 2012			31 March 2013	
Carrying Amount	Fair Value		Carrying Amount	Fair Value
£000's	£000's		£000's	£000's
2,590	2,590	Short-Term Debtors	3,758	3,758
73	73	Long-Term Debtors	96	96
<b>2,663</b>	<b>2,663</b>		<b>3,854</b>	<b>3,854</b>

Short term debtors and creditors are carried at cost as this is a fair approximation of their value.

## Note 14 Nature and Extent of Risks Arising from Financial Instruments

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

- Credit risk – the possibility that other parties might fail to pay amounts due to the Authority.
- Liquidity risk – the possibility that the Authority might not have funds available to meet its commitments to make payments.
- Market risk – the possibility that financial loss might arise for the Authority as a result of changes in such measures as interest rates.

The Authority's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by the Finance Team, under policies approved by the Authority in the annual treasury management strategy.

### 14.1 Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Authority's customers.

Customers for goods and services are generally not credit assessed as the Authority has no choice as to whom services are generally supplied. However, for small exchange transactions payment in advance is required.

The Authority's maximum exposure to credit risk in relation to its investments with Lloyds Bank has been assessed as minimal.

The following analysis summarises the Authority's potential maximum exposure to credit risk on other financial assets, based on experience of default and uncollectability.

The amounts due can be analysed by age as follows:

31 March 2012			31 March 2013	
Customers	Deposits with Banks and Financial Institutions *		Customers	Deposits with Banks and Financial Institutions *
290	4,558	A: Amount (£000's)	271	2,395
14.24%	0.00%	B: Historical experience of default - (%)	13.87%	0.00%
14.24%	0.00%	C: Historical experience adjusted for market conditions (%)	12.39%	0.00%
		AxC: Estimated maximum exposure to default and uncollectability (£000's)		
41	0		34	0

\* Current account balance, excludes petty cash

Analysis of debts unpaid over 30 days owed but not impaired:

31 March 2012		31 March 2013
£000'S		£000'S
206	Less than three months	213
25	Three to six months	30
9	Six months to one year	1
50	More than one year	27
<b>290</b>	<b>Total</b>	<b>271</b>

## 14.2 Liquidity Risk

The Authority manages its cash flow to ensure that cash is available as needed. If unexpected movements happen, the Authority has ready access to borrowings from the money markets and the Public Works Loans Board. There is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead the risk is that the Authority will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The Authority sets limits on the proportion of its fixed rate borrowing during specified periods. The strategy is to ensure that loans do not all mature within any rolling three-year period through a combination of careful planning of new loans taken out and, where it is economic to do so, making early repayments. The maturity analysis of financial liabilities is as follows:

31 March 2012		31 March 2013
£000'S		£000'S
68	Less than one year	55
55	Between one and two years	55
152	Between two and five years	130
78	More than five years	46
<b>353</b>	<b>Total</b>	<b>286</b>

All trade and other payables are due to be paid in less than one year.

### **14.3 Market Risk**

The Council is exposed to market risk in terms of its exposure to fluctuation in the value of an instrument as a result of changes in:

- Interest rate risk;
- Price risk; and / or
- Foreign exchange rate risk.

#### **Interest Rate Risk**

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

- Borrowings at variable rates – the interest expense charged to the Surplus or Deficit on the Provision of Services will rise.
- Borrowings at fixed rates – the fair value of the liabilities will fall.
- Investments at variable rates – the interest income credited to the Surplus or Deficit on the Provision of Services will rise.
- Investments at fixed rates – the fair value of the assets will fall.

However, the Authority only has a small portfolio of PWLB loans and all are at fixed rates of 5.125% to 5.375%.

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure.

#### **Price Risk**

The Authority does not invest in equity shares and therefore is not exposed to the risk of investment prices rising or falling.

#### **Foreign Exchange Risk**

The Authority does not undertake any significant financial transactions nor has any financial assets or liabilities denominated in foreign currencies and thus has no exposure to loss arising from movements in exchange rates.



## Note 15 Stock and Inventories

2011/12					2012/13				
Consumable Stores	Maintenance Materials	Client Services WIP	Total		Consumable Stores	Maintenance Materials	Client Services WIP	Total	
£000's					£000's				
9	102	3	114	<b>Opening Balance 1 April</b>	24	117	2	<b>143</b>	
27	86	0	113	Purchases	28	46	2	<b>76</b>	
(12)	(71)	(1)	(84)	Recognised as an expense in the year	(29)	(58)	(2)	<b>(89)</b>	
<b>24</b>	<b>117</b>	<b>2</b>	<b>143</b>	<b>Closing Balance 31 March</b>	<b>23</b>	<b>105</b>	<b>2</b>	<b>130</b>	

## Note 16 Debtors

31 March 2012 £000's			31 March 2013 £000's	
2,121	Central Government Bodies		2,186	
0	Other Local Authorities		71	
35	NHS Bodies		120	
0	Public Corporations & Trading Funds		107	
784	Other Entities & Individuals		1,922	
<b>2,940</b>	<b>Total Debtors</b>		<b>4,406</b>	

## Note 17 Cash and Cash Equivalents

31 March 2012 £000's			Movement during the year £000's		31 March 2013 £000's	
4,054	Cash Held at Bank		(1,969)		2,085	
504	School's Local Bank Accounts		(127)		377	
2	Petty Cash		(1)		1	
<b>4,560</b>	<b>Total</b>		<b>(2,097)</b>		<b>2,463</b>	

## Note 18 Creditors

31 March 2012 £000's		31 March 2013 £000's
(895)	Central Government Bodies	(775)
(15)	Other Local Authorities	(267)
(7)	NHS Bodies	(12)
(2)	Public Corporations & Trading Funds	(6)
(229)	Staff - Accumulated Absences	(111)
(789)	Other Entities & Individuals	(914)
<b>(1,937)</b>	<b>Total Creditors</b>	<b>(2,085)</b>

## Note 19 Provisions

	Fire Equal Pay £000's	Childrens Services £000's	Total £000's
Balance at 1 April 2011	(30)	(108)	<b>(138)</b>
Unused amounts reversed in 2011/12	6	0	<b>6</b>
Balance at 1 April 2012	(24)	(108)	<b>(132)</b>
Amounts used in 2012/13	24	0	<b>24</b>
Unused amounts reversed in 2012/13	0	108	<b>108</b>
<b>Balance at 31 March 2013</b>	<b>0</b>	<b>0</b>	<b>0</b>

### Fire Fighters

The costs of back pay arising as a result of the Fire Brigade Union Employment Tribunal cases in relation to the Part Time Workers (Prevention of Less Favourable Treatment) Regulations 2000 were paid in full in 2012/13.

### Children's Services

A provision of £108,000 was created in 2010/11 in relation to amounts owed but that had yet to be invoiced by Cornwall Council for services in relation to Children's Social Services. The situation has been reviewed in the 2012/13 financial year and the provision has been released as this liability is no longer considered probable.

## Note 20 Usable Reserves

In addition to the General Fund balance, the Authority maintains the following other usable reserves within its Balance Sheet:

31 March 2012	Other Usable Reserves	31 March 2013
£000's		£000's
292	Capital Grants Unapplied Reserve	474
274	Usable Capital Receipts	0
598	Housing Revenue Account (HRA) - closed	0
447	HRA - Major Repairs Reserve - closed	0
104	Earmarked: (HRA) Housing Reserve	1,409
504	Earmarked: Schools Balances	377
2,514	Earmarked: Service & Project Specific Reserves	2,331
1,915	Earmarked: Revenue Grants Unapplied Reserve	1,860
<b>6,648</b>	<b>Total Other Usable Reserves</b>	<b>6,451</b>

The purpose of these reserves are:

RESERVE	MAIN PURPOSE
Capital Grants Unapplied Reserve	The Reserve holds the accumulated Capital grant funding that has been received by the Authority, but has not yet been allocated against capital expenditure.
Usable Capital Receipts	When an asset is sold a proportion (depending on the asset and the prevailing legislation) can be held for recycling into future capital expenditure. This reserve holds the amount that the Authority has available for that purpose.
Earmarked: Housing Reserve	To fund major capital repairs to the Council's Housing Stock.
Earmarked: Schools Balances	This reflects the cash balances held by the School.
Earmarked: Service and Project Specific	Amounts held in these Earmarked reserves, are held for types of expenditure or projects which the Authority wishes to specifically set aside.
Earmarked: Revenue Grants Unapplied Reserve	This reserve holds the Revenue Grants that have been received by the Authority but have not been applied against expenditure as at the Balance Sheet date.

Movements in the Authority's usable reserves are detailed in the Movement in Reserves Statement starting on page 21 and Note 8 on page 47.

