
Statement of Accounts

2011-2012



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 other highlights.

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 movement 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 changes in resources. The CIES shows the economic costs incurred and income generated 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 as at the 31 March each year.
- **The Cash Flow Statement** shows how the movement in resources has been reflected in cash flows.

Key Highlights

The key highlights are:

- General Fund Reserves up by £421,000 to £2.164 million
- General Fund Earmarked Reserves up by £110,000 to £4.933 million.
- Bank balance decreased by £4.135 million to £4.560 million.
- On the Revenue account the Authority under spent against budget by £632,000.
- £8.415 million was spent on the Capital Programme.
- The total costs of Senior Officers' Emoluments as disclosed are £30,000 less in 2011/12 than in 2010/11 primarily because of the amalgamation of the Director of Children's Services and Director of Adult and Community Services into one post.
- £49,000 has been spent in 2011/12 on Audit costs for the investigations into the objections to the 2010/11 accounts for which the Authority is awaiting the outcome.

General Fund Reserves

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

The actual General Fund balance is £2.164 million as at 31 March 2012 and is 3.5 times the minimum.

Revenue Outturn

Each year the Authority 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 the Authority can review actual rather than anticipated outturn and consider performance against plans and budgets.

The Comprehensive Income and Expenditure Statement presents 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 24 does not provide a comparison against budget and that is shown below.

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.

Table 1: The outturn by Committee against Budget

Committee	2011/12		Adjusted	Variance	Variance	
	Approved	Amount			Un-	
	Revised	in CIES				Controllable
Budget	Adjust-	Compar-	Under/	Controllable	Un-	
£000's	ments	atives to	(Over)	Under/	Under/	
	£000's	CIOS	Spend	(Over) Spend	(Over) Spend	
	£000's	Budgets	£000's	£000's	£000's	
Health, Overview & Scrutiny	39	0	34	5	12	(7)
General Purposes Committee	1,639	343	1,901	(263)	60	(323)
Community Services Committee	1,265	(69)	1,203	63	187	(124)
Transport Strategy Select Committee	26	0	22	4	0	4
Policy & Resources Committee	1,255	(11)	1,158	97	(19)	116
Children & Young People's Committee	388	(547)	323	65	293	(228)
Licensing Committee	9	0	13	(4)	(4)	0
Planning & Development Committee	244	(16)	208	36	18	18
Inshore Fisheries & Conservation Authority (IFCA)	110	5	111	(1)	4	(5)
Tourist Board	205	5	112	93	89	4
Standards Committee	10	0	11	(1)	(1)	(1)
Net Cost of Services	5,190	(290)	5,096	94	639	(546)
Other Operating Income and Expenditure	(809)	(1,304)	(923)	114		
Other Income from Grants/Taxation	(4,170)	9,005	(4,594)	424		
Net Drawing from / (Contribution to) General Fund	211	7,411	(421)	632		

Key Variances

The outturn for 2011/12 compared to the budget has resulted in an under spend of £632,000 against the approved budget.

Services grouped by Committee under spent by £94,000, Other Operating Income and Expenditure under spent by £114,000 and Other Income from Grants and Taxation was £424,000 higher. The latter was boosted by an unbudgeted £304,000 release of grant from a grant reserve to the CIES and a higher contribution into the Housing Revenue Account reserves partly due to a refund of back dated subsidy payments.

The budget estimates planned to draw £211,000 from reserves in 2011/12 but the final outturn will contribute £421,000 back into reserves.

The actual under spend by Committees, excluding non cash and uncontrollable items, was £639,000 and the variances by spending committee are analysed below.

Health, Overview & Scrutiny and Health and Wellbeing Board

The committees under spent by £5,000 in total. Of this there was a £12,000 under spend on controllable and £7,000 over spend on uncontrollable or indirect costs.

The under spend arose from The Health and Wellbeing Board where a budget set aside for professional support and consultations was not utilised in the year.

The over spend on uncontrollable or indirect costs arose from higher than expected officer support time.

General Purposes Committee including Trading Services

The committee over spent by £263,000. Of this sum an over spend of £323,000 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 under spent in total by £60,000. The key variations arose in the following services.

- Open Spaces and Beaches under spent by £11,000 on vehicle costs due to fewer beach cleans.
- Regulatory services under spent in total by £23,000. The key variances relating to Rodent and Pest control under spent by £7,000 where activity was lower than anticipated, Pollution Reduction under spent by £5,000 and Trading Standards under spent by £5,000 as plans to buy in service support were delayed until 2012/13.
- Street Sweeping under spent by £12,000. Less street sweeping took place in the year due to a period of three months when no street sweeper was available due to breakdown and subsequent replacement.
- A £44,000 under spend on Waste Collection and Disposal arose due to £25,000 more income received for the sale of recyclable materials and an under spend on utilities for the incinerator plant due to the timing of electricity bills.

- The Fire and Rescue service over spent by £25,000 due to adjustments for pension costs offset by a credit of £6,000 for an unused provision from the Balance Sheet regarding a national pay claim and the additional costs of repairs to equipment.
- Highways overspent by £17,000 as more repairs were required than anticipated.
- Trading Accounts which are budgeted within the General Purposes Committee also contribute to the variance.
- Trading Services were close to budget. The Airport has drawn £31,000 from its reserve to cover its loss and Water and Sewerage have contributed £54,000 to their reserves.

The Airport

The Airport has been unable to cover its costs from the income it raises from landing fees and other charges in 2011/12 as passenger numbers and other activities that raises income has reduced, and increases to its fees have been limited. In addition the account also suffered an £18,000 impairment to its income for irrecoverable debts. The trading account drew £30,000 from its reserves to cover the loss it made. The reserves at 31 March 2012 after the trading loss was appropriated stood at £183,000. Based on current estimates of costs, income and activity the Airport will continue to make losses and may have used all its reserves to cover those losses by 2014/15.

Since the Airport is critical to the sustainability of the islands, the Authority commissioned expert consultants during 2011/12 to conduct a study to future-proof its resilience. The consultant's advice has been used partly to support the completion of a Regional Growth Fund and European Regional Development Fund (ERDF) bid for improvements to the Airport. The Authority will consider the other advice and actions recommended by the consultants during 2012/13.

Water and Sewerage

The trading accounts for Water and Sewerage contributed £53,000 to their reserves for 2011/12.

Community Services Committee

The committee under spent by a net £63,000. Of this £124,000 over spend 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 under spent in total by £187,000. The key variations arose in the following services.

- Adult Care Strategy budget under spent by £27,000 due to a project to update software that was budgeted being funded from another source and a balance of £9,000 that was set aside for support to complementary voluntary organisations.
- The Residential Care budget under spent by £17,000 due to higher than anticipated client contributions towards care.
- Park House Care Home under spent by £39,000. £28,000 resulted from higher than anticipated income arising due to a change in the mix of residents being able to fund a higher proportion of their care costs than budgeted.

- The Home Care service under spent due to demand for the service being less than anticipated.
- Adult Learning under spent by £24,000 primarily due to higher than anticipated income from course fees.
- Sports facilities over spent by £47,000 as follows:
 - The Sports Hall and Multi Use Games Area (MUGA) over spent by £17,000 due to higher than estimated business rates, costs of utilities, and one off staff training when the hall opened initially. Lower than expected income on the MUGA was offset by a £2,000 additional income from 'Active Scilly' memberships.
 - The Swimming Pool over spent by £25,000. Premises costs over spent by £20,000 arising from a one-off significant back dated electricity bill for £12,000 for which the budget was only £2,000. The problem has been attributed to the use of estimated rather than actual meter readings for billing over several years. In addition £10,000 additional costs were required on repairs and maintenance to the water pump and UV filter which had exceeded warranty. Income recovery was down by £5,000 of budgeted grant that was not ultimately receivable.
- Commercial Property budget over spent by £36,000. Budgetary assumptions on income were considerably lower than anticipated following contracted valuation reviews.
- Housing Benefits Administration costs over spent by £11,000 as audit costs were higher than anticipated.
- The Housing Revenue Account (HRA) generated a £161,000 under spend. £124,000 of the under spend arose following the submission of audit returns that had been outstanding for a number of years. The returns corrected assumptions that had inflated the subsidy payments payable to the Government. This one off windfall will be retained by the HRA. The balance arose from other budget variations.

Transport Select Committee

The committee under spent by £4,000 due to lower than expected internal support service charges.

Policy & Resources Committee

The Committee under spent by a net £97,000. Of this £116,000 under spend 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 over spent by £19,000. The key variations arose in the following services.

The main areas were as follows:

- Births, Marriages, Civil Partnerships and Deaths under spent by £8,000 due to higher income from ceremonies and savings on premises costs following the move during the year to temporary offices.
- Elections over spent by £8,000 primarily due to payments for election duties that were paid but not budgeted for during the budget process.

- Emergency Planning under spent by £5,000. The under spend primarily arises from equipment budgeted for but not purchased in the year.
- The LiNK budget for the provision of independent advice to service users under spent by £10,000.
- Democratic Representation and Management over spent by £8,000. The key variations are members transport budget over spent by £7,000, and postage over spent by £5,000. However, the allowances budget was under spent by £5,000.
- Corporate Management under spent by £2,000 despite a £49,000 charge for audit fees in relation to the investigations into the objection to the accounts.
- Support Services including ICT show an over spend to budget of £46,000. However, this relates to internal income from recharges to services and is actually reflected as cost reductions within the budgets of the services recharged.
- Community Safety under spent by £10,000. Not all the budget set aside for projects was spent in the year.

Children and Young People’s Committee

The Committee under spent by £65,000. Of this £228,000 over spend 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 under spent by £293,000. The key variations arose in the following services.

- £31,000 from the Special Educational Needs Support (SEN) budget. The bulk of this funding (£24,000) has been set aside and allocated to support the work of the Special Educational Needs Co-ordinator within the Five Islands School, and spans more than one financial year. The remaining £7,000 arises from under spends across the SEN budget.
- £8,000 from the Youth Services budget due to a decrease in the amount of grant requests received and the postponement of one event.
- £34,000 within the Post 16 Opportunities budget. This funding arose following the disbandment of the Learning & Skills Council and associated transfer of staff and transport costs. However, the transfer did not take place, thus producing this under spend.
- £39,000 from Children’s Social Care. The bulk of this (£35,000) has been allocated to upgrade the IT system, and this will now happen in 2012/13. The remaining £4,000 arises from under and overspends across the Children’s Social Care budget headings.
- £90,000 from the Early Years budget. Of this, £24,000 had been set aside for fitting out and equipping the children’s area of the new library and £15,000 to improve the Carn Gwaval play area. These have “slipped” into 2012/13. £19,000 has arisen from the “2 year old access to childcare” budget; £21,000 from the parenting support budget; £5,000 additional income through holiday club activities; and the remaining £6,000 is made up of various under and over spends within the Early Years headings.
- £100,000 from the Strategic Management and School Development budgets. The main part of this (£95,000) is from projects that have not, either been completed (the New School

Build project, incorporating Safer Routes to School), or have been delayed in their commencement (Improvements to Mundesley Boarding Hostel and Carn Thomas Children's Base).

- £11,000 over spend from the Five Islands School budget. This overspend is an accounting technical entry relating to the teachers leave accrual etc.

Licensing Committee

The Committee over spent by £4,000 predominantly due to lower than estimated license income for clubs and premises.

Planning & Development Committee

The Committee under spent by £36,000. Of this £18,000 under spend 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 under spent by £18,000. The key variations arose in the following services.

- £7,000 additional Building Control income arising from several large projects occurring in the year.
- Vacant posts within the service that will now be appointed in 2012/13 generated a £14,000 net under spend.
- Additional grant funding of £20,000 received in year.
- A £27,000 over spend against Economic Development for the match funding for the Strategic Investment Fund grant project to develop the Porthmellon Enterprise Centre.

Inshore Fisheries and Conservation Authority (IFCA)

The service was established in 2011/12 and has been funded by a general grant allocation of £110,000. The service over spent by £1,000 and has transferred £5,000 into a new earmarked reserve for its future activities although it had planned to transfer £20,000 into its reserves. More was spent on equipment than planned.

Tourist Board

The Tourist Board under spent by a net £93,000. Of this £4,000 of the under spend 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 under spent by £89,000. The key variations arose due to:

- £25,000 in relation to delayed projects that are proposed to take place now in 2012/13.
- The vacant Tourism Officer post generated a £35,000 under spend.

- £9,000 from greater income recovery than anticipated and under spends on repairs and maintenance and publication costs make up the balance.

Standards Committee

The committee over spent by £1,000. Of this £1,000 of the over spend relates to uncontrollable or indirect costs arising from the additional staff support.

The costs that are classified as controllable were over spent by £1,000 arising from increased costs of investigations carried out during the year.

Capital

The Authority has had a busy capital programme during 2011/12 and spent £8.4 million developing, building and enhancing its assets.

Table 2: Spend by Committee.

Committee	2011/12	
	£000's	
Children & Young People	7,555	
Planning & Development	21	
General Purposes	102	
General Purposes - Airport	29	
IFCA	52	
Fire & Rescue	19	
Policy & Resources	479	
Community Services	158	
Total	8,415	

The capital spend for 2011/12 was almost all grant funded with a small proportion from revenue and other sources including use of cash balances and reserves.

Table 3: Sources of Funding

Type of Funding Applied	2011/12	
	£000's	%
Grant	8,286	98.47%
Revenue	21	0.25%
Reserves	55	0.65%
Prudential Borrowing	53	0.63%
Total	8,415	100.00%

Capital Highlights

In recent years the Capital Programme has been dominated by the new school build consisting of a new school, all weather sports pitch and a sports hall. An investment of over £16 million funded by grants created the biggest construction project in the Island's history. The school opened in September 2011 and is included as an operational asset on our balance sheet this year.

The four court sports hall was brought into use a few months later and now provides excellent facilities that are shared by the school and the public.

Work also started on the regeneration of the Porthcressa area, Porthmellon Innovation and Enterprise Centre, waste management, sewerage, water and transport projects. Bids have also been prepared to both the Regional Growth Fund and the ERDF programme for improvements to the Airport and the quay.

Construction works on the regeneration of Porthcressa began in February and are due to be completed by the end of 2012. The project involves a series of related initiatives including the landscaping of the full foreshore and resurfacing of the main walkways. A new town library is to be created in the former lifeboat station and a new purpose designed Register Office is being built alongside. On the site of the Schiller shelter a new amenity building is being constructed with showers and disabled toilets at road level and community spaces overlooking the beach. Three new work units are to be constructed on the site of the former library and affordable housing is to be built above. Apart from the housing element the project supports the key priorities of promoting economic vitality and meeting local infrastructure needs.

The Authority is the only remaining public water and sewerage authority left in England and Wales. It runs essential systems on St Mary's and Bryher. A £2 million grant has been awarded for a new desalination plant, part of the Water Infrastructure Improvement Programme, and this has been included in the Capital Programme for 2012/13. Although not yet showing in the programme, it is likely that the Authority's Water and Sewerage Funds will be used over the next few years for essential works.

In order to support the Authority's transition to meeting EU regulations DEFRA is planning to provide £5.7m over a four year period to 2014/15 for waste management.

In addition there is expenditure planned for the Airport to replace the Precision Approach Path Indicators, threshold lights and trailers. £62,000 will come from the Airport Reserve but this is modest when compared to the amount required to resurface the runway, which is currently under discussion.

The Porthmellon Innovation and Enterprise Centre is an Economic Development project which will deliver flexible workspaces for rent, funded by an ERDF grant of £900,000.

Accumulated Absences

Recognition 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 were included in the Balance Sheet for the first time in 2009/10. The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund from accruing for annual leave entitlement and time worked in excess of contracted hours.

The account records the value of the leave and is uplifted each year in line with cost of living and other increases to pay so that it accurately records the financial liabilities of leave taken in future periods.

Note 20.5 on page 64 shows that the liability has increased by £4,000 during the year ended 31 March 2012.

The balances are broken down as follows:

Table 3: Accumulated Absences Analysis by Type

	Change 2010/11 to 2011/12	2011/12	2010/11	2009/10	2008/09
CIOS Staff Leave	(11,890)	158,366	170,256	166,540	132,256
Teachers	10,530	51,138	40,608	44,258	43,213
School Non-Teaching	844	844	0	0	0
CIOS Staff (TOIL)	4,756	18,652	13,896	19,350	0
Net Change	4,240	229,000	224,760	230,148	175,469

The account shows £229,000 liability for untaken leave and TOIL that was owed to employees as at 1st April 2012.

The staff leave liability for 2011/12 equated to 700 days (5,180 hours) which was a reduction of 90 days over 2010/11 (790 days or 5,842 hours) following management action to encourage staff to take their leave entitlement.

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

Staff TOIL has increased by almost £5,000 and 240 hours. The balance was 1,085 hours as at 31 March 2012. In 31 March 2011 the balance was 845 hours.

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 of future potential liabilities of our pension fund.

Public Sector pensions have featured heavily in the media over the last year as the government has sought to review and reform what it sees as a significant cost to tax payers in the medium and long term.

The 2010/11 comparative figures show the impact of the decision taken in the UK budget statement on 22 June 2010 when the Chancellor announced that with effect from 1 April 2011 public service pensions would be up-rated in line with the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI). The CPI index is generally lower than the RPI index as it excludes certain costs within the calculation of the index. This change had the effect of wiping some £1.439 million future liability from our reserve. The change had no cash impact and therefore no impact upon the General Fund in this year. However, this change along with other proposed changes including higher employee contributions and later retirement ages may change our employer pension contributions in the future.

For 2011/12 the significant changes that have taken place during the year are that:

- The deficit has increased due to falling real bond yields;

- The deficit has further increased due to poor asset returns;
- The projected pension expense for next year has also risen for the same reason.

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.

Trusts

The Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 requires for first time that the Authority discloses any trusts where it is the sole trustee or acts as one of several trustees.

The Authority acts as one of several trustees on behalf of three trusts:

- Richard Addison Charitable Trust
- Pilots' Widows Fund
- Edward MacDonald Trust

The funds do not represent the assets of the Authority and therefore they have not been included in the Balance Sheet but the disclosure does show the extent of the assets managed on behalf of those trusts is £265,000.

Heritage Assets

The Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 introduced a change to the treatment in accounting for heritage assets held by the Authority. As set out in our summary of significant accounting policies, the Authority now requires heritage assets to be carried in the balance sheet at valuation which has been determined as £106,000 (see Note 9).

As a result of the new valuations we have increased our insurance cover on those items.

Abolition of the Housing Revenue Account (HRA) 2012/13

The current stock of 108 Council dwellings, 24 garages and the Museum Building have been managed via a statutory ring-fenced Housing Revenue Account (HRA) as determined under the Local Government & Housing Act 1989.

The Localism Bill 2011 determined that the current HRA subsidy system, a method of redistributing and equalising financial support throughout England, would end on 31 March 2012 to be replaced with a system of self financing and a 'buy out' of the subsidy scheme.

Due to the small size of the HRA stock, and the adverse impacts that the ending of the subsidy system would have on the Authority, a request was made and accepted by the Secretary of State to transfer our housing stock and garages out of the HRA system under section 74(3)(d) and 74(4) of the Local Government and Housing Act 1989 on 31 March 2012.

The HRA included in the Statement of Accounts is therefore the last that the authority will report.

The HRA balances as at 31 March 2012 will transfer to the General Fund to specific ring-fenced Housing Earmarked Reserves and the way we account for our housing will be subject to revised accounting policies, including allocation of debt charges from 2012/13 onwards.

Borrowing Facilities and Capital Borrowing

- We have not taken out any new external loans during 2011/12. 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 funded from cash reserves 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. The profile of the loans shows that we will repay our existing debts by 2019.
- We did not exceed our capital boundary during the year and future capital investment aspirations will be investigated thoroughly within our Capital Strategy.

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 debts will be paid. During the year a number of debts to the value of £26,000 were written off in the accounts (impaired) to reflect that they would not or could not be expected to be received.