## Note 21 Unusable Reserves

31 March 2012 £000's		31 March 2013 £000's
3,000	Revaluation Reserve	2,938
31,552	Capital Adjustment Account	35,402
(3,497)	Pension Reserve - LGPS	(4,514)
104	Collection Fund Adjustment Account	(6)
(229)	Accumulated Absences Account	(111)
(135)	Pension Reserve - Fire Fighters' Pension	(213)
<b>30,795</b>	<b>Total Unusable Reserves</b>	<b>33,496</b>

### 21.1 Revaluation Reserve

The Revaluation Reserve contains the gains made by the Authority arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

- Revalued downwards or impaired and the gains are lost; or
- used in the provision of services and the gains are consumed through depreciation; or
- disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

2011/12 £000's		2012/13 £000's
1,808	<b>Balance at 1 April</b>	3,000
1,328	Upward revaluation of assets	104
(10)	Downward revaluation of assets and impairment losses not charged to the surplus or deficit on the provision of services	0
(51)	Revaluation reserve movement on disposal of assets	(32)
<b>1,267</b>	<b>Surplus or deficit on revaluation of non-current assets not posted to the surplus or deficit on the provision of services</b>	<b>72</b>
(75)	Difference between fair value of depreciation and historical cost depreciation	(134)
<b>(75)</b>	<b>Amount written off to the Capital Adjustment Account</b>	<b>(134)</b>
<b>3,000</b>	<b>Balance at 31 March</b>	<b>2,938</b>

## 21.2 Capital Adjustment Account

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

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Authority.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 7 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

2011/12 £000's		2012/13 £000's
24,543	<b>Balance at 1 April</b>	31,552
	<b>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:</b>	
(1,543)	Charges for depreciation and impairment of noncurrent assets	(1,442)
75	Adjustment for historic cost depreciation	134
(8)	Revenue expenditure funded from capital under statute	(29)
(151)	Amounts of non-current assets written off on disposal or sale as part of the gain/(loss) on disposal to the CIES	(80)
51	Removal of revaluation reserve balance relating to assets written off on disposal or sale	32
<b>(1,576)</b>	<b>Net written out amount of the cost of non-current assets consumed in the year</b>	<b>(1,385)</b>
	<b>Capital financing applied in the year:</b>	
0	Use of the Capital Receipts Reserve to finance new capital expenditure	274
8,294	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	3,875
0	Application of grants to capital financing from the Capital Grants Unapplied Account	21
214	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	208
77	Capital expenditure charged against the General Fund and HRA balances	857
8,585		5,235
<b>31,552</b>	<b>Balance at 31 March</b>	<b>35,402</b>

### 21.3 Pensions Reserve – Local Government Pension Scheme (LGPS)

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Authority accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Authority makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

31 March 2012 £000's		31 March 2013 £000's
(2,381)	<b>Balance as at 1 April</b>	(3,497)
(1,198)	Actuarial gains or (losses) on pensions assets and liabilities	(945)
(502)	Reversal of items relating to retirement benefits debited or credited to the surplus or deficit on the provision of services in the Comprehensive Income and Expenditure Statement	(777)
584	Employer's pensions contributions and direct payments to pensioners payable in the year	705
<b>(3,497)</b>	<b>Balance as at 31 March</b>	<b>(4,514)</b>

### 21.4 Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of Council Tax income in the Comprehensive Income and Expenditure Statement as it falls due from Council Tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

2011/12 £000's		2012/13 £000's
99	<b>Balance at 1 April</b>	104
5	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(110)
<b>104</b>	<b>Balance at 31 March</b>	<b>(6)</b>

## 21.5 Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

2011/12 £000's	2012/13 £000's
(225) <b>Balance at 1 April</b>	(229)
225 Settlement or cancellation of accruals made at the end of the preceding year	229
(229) Amounts accrued at the end of the current year	(111)
<b>(4)</b> Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	<b>118</b>
<b>(229) Balance at 31 March</b>	<b>(111)</b>

The main reason for the significant reduction in the value of untaken leave in 2012/13 was a result of a decision by Full Council not to approve the carrying over of significant untaken leave balances of two employees.

## 21.6 Firefighters' Pension Reserve

The Firefighters' Pension Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Authority accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Authority makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

2011/12 £000's	2012/13 £000's
(93) <b>Balance as at 1 April</b>	(135)
(6) Actuarial gains or (losses) on pension fund liabilities	(39)
(29) Reversal of items relating to retirement benefits debited or credited to the surplus or deficit on the provision of services in the Comprehensive Income and Expenditure Statement	(31)
(7) Employer's pensions contributions and direct payments to pensioners payable in the year	(8)
<b>(135) Balance as at 31 March</b>	<b>(213)</b>

## Note 22 Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

2011/12 £000's		2012/13 £000's
	<b>Adjustments to the net surplus or (deficit) on the provision of services for non cash movements</b>	
(1,543)	Depreciation and Impairment	(1,442)
(150)	Gain (Loss) on disposal of assets	(80)
(46)	Actuarial charges for retirement benefits adjustment	(111)
5	Collection Fund Adjustment	(110)
(35)	Other movements including reserves movements	(127)
	<b>Adjustments for Items on an Accruals Basis</b>	
(213)	(Increase)/Decrease in Total Creditors	(148)
6	(Increase)/Decrease in Total Provisions	132
29	Increase/(Decrease) in Total Inventories	(13)
652	Increase/(Decrease) in Total Debtors	1,489
7	Increase/(Decrease) in Interest Accruals	(4)
<b>(1,288)</b>	<b>Total Non Cash Movements</b>	<b>(414)</b>
	<b>Adjustments to the net surplus or (deficit) on the provision of services that are investing or financing activities</b>	
8,294	Capital Grants credited to surplus or deficit on the provision of services	3,875
214	Provision for repayment of debt	208
21	Capital expenditure charged to revenue	604
(8)	Other adjustments	(29)
(28)	Interest Received	(21)
22	Interest Paid	17
<b>8,515</b>	<b>Total Investing and Financing Activities</b>	<b>4,654</b>
<b>7,227</b>	<b>Total Adjustments</b>	<b>4,240</b>

## Note 23 Cash Flow Statement – Investing Activities

2011/12 £000's		2012/13 £000's
8,415	Purchase of property, plant & equipment	5,568
(3,756)	Capital grants received	(4,508)
<b>4,659</b>	<b>Net Cash Flows from Investing Activities</b>	<b>1,060</b>

## Note 24 Cash Flow Statement – Financing Activities

2011/12 £000's		2012/13 £000's
81	Repayment of short and long term borrowings	67
<b>81</b>	<b>Net Cash Flows from Financing Activities</b>	<b>67</b>



## Note 25 Amounts Reported for Resource Allocation Decisions

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Service Reporting Accounting Code of Practice. However, decisions about resource allocation are taken by the Authority's Policy and Resources Committee on the basis of budget reports analysed across Committees. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- No charges are made in relation to impairment or revaluation losses in excess of those held in reserve of non-current assets, whereas these are charged to services in the Comprehensive Income and Expenditure Statement.
- The cost of retirement benefits is based on cash flows (payment of employer's pension contributions) rather than current service cost of benefits accrued in the year.
- Staff leave and the balance of time-off-in-lieu (TOIL) held by individual members of staff, not yet taken are book entries which are charged to the CIES, but are not monitored during the year.

The income and expenditure of the Authority's principal Committees recorded in the budget reports for the year is as follows:

<b>Committee Income and Expenditure 2011/12</b>	Children & Young People's Committee	Community Services Committee	General Purposes Committee	Policy & Resources Committee	Planning & Development Committee	All Other Committees	<b>Grand Total</b>
	£000's	£000's	£000's	£000's	£000's	£000's	<b>£000's</b>
Fees, Charges and Other Service Income	(21)	(833)	(51)	(56)	(69)	(52)	<b>(1,082)</b>
Income - Government Grants	(3,297)	(599)	(102)	(26)	(1,153)	0	<b>(5,177)</b>
<b>Total Income</b>	<b>(3,318)</b>	<b>(1,432)</b>	<b>(153)</b>	<b>(82)</b>	<b>(1,222)</b>	<b>(52)</b>	<b>(6,259)</b>
Employee Expenses	422	1,101	728	1,216	421	157	<b>4,045</b>
Other Service Expenses	3,331	1,139	992	573	964	101	<b>7,100</b>
Support Services	148	(45)	(388)	(529)	65	85	<b>(664)</b>
Charges for the cost of Capital	279	332	369	15	0	1	<b>996</b>
<b>Total Expenditure</b>	<b>4,180</b>	<b>2,527</b>	<b>1,701</b>	<b>1,275</b>	<b>1,450</b>	<b>344</b>	<b>11,477</b>
<b>Net Expenditure/(Income)</b>	<b>862</b>	<b>1,095</b>	<b>1,548</b>	<b>1,193</b>	<b>228</b>	<b>292</b>	<b>5,218</b>

Committee Income and Expenditure 2012/13	Children & Young People's Committee	Community Services Committee	General Purposes Committee	Policy & Resources Committee	Planning & Development Committee	All Other Committees	Grand Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Fees, Charges and Other Service Income	(12)	(922)	(51)	(35)	(45)	(41)	(1,106)
Income - Government Grants	(3,465)	(362)	(425)	(487)	(1,169)	0	(5,908)
<b>Total Income</b>	<b>(3,477)</b>	<b>(1,284)</b>	<b>(476)</b>	<b>(522)</b>	<b>(1,214)</b>	<b>(41)</b>	<b>(7,014)</b>
Employee Expenses	459	1,049	812	1,498	436	209	4,463
Other Service Expenses	3,398	749	1,298	1,072	1,057	141	7,715
Support Services	172	106	(419)	(729)	97	62	(711)
Charges for the cost of Capital	488	292	297	61	0	213	1,351
<b>Total Expenditure</b>	<b>4,517</b>	<b>2,196</b>	<b>1,988</b>	<b>1,902</b>	<b>1,590</b>	<b>625</b>	<b>12,818</b>
<b>Net Expenditure/(Income)</b>	<b>1,040</b>	<b>912</b>	<b>1,512</b>	<b>1,380</b>	<b>376</b>	<b>584</b>	<b>5,804</b>

## 25.1 Reconciliation of Committee Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement

This reconciliation shows how the figures in the analysis of the Committee income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

2011/12 £000's		2012/13 £000's
5,218	<b>Net Expenditure/(Income)</b>	5,804
	<b>Entries reversed through the MiRS</b>	
(33)	Add back IAS19 Adjustment for Pensions	(32)
12	Add back untaken leave and TOIL	(120)
189	Add back Impairment	11
<b>5,386</b>	<b>Net Cost of Service per CIES</b>	<b>5,663</b>

## 25.2 Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of Committee income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

Subjective Analysis 2011/12	Committee Analysis £000's	Amounts not reported to management for decision making (book entries) £000's	Net Cost of Services £000's	Corporate amounts £000's	(Surplus)/Deficit on the provision of services for the year £000's
Fees, Charges and Other Service Income	(1,082)	0	(1,082)	0	(1,082)
Interest & Investment Income	0	0	0	(28)	(28)
Income from Council Tax & NNDR	0	0	0	(3,350)	(3,350)
Income from Trading Services	0	0	0	(1,853)	(1,853)
Income from Investment Properties	0	0	0	(11)	(11)
Income - Government Grants	(5,177)	0	(5,177)	(10,249)	(15,426)
<b>Total Income</b>	<b>(6,259)</b>	<b>0</b>	<b>(6,259)</b>	<b>(15,491)</b>	<b>(21,750)</b>
Employee Expenses	4,045	(21)	4,024	0	4,024
Other Service Expenses	7,100	0	7,100	0	7,100
Support Services	(664)	0	(664)	0	(664)
Charges for the cost of Capital	996	189	1,185	0	1,185
Interest Payable			0	21	21
Pensions interest costs and expected return on pension assets (net)	0	0	0	6	6
Costs of Trading Services	0	0	0	2,203	2,203
Costs re: Investment Properties	0	0	0	43	43
<b>Total Expenditure</b>	<b>11,477</b>	<b>168</b>	<b>11,645</b>	<b>2,273</b>	<b>13,918</b>
<b>(Surplus)/Deficit on the Provision of Services for the Year</b>	<b>5,218</b>	<b>168</b>	<b>5,386</b>	<b>(13,218)</b>	<b>(7,832)</b>