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. The following provisions have been set aside in our Statement of Accounts 2011/12:

- As we are a small Authority we rely on purchasing specialist services from a number of sources including our nearest neighbouring Authority Cornwall Council. A provision of £108,000 was set aside in 2010/11 for amounts we thought we owe to that Authority but have yet to be billed. The situation was not resolved in 2011/12 so the provision has remained on the balance sheet.
- Fire pay settlement – We carried forward a provision of £30,304 for the Fire and Rescue service in respect of the payments for 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. A settlement agreement was reached in principle with the Fire Brigades Union. The provision has been based on estimates provided by the Local Government Employers Association of the financial implications arising from the agreement. However, a review of these calculations expects the final payment, expected in 2012/13, to be some £7,000 lower. The provision has been reduced and the £7,000 returned to the Fire Service revenue budget for 2011/12.

Material Events after the Reporting Date

No issues have arisen that need to be highlighted.

Impact of the Current Economic Climate

Council Tax Benefit Change

At present, eligibility for Council Tax discounts, exemptions and benefits is decided at national level and applied uniformly throughout England. From April 2013 the Government intends that local authorities establish their own schemes, and since it is part of the plan to reduce the national deficit, the funding available to meet Council Tax benefit payments of all types will be reduced by 10%. The remainder will be paid to authorities in the form of a non-ring fenced grant. The intention is that if local authorities are able to reduce the amounts paid out in benefit the additional money is released for use on the provision of local services. However, there will be significant financial risks arising from this scheme; for example, if the actual number of claimants exceeds the anticipated number there could be a significant additional cost to the Authority. The consultation proposes that any financial pressure should be shared with precepting authorities; in this case Devon and Cornwall Police would also be expected to share some of the burden of any increased financial pressure. Because certain groups, particularly pensioners, are to be protected from any reduction in benefits they receive, any savings will need to come from reduced benefits elsewhere. There will also be significant costs of administering a local scheme; including design, implementation and subsequent running including an appeals process. In the consultation paper there is much emphasis placed on working in partnership.

Conclusion

The outturn has been better than expected and has enabled the Authority to make a contribution to General Fund reserves of £421,000 in 2011/12 bringing the balance to over £2 million for the first time.

In addition, the HRA reserves have also received significant contributions in 2011/12.

Despite government cut backs the Authority was able to set a balanced budget for 2012/13. However, the Medium Term Financial Strategy indicates a significant funding shortfall from 2013/14 onwards. Management and Members will be engaged in a review of finances, services and efficiencies during the year to bring plans into line with available resources.

Peter Lawrence-Roberts
Director of Finance and Resources
June 2012

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 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 Chief Financial Officer 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 2012, and its income and expenditure for the year then ended.

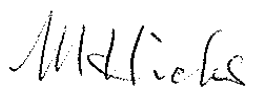
The Accounts were authorised for issue to the Council on the date below.



Peter Lawrence-Roberts MA ACA
Director of Finance and Resources
Date: **27 September 2012**

by the Chairman of the Council

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



Mike Hicks
Chairman of Council
Date: **27 September 2012**

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 – 2010/11

£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 2010	1,584	4,990	260	104	274	350	219	7,781	14,884	22,665
Surplus/ (deficit) on the provision of services	9,487	68	(3,275)	0	0	0	0	6,280	0	6,280
Other Comprehensive Income and Expenditure: (Surplus) or Deficit on										
Revaluation of Non-Current Assets	0	0	0	0	0	0	0	0	(17)	(17)
Actuarial (Gains) or Losses on Pension Assets and Liabilities	0	0	0	0	0	0	0	0	2,598	2,598
Total Comprehensive Income and Expenditure	9,487	68	(3,275)	0	0	0	0	6,280	2,582	8,862
Adjustments between Accounting Basis and Funding Basis under Regulations	(9,628)	0	3,362	0	0	0	(19)	(6,285)	6,285	0 ⁶
Net Increase/(Decrease) before Transfers to Earmarked Reserves	(141)	68	87	0	0	0	(19)	(5)	8,867	8,862
Transfers to/(from) Earmarked Reserves	300	(235)	(51)	1	0	17	(33)	(1)	0	(1)
Increase/(Decrease) in 2010/11	159	(167)	36	1	0	17	(52)	(6)	8,867	8,861
Balance as at 31 March 2011	1,743	4,823	296	105	274	367	167	7,775	23,751	31,526

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
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
Other Comprehensive Income and Expenditure: (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)
Total Comprehensive Income and Expenditure	7,724	0	108	0	0	0	0	7,832	114	7,946
Adjustments between Accounting Basis and Funding Basis under Regulations	(7,455)	185	275	0	0	(5)	125	(6,875)	6,875	0
Net Increase/(Decrease) before Transfers to Earmarked Reserves	269	185	383	0	0	(5)	125	957	6,989	7,946
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
Balance as at 31 March 2012	2,164	4,933	598	104	274	447	292	8,812	30,795	39,607

Note

6

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.

2010/11			2011/12				
Gross Expenditure £000's	Gross Income £000's	Net Expenditure £000's		Gross Expenditure £000's	Gross Income £000's	Net Expenditure £000's	Note
580	(233)	347	Central Services	374	(166)	208	
418	(102)	316	Cultural Services	530	(91)	439	
931	(72)	859	Environmental Services	1,212	(156)	1,056	
980	(753)	227	Planning Services	1,444	(1,220)	224	
4,543	(4,231)	312	Children's & Education Services	4,455	(3,568)	887	
447	(11)	436	Fire & Rescue Services	480	(7)	473	
164	(70)	94	Highways, Roads & Transport Services	204	(5)	199	
774	(805)	(31)	Housing Services	890	(729)	161	
1,050	(283)	767	Adult Social Services	1,075	(316)	759	
961	(2)	959	Corporate & Democratic Core	981	(1)	980	
3,275	0	3,275	Exceptional items - Impairment of Council Houses	0	0	0	
(1,439)	0	(1,439)	Non Distributed Gain - Pension credit arising from change in indexation method used	0	0	0	
12,684	(6,562)	6,122	Net Cost of Services	11,645	(6,259)	5,386	24
			Financing and Investment Income and Expenditure:				
27	0	27	Interest Payable and Similar Charges	21	0	21	
			Pensions Interest Costs and Expected				
153	0	153	Return on Pension Assets	681	(675)	6	
0	5	5	Interest and Investment Income	0	(28)	(28)	
14	(13)	1	Investment Properties	43	(11)	32	
1,984	(1,819)	165	(Surplus)/Deficit on Trading Services	2,203	(1,853)	350	25
			Taxation and Non-Specific Grant Income:				
0	(1,392)	(1,392)	Council Tax Collection Fund	0	(1,365)	(1,365)	
0	(602)	(602)	General Government Grants - Revenue	0	(1,872)	(1,872)	31.2
0	(8,699)	(8,699)	General Government Grants - Capital	0	(8,377)	(8,377)	31.1
0	(1,992)	(1,992)	Non-Domestic Rates	0	(1,985)	(1,985)	
14,862	(21,074)	(6,212)	(Surplus)/Deficit on the Provision of Services for the Year	14,593	(22,425)	(7,832)	
			(Surplus) or Deficit on Revaluation of				
		(17)	Non-Current Assets			(1,318)	
		(2,598)	Actuarial (Gains) or Losses on Pension Assets and Liabilities			1,204	
14,862	(21,074)	(8,827)	TOTAL Comprehensive (Income) and Expenditure	14,593	(22,425)	(7,946)	

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 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 2011 £000's		31 March 2012 £000's	Note
31,587	Property, Plant & Equipment	39,521	8
0	Heritage Assets	106	9
55	Assets Held for Sale	55	10
68	Investment Properties	68	11
84	Long Term Debtors	73	12
31,794	Long Term Assets	39,823	
114	Inventories	143	14
2,277	Debtors	2,940	12, 15
8,695	Cash and Cash Equivalents	4,560	16
11,086	Current Assets	7,643	
(83)	Short Term Borrowing	(68)	12
(1,724)	Creditors	(1,937)	12, 17
(138)	Provisions	(132)	18
(1,945)	Current Liabilities	(2,137)	
(5)	Long Term Creditors	(1)	12
(353)	Long Term Borrowing	(285)	12
(2,474)	Liability Related to Pension Schemes	(3,632)	36.3*
(6,577)	Capital Grants Receipts in Advance	(1,804)	31.4
(9,409)	Long Term Liabilities	(5,722)	
31,526	Net Assets	39,607	
	Usable Reserves		
1,743	General Fund Balance	2,164	
6,032	Other Usable Reserves	6,648	19
23,751	Unusable Reserves	30,795	20
31,526	Total Reserves	39,607	

**Also includes the £135,000 relating to the Firefighters' Pension Scheme (see page 102)*

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.

2010/11	Restated 2010/11		2011/12	Note
£000's	£000's		£000's	
(6,212)	(6,212)	(Surplus) or Deficit on the Provision of Services (CIES)	(7,832)	
6,435	(2,776)	Adjustments to surplus or deficit on the provision of services for non-cash movements	(1,288)	21
(42)	9,169	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing	8,515	21
181	181	Net Cash Flows from Operating Activities	(605)	
(946)	(946)	Investing activities	4,659	22
142	142	Financing activities	81	23
(623)	(623)	Net (Increase) or Decrease in Cash and Cash Equivalents	4,135	
(8,072)	(8,072)	Cash and Cash Equivalents at 1 April	(8,695)	
(8,695)	(8,695)	Cash and Cash Equivalents at 31 March	(4,560)	16

Following a review of the cash flow statement and disclosure notes it was determined that another presentation would be more appropriate than that presented in 2010/11 and it is displayed above. Also see note Note 21.

Notes to the Accounts

Note 1 Accounting Policies

1.1 General Principles

The Statement of Accounts summarises the Authority's transactions for the 2011/12 financial year and its position at the year-end of 31 March 2012. 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 2011/12 and the Service Reporting Code of Practice 2011/12 (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.

During the preparation of the 2011/12 Statement of Accounts it was determined that alternative presentations would be more appropriate than those presented in 2010/11 accounts and these have resulted in restatements as highlighted.

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. 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 two 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.

Both 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 was 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 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 is 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.

1.13 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 for most of the borrowings the Authority has the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

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.

1.14 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.

1.15 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.

1.16 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 37.

1.17 Inventories

The Authority holds inventories at its Airport, Waste Disposal, Water and Tourism services. 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 holds stocks of items for resale and these have been valued at the lower of cost or net realisable value.

1.18 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.

1.19 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.

1.20 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.

1.21 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).

1.22 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.

1.23 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 2011/12 (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.

1.24 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 – 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.

1.25 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 re-valued 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.

1.26 School Assets

The Authority is an Education Authority and provides services from a number of fixed sites over the five islands. The main secondary 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. 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.

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 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, 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

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

IFRS 7 Financial Instruments: Disclosures (transfers of financial assets).

The Authority is required to disclose information relating to the impact of accounting changes on the financial statements as a result of the adoption by the Code of a new standard that has been issued, but is not yet required to be adopted by the Authority.

The adoption of amendments to IFRS 7 Financial Instruments: Disclosures (issued October 2010) are such a change and the disclosure is intended to assist users of the financial statements to evaluate the risk exposures that relate to transfers of financial assets and the effect of those risks on the Authority's financial position. Relevant circumstances would arise where an authority retains ownership of a financial asset but contracts to reassign or otherwise pay over the cash flows generated by the instrument, at the same time as retaining substantially all the risks and rewards of ownership.

The adoption of the amendments to IFRS 7 Financial Instruments: Disclosures in the Code is not a change of accounting policy that will require the publication of a Balance Sheet as at the beginning of the earliest comparative period (i.e. a third Balance Sheet) in the 2012/13 financial statements.

The Authority does not hold such assets and therefore no disclosure would be required unless the position changes.

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:

- 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.

- The Authority has use of several school buildings that are owned by the Truro Diocesan Board of Finance Limited that are located on land that is leased from the Duchy of Cornwall and which are under the voluntary control of the Authority. No finalised guidance has been issued with regard to the inclusion of these assets on Local Authority Balance Sheets. CIPFA / LASAAC will issue their conclusions in the 2013/14 Code and 2012/13 Code update.

There is currently a CIPFA consultation out under invitation to comment on this subject, which highlights the criteria under which assessment of recognition of these assets is proposed. This approach is expected to be agreed as formal guidance for the 2013/14 code.

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

With this in mind the decision to not adjust the Authority's accounts has been taken, leaving these assets off the Balance Sheet. This continues the accounting treatment of previous years.

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.

Item	Uncertainties	Effect if Actual Results Differ from Assumptions																													
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the 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 36.5.																													
	<table border="1"> <thead> <tr> <th colspan="2">31 March 2011</th> <th rowspan="2">Change in assumptions at year ended</th> <th colspan="2">31 March 2012</th> </tr> <tr> <th>Approx % increase to Employer</th> <th>Approx monetary amount £000's</th> <th>Approx % increase to Employer</th> <th>Approx monetary amount £000's</th> </tr> </thead> <tbody> <tr> <td>10%</td> <td>1,237</td> <td>0.5% decrease in Real Discount Rate</td> <td>10%</td> <td>1,410</td> </tr> <tr> <td>3%</td> <td>365</td> <td>1 year increase in member life expectancy</td> <td>3%</td> <td>413</td> </tr> <tr> <td>2%</td> <td>285</td> <td>0.5% increase in the Salary Increase Rate</td> <td>3%</td> <td>422</td> </tr> <tr> <td>7%</td> <td>873</td> <td>0.5% increase in the Pension Increase Rate</td> <td>7%</td> <td>977</td> </tr> </tbody> </table>	31 March 2011		Change in assumptions at year ended	31 March 2012		Approx % increase to Employer	Approx monetary amount £000's	Approx % increase to Employer	Approx monetary amount £000's	10%	1,237	0.5% decrease in Real Discount Rate	10%	1,410	3%	365	1 year increase in member life expectancy	3%	413	2%	285	0.5% increase in the Salary Increase Rate	3%	422	7%	873	0.5% increase in the Pension Increase Rate	7%	977	
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Note 5 Material Items of Income and Expenditure

There are no material items of income or expense that require separate disclosure in 2011/12.

Note 6 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.

2010/11 £000's	Usable					Movement in Unusable Reserves
	General Fund Balance	Housing Revenue Account	Capital Receipts Unapplied	Major Repairs Account	Capital Grants Unapplied	
Adjustment primarily involving the Capital Adjustment Account						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Account						
Charges for Depreciation and Impairment of Non-Current Assets	847	3,362	0	0	0	(4,208)
Capital Grants and Contributions Applied	(8,707)	0	0	0	(80)	8,787
Movement in the Donated Assets Account	(10)	0	0	0	0	10
Revenue Expenditure Funded from Capital Under Statute	76	0	0	0	0	(76)
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	8	0	0	0	0	(8)
Insertion of items debited or credited to the Comprehensive Income and Expenditure Account						
Statutory provision for the financing of capital investment (MRP)	(190)	0	0	0	0	190
Capital Expenditure charged against the General Fund and HRA Balances	(276)	0	0	0	0	276
Adjustment primarily involving the Capital Grants Unapplied Account						
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(61)	0	0	0	61	0
Adjustments primarily involving the Pensions Reserve						
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	(1,308)	(1)	0	0	0	1,309
Adjustments primarily involving the Collection Fund Adjustment Account						
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	0	0	0	0	0	0
Adjustment primarily involving the Accumulated Absences Account						
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	(7)	1	0	0	0	5
Total Adjustments	(9,628)	3,362	0	0	(19)	6,285

Continued overleaf..

2011/12 £000's	Usable						Movement in Unusable Reserves
	General Fund Balance	Earmarked Reserves	Housing Revenue Account	Capital Receipts Unapplied	Major Repairs Account	Capital Grants Unapplied	
Adjustment primarily involving the Capital Adjustment Account							
Reversal of items debited or credited to the Comprehensive Income and Expenditure Account							
Charges for Depreciation and Impairment of Non-Current Assets	1,274		274	0	(5)	0	(1,543)
Capital Grants and Contributions Applied	(8,137)		0	0	0	(157)	8,294
Revenue Expenditure Funded from Capital Under Statute	8		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	(150)
Insertion of items debited or credited to the Comprehensive Income and Expenditure Account							
Statutory provision for the financing of capital investment (MRP)	(214)		0	0	0	0	214
Capital Expenditure charged against the General Fund and HRA Balances	(21)		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
Adjustment primarily involving the Capital Grants Unapplied Account							
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(282)		0	0	0	282	0
Adjustments primarily involving the Pensions Reserve							
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)		1	0	0	0	46
Adjustments primarily involving the Collection Fund Adjustment Account							
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	5
Adjustment primarily involving the Accumulated Absences Account							
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	(4)
Total Adjustments	(7,455)	185	275	0	(5)	125	6,875

Note 7 Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2010/11 and 2011/12.

	31 March 2010 £000's	Transfers (Out) £000's	Transfers In £000's	31 March 2011 £000's	Transfers (Out) £000's	Transfers In £000's	31 March 2012 £000's
General Fund - Earmarked Reserves							
Schools Fund	302	0	68	370	0	134	504
Project & Specific Earmarked Reserves							
Water reserve	529	(30)	10	509	(15)	52	546
Sewerage Fund	622	0	77	699	0	2	701
Airport	386	(143)	0	243	(60)	0	183
Capital	181	(13)	0	168	0	0	168
Repairs Funds	589	0	6	595	(30)	0	565
Plant fund	82	(36)	0	46	(21)	0	25
Equipment fund	10	0	0	10	0	0	10
Social Care Transport	41	(41)	0	0	0	0	0
Pollution Control	11	0	0	11	0	0	11
Children's Services	100	0	0	100	0	0	100
Porthcressa Project	0	0	180	180	0	0	180
One-Stop Shop	0	0	20	20	0	0	20
Service Carry-Forwards	165	(165)	0	0	0	0	0
IFCA	0	0	0	0	0	5	5
Revenue Grants Unapplied	1,973	(375)	274	1,872	(142)	185	1,915
General Fund - Earmarked Reserves							4,933
Housing Revenue Account - Earmarked Reserve							
Housing Repairs Account	104	0	1	105	(1)	0	104
All Earmarked Reserves	5,095	(803)	636	4,928	(269)	378	5,037

Note 8 Property, Plant and Equipment

Comparative Movements 2010/11	Council Dwellings	Other Land & Buildings	Vehicles, Plant & Equipment	Infrastructure	Community Assets	Assets Under Construction	Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Cost or Valuation							
At 1 April 2010	13,444	7,805	1,040	6,397	44	1,312	30,042
Additions	80	445	484	39	0	8,084	9,132
Donated Assets	0	0	10	0	0	0	10
Not Previously Recognised	0	0	17	0	0	0	17
Disposals	0	0	(17)	0	0	0	(17)
Reclassifications	0	249	0	0	0	(249)	0
Revaluations	(3,275)	(28)	0	0	0	0	(3,303)
As at 31 March 2011	10,249	8,471	1,534	6,436	44	9,147	35,881
Depreciation and Impairments							
Accumulated Depreciation & Impairment	(79)	(515)	(767)	(2,023)	(14)	0	(3,398)
Charge for the Year	(143)	(397)	(93)	(272)	0	0	(905)
Depreciation on Disposals	0	0	9	0	0	0	9
As at 31 March 2011	(222)	(912)	(851)	(2,295)	(14)	0	(4,294)
Net Book Value at 31 March 2011	10,027	7,559	683	4,141	30	9,147	31,587
Net Book Value at 31 March 2010	13,365	7,290	273	4,374	30	1,312	26,644

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
Cost or Valuation							
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)
As at 31 March 2012	9,953	25,176	2,054	6,457	14	668	44,322
Depreciation and Impairments							
Accumulated Depreciation & Impairment	(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
As at 31 March 2012	(237)	(1,130)	(852)	(2,568)	(14)	0	(4,801)
Net Book Value at 31 March 2012	9,716	24,046	1,202	3,889	0	668	39,521
Net Book Value at 31 March 2011	10,027	7,559	683	4,141	30	9,147	31,587

Property, plant and equipment, where held at a revalued amount, has been formally valued by the District Valuation Office (DVO).