**Subjective Analysis  
2012/13**

	Committee Analysis £000's	Amounts not reported to management for decision making (book entries) £000's	Net Cost of Services £000's	Corporate amounts £000's	(Surplus)/Deficit on the provision of services for the year £000's
Fees, Charges and Other Service Income	(1,106)	0	(1,106)	0	(1,106)
Interest & Investment Income	0	0	0	(75)	(75)
Income from Council Tax & NNDR	0	0	0	(3,963)	(3,963)
Income from Trading Services	0	0	0	(1,730)	(1,730)
Income from Investment Properties	0	0	0	0	0
Income - Government Grants	(5,908)	0	(5,908)	(5,156)	(11,064)
<b>Total Income</b>	<b>(7,014)</b>	<b>0</b>	<b>(7,014)</b>	<b>(10,924)</b>	<b>(17,938)</b>
Employee Expenses	4,463	(152)	4,311	0	4,311
Other Service Expenses	7,715	0	7,715	0	7,715
Support Services	(711)	0	(711)	0	(711)
Charges for the cost of Capital	1,351	11	1,362	0	1,362
Interest Payable			0	22	22
Pensions interest costs and expected return on pension assets (net)	0	0	0	102	102
Costs of Trading Services	0	0	0	1,772	1,772
Costs re: Investment Properties	0	0	0	95	95
<b>Total Expenditure</b>	<b>12,818</b>	<b>(141)</b>	<b>12,677</b>	<b>1,991</b>	<b>14,668</b>
<b>(Surplus)/Deficit on the Provision of Services for the Year</b>	<b>5,804</b>	<b>(141)</b>	<b>5,663</b>	<b>(8,933)</b>	<b>(3,270)</b>

## Note 26 Trading Operations

The reporting requirements for trading accounts are not based on any accounting standard. They instead reflect considerations of stewardship specific to local authorities. Where an Authority is trading and taking commercial risks, then there should be assurance that the Authority is not exposing itself unreasonably to loss.

This note to the accounts discloses the circumstances in which the Authority is exposed to commercial loss and the financial consequences for the year of account.

**St Mary's Airport** - The Authority owns and manages the Airport on St Mary's. Income is generated primarily from landing fees. The trading objective is to generate a surplus after having covered the cost of capital employed for future reinvestment to ensure continuity of the service, which is held in the Airport Earmarked Reserve.

**Water & Sewerage Services** - The Authority operates a water and sewerage undertaking on St Mary's and Bryher. The infrastructure includes five reservoirs that are operated and all the water is treated using Ultra Violet light and residual chlorination at the Higher Moors Water Pumping Station. Water is also produced in the Authority owned desalination plant. The trading objective of the

service is to cover costs and generate surpluses to allow for future reinvestment to ensure the continuity, reliability and safety of the service. Surpluses are accumulated in and drawn from two reserves held: The Water Reserve and the Sewerage Earmarked Reserve.

**The Tourism Brochure (2011/12 only)** - The production of the brochure has now been transferred to the new Tourism and Business Partnership, and is no longer a trading account of the Authority.

**Trade Refuse Collection and Disposal** - The Authority operates the collection and disposal of refuse from commercial operations where no local provision is available. The trading objective is to break even after having covered the cost of capital employed. The Authority is seeking to address the deficit in future years as part of a new waste strategy.

2011/12 Net (Surplus) /Deficit £000's		2012/13		Net (Surplus) / Deficit - per CIES £000's	Items later reversed out through MiRS*	Net (Surplus) / Deficit £000's
		Expenditure £000's	Turnover £000's			
315	Airport	1,001	(1,040)	(39)	16	(23)
(60)	Water & Sewerage	585	(591)	(6)	(67)	(73)
5	Tourism Brochure	0	0	0	0	0
90	Trade Refuse	186	(99)	87	0	87
<b>350</b>	<b>Total</b>	<b>1,772</b>	<b>(1,730)</b>	<b>42</b>	<b>(51)</b>	<b>(9)</b>

(MiRS\* – Movement in Reserves Statement see page 21)

#### Balances held in Trading Account Reserves

2011/12 £000's	Balances on Trading Account Reserves	2012/3 £000's
183	Airport Reserves	199
546	Water Reserve	561
701	Sewerage Reserve	744
<b>1,430</b>		<b>1,504</b>

#### Note 27 Members' Allowances

The total amount of allowances and expenses paid to Members during the year was £118,451 (2011/12: £118,419).

## Note 28 Officers' Remuneration

The number of employees, including those employed at the Five Islands School, whose emoluments (excluding pension contributions) was £50,000 or more were:

2011/12	Remuneration Bandings	2012/13
0	£50,000 - £54,999	1
1	£55,000 - £59,999	1
0	£60,000 - £64,999	1
2	£65,000 - £69,999	2
2	£70,000 - £74,999	2
1	£74,999 - £79,999	1
1	£85,000 - £89,999	0
0	£180,000 - £184,999	1
<b>7</b>	<b>Total</b>	<b>9</b>

Five of the staff in this note are included in the Senior Officers Emoluments disclosure Note 29.

## Note 29 Senior Officers' Emoluments

The Authority has classified the following posts as Senior in line with the disclosure requirements:

Post holder information		Salary	Election Duties	Total	Pension contrib-utions	Total	notes below:
		(including fees & allowances)		remuneration excluding pension contributions		remuneration including pension contribution	
		£	£	£	£	£	
Chief Executive	2012/13	69,033	197	69,230	13,418	82,648	a
	2011/12	87,196	2,500	89,696	16,051	105,747	
Chief Technical Officer	2012/13	76,002	2,500	78,502	14,773	93,275	
	2011/12	75,619	0	75,619	13,804	89,423	
Director of Finance & Resources	2012/13	70,328	0	70,328	13,670	83,998	
	2011/12	70,657	0	70,657	12,841	83,498	
Chief Planning Officer	2012/13	69,690	0	69,690	13,546	83,236	
	2011/12	70,657	0	70,657	12,841	83,498	
Director of Adult, Childrens` & Community Services	2012/13	70,164	0	70,164	13,638	83,802	
	2011/12	69,479	0	69,479	1,051	70,530	
Chief Fire Officer	2012/13	31,740	0	31,740	6,170	37,910	b & c
	2011/12	28,262	0	28,262	4,612	32,874	
<b>Total 2012/13</b>	2012/13	<b>386,957</b>	<b>2,697</b>	<b>389,654</b>	<b>75,215</b>	<b>464,869</b>	
<b>Total</b>	<b>2011/12</b>	<b>401,870</b>	<b>2,500</b>	<b>404,370</b>	<b>61,200</b>	<b>465,570</b>	

a. The Chief Executive took early retirement on 10th January 2013, see also Note 30.

b. The Chief Fire Officer works 7.4 hours per week as Chief Fire Officer. The annualised salary is £94,699.

c. The Chief Fire Officer works 7.4 hours per week as the Air Operator Certificate Accountable Manager (AOC). The annualised salary is £64,000.

### Note 30 Employee Exit Packages

The authority incurred costs during 2012/13 relating to employee exit packages as shown below:

Exit Package Cost Band	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2011/12 £'000's	2012/13 £'000's	2011/12 £'000's	2012/13 £'000's	2011/12 £'000's	2012/13 £'000's	2011/12 £'000's	2012/13 £'000's
200 - 250	0	0	0	1	0	1	0	204
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>204</b>

The Authority had one exit package in 2012/13 when the chief executive took early retirement on the grounds of efficiency.

This incurred liabilities of £204,000 (2011/12 - £nil) and is made up of the following elements:

- £91,000 Payment to the pension fund for the early release of pension payments;
- £88,800 Payment equivalent to annual salary;
- £10,000 Outplacement/Retraining;
- £14,000 Removal costs.

### Note 31 External Audit Costs

2011/12 £000's		2012/13 £000's
57	External Audit Services	35
24	Grants Claims Certification	12
49	Objection Costs	0
(4)	Rebate of Audit Fees	(3)
<b>126</b>	<b>Total</b>	<b>44</b>

### Note 32 Dedicated Schools Grant – Deployment of the Isles of Scilly Education Grant

The Authority's expenditure on schools is funded primarily by the Isles of Scilly Education Grant received from the Department for Education.

The Accounting Code of Practice states that Education Authorities should disclose their deployment of Dedicated Schools Grant (DSG). The Council of the Isles of Scilly does not receive a DSG, instead it receives the Isles of Scilly Education Grant which is classified as a separate grant in its own right. The main difference is that the Isles of Scilly Education Grant can be utilised for all Education services, not just Schools Budget items.

Details of the deployment of the Isles of Scilly Education Grant receivable are as follows:

	Central Expenditure £000's	Individual Schools Budget (ISB) £000's	Total £000's
<b>As at 1 April 2012</b>			79
Isles of Scilly Education Grant for 2012/13			3,009
Agreed budgeted distribution of grant in 2012/13	564	2,524	3,088
<i>less</i> Actual central expenditure	(950)	0	(950)
<i>less</i> Actual ISB deployed to schools	0	(2,524)	(2,524)
<i>plus</i> Local Authority contribution for 2012/13	422	0	422
<b>Balances as at 31 March 2013</b>	<b>36</b>	<b>0</b>	<b>36</b>

Included in the Central Expenditure column is the central expenditure of the Schools Budget plus other Children's Services budgets, excluding Children's Social Care.