8.1 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

8.2 Reclassification

The £16.145 million reclassification for Other Land and Buildings comprises the Secondary School, Sports Hall and Multi Use Games Area that were completed and brought into use during 2011/12.

8.3 Capital Commitments

As at 31 March 2012, the Authority has entered into a contract for the development of the Porthcressa area, which is to continue into 2012/13. The total budgeted costs for the project are £4.284 million and there is a remaining commitment for the unspent element of £3.678 million as 31 March 2012.

8.4 Effects of Changes in Estimates

In 2011/12 the Authority made no material changes to its accounting estimates for Property, Plant & Equipment.

8.5 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 and Equipment revaluation resulted in a net increase of £781,000. This resulted in an increase to the revaluation reserve of £1,242,000 and a charge to the Comprehensive Income & Expenditure Statement of £461,000.

There were several significant revaluations in the year, the key valuations are detailed below:

- Airport Bungalows decreased in value by £240,000;
- St Mary's Airport, including the terminal building, fires station, sheds and generator, increased in value by £190,000;
- The Carn Gwaval Community Hub Buildings increased in value by £418,000;
- The New School Building increased in value by £584,000; and
- The HRA Properties decreased in value by £187,000.

8.6 Valuation Schedule

	Council Dwellings	Other Land & Buildings	Vehicles, Plant, Furniture & Equipment	Total
	£000's	£000's	£000's	£000's
Valued at historical cost	0	108	1,201	1,309
Valued at current value in:				
2011/12	7,901	18,942	0	26,843
2010/11	0	0	0	0
2009/10	1,815	4,590	0	6,405
2008/09	0	144	0	144
2007/08	0	262	0	262
Total Cost or Valuation	9,716	24,046	1,201	34,963

Note 9 Heritage Assets

	Historical Assets £000's	Total £000's
Cost or Valuation		
At 1 April 2011	0	0
Reclassifications	30	30
Revaluations	76	76
Net Book Value at 31 March 2012	106	106
Net Book Value at 31 March 2011	0	0

Historical Assets

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 were updated as at 1 April 2011. However, the two globes were valued by an external valuer, Trevor Phillip, London.

The collection of historical assets contains a pair of 18-inch library globes made by J. Cary, London, two antique councillor's chairs, a George I coat of arms and a collection of regalia, including rifles, pistols and swords.

Additions of Heritage Assets

There have been no additions of heritage assets in the year (2010/11 - £Nil). Those assets listed were reclassified in line with the Code of Practice in the year ended 31 March 2012 from their original classification within Community Assets.

Disposals of Heritage Assets

There have been no disposals of heritage assets in the year (2010/11 - £Nil).

Five Year Summary of transactions

	2007/08 £000's	2008/09 £000's	2009/10 £000's	2010/11 £000's	2011/12 £000's
Reclassification to Heritage Assets in the Period					
Historical Assets	0	0	0	0	30
Revaluation of Heritage Assets in the Period					
Historical Assets	0	0	0	0	76

Further Information on the Authority's Heritage Assets

The collection of historical assets contains a pair of 18-inch library globes made by J. Cary, London. Each globe is in original condition, with only a few areas of wear showing. The celestial globe is dated 1799 and the terrestrial globe is dated 1845.

There are two wooden antique chairs, the Chairman's seat and another tall official chair. These have sustained some wear over the years of use and have been altered from the original specifications.

The regalia includes: two pistols, six rifles and four swords and a George I coat of arms.

All items are on display in the Wesleyan Chapel.

Preservation and Management

There is no specific policy surrounding the preservation, major repair and conservation of the historical assets maintained by the Authority and repairs and restoration would be carried out as the need arose. A recent condition survey was carried out by a qualified conservator and the results identified a number of actions that are required to preserve and protect the items. The results of that survey will be considered and acted upon where required following review.

As these assets are recorded in the Authority's fixed asset register, any disposals or acquisitions (other than by donation) would require approval by the Authority.

Change in Accounting Policy Required by the Code of Practice for Local Authority Accounting in the United Kingdom

The Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 introduced a change to the treatment in accounting for heritage assets held by the Authority. As set out in our summary of significant accounting policies, the Authority now requires heritage assets to be carried in the balance sheet at valuation.

Heritage Assets

For 2011/12 the Authority is required to change its accounting policy for heritage assets and recognise them at valuation. Previously heritage assets were either recognised as community assets (at cost) in the property, plant and equipment classification in the Balance Sheet or were not recognised in the Balance Sheet as it was not possible to obtain cost information on the assets. Community Assets (that are now to be classified as heritage assets) that were donated to the Authority were held at valuation as a proxy for historical cost. The Authority's accounting policies for recognition and measurement of heritage assets are set out in the Authority's summary of significant accounting policies (see paragraph 1.16 on page 32).

In applying the new accounting policy, the Authority has identified that the assets that were previously held as community assets within property, plant and equipment at £30,000 should now be recognised as heritage assets and measured at £106,000 with a corresponding increase in the Revaluation Reserve. These assets relate to a historical assets collection which was previously recognised in the community assets classification of property, plant and equipment. No heritage

assets were identified that had not previously been recognised in the Balance Sheet. These adjustments are neither material in value nor in nature to the statement of accounts and as such there has been no restatement of the 2010/11 comparative figures.

There has been no impact to the Comprehensive Income and Expenditure Statement as a result of this restatement.

Note 10 Assets Held For Sale

As at 31 March 2012 the Authority had one asset (31 March 2011 - one) classified as held for sale with a current book value totalling £55,000 (2010/11 £55,000). There is a revaluation gain totalling £Nil (2010/11 £5,000) recognised as an adjustment to the carrying amount of that asset.

Note 11 Investment Properties

There are no restrictions on the Authority's ability to realise the value inherent in its investment property 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 following table summarises the movement in the fair value of investment properties over the year:

2010/11 £000's	2011/12 £000's
123 Balance at start of the year	68
0 Net Gains/(Losses) from Fair Value Adjustments	0
(55) Transfer to Assets Held for Sale	0
68 Balance at end of the year	68

Note 12 Financial Instruments

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

	Long Term		Current		
	31 March	31 March	31 March	31 March	31 March
	2011	2012	2011	2011	2012
	£000's	£000's	£000's	£000's	£000's
Debtors					
Debtors	84	73	2,277	1,182	2,590
Total Debtors	84	73	2,277	1,182	2,590
Cash & Bank	0		8,695	8,695	4,560
Total Cash & Bank	0		8,695	8,695	4,560
Borrowings					
Financial Liabilities at Amortised Costs	(348)	(280)	(80)	(80)	(66)
Accrued Interest	(5)	(5)	(3)	(3)	(2)
Total Borrowings	(353)	(285)	(83)	(83)	(68)
Creditors					
Financial Liabilities at Amortised Cost	(5)	(1)	(1,683)	(1,683)	(1,796)
Total Creditors	(5)	(1)	(1,683)	(1,683)	(1,796)

The figures have been restated as at 31 March 2010 to reflect that statutory debtors such as VAT and Council Tax are excluded from the disclosure.

Income, Expense, Gains and Losses

	2010/11			2011/12		
	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
Interest Expense	27	0	27	21	0	21
Total Expense in Surplus or Deficit on the provision of services	27	0	27	21	0	21
Interest Income	0	(39)	(39)	0	(28)	(28)
Impairment Losses		44	44		0	0
Total Income in Surplus or Deficit on the provision of services	0	5	5	0	(28)	(28)
Net (Gain)/Loss for the year	27	5	32	21	(28)	(7)

12.1 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:

- Estimated ranges of interest rates at 31 March 2012 of 4.25% to 7.125% for loans from 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:

	Carrying Amount		Fair Value	
	31 March 2011 £000's	31 March 2012 £000's	31 March 2011 £000's	31 March 2012 £000's
Financial liabilities	436	353	482	404
Long-Term Creditors	5	1	5	1
	441	354	487	405

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.

	Carrying Amount		Fair Value	
	31 March 2011 £000's	31 March 2012 £000's	31 March 2011 £000's	31 March 2012 £000's
Long-Term Debtors	84	73	84	73
	84	73	84	73

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

Note 13 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.

13.1 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 Authority does not generally allow credit for customers for goods and services. The past due amount can be analysed by age as follows:

31 March 2011		31 March 2012	
Customers	Deposits with Banks and Financial Institutions *	Customers	Deposits with Banks and Financial Institutions *
252	8,694 A: Amount (£000's)	290	4,558
9.95%	0.00% B: Historical experience of default - (%)	14.24%	0.00%
9.95%	0.00% C: Historical experience adjusted for market conditions (%)	14.24%	0.00%
	AxC: Estimated maximum exposure to default and uncollectability (£000's)		
34	0	41	0

* Current account balance

Analysis of debts, past due but not impaired:

2010/11 £000's		2011/12 £000's
44	Less than three months	206
34	Three to six months	25
23	Six months to one year	9
151	More than one year	50
252	Total Debt	290

13.2 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 2011 £000'S		31 March 2012 £000's
83	Less than one year	68
68	Between one and two years	55
163	Between two and five years	152
122	More than five years	78
436	Total	353

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

13.3 Market Risk

Interest Rate Risk

The Authority is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Authority. For instance, a rise in interest rates 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 between 4.25% and 7.125%.

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.