## Note 33 Grant Income

### 33.1 General Capital Grants

General grants credited as Taxation and Non-Specific Grants Income in the Comprehensive Income and Expenditure Account:

2011/12 £000's	Grants & Contributions Used for Capital Expenditure	2012/13 £000's
500	ERDF - European Regional Development Fund grant	2,577
45	DEFRA - Water & Sewerage Grants	675
0	HCA - Homes and Communities Agency Capital Grant	241
100	Big lottery	175
0	Play Builder (DCSF - Dept for Children, Schools and Families)	80
0	Defra Waste Equipment Grant	54
28	Local Action Group Funding	38
0	Community Capacity Grant	7
19	Fire Services Equality & Diversity	4
0	Private Donation for Benches	2
61	Basic Need Grant	0
30	Duchy of Cornwall	0
14	Modernisation Grant	0
6,207	New School Build	0
1,095	Sport England Funding	0
52	Sea Fisheries Grant	0
35	Stroke Care Grant	0
	<b>Other Capital Grants No Conditions Received in Year</b>	
52	Basic Need Grant	132
75	Fire Capital Grant	75
52	Capital Maintenance Grant	21
12	Disabled Facilities Grant	8
0	Community Capacity Grant	8
<b>8,377</b>	<b>Total Government Grants - Capital Recognised in the CIES</b>	<b>4,097</b>



### 33.2 General Revenue Grants

2011/12 £000's	2012/13 £000's
614 Revenue Support Grant	50
0 Council Tax Freeze Grant	31
645 Early Intervention Grant	662
2 New Homes Grant	21
304 Other Revenue Grants Applied	0
307 Local Services Support Grant	294
<b>1,872</b>	<b>1,058</b>

### 33.3 General Revenue Grants credited within the Net Cost of Services (CIES)

The Authority credited the following grants, contributions and donations within the Net Cost of Services section of the Comprehensive Income and Expenditure Statement in 2012/13.

#### In Summary:

2011/12 £000's	Credited to Services - Summary by Service Expenditure Area	2012/13 £000's
3,531	Children's & Education Services	3,627
22	Social Services	139
0	Cultural & Related Services	3
1,152	Planning Services	1,168
75	Central Services	205
0	Corporate and Democratic Core	5
0	Highways & Transport Services	44
102	Environmental Services	414
270	Housing Services	292
0	Fire & Rescue Services	11
<b>5,152</b>	<b>Total Grants Credited to Net Cost of Services</b>	<b>5,908</b>
	Other Grants - DEFRA Water/Sewerage Improvement credited to	
9	Surplus/Deficit of Trading Services	0
<b>5,161</b>	<b>Total Grants Credited to CIES</b>	<b>5,908</b>

These grants are analysed by service in more detail below:

2011/12 £000's	Credited to Children's & Education Services (incl LLL)	2012/13 £000's
2,956	Isles of Scilly Education	3,144
231	Education Funding Agency (Post 16 Accommodation & Travel)	247
93	Skills Funding Agency	91
104	European Social Fund (ESF Convergence Progressive Isles)	41
0	D for E: SEND Pathfinder	30
0	Adoption Grant	20
18	Skills Funding Agency (Family Learning)	17
0	Local Action Group	11
4	Pupil Premium	7
8	Devolved Formula Capital	7
0	Tackling Troubled Families	4
8	Additional Grant for Schools	4
0	D for E: Year 7 Attainment Grant	2
2	Federation of Music Services	1
3	Other Grants	1
84	6th Form Special Educational Needs	0
9	National Institute of Adult Continuing Education (NIACE)	0
8	Local Action Group (LAG) Grant - LifeLong learning Project	0
3	Children's Workforce Development Council	0
<b>3,531</b>	<b>Children's &amp; Education Services Total</b>	<b>3,627</b>

2011/12 £000's	Credited to Social Services	2012/13 £000's
0	PCT Reablement Funding	76
5	PCT Grant	36
0	Department of Health - Social Care Reform	21
0	Peninsula Health: Social Care Worker Grant	5
0	Other Grants	1
4	Re-ablement Grant	0
4	Learning Disability Development	0
9	Total Place Funding	0
<b>22</b>	<b>Adult Social Services Total</b>	<b>139</b>

2011/12 £000's	Cultural & Related Services	2012/13 £000's
0	Safer Communities	3
<b>0</b>	<b>Cultural &amp; Related Services Total</b>	<b>3</b>

2011/12 £000's	Credited to Planning Services	2012/13 £000's
796	SWERDA/DEFRA - LAG Admin & reclaim of Grant's awarded	530
0	Quay Project	238
155	Strategic Investment Framework	184
3	South West Regional Development Agency (SWERDA)	95
92	Natural England	85
41	Sustainable Development Fund	49
0	Other Grants	8
5	Local Action Group (LAG) Grant	5
60	English Heritage	(26)
<b>1,152</b>	<b>Planning and Economic Development Services Total</b>	<b>1,168</b>

<b>2011/12</b>		<b>2012/13</b>
<b>£000's</b>	<b>Credited to Central Services</b>	<b>£000's</b>
0	Localisation of Council Tax Benefits Grant	84
73	Council Tax Benefits	80
0	NNDR Admin Grant	25
0	Health Watch Funding	12
2	NNDR Deferral Scheme	2
0	Other Grants	2
<b>75</b>	<b>Central Services Total</b>	<b>205</b>
<b>2011/12</b>		<b>2012/13</b>
<b>£000's</b>	<b>Corporate and Democratic Core</b>	<b>£000's</b>
0	Community Right to Bid	5
<b>0</b>	<b>Corporate and Democratic Core</b>	<b>5</b>
<b>2011/12</b>		<b>2012/13</b>
<b>£000's</b>	<b>Highways &amp; Transport Services</b>	<b>£000's</b>
0	Concessionary Travel Grants	44
<b>0</b>	<b>Highways &amp; Transport Services Total</b>	<b>44</b>
<b>2011/12</b>		<b>2012/13</b>
<b>£000's</b>	<b>Credited to Environmental Services</b>	<b>£000's</b>
102	DEFRA - Waste Performance & Efficiency	327
0	Environment Agency Coastal Protection	86
0	Safer Communities	1
0	Food Safety	0
<b>102</b>	<b>Environmental Services Total</b>	<b>414</b>
<b>2011/12</b>		<b>2012/13</b>
<b>£000's</b>	<b>Credited to Housing Services</b>	<b>£000's</b>
162	Rent Allowances	202
70	Rent Rebates	68
30	Handy Person Funding	16
6	Housing Benefit Administration Grant	6
2	Re-possession Prevention	0
<b>270</b>	<b>Housing Services Total</b>	<b>292</b>
<b>2011/12</b>		<b>2012/13</b>
<b>£000's</b>	<b>Credited to Fire &amp; Rescue Services</b>	<b>£000's</b>
0	Fire and Rescue Grant	11
0	<b>Fire &amp; Rescue Services Total</b>	<b>11</b>
<b>5,152</b>	<b>Grand Total</b>	<b>5,908</b>

### 33.4 Capital Grant Creditors and Grants Received in Advance

The Authority has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that may require the monies or property to be returned to the giver. The balances at the year end are as follows:

2011/12 £000's	Capital Grants Creditors/Receipts In Advance	2012/13 £000's
	<b>Children's &amp; Education Services</b>	
113	New School Build Project	113
80	DfES - Playbuilder	0
1	Other Grants	1
	<b>Adult Social Services</b>	
16	Housing - Private Sector Decent Homes	16
7	Adults PSS Capital	0
2	Other Grants	3
	<b>Fire &amp; Rescue Services</b>	
50	Operations - Equality & Diversity Training	46
	<b>Planning Services</b>	
0	ERDF - Navigational Overlay Service Funding	13
	<b>Environmental Services</b>	
1,481	Water/Sewerage Grant	1,806
54	DEFRA - Waste Equipment Grant	0
<b>1,804</b>	<b>Total Capital Grants Creditors/Receipts In Advance</b>	<b>1,998</b>

### 33.5 Revenue Grant Creditors and Grants Received in Advance

2011/12 £000's	Revenue Grants Creditors/Receipts in Advance	2012/13 £000's
	<b>Children's &amp; Education Services</b>	
169	Isles of Scilly Education Grant	36
28	Teacher Training Development Agency	28
0	D for E - SEND Pathfinder	8
41	SureStart Early Years	0
57	Post 16 accommodation & travel	0
	<b>Adult Social Services</b>	
76	Handy Person Funding	60
21	Total Place Funding	21
25	Dementia Care	19
11	Social Care Reform - Extra Care Housing Fund	11
1	Carers' Short Breaks	11
8	Gypsy site improvements (housing)	8
5	Winter Access 11/12 Reablement	5
5	Healthwatch Pathfinder	5
2	Healthy Workplace Grant	2
64	Housing Subsidy	0
39	PCT Reablement	0
11	Social Care Reform - Transformation	0
10	GOSW - Government office South West Support Funding	0
2	Sports Development Scilly Unlimited	0
3	Volunteer Scilly	0
	<b>Highways &amp; Transport Services</b>	
26	Concessionary fares Dial-a-Ride	0
18	Concessionary Fares Grant	0
	<b>Fire &amp; Rescue Services</b>	
22	Fire Brigade - New Dimensions	22
	<b>Environmental Services</b>	
163	Waste Strategy Management	364
24	Severe Weather Grant - Road Repairs	24
<b>831</b>	<b>Total Revenue Grants Creditors/Receipts in Advance</b>	<b>624</b>

## **Note 34 Related Parties**

The Authority is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Authority.

### **34.1 Central Government**

Central government has significant influence over the general operations of the Authority. It is responsible for providing the statutory framework within which the Authority operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Authority has with other parties (e.g. Council Tax bills, Housing Benefits). Grants received from government departments are set out in the subjective analysis in 25.2 on reporting for resources allocation decisions. Grant receipts outstanding at 31 March 2013 are shown in Note 33.

### **34.2 Members**

Members of the Council have direct control over the Council's financial and operating policies. The Council's constitution requires Members to declare their interests in related parties in a register of interests and to declare their interests during Committee meetings. These declarations are maintained by the Authority's Administration department, and can also be found on-line on the Council's website in minutes of committee meetings. During 2012/13, payments for works and services to the value of £407,489 were commissioned from companies, organisations or individuals in which 60 declarations of interest were made by Members. Payments of £6,564 were made to companies, organisations or individuals in which 2 co-opted Members have declared an interest. These payments were made in compliance with the Council's Financial Regulations.

The outstanding payments at the end of the year on accounts for which declarations of interest have been made by Members totalled £12,612 for which 54 declarations of interest were made by Members. There were no outstanding balances at the end of the year for accounts for which co-opted Members had declared an interest.

During 2012/13, sales for works and services to the value of £776,113 were commissioned from companies, organisations or individuals in which 58 declarations of interest were made by Members. Sales of £22,291 were made to companies, organisations or individuals in which 2 co-opted Members had declared an interest. These sales were made in compliance with the Council's Financial Regulations.

The outstanding debtor balances at the end of the year on accounts for which Members have declared an interest totalled £185,150 for which 52 declarations of interest were made by Members. There were no outstanding debtor balances at the end of the year for accounts for which co-opted Members have declared an interest.

Members' allowances are disclosed in Note 27.

### **34.3 Officers**

Officers are required to declare their interests in the register of interests and during Committee meetings when in attendance. During 2012/13 payments of £533,267 were made to companies, organisations or individuals in which 16 declarations of interest were made by officers. These payments were made in compliance with the Council's Financial Regulations.

The Outstanding Payments at the end of the year on accounts for which officers have declared an interest totalled £89,327 for which 6 declarations of interest were made by officers.

During 2012/13 sales of £676,881 were made to companies, organisations or individuals in which 6 declarations of interest were made by officers. These sales were made in compliance with the Council's Financial Regulations.

The outstanding debtor balances at the end of the year on accounts for which officers have declared an interest in totalled £180,314 for which 2 declarations of interest were made by officers.

In addition grants totalling £5,875 were paid to organisations in which 3 declarations of interest were made by officers. The grants were made with proper consideration of declarations of interest. The relevant officer did not take part in any discussion or decision relating to the grant.

Senior officers' remuneration is contained in Note 29 to the accounts.

Declarations of Interest made during the year at Committee meetings by Members and officers are available to view on the Authority's website in the minutes for each meeting.

### **34.4 Other Public Bodies [subject to common control by central government]**

Devon and Cornwall Police Authority precept upon the Authority for sums collected by the Council Tax, this precept is shown within the Collection Fund Statement on page 91.

As a member of the Local Government Pension Scheme, the Authority paid employer's contributions to Cornwall Council during the year. This contribution is shown within Note 38 - Local Government Pension Scheme.

The Council administers the Local Action Group (LAG) on behalf of the Department for Environment, Food and Rural Affairs (DEFRA). During 2012/13 the LAG has issued grants with conditions to 48 bodies for a total value of £469,734. Of this the LAG have awarded 3 grants with conditions totalling £8,785 to the Council of the Isles of Scilly. The Council has received payments totalling £265,540 for the management and administration of this project from DEFRA. The outstanding balance at year end was £288,566.

The Council also administers the Strategic Investment Framework (SIF) on behalf of the European Regional Development Fund (ERDF). During 2012/13 no grants have been issued by SIF, the funds have been used for in-house projects in particular the Porthcressa Regeneration Project.

The Council also administers the Strategic Development Fund (SDF) on behalf of Natural England. During 2012/13 SDF awarded grants with conditions to 9 bodies totalling £15,733. The Core Grant is managed by the AONB team and is designed to deliver the AONB management plan which includes

funding locally based projects and initiatives, which includes both grants to external bodies and projects working in partnership with the Council of the Isles of Scilly. The funding for the Core Grant Payment is from several awarding bodies and includes; Natural England totalling £69,788, Council of the Isles of Scilly totalling £16,005, Duchy of Cornwall totalling £3,350, Isles of Scilly Wildlife Trust totalling £558, Tresco Estate totalling £2,233 and Island Tourism totalling £1,117. There was an outstanding balance in total for SDF, core and grant elements at year end of £92,779.

The Council administers travel and accommodation grants for children aged over 16 to enable them to pursue higher education on the mainland. During 2012/13 travel and accommodation grants totalling £146,972 were issued to a total of 60 individuals. There was no outstanding balance at the year end.

### Note 35 Capital Expenditure and Capital Financing

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

2011/12 £000's		2012/13 £000's
5,359	<b>Opening Capital Financing Requirement</b>	5,198
	<b>Capital Investment</b>	
8,415	Property, Plant and Equipment	5,540
8	Revenue Expenditure Funded from Capital under Statute	29
	<b>Sources of Finance</b>	
(8,294)	Government grants and contributions	(3,896)
(76)	Revenue Contribution - General Fund and Reserves	(878)
0	Use of Capital Receipts Reserve	(254)
(214)	Minimum Revenue Provision	(208)
<b>5,198</b>	<b>Closing Capital Financing Requirement</b>	<b>5,531</b>
	<b>Explanation of Movements in Year</b>	
53	Increase/(Decrease) in underlying need to borrow (unsupported by Government financial assistance)	542
(214)	Repayment of debt	(208)
<b>(161)</b>	<b>Increase/(Decrease) in Capital Financing Requirement</b>	<b>334</b>



## Note 36 Leases

### 36.1 Authority as Lessee

#### Finance Leases

The Authority has a number of sites acquired under finance leases.

The assets acquired under these leases are carried within Property, Plant and Equipment in the Balance Sheet at the following net amounts:

2011/12 £000's		2012/13 £000's
230	Housing Revenue Account	0
244	General Fund Properties	466
838	Other Land & Buildings	862
<b>1,312</b>	<b>Total</b>	<b>1,328</b>

The Authority is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the property acquired by the Authority and finance costs that will be payable by the Authority in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

2011/12 £000's		2012/13 £000's
	Finance Lease Liabilities	
10	Current	4
1	Non-current	2
11	Finance Costs Payable in Future Years	1
<b>22</b>	<b>Minimum lease payments</b>	<b>7</b>

The minimum lease payments will be payable over the following periods:

2011/12			2012/13	
Minimum Lease Payments £000's	Finance Lease Liabilities £000's		Minimum Lease Payments £000's	Finance Lease Liabilities £000's
10	9	Not later than one year	5	5
10	0	Later than one year and not later than five years	0	0
2	1	Later than five years	2	1
<b>22</b>	<b>10</b>	<b>Totals</b>	<b>7</b>	<b>6</b>

The minimum lease payments do not include rent that is contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2012/13 £1,130 contingent rents were payable by the Authority (2011/12 £Nil).

The Authority has sub-let some of the assets held under these finance leases. At 31 March 2013 the minimum payments expected to be received under non-cancellable sub-leases was £4,189 (£4,432 at 31 March 2012).

## Operating Leases

The Authority has acquired land and buildings for use by entering into operating leases.

The future minimum lease payments due under non-cancellable leases in future years are:

2011/12 £000's		2012/13 £000's
15	Not later than one year	15
2	Later than one year and not later than five years	0
<b>17</b>	<b>Total</b>	<b>15</b>

Some of these leases are sub-let by the Authority, the future minimum sublease payments expected to be received by the Authority are:

2011/12 £000's		2012/13 £000's
1	Not later than one year	1
<b>1</b>	<b>Total</b>	<b>1</b>

The expenditure charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

2011/12 £000's		2012/13 £000's
36	Minimum lease payments	41
(1)	Sublease payments receivable	(1)
<b>35</b>	<b>Total</b>	<b>40</b>

## 36.2 Authority as Lessor

### Finance Leases

The Authority has a number of sites leased out under finance leases including the museum site and the industrial estate sites.

The Authority has a gross investment in these leases, made up of the minimum lease payments expected to be received over the remaining term and the residual value anticipated for the sites when the leases come to an end. The minimum lease payments comprise settlement of the long-term debtor for the interest in the sites acquired by the lessees and finance income that will be earned by the Authority in future years whilst the debtor remains outstanding.

The gross investment is made up of the following amounts:

2011/12 £000's		2012/13 £000's
	Finance Lease Debtor (Net Present Value of Minimum Lease Payments):	
33	Current	27
74	Non-current	97
732	Unearned finance income	592
230	Unguaranteed residual value of property	230
<b>1,069</b>	<b>Gross investment in the lease</b>	<b>946</b>

The gross investment in the lease and the minimum lease payments will be received over the following periods:

2011/12			2012/13	
Gross Investment in the Lease £000's	Minimum Lease Payments £000's		Gross Investment in the Lease £000's	Minimum Lease Payments £000's
44	33	Not later than one year	46	27
158	111	Later than one year & not later than five years	162	108
636	465	Later than five years	508	351
<b>838</b>	<b>609</b>	<b>Total</b>	<b>716</b>	<b>486</b>

The Authority has set aside an allowance for uncollectable amounts of £Nil (£Nil at 31 March 2012).

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2012/13 £9,750 contingent rents were receivable by the Authority (2011/12 £3,590).

### Operating Leases

The Authority leases out property and equipment under operating leases for the following purposes: housing, office and other spaces, dial-a-ride bus service for the elderly and concessions at the Airport.

The future minimum lease payments receivable under non-cancellable leases in future years are:

2011/12 £000's		2012/13 £000's
53	Not later than one year	53
4	Later than one year and not later than five years	0
<b>57</b>	<b>Total</b>	<b>53</b>

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2012/13 £63,300 of contingent rents were receivable by the Authority (2011/12 £39,000).

### **Note 37 Teachers' Pensions**

Teachers employed by the Authority are members of the Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education. The Scheme provides teachers with specified benefits upon their retirement, and the Authority contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The Scheme is technically a defined benefit scheme. However, the Scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The Authority is not able to identify its share of the underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2012/13, the Authority paid £154,000 (2011/12 - £145,000) to Capita Teachers' Pensions in respect of teachers' retirement benefits, representing 14% of pensionable pay (2011/12 - 14%). There were no contributions remaining payable at the year end.

### **Note 38 Local Government Pension Scheme**

#### **38.1 Participation in Pension Schemes**

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

The Authority participates in the Local Government Pension Scheme, administered by Cornwall Council – this is a funded defined benefit final salary 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.