13.4 Price Risk

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

13.5 Foreign Exchange Risk

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

Note 14 Stock and Inventories

	Consumable Stores		Maintenance Materials		Client Services Work in Progress		Total	
	2010/11 £000's	2011/12 £000's	2010/11 £000's	2011/12 £000's	2010/11 £000's	2011/12 £000's	2010/11 £000's	2011/12 £000's
Opening Balance 1 April	9	9	96	102	0	3	105	114
Purchases	27	27	86	86	3	0	116	113
Recognised as an expense in the year	(27)	(12)	(80)	(71)	0	(1)	(107)	(84)
Closing Balance 31 March	9	24	102	117	3	2	114	143

Note 15 Debtors

31 March 2011 £000's		31 March 2012 £000's
1,150	Central Government Bodies	2,121
4	Other Local Authorities	0
0	NHS Bodies	35
1	Public Corporations & Trading Funds	0
1,122	Other Entities & Individuals	784
2,277	Total Debtors	2,940

Note 16 Cash and Cash Equivalents

31 March 2011 £000's		Movement during the year £000's	31 March 2012 £000's
8,324	Cash Held at Bank	(4,270)	4,054
370	School's Local Bank Accounts	134	504
1	Petty Cash	1	2
8,695	Total	(4,135)	4,560

Note 17 Creditors

31 March 2011 £000's		31 March 2012 £000's
(1,079)	Central Government Bodies	(895)
0	Other Local Authorities	(15)
0	NHS Bodies	(7)
0	Public Corporations & Trading Funds	(2)
(225)	Staff - Accumulated Absences	(229)
(420)	Other Entities & Individuals	(789)
(1,724)	Total Creditors	(1,937)

Note 18 Provisions

	Fire Equal Pay £000's	Childrens Services £000's	Total £000's
Balance at 1 April 2010	(30)	0	(30)
Provisions made in 2010/11	0	(108)	(108)
Balance at 1 April 2011	(30)	(108)	(138)
Unused amounts reversed in 2011/12	6	0	6
Balance at 31 March 2012	(24)	(108)	(132)

Fire Fighters

A provision of £30,304 was included for the Fire and Rescue service for 2009/10 in respect of the payments for back pay arising as a result of the Fire Brigades Union Employment Tribunal cases in relation to the Part Time Workers (Prevention of Less Favourable Treatment) Regulations 2000.

A settlement agreement was reached in principle with the Fire Brigades Union. The provision has been based on estimates provided by the Local Government Employers Association of the financial implications arising from the agreement.

It was originally expected that negotiations would be finalised and the payment made during the course of 2010/11 but that date has now slipped to 2012/13 and the provision carried over.

Confirmation of the number of individuals eligible to claim has now been provided and further guidance has been issued indicating that it is likely the payment will need to be made inclusive of

tax, NI and pension. A revision of the provision has taken place that has resulted in a £6,000 reduction.

Children's Services

A provision of £108,000 was set aside in 2010/11 in relation to amounts owed but that have yet to be invoiced by Cornwall Council for services in relation to Children's Social Services. The situation is still under review and the provision has therefore been carried forward.

Note 19 Usable Reserves

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

31 March 2011	Other Usable Reserves	31 March 2012
£000's		£000's
167	Capital Grants Unapplied Reserve	292
274	Usable Capital Receipts	274
296	Housing Revenue Account (HRA)	598
367	HRA - Major Repairs Reserve	447
105	Earmarked: HRA - Housing Repairs Reserve	104
370	Earmarked: Schools Balances	504
2,285	Earmarked: Service & Project Specific Reserves	2,514
1,872	Earmarked: Revenue Grants Unapplied Reserve	1,915
5,736	Total Other Usable Reserves	6,648

The purpose of each reserve is explained overleaf.

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.
Housing Repairs Reserve & Major Repairs Reserve	Ring fenced along with the HRA, to fund major capital repairs to the Council's Housing Stock.
Housing Revenue Account (HRA)	A ring fenced reserve to manage the year end balances re the Council's Housing Stock.
Earmarked: Schools Balances	This reflects the cash balances held by the School.
Service and Project Specific Earmarked Reserves	Amounts held in these Earmarked reserves, are held for types of expenditure or projects which the Authority wishes to specifically set aside.
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 20 and Note 7 on page 46.

Note 20 Unusable Reserves

31 March 2011 £000's		31 March 2012 £000's
1,808	Revaluation Reserve	3,000
24,543	Capital Adjustment Account	31,552
(2,381)	Pension Reserve - LGPS	(3,497)
99	Collection Fund Adjustment Account	104
(225)	Accumulated Absences Account	(229)
(93)	Pension Reserve - Fire Fighters' Pension	(135)
23,751	Total Unusable Reserves	30,795

20.1 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.

2010/11 £000's		2011/12 £000's
1,860	Balance at 1 April	1,808
17	Upward revaluation of assets	1,328
0	Downward revaluation of assets and impairment losses not charged to the surplus or deficit on the provision of services	(10)
0	Revaluation reserve movement on disposal of assets	(51)
17	Surplus or deficit on revaluation of non-current assets not posted to the surplus or deficit on the provision of services	1,267
(69)	Difference between fair value of depreciation and historical cost depreciation	(75)
(69)	Amount written off to the Capital Adjustment Account	(75)
1,808	Balance at 31 March	3,000

20.2 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 6 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

2010/11 £000's		2011/12 £000's
19,503	Balance at 1 April	24,543
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
(4,209)	Charges for depreciation and impairment of noncurrent assets	(1,543)
69	Adjustment for historic cost depreciation	75
(76)	Revenue expenditure funded from capital under statute	(8)
(7)	Amounts of non-current assets written off on disposal or sale as part of the gain/(loss) on disposal to the CIES	(151)
0	Removal of revaluation reserve balance relating to assets written off on disposal or sale	51
(4,223)	Net written out amount of the cost of non-current assets consumed in the year	(1,576)
	Capital financing applied in the year:	
8,797	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	8,294
190	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	214
276	Capital expenditure charged against the General Fund and HRA balances	77
9,263		8,585
24,543	Balance at 31 March	31,552

20.3 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.

2010/11 £000's		2011/12 £000's
(6,294)	Balance as at 1 April	(2,381)
2,592	Actuarial gains or (losses) on pensions assets and liabilities	(1,198)
739	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	(502)
582	Employer's pensions contributions and direct payments to pensioners payable in the year	584
(2,381)	Balance as at 31 March	(3,497)

20.4 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.

2010/11 £000's		2011/12 £000's
132	Balance at 1 April	99
(33)	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
99	Balance at 31 March	104

20.5 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.

2010/11 £000's		2011/12 £000's
(230)	Balance at 1 April	(225)
230	Settlement or cancellation of accruals made at the end of the preceeding year	225
(225)	Amounts accrued at the end of the current year	(229)
5	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)
(225)	Balance at 31 March	(229)

20.6 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.

2010/11 £000's		2011/12 £000's
(87)	Balance as at 1 April	(93)
6	Actuarial gains or (losses) on pension fund liabilities	(6)
(5)	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	(29)
(7)	Employer's pensions contributions and direct payments to pensioners payable in the year	(7)
(93)	Balance as at 31 March	(135)

Note 21 Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

2010/11 £000's		2011/12 £000's
	Adjustments to the net surplus or (deficit) on the provision of services for non cash movements	
(4,208)	Depreciation and Impairment	(1,543)
0	Gain (Loss) on disposal of assets	(150)
1,309	Actuarial charges for retirement benefits adjustment	(46)
31	Collection Fund Adjustment	5
(789)	Other movements including reserves movements	(35)
	Adjustments for Items on an Accruals Basis	
418	(Increase)/Decrease in Total Creditors	(213)
(108)	(Increase)/Decrease in Total Provisions	6
(28)	Increase/(Decrease) in Total Inventories	29
631	Increase/(Decrease) in Total Debtors	652
(32)	Increase/(Decrease) in Interest Accruals	7
^ (2776)	Total Non Cash Movements	(1,288)
	Adjustments to the net surplus or (deficit) on the provision of services that are investing or financing activities	
8,787	Capital Grants credited to surplus or deficit on the provision of services	8,294
190	Provision for repayment of debt	214
276	Capital expenditure charged to revenue	21
(74)	Other adjustments	(8)
(39)	Interest Received	(28)
29	Interest Paid	22
^ 9169	Total Investing and Financing Activities	8,515
6,393	Total Adjustments	7,227

[^] The 2010/11 comparatives have been reworked in line with the improved detail in the disclosure.

Note 22 Cash Flow Statement – Investing Activities

2010/11 £000's		2011/12 £000's
9,133	Purchase of property, plant & equipment	8,415
(10,079)	Capital grants received	(3,756)
(946)	Net Cash Flows from Investing Activities	4,659

Note 23 Cash Flow Statement – Financing Activities

2010/11 £000's		2011/12 £000's
142	Repayment of short and long term borrowings	81
142	Net Cash Flows from Financing Activities	81

Note 24 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 on 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:

Prior Year Comparatives:							
Committee Income and Expenditure 2010/11	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	(17)	(755)	(44)	(77)	(100)	(49)	(1,042)
Income - Government Grants	(3,912)	(827)	(49)	(75)	(653)	(4)	(5,520)
Total Income	(3,929)	(1,582)	(93)	(152)	(753)	(53)	(6,562)
Employee Expenses	446	1,054	724	1,265	445	103	4,037
Other Service Expenses	3,539	1,247	810	665	448	99	6,808
Support Services	126	(21)	(373)	(534)	87	69	(646)
Charges for the cost of Capital	96	246	265	22	1	0	630
Total Expenditure	4,207	2,526	1,426	1,418	981	271	10,829
Net Expenditure/(Income)	278	944	1,333	1,266	228	218	4,267

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

24.1 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.

2010/11 £000's		2011/12 £000's
4,267	Net Expenditure/(Income)	5,218
(1,452)	Pension Adj: Past Service Gain - Non Distributed Gain	0
	Entries reversed through the MiRS	
(1)	Add back IAS19 Adjustment for Pensions	(33)
5	Add back untaken leave and TOIL	12
3,303	Add back Impairment	189
6,122	Net Cost of Service per CIES	5,386

24.2 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 Prior Year Comparatives 2010/11	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	(1,042)	0	(1,042)	0	(1,042)
Interest & Investment Income	0	0	0	5	5
Income from Council Tax & NNDR	0	0	0	(3,384)	(3,384)
Income from Trading Services	0	0	0	(1,819)	(1,819)
Income from Investment Properties	0	0	0	(13)	(13)
Income - Government Grants	(5,520)	0	(5,520)	(9,301)	(14,821)
Total Income	(6,562)	0	(6,562)	(14,512)	(21,074)
Employee Expenses	4,037	(1,448)	2,589	0	2,589
Other Service Expenses	6,808	0	6,808	0	6,808
Support Services	(646)	0	(646)	0	(646)
Charges for the cost of Capital	630	3,303	3,933	0	3,933
Interest Payable	0	0	0	27	27
Pensions interest costs and expected return on pension assets	0	0	0	153	153
Costs of Trading Services	0	0	0	14	14
Costs re: Investment Properties	0	0	0	1,984	1,984
Total Expenditure	10,829	1,855	12,684	2,178	14,862
(Surplus)/Deficit on the Provision of Services for the Year	4,267	1,855	6,122	(12,334)	(6,212)

**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)
Total Income	(6,259)	0	(6,259)	(15,491)	(21,750)
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
Total Expenditure	11,477	168	11,645	2,273	13,918
(Surplus)/Deficit on the Provision of Services for the Year	5,218	168	5,386	(13,218)	(7,832)

Note 25 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 - As tourism is an essential part of the local economy, the Authority works with the Tourist Board and local businesses to produce a single, collective, high quality brochure and website to promote the Islands as a holiday destination. The trading objective of this service is to maximise the income contribution to offset the costs of production, distribution, maintenance and associated activities of this element of destination marketing. The production of the brochure in future years has now been transferred to the new Tourism and Business Partnership.