#### **38.2 Transactions Relating to Post Employment Benefits**

The Authority recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge the Authority is required to make against Council Tax is based on the cash payable in the year, so the real cost of post employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement.

The following transactions have been made in the Comprehensive Income and Expenditure Statement (CIES) and the General Fund Balance via the Movement in Reserves Statement (MiRS) during the year:

31 March 2012 £000's		31 March 2013 £000's
	<b>Within Cost of Services:</b>	
502	Current Service Cost	574
0	Settlements and Curtailments	109
	<b>Financing and Investment Income and Expenditure:</b>	
(675)	Expected Return on Assets in the scheme	(578)
675	Interest Costs	672
<b>502</b>	<b>Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services</b>	<b>777</b>
	<b>Other Post Employment Benefit Charged to the CIES:</b>	
1,198	Actuarial (Gains) or Losses	945
<b>1,198</b>	<b>Total Post Employment Benefit Charged to the Surplus or Deficit on the CIES</b>	<b>945</b>

31 March 2012 £000's	Movement in Reserves Statement	31 March 2013 £000's
(502)	Reversal of Net Charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the code	(777)
	<b>Actual amounts charged against the General Fund Balance for Pensions in the Year:</b>	
584	Employer's Contributions Payable	705
<b>82</b>		<b>(72)</b>

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2013 is a loss of £4,669,000.

### 38.3 Assets and Liabilities in Relation to Post-employment Benefits

The underlying assets and liabilities for retirement benefits attributable to the Authority as at the year end are as follows:

31 March 2012 £000's		31 March 2013 £000's
(13,766)	Estimated <b>liabilities</b> in the scheme	(16,727)
10,269	Estimated <b>assets</b> in the scheme	12,213
<b>(3,497)</b>	<b>Net assets/(liabilities)</b>	<b>(4,514)</b>

Reconciliation of present value of the scheme liabilities (defined benefit obligation):

<b>31 March 2012</b>		<b>31 March 2013</b>
<b>£000's</b>		<b>£000's</b>
12,175	Liabilities as at 1 April	13,766
502	Current Service Costs	574
675	Interest Costs	672
185	Contributions by Members	196
726	Actuarial Losses / (Gains)	1,834
0	Losses / (Gains) on Curtailments and Settlements	109
(2)	Estimated Unfunded Benefits Paid	(2)
(495)	Estimated Benefits Paid	(422)
<b>13,766</b>	<b>Liabilities as at 31 March</b>	<b>16,727</b>

Reconciliation of fair value of the scheme (plan) assets:

<b>31 March 2012</b>		<b>31 March 2013</b>
<b>£000's</b>		<b>£000's</b>
9,794	Assets as at 1 April	10,269
675	Expected Return on Assets	578
185	Contribution by Members	196
582	Contributions by Employer	703
2	Contribution in respect of Unfunded Benefits	2
(472)	Actuarial Gains / (Losses)	889
(2)	Unfunded Benefits Paid	(2)
(495)	Benefits Paid	(422)
<b>10,269</b>	<b>Assets as at 31 March</b>	<b>12,213</b>

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date.

Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

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

31 March 2012	31 March 2013
%	%
<b>Proportion of assets held within the Local Government Pension Scheme by type:</b>	
68 Equity Investments	67
16 Bonds	21
7 Property	5
9 Cash	7
<b>Long Term Expected Rate of Return on Assets in the Scheme:</b>	
6.2 Equity Investments	4.5
4.0 Bonds	4.5
4.4 Property	4.5
3.5 Cash	4.5

The actual return on scheme assets in the year was £1,470,000 (2011/12 - £205,000).

#### 38.4 Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the unit credit 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 March 2013.

The principal assumptions used by the actuary have been:

31 March 2012	31 March 2013
% p.a.	% p.a.
2.5 Price Increases (inflation)	2.8
4.8 Salary Increases	5.1
2.5 Pensions Increases	2.8
4.8 Discount Rate for scheme liabilities	4.5
<b>Years</b>	
21.3 Current pensioners: Male	21.3
23.4 Current pensioners: Female	23.4
23.2 Future Pensioners: Male	23.2
25.6 Future Pensioners: Female	25.6

#### 38.5 Sensitivity Analysis

The costs of pension arrangements require estimates regarding future experience. The financial assumptions used for reporting under Accounting Standards are the responsibility of the Directors of the Employer. These assumptions are largely prescribed at any point and reflect market conditions at the reporting date. Changes in market conditions that result in changes in the net discount rate (essentially the difference between the discount rate and the assumed rates of increase of salaries, deferred pension revaluation or pensions in payment) can have a significant effect on the value of the liabilities reported.

A reduction in the net discount rate will increase the assessed value of liabilities as a higher value is placed on benefits paid in the future. A rise in the net discount rate will have the opposite effect of similar magnitude.

There is also uncertainty around life expectancy of the UK population. The value of current and future pension benefits will depend on how long they are assumed to be in payment.

The disclosures have been prepared using longevity assumptions resulting in average life expectancies at age 65 as shown in paragraph 38.4 above.

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

31 March 2012		Change in assumptions at year ended	31 March 2013	
Approx % increase to Employer	Approx monetary amount £000's		Approx % increase to Employer	Approx monetary amount £000's
10%	1,410	0.5% decrease in Real Discount Rate	10%	1,756
3%	413	1 year increase in member life expectancy	3%	502
3%	422	0.5% increase in the Salary Increase Rate	3%	547
7%	977	0.5% increase in the Pension Increase Rate	7%	1,181

### 38.6 Scheme History

	31 March 2013 £000's	31 March 2012 £000's	31 March 2011 £000's	31 March 2010 £000's	31 March 2009 £000's
Present Value of Liabilities	(16,727)	(13,766)	(12,175)	(14,877)	(9,030)
Fair Value of Assets in the Local Government Pension Scheme	12,213	10,269	9,794	8,583	6,344
<b>Actuarial Gain/(Loss) in Pension Fund</b>	<b>(4,514)</b>	<b>(3,497)</b>	<b>(2,381)</b>	<b>(6,294)</b>	<b>(2,686)</b>

The liabilities show the underlying commitments that the Authority has in the long run to pay post employment (retirement) benefits. The total liability of £16.727 million has a substantial impact on the net worth of the Authority as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy.

The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees, i.e. before payments fall due, as assessed by the scheme actuary.

The total contributions expected to be made to the Local Government Pension Scheme by the Authority in the year to 31 March 2014 is £631,000.



### 38.7 History of Experience Gains and Losses

The actuarial gains and losses identified as movements on the pensions reserve in the year can be analysed into the following categories, measured as a percentage of assets or liabilities as at 31 March:

	31 March 2013 %	31 March 2012 %	31 March 2011 %	31 March 2010 %	31 March 2009 %
Differences between expected and actual return on assets	7.28	(4.60)	2.48	16.57	(38.40)
Experience gains and losses on liabilities	(0.11)	1.09	0.01	0.01	(2.98)

### Note 39 Landfill Allowance Trading Scheme (LATS)

The Isles of Scilly 2012/13 allocation awarded was 3,165 tonnes (2011/12 – 2,261). The median value of trades during 2012/13 was £0.23 (2011/12 - £0.40).

Following a review of information available it was concluded, as in previous years, that the LATS value was zero as at 31 March 2013 as it was on 31 March 2012.

The LATS scheme will cease on the 30 September 2013 and this is the final year of the scheme.

### Note 40 Trust Funds

The Authority acts as one of several trustees of three trusts.

2011/12	Income £000's	Expenditure £000's	Assets £000's
Richard Addison Charitable Trust	2	2	123
Pilots' Widows Fund	0	0	10
Edward MacDonald Trust	4	1	128
<b>Total</b>	<b>6</b>	<b>3</b>	<b>261</b>

2012/13	Income £000's	Expenditure £000's	Assets £000's
Richard Addison Charitable Trust	2	0	133
Pilots' Widows Fund	0	0	10
Edward MacDonald Trust	4	1	139
<b>Total</b>	<b>6</b>	<b>1</b>	<b>282</b>

#### The Richard Addison Charitable Trust (Registered charity number 1014632)

Established for the welfare and, in particular, for the benefit of the old people on the islands for such purposes as are, in law, charitable.

The figures are prepared on a cash basis. The assets disclosed include deposits held at the bank and investments.

### **The Pilots' Widows Fund**

This trust was first established on 17 December 1931 to support the widows of Pilots. The fund has had no expenditure during the two years and its income is derived from earned interest and dividends on the funds invested.

The figures are prepared on a cash basis.

### **The Edward MacDonald Trust**

This trust was established to make contributions to the elderly of the islands and distributes small cash sums each Christmas. The assets disclosed include deposits held at the bank and shares held in unit trusts and in the Isles of Scilly Steamship Company.

The figures are prepared on a cash basis.

The funds do not represent the assets of the Authority and therefore they have not been included in the Balance Sheet.

## Collection Fund

The Collection Fund reflects the statutory obligation for billing authorities such as the Council of the Isles of Scilly to maintain a separate Collection Fund. The statement shows the transactions of the billing Authority in relation to the collection from taxpayers and distribution to local authorities and the Government of Council Tax and Non-Domestic Rates.