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.

2010/11 Net (Surplus) /Deficit £000's		2011/12		Net (Surplus) / Deficit - per CIES £000's	Items later reversed out through MiRS*	Net (Surplus) / Deficit £000's
		Expenditure £000's	Turnover £000's			
130	Airport	1,403	(1,088)	315	284	31
(89)	Water & Sewerage	528	(588)	(60)	(6)	(54)
33	Tourism Brochure	82	(77)	5	0	5
91	Trade Refuse	190	(100)	90	0	90
165	Total	2,203	(1,853)	350	278	72

(MiRS - Movement in Reserves Statement see page 20)*

Balances held in Trading Account Reserves

2010/11 £000's	Balances on Trading Account Reserves	2011/12 £000's
243	Airport Reserves	183
509	Water Reserve	546
699	Sewerage Reserve	701
1,451		1,430

Note 26 Members' Allowances

The total amount of allowances and expenses paid to Members during the year was £118,419 (2010/11: £118,281).

Note 27 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:

2010/11	Remuneration Bandings	2011/12
1	£55,000 - £59,999	1
0	£65,000 - £69,999	2
3	£70,000 - £74,999	2
1	£74,999 - £79,999	1
1	£85,000 - £89,999	1
6	Total	7

Actual 2010/11 disclosure excluded an officer in the £65,000 - £69,000 band. The figure should have been 1 and the total 7.

Five of the staff in this note are included in the Senior Officers Emoluments disclosure Note 28.

An officer who was in the '£70,000 - £74,999' band in 2010/11 has moved down one band in 2011/12 because of an element of pay that is now no longer deemed to be part of their remuneration regarding a rent payment.

Note 28 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	2011/12	87,196	2,500	89,696	16,051	105,747	
	2010/11	87,196	250	87,446	17,408	104,854	
Chief Technical Officer	2011/12	75,619	0	75,619	13,804	89,423	
	2010/11	75,619	0	75,619	14,971	90,590	
Director of Finance & Resources	2011/12	70,657	0	70,657	12,841	83,498	
	2010/11	70,657	0	70,657	13,926	84,583	
Chief Planning Officer	2011/12	70,657	0	70,657	12,841	83,498	
	2010/11	70,657	0	70,657	13,926	84,583	
Director of Community Services	2011/12	n/a					
	2010/11	56,526	0	56,526	0	56,526	a
Director of Childrens' Services	2011/12	n/a					
	2010/11	42,394	0	42,394	8,356	50,750	b
Director of Adult, Childrens' & Community Services	2011/12	69,479	0	69,479	1,051	70,530	e
	2010/11	n/a					
Chief Fire Officer	2011/12	28,262	0	28,262	4,612	32,874	
	2010/11	20,019	0	20,019	3,953	23,972	c & d
Total 2011/12	2011/12	401,870	2,500	404,370	61,200	465,570	
Total	2010/11	423,068	250	423,318	72,540	495,858	

a. The Director of Community Services worked 29.6 hrs per week. The annualised salary is £70,657.

b. The Director of Childrens' Services worked 22.2 hrs per week. The annualised salary is £70,657.

c. The Chief Fire Officer worked 7.4 hours per week as Chief Fire Officer. The annualised salary is £70,657.

d. The Chief Fire Officer worked 7.4 hours per week as Air Operator Certificate Accountable Manager (AOC). The annualised salary is £70,657 and the officer took up the role from 1 November 2010.

e. The Director of Adult, Childrens' & Community Services became a combined full time post 1st May 2011, however the Director joined the pension scheme later in the year.

Note 29 External Audit Costs

2010/11 £000's		2011/12 £000's
65	External Audit Services	57
11	Grants Claims	24
0	Objection Costs	49
(5)	Rebate on 2011/12 audit fee	(4)
71	Total	126

Included within the Objection Costs in 2011/12 there are £18,700 of costs relating to objection investigation fees to the 2009/10 Statement of Accounts, the remaining balance relates to the objection investigation work for the 2010/11 Statement of Accounts.

Note 30 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 for 2011/12 are as follows:

	Central Expenditure £000's	Individual Schools Budget (ISB) £000's	Total £000's
Brought forward from 2010/11			116
Isles of Scilly Education Grant for 2011/12			3,009
Agreed budgeted distribution of grant in 2011/12	659	2,466	3,125
less Actual central expenditure	(773)	0	(773)
less Actual budget deployed to schools	0	(2,466)	(2,466)
plus Local Authority contribution for 2011/12	193	0	193
Carry forward to 2012/13	79	0	79

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 31 Grant Income

31.1 General Capital Grants

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

2010/11 £000's	Grants & Contributions Used for Capital Expenditure	2011/12 £000's
0	Basic Need Grant	61
0	Big lottery	100
857	Colocation Grant (New School Build)	0
329	Defra Waste Equipment Grant	0
0	DEFRA - Water & Sewerage Grants	45
17	Dial-A-Ride Local Action Group Funding	0
0	Duchy of Cornwall	30
159	ERDF - European Regional Development Grant	500
9	European Social Fund (Economic Development)	0
1	Extended Schools (DCSF)	0
0	Fire Services Grant	19
43	IOS Educ Grant Nursery Educ 3 & 4 Year Olds	0
37	IOSGrant - Extended Services	0
0	Modernisation Grant	14
6742	New School Build	6,207
42	Local Action Group Funding	28
157	Sport England Funding	1,095
8	Planning Delivery Grant	0
100	Play Builder (DCSF)	0
15	Prepaid Housing Support Grant DfES	0
14	Primary Pupil Element	0
11	Safer, Stronger Communities	0
0	Sea Fisheries Grant	52
30	SIF - Strategic Investment Framework	0
41	Stroke Care Grant	35
1	Surestart - Early Years	0
25	Youth Capital Grant	0
	Other Capital Grants No Conditions Received in Year	
11	Disabled Facilities Grant	12
50	Mental Health Development	0
0	Basic Need Grant	52
0	Capital Maintenance Grant	52
0	Fire Capital Grant	75
8,699	Total Government Grants - Capital Recognised in the CIES	8,377

31.2 General Revenue Grants

2010/11 £000's	2011/12 £000's
289 Revenue Support Grant	614
313 Area Based Grant	0
0 Early Intervention Grant	645
0 New Homes Grant	2
0 Other Revenue Grants Applied	304
0 Local Services Support Grant	307
602	1,872

31.3 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 2011/12.

A review of the classification of revenue grants was completed in 2011/12 and the revised disclosure notes including the restated 2010/11 balances are shown below.

In Summary:

2010/11 £000's	Restated 2010/11 £000's	Credited to Services - Summary by Service Expenditure Area	2011/12 £000's
3,934	4,231	Children's & Education Services	3,531
512	145	Adult Social Services	22
777	752	Planning Services	1,152
368	133	Central Services	75
78	78	Environmental Services	102
0	330	Housing Services	270
1	1	Fire & Rescue Services	0
5,670	5,670	Total Grants Credited to Net Cost of Services	5,152
0	0	Other Grants - DEFRA Water/Sewerage Improvement credited to Surplus/Deficit of Trading Services	9
5,670	5,670	Total Grants Credited to CIES	5,161

These grants are analysed by service in more detail below:

2010/11 £000's	Restated 2010/11 £000's	Credited to Children's & Education Services	2011/12 £000's
2,836	2,836	Isles of Scilly Education	2,956
297	297	Sure Start Early Years Childcare	0
176	176	Post 16 Accommodation & Travel	231
0	167	European Social Fund (ESF Convergence Progressive Isles)	104
0	115	Skills Funding Agency	93
89	89	6th Form Special Educational Needs	84
0	15	Skills Funding Council (Family Learning)	18
0	0	National Institute of Adult Continuing Education (NIACE)	9
0	0	Local Action Group (LAG) Grant - LifeLong learning Project	8
117	117	Standards Funds	0
95	95	Targeted Mental Health in Schools	0
88	88	Children & Young People Grant (Department for Children, Schools and Families (DCSF))	0
70	70	Local Delivery Support Diploma	0
62	62	Children's Workforce Development Council	3
24	24	Training & Development Agency	0
16	16	Youth Opportunities Fund	0
16	16	RIEP Grant	0
11	11	Playbuilder	0
11	11	14 - 19 Prospectus Grant	0
9	9	Contact Point	0
0	0	Think Family	0
0	0	Pupil Premium	4
0	0	Additional Grant for Schools	8
0	0	Devolved Formula Capital	8
0	0	Federation of Music Services	2
17	17	Other Grants	3
3,934	4,231	Children's Services Total	3,531