2011/12 £000's		2012/13 £000's	Note
	<b>Income</b>		
(1,473)	Council Tax	(1,493)	42
(73)	Transfer from General Fund - Council Tax Benefits	(77)	
(1,416)	Income collectable from business ratepayers	(1,293)	
<b>(2,962)</b>	<b>Total Income</b>	<b>(2,863)</b>	
	<b>Expenditure</b>		
	Precepts		
1,223	General Fund	1,250	
190	Police	194	44
	Business rates		
1,385	Payment to national pool	1,271	
25	Costs of collection	25	
11	Bad/doubtful debts	(26)	
	Distribution of previous year's surplus		
106	General Fund	243	
16	Police	33	
<b>2,956</b>	<b>Total Expenditure</b>	<b>2,990</b>	
<b>(6)</b>	<b>(Surplus)/Deficit on Collection Fund</b>	<b>127</b>	
<b>99</b>	<b>CIOS - Collection Fund Balance 1 April</b>	<b>104</b>	
<b>104</b>	<b>CIOS - Collection Fund Balance 31 March</b>	<b>(6)</b>	

2011/12 £000's		2012/13 £000's
5	Billing Authority - Council of the Isles of Scilly	(110)
1	Precepting Authority - Devon & Cornwall Police Authority	(17)
<b>6</b>	<b>Surplus/(Deficit) for the year on the Collection Fund</b>	<b>(127)</b>

## Notes to the Collection Fund

### Note 41 Business Rates

2011/12 £000's		2012/13 £000's
4,456	Total Non-Domestic Rateable Value as at 31 March	4,200
<b>Multiplier Rates</b>		
43.3p	Non - Domestic	45.8p
42.6p	Small Business	45.0p

### Note 42 Calculation of Net Council Tax

2011/12 £000's		2012/13 £000's
(1,751)	Council Tax - Gross Due	(1,764)
	Less	
124	Discounts	127
49	Exemptions	40
73	Benefits	77
32	Previous Year's Adjustment	27
<b>(1,473)</b>	<b>Net Council Tax</b>	<b>(1,493)</b>

### Note 43 Council Tax Base Relationship

Council Tax income derives from charges raised according to the value of residential properties, which have been classified into eight valuation bands (based on 1 April 2003 values for this specific purpose). Charges are calculated by taking the amount of income required for the Authority and the Police Authority for the forthcoming year and dividing this amount by the Council Tax Base. The Council Tax Base is the number of properties in each band adjusted by a proportion to convert the number to a Band D equivalent, totalled across all bands and adjusted for discounts. See the table below.

All bands are linked proportionately to the Basic Band D. The amount for a Band D property in 2012/13 was £ 1,189.87 (£1,186.74 in 2011/12). This is multiplied by the proportion specified for the particular band to give the individual amount due.

Valuation Band	Range of Values	Link to band D	Dwellings on valuation List	Adjusted for Discounted Dwellings	Band D Equivalents
A	Up to £40,000	6/9	14	12	8
B	£40,001 to £52,000	7/9	29	24	19
C	£52,001 to £68,000	8/9	86	69	61
D	£68,001 to £88,000	9/9	248	207	207
E	£88,001 to £120,000	11/9	340	296	362
F	£120,001 to £160,000	13/9	305	249	360
G	£160,001 to £320,000	15/9	147	123	204
H	Over £320,000	18/9	9	9	17
			<b>1,178</b>	<b>989</b>	<b>1,238</b>

**Note 44    Precepting Bodies**

The Collection Fund is required to meet, in full during the financial year, precepts and demands made on it by precepting Authorities and the billing Authority.

This Authority made precept payments to Devon and Cornwall Police Authority for 2012/13 of £194,000 (2011/12 - £190,000).

## Isles of Scilly Firefighters' Pension Fund

The operation of the Firefighters' Pension Scheme in England is controlled by the Firefighters' Pension Scheme (Amendment) (England) order 2006.

The Authority, acting as a Fire and Rescue Authority, administers and pays pensions. The fund itself is administered by Cornwall Council. Employee contributions and a new employer's contribution are paid into the pension fund from which pension payments are then made. The fund is topped up by Government grant if the contributions are insufficient to meet the cost of pension payments, while any surplus in the fund is recouped by the Government.

No payments to members of the pension scheme are yet due.

Employees' and employer's contribution levels are based on percentages of pensionable pay which is set nationally by the Department of Communities and Local Government (DCLG) and subject to triennial revaluation by the Government Actuary's Department.

As the scheme is unfunded, the Firefighters' Pension Scheme has no investment assets. The net assets statement does not include liabilities to pay pensions and other benefits after the Balance Sheet date.

### Accounting Policies

1. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), and with guidance notes issued by CIPFA on the application of accounting standards to Local Authorities. They do not take account of liabilities to pay pensions and other benefits in the future. Information on the Authority's long term pensions obligations can be found from page 84.

2. Income and expenditure have been accounted for on an accruals basis for contributions and benefits payable.

### Isles of Scilly Firefighters' Pension Fund Accounts

2011/12 £000's		2012/13 £000's
	<b>Contributions Receivable</b>	
	Fire Authority:	
(7)	- contributions in relation to pensionable pay	(8)
(9)	Firefighters' Contributions	(10)
<b>(16)</b>	Net amount payable for the year	<b>(18)</b>
16	Top-up grant payable to / (from) the Government	18
<b>0</b>		<b>0</b>

## Note 45 Isles of Scilly Firefighters' Pension Disclosures

2011/12 £000's		2012/13 £000's
	<b>Net Assets Statement as at 31 March</b>	
16	Top-up receivable from the Government	6
(16)	Amounts payable to Government	(6)
<b>0</b>	<b>Total Net Assets</b>	<b>0</b>

2011/12 £000's		2012/13 £000's
	<b>Within Cost of Services:</b>	
23	Current Service Cost	23
	<b>Financing and Investment Income and Expenditure:</b>	
6	Interest Costs	8
<b>29</b>	<b>Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services</b>	<b>31</b>
	<b>Other Post Employment Benefit Charged to the CIES:</b>	
6	Actuarial (Gains) or Losses	39
<b>6</b>	<b>Total Post Employment Benefit Charged to the Surplus or Deficit on the CIES</b>	<b>39</b>

2011/12 £000's		2012/13 £000's
	<b>Movement in Reserves Statement</b>	
(29)	Reversal of Net Charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the code	(31)
	<b>Actual amounts charged against the General Fund Balance for Pensions in the Year:</b>	
(7)	Employer's Contributions Payable	(8)
<b>(36)</b>		<b>(39)</b>

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement is a loss of £39,000 (2011/12 - £nil).

### 45.1 Liabilities in Relation to Post-employment Benefits

The underlying liabilities for retirement benefits attributable to the Authority as at 31 March are as follows:

2011/12 £000's		2012/13 £000's
(135)	Estimated <b>liabilities</b> in the scheme	(213)
<b>(135)</b>	<b>Net Liabilities</b>	<b>(213)</b>

Reconciliation of present value of the scheme (plan) liabilities:

2011/12 £000's		2012/13 £000's
93	Liabilities as at 1 April	135
23	Current Service Costs	23
6	Interest Costs	8
7	Contributions by Scheme Members	8
6	Actuarial Losses / (Gains)	39
<b>135</b>	<b>Liabilities as at 31 March</b>	<b>213</b>

Reconciliation of fair value of the scheme (plan) assets:

2011/12 £000's		2012/13 £000's
0	Assets as at 1 April	0
7	Contribution by Scheme Members	8
(7)	Contributions by Employer	(8)
<b>0</b>	<b>Assets as at 31 March</b>	<b>0</b>

## 45.2 Basis for Estimating Liabilities

Liabilities have been assessed on an actuarial basis using the unit credit 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 March 2013.

The principal assumptions used by the actuary have been:

31 March 2012 % p.a.		31 March 2013 % p.a.
3.3	Price Increases (inflation)	3.6
3.5	Salary Increases	3.8
2.5	Pensions Increases	2.8
4.8	Discount Rate for scheme liabilities	4.5
<b>Mortality Assumptions</b>		
Years		Years
27.9	Current pensioners: Male	28.1
30.8	Current pensioners: Female	31.0
29.5	Future Pensioners: Male	29.7
32.3	Future Pensioners: Female	32.5

It is assumed that 90% of future retirees elect to exchange pension for additional tax free cash up to HMRC limits.



### 45.3 Scheme History

	31 March 2013 £000's	31 March 2012 £000's	31 March 2011 £000's	31 March 2010 £000's
Present Value of Liabilities	(213)	(135)	(93)	(87)
<b>Actuarial Gain/(Loss) in Pension Fund</b>	<b>(213)</b>	<b>(135)</b>	<b>(93)</b>	<b>(87)</b>

The liabilities show the underlying commitments that the authority has in the long term to pay retirement benefits.

The total contributions expected to be made to the Scheme by the Authority in the year to 31 March 2014 is £40,000.

### 45.4 Sensitivity of Estimates

The costs of pension arrangements require estimates regarding future experience. The financial assumptions used for reporting under Accounting Standard are the responsibility of the Directors of the Employer. These assumptions are largely prescribed at any point and reflect market conditions at the reporting date. Changes in market conditions that result in changes in the net discount rate (essentially the difference between the discount rate and the assumed rates of increase of salaries, deferred pension revaluation or pensions in payment) can have a significant effect on the value of the liabilities reported.

A reduction in the net discount rate will increase the assessed value of liabilities as a higher value is placed on benefits paid in the future. A rise in the net discount rate will have the opposite effect of similar magnitude.

There is also uncertainty around life expectancy of the UK population. The value of current and future pension benefits will depend on how long they are assumed to be in payment.

The disclosures have been prepared using longevity assumptions resulting in average life expectancies at age 65 as shown in paragraph 45.2 above.

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

31 March 2012 Approx % increase to Employer Liability	Approx monetary amount £000's	Change in assumptions at year ended	31 March 2013 Approx % increase to Employer Liability	Approx monetary amount £000's
4%	5	0.1% decrease in Real Discount Rate	4%	8
3%	4	1 year increase in member life expectancy	3%	6
9%	13	0.5% increase in the Salary Increase Rate	10%	20
9%	13	0.5% increase in the Pension Increase Rate (CPI)	9%	19

The sensitivities regarding the principal assumptions used to determine the impact on current service costs are set out below:

31 March 2012		Change in assumptions at year ended	31 March 2013	
Approx % increase to Employer Liability	Approx monetary amount £000's		Approx % increase to projected current service Costs	Approx monetary amount £000's
5%	1	0.1% decrease in Real Discount Rate	5%	1
3%	1	1 year increase in member life expectancy	3%	1
13%	3	0.5% increase in the Salary Increase Rate	12%	4
12%	3	0.5% increase in the Pension Increase Rate (CPI)	11%	3

## Auditor's Report and Opinion

### Certificate

We certify that we have completed the audit of the financial statements of the Council of the Isles of Scilly in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.



Simon Garlick

Director

for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Hartwell House  
55-61 Victoria Street,  
Bristol  
BS1 6FT

18 September 2013

## **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the financial position of the Council of the Isles of Scilly as at 31 March 2013 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

## **Opinion on other matters**

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

## **Matters on which we report by exception**

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

## **Other matters on which we are required to conclude**

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are also required by the Audit Commission's Code of Audit Practice to report any matters that prevent us being satisfied that the audited body has put in place such arrangements.

We have undertaken our audit in accordance with the Code of Audit Practice and, having regard to the guidance issued by the Audit Commission in November 2012, we have considered the results of the following:

- our review of the annual governance statement; and
- the work of other relevant regulatory bodies or inspectorates, to the extent the results of the work have an impact on our responsibilities.

As a result, we have concluded that there are no matters to report.

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE COUNCIL OF THE ISLES OF SCILLY**

### **Opinion on the Authority financial statements**

We have audited the financial statements of the Council of the Isles of Scilly for the year ended 31 March 2013 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, and Collection Fund and the related notes and include the firefighters' pension fund financial statements comprising the Fund Account, the Net Assets Statement and the related notes 45 to 45.4. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of 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 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the Director of Finance and Resources and auditor**

As explained more fully in the Statement of the Director of Finance and Resources Responsibilities, the Director of Finance and Resources is responsible for the preparation of the Statement of Accounts, which includes the Authority financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance and Resources; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## Glossary of Terms

The definitions within the glossary are designed to provide the user with an understanding of the technical terminology contained within the Statement of Accounts.

TERM	DEFINITION
<b>Accounting Policies</b>	These are the policies and codes of practice adopted when preparing the Statement of Accounts.
<b>Accrual</b>	A balance included to ensure that income or expenditure attributable to the financial year for goods or services supplied and received or work done in the year but for which payment was not made by the year end.
<b>Actuarial Gain or Loss</b>	The change in actuarial deficits or surpluses that arise because either the actual events during the year have not coincided with the actuarial assumptions made at the last valuation, or because the actuarial assumptions have changed.
<b>Actuarial Valuation</b>	A valuation of assets within the pension fund carried out by an actuary (an independent pension valuation specialist).
<b>Asset</b>	Any item of economic value, especially that which could be converted to cash. Examples are cash, accounts receivable, inventory, office equipment, property, plant and equipment. On the balance sheet, assets are equal to the sum of liabilities.
<b>Balance Sheet</b>	This statement shows the financial position of the Authority as at the end of the financial year.
<b>Budget</b>	A statement of the Authority's financial plans for a specific period of time prepared in line with the approved service plans and MTFs for the Authority in advance of the financial year.
<b>Capital Adjustment Account</b>	The Account accumulates (on the debit side) the writ-down of the historical cost of fixed assets as they are consumed by depreciation and impairments or written off on disposal. It accumulates (on the credit side) the resources that have been set aside to finance capital expenditure. The balance on the account represents timing differences between the amount of the historical cost of fixed assets that have been consumed and the amount that has been financed in accordance with statutory requirements.
<b>Capital Expenditure</b>	Expenditure on new assets or on the enhancement of existing assets which extends their useful life or increases their market value.
<b>Capital Financing Requirement (CFR)</b>	This is the amount of Capital Expenditure financed by external debt and not by Capital Receipts, Revenue Contributions, Capital Grants or Third Party Contributions at the time of spending. It measures the Authority's underlying need to borrow for a capital purpose.
<b>Capital Grant</b>	Grant received for the purpose of funding Capital Expenditure.
<b>Capital Grants Unapplied</b>	Capital Grants that have not been spent during the financial year.

TERM	DEFINITION
<b>Capital Receipts</b>	Proceeds exceeding £10,000 from the sale of an asset for which the use is restricted to either funding new Capital Expenditure or to repaying loan debt.
<b>Chartered Institute of Public Finance and Accountancy (CIPFA)</b>	The professional body for accountancy within the public sector.
<b>Code of Practice (Code)</b>	This is the guidance issued by CIPFA on the application of the International Financial Reporting Standards (IFRS) for the public sector.
<b>Collection Fund</b>	A fund administered by the Council recording receipts from Council Tax and payments to the General Fund and other public authorities. It also records receipts of non-domestic rates collected on behalf of Central Government.
<b>Comprehensive Income and Expenditure Statement (CIES)</b>	This statement shows the financial performance of the Authority during the financial year. It details the surplus or deficit on the provision of service and includes details of the unrealised gains and losses (e.g. revaluations) for the Authority.
<b>Corporate &amp; Democratic Core</b>	The costs associated with corporate policy making and member based activities, together with costs relating to corporate management, public accountability and treasury management.
<b>Creditor</b>	An amount owed by the Authority for goods or services received before the end of the financial year for which the payment had not been made at the date of the Balance Sheet.
<b>Current Service Cost (Pensions)</b>	This is a measure of the increase in the present value of pension liabilities generated in the financial year by employees. It is an estimate of the true economic cost of employing people in the financial year, earning service that will eventually entitle them to the receipt of a lump sum and/or pension when they retire.
<b>Debtor</b>	An amount owed to the Authority at the Balance Sheet date for goods or services provided prior to the year end.
<b>Deficit</b>	Where the balance of expenditure exceeds the balance of income.
<b>Depreciation</b>	The measure of the consumption or other reduction in the useful economic life of a non-current asset.
<b>Earmarked Reserves</b>	Reserves representing monies set aside that can only be used for their stated specific "earmarked" services.
<b>Emoluments</b>	All taxable sums paid to or received by an employee including the value of any non cash benefits received.
<b>External Audit</b>	An independent examination of the activities and accounts of the Council to ensure that the accounts have been prepared in accordance with legislative requirements and proper practices.
<b>Expenditure</b>	Amounts paid by the Authority for goods or services received of either a capital or revenue nature.
<b>Fair Value</b>	Definition of fair value depends on the circumstances under which it has to be applied, but is broadly the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

TERM	DEFINITION
<b>Finance Lease</b>	A lease whereby the risks and rewards of ownership are transferred to the lessee.
<b>Financial Reporting Standard (FRS)</b>	The standards by which the preparation and presentation of the Statement of Accounts has historically been governed within the UK.
<b>Financial Year</b>	The year covered by the financial statements. The Authority's financial year commences 1 April and finishes 31 March the following year.
<b>Financial Instruments</b>	Any document with monetary value. Examples include cash and cash equivalents, but also securities such as bonds and stocks which have value and may be traded in exchange for money.
<b>General Fund (GF)</b>	This reserve is to provide for unexpected expenditure that cannot be managed within existing budgets, it is not earmarked or restricted and can be used at the discretion of the Members.
<b>Heritage Asset</b>	A tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.
<b>Housing Revenue Account (HRA)</b>	This is a statutory account recording the revenue expenditure and income relating to the Authority's housing stock.
<b>Impairment</b>	A reduction in the value of a non-current asset arising from damage, obsolescence or a reduction to the useful economic life, but not arising as a result of a formal revaluation.
<b>Income</b>	Amounts due to the Authority for goods or services supplied of either a capital or a revenue nature.
<b>IAS</b>	International Accounting Standards.
<b>International Financial Reporting Standard (IFRS)</b>	The international standards by which the preparation and presentation of the Statement of Accounts is now governed. These are developed by the International Accounting Standards Board (IASB).
<b>Liability</b>	A debt or obligation that the organisation must pay. Liabilities are recorded on the balance sheet and can include accounts payable, taxes, wages, accrued expenses, and deferred revenues.
<b>Medium Term Financial Strategy (MTFS)</b>	The MTFS sets out the overall shape of the Authority's budget by establishing how the available resources will be allocated against the Strategic priorities established in the Sustainable Community Strategy over the coming 3 year period.
<b>Minimum Revenue Provision (MRP)</b>	The amount which the Authority charges to revenue on an annual basis as a provision for the redemption of debt.
<b>Movement in Reserves Statement (MiRS)</b>	This statement details the movements in the reserve balances.
<b>Net Book Value</b>	The value at which non-current assets are included in the balance sheet after the consideration of impairment, revaluation, enhancements, depreciation etc.
<b>Non-Current Assets</b>	Assets which are of a physical nature owned by the Authority such as land, buildings, vehicles etc.



<b>TERM</b>	<b>DEFINITION</b>
<b>Operating Lease</b>	A lease which is not a Finance Lease.
<b>Operational Assets</b>	Non-current assets held/used by the Authority in the direct delivery of services for which it has a statutory responsibility.
<b>Past Service Cost (Pensions)</b>	These costs represent the increase in liabilities arising in the current year on retirement benefits where the years of service were earned in earlier years.
<b>Present Value</b>	The discounted value of future payments or receipts to show their value if they were to be received as at the balance sheet date.
<b>Professional, Technical and Administration (PT&amp;A)</b>	These are the costs arising from the central administration, technical and professional services within the Authority which support all of the activities carried out and do not arise solely from the provision of one service area.
<b>Public Works Loan Board (PWLB)</b>	A Government Agency that provides loans to Local Authorities.
<b>Remuneration</b>	Reward for employment in the form of pay, salary or wage, including allowances, benefits, bonuses, cash incentives and monetary value of non-cash incentives.
<b>Revaluation Reserve</b>	The Reserve records the accumulated gains on the fixed assets held by the Authority arising from increases in value as a result of inflation or other factors (to the extent that these gains have not been consumed by subsequent downward movements in value).
<b>Revenue Expenditure</b>	The day to day running costs incurred by the Authority in providing services.
<b>Revenue Financing</b>	Resources provided from the Authority's revenue budget to finance the cost of Capital Expenditure.
<b>Statement of Recommended Practice (SORP)</b>	This is the guidance issued by CIPFA on the application of the FRS for the public sector.
<b>Surplus</b>	Where the balance of income exceeds the balance of expenditure.
<b>Trust</b>	A savings account established under a trust agreement whereby a trustee administers the funds for the benefit of one or more beneficiaries.
<b>Unusable Reserves</b>	These are reserves resulting from the interaction of legislation and proper accounting practices. These reserves are not resource backed and cannot be used for any other purpose.
<b>Usable Reserves</b>	These are held as a working balance for a specific future purpose.
<b>Yield</b>	Income earned from an investment.