2010/11 £000's	Restated 2010/11 £000's		2011/12 £000's
		Credited to Adult Social Services	
115	0	Skills Funding Agency	0
167	0	European Social Fund (ESF Convergence Progressive Isles)	0
54	54	Concessionary Travel Grants	0
31	31	Homelessness	0
15	0	Skills Funding Council (Family Learning)	0
70	0	Handy Person Funding	0
10	10	Winter Pressures Grant	0
3	3	Re-ablement Grant	4
9	9	Department of Health - Stroke Pathways	0
9	9	Department of Health - Social Care Reform	0
8	8	Learning Skills Improvement Service	0
7	7	Disabled Facilities Grant	0
5	5	Government Office South West (GOSW) Support Funding	0
4	4	Scilly Unlimited	0
0	0	re-possession prevention	0
0	0	Training for Carer Key-Workers	0
0	0	Supporting People Grant	0
0	0	Learning Disability Development	4
0	0	PCT Grant	5
3	3	Mental Health Project (Cornwall)	0
0	0	Local Housing Allowance	
0	0	Total Place Funding	9
2	2	Other Grants	0
512	145	Adult Social Services Total	22

2010/11 £000's	Restated 2010/11 £000's		2011/12 £000's
		Credited to Planning Services	
524	524	South West Regional Development Agency (SWERDA)	3
0	0	SWERDA/DEFRA - LAG Admin & reclaim of Grant's awarded	796
0	0	Strategic Investment Framework	155
78	78	Natural England	92
34	34	Land Charges Supplement New Burdens Grant	0
33	33	English Heritage	60
25	0	Local Authority Business Growth Incentive (LABGI)	0
22	22	DEFRA - Animal Welfare	0
34	34	Climate Change	0
0	0	Off Island Quays	0
0	0	European Regional Development Fund (ERDF)	0
0	0	Local Action Group (LAG) Grant	5
4	4	Sustainable Development Fund	41
22	22	Planning Delivery Grant	0
1	1	Other Grants	0
777	752	Planning and Economic Development Services Total	1,152

2010/11 £000's	Restated 2010/11 £000's		2011/12 £000's
		Credited to Central Services	
0	25	Local Authority Business Growth Incentive (LABGI)	
186	0	Rent Allowances	0
74	0	Rent Rebates	0
73	73	Council Tax	73
0	0	Business Rates Deferral Grant	0
14	14	Administration Grant	0
12	12	Planning & Delivery Grant	0
0	0	Training & Development	0
0	0	Anti-Social Behaviour	0
0	0	NNDR Deferral Scheme	2
9	9	RIEP Grant	0
368	133	Central Services Total	75

2010/11 £000's	2010/11 £000's		2011/12 £000's
		Credited to Environmental Services	
41	41	Anti Social Behaviour	0
15	15	Waste Disposal (RIEP)	0
12	12	Highways (Department of Transport)	0
0	0	DEFRA - Waste Performance & Efficiency	102
0	0	Safer Communities	0
0	0	Food Safety	0
10	10	DEFRA - Flood Risk Assessment	0
78	78	Environmental Services Total	102

2010/11 £000's	Restated 2010/11 £000's		2011/12 £000's
		Credited to Housing Services	
0	186	Rent Allowances	162
0	74	Rent Rebates	70
0	70	Handy Person Funding	30
0	0	Re-possession Prevention	2
0	0	Housing Benefit Administration Grant	6
0	330	Housing Services Total	270

2010/11 £000's	2010/11 £000's		2011/12 £000's
		Credited to Fire & Rescue Services	
0	0	New Dimensions	0
0	0	USAR & De-Contamination	0
0	0	Electrical Testing	0
1	1	Other Grants	0
1	1	Fire & Rescue Services Total	0
5,670	5,670	Grand Total	5,152

31.4 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:

2010/11 £000's	Capital Grants Creditors/Receipts In Advance	2011/12 £000's
	Children's & Education Services	
6,320	New School Build Project	113
80	DfES - Playbuilder	80
0	Other Grants	1
	Adult Social Services	
16	Housing - Private Sector Decent Homes	16
35	Stroke Care Grant	0
0	Adults PSS Capital	7
3	Other Grants	2
	Fire & Rescue Services	
69	Operations - Equality & Diversity Training	50
	Environmental Services	
0	Water/Sewerage Grant	1,481
54	DEFRA - Waste Equipment Grant	54
6,577	Total Capital Grants Creditors/Receipts In Advance	1,804

31.5 Revenue Grant Creditors and Grants Received in Advance

2010/11 £000's	Revenue Grants Creditors/Receipts in Advance	2011/12 £000's
	Children's & Education Services	
305	Standards Fund	0
202	SureStart Early Years	41
116	Isles of Scilly Education Grant	169
88	Post 16 accommodation & travel	57
28	Teacher Training Development Agency	28
5	Play - BIG Lottery	0
	Adult Social Services	
106	Handy Person Funding	76
64	Housing Subsidy	64
0	PCT Reablement	39
26	Concessionary fares Dial-a-Ride	26
0	Dementia Care	25
0	Total Place Funding	21
18	Concessionary Fares Grant	18
11	Social Care Reform - Extra Care Housing Fund	11
11	Social Care Reform - Transformation	11
10	GOSW Support Funding	10
8	Gypsy site improvements (housing)	8
0	Winter Access 11/12 Reablement	5
0	Healthwatch Pathfinder	5
2	Sports Development Scilly Unlimited	2
2	Healthy Workplace Grant	2
0	Volunteer Scilly	3
0	Carers' Short Breaks	1
30	Mental Health Co-ordinator funding	0
	Fire & Rescue Services	
11	Fire Brigade - New Dimensions	22
	Environmental Services	
0	Waste Strategy Management	163
24	Severe Weather Grant - Road Repairs	24
1,067	Total Revenue Grants Creditors/Receipts in Advance	831

Note 32 Related Parties

The Authority is required to disclose material transactions with related parties which are bodies or individuals that have the potential to control or influence the Authority or to be controlled or influenced by the Authority. Disclosure of these transactions allows readers to assess the extent to which the Authority 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.

32.1 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 24.2 on reporting for resources allocation decisions. Grant receipts outstanding at 31 March 2012 are shown in Note 31.

32.2 Members

Members of the Council have direct control over the Authority's financial and operating policies. The Council's constitution requires Members to declare their interests in related parties in a register of interests and are asked to declare their interests during Committee meetings. During 2011/12, payments for works and services to the value of £179,834 were commissioned from companies, organisations or individuals in which 27 Members had declared an interest and payments of £80,874 were made to companies, organisations or individuals in which two Co-opted Members had declared an interest. These payments were made in compliance with the Authority's Financial Regulations.

The outstanding payments at the end of the year on accounts for which Members have declared an interest totalled £8,460 for which 21 Members declared an interest. The outstanding balances at the end of the year for accounts for which Co-opted Members have declared an interest totalled £9,279 for which two Co-opted Members declared an interest.

During 2011/12, sales for works and services to the value of £80,543 were commissioned from companies, organisations or individuals in which 30 Members had declared an interest and sales of £17,969 were made to companies, organisations or individuals in which two Co-opted Members had declared an interest. These sales were made in compliance with the Authority's Financial Regulations.

The outstanding debtor balances at the end of the year on accounts for which Members have declared an interest totalled £72,946 for which 21 Members declared an interest. 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 26.

32.3 Officers

Officers are required to declare their interests in the register of interests and during Committee meetings when in attendance. During 2011/12 payments of £211,645 were made to companies, organisations or individuals in which 6 officers had declared an interest. These payments were made in compliance with the Authority's Financial Regulations.

The outstanding payments at the end of the year on accounts for which officers have declared an interest in totalled £6,350 for which two officers declared an interest.

During 2011/12 sales of £31,445 were made to companies, organisations or individuals in which five officers had declared an interest. These sales were made in compliance with the Authority's Financial Regulations.

The outstanding debtor balances at the end of the year on accounts for which officers have declared an interest in totalled £57,896 for which four officers declared an interest.

In addition a grant totalling £9,433 was paid to an organisation in which one officer had declared an interest. The grant was 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 28 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.

32.4 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 99.

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 36 - Local Government Pension Scheme.

The Authority administers the Local Action Group (LAG) on behalf of the DEFRA. During 2011/12 the LAG issued grants with conditions to 44 bodies to the value of £388,769. Of this total value LAG awarded three grants with conditions totalling £52,092 to the Council of the Isles of Scilly. The Authority has received payments totalling £224,713 for the management and administration of this project from DEFRA. The outstanding balance at year end is £181,387.

The Authority also administers the Strategic Investment Framework (SIF) on behalf of the European Regional Development Fund (ERDF). During 2011/12 no grants have been issued by SIF, the funds have been used for in-house projects in particular the Porthcressa Regeneration Project.

The Authority also administers the Strategic Development Fund (SDF) on behalf of Natural England. During 2011/12 SDF awarded grants with conditions to 17 bodies totalling £41,003. 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, this includes 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 £95,870, Council of the Isles of Scilly totalling £21,986, Duchy of Cornwall totalling £4,602, Isles of Scilly Wildlife Trust totalling £767, Tresco Estate totalling £3,068 and Island Tourism totalling £1,534. There is an outstanding balance in total for SDF core and grant elements at the year end of £146,844.

The Authority administers travel and accommodation grants for children aged over 16 to enable them to pursue further education on the mainland. During 2011/12 travel and accommodation grants totalling £204,483 were issued to a total of 49 individuals. There is no outstanding balance at year end.

Note 33 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.

2010/11 £000's		2011/12 £000's
5,403	Opening Capital Financing Requirement	5,359
	Capital Investment	
9,142	Property, Plant and Equipment	8,415
76	Revenue Expenditure Funded from Capital under Statute	8
	Sources of Finance	
(8,797)	Government grants and contributions	(8,294)
(275)	Revenue Contribution - General Fund	(76)
(190)	Minimum Revenue Provision	(214)
5,359	Closing Capital Financing Requirement	5,198
	Explanation of Movements in Year	
108	Increase/(Decrease) in underlying need to borrow (supported by Government financial assistance)	0
38	Increase/(Decrease) in underlying need to borrow (unsupported by Government financial assistance)	53
(190)	Repayment of debt	(214)
(44)	Increase/(Decrease) in Capital Financing Requirement	(161)

Note 34 Leases

34.1 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:

2010/11 £000's		2011/12 £000's
230	Housing Revenue Account	230
258	General Fund Properties	244
491	Other Land & Buildings	838
0	Vehicles Plant & Equipment	0
0	Community Assets	0
979	Total	1,312

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:

2010/11 £000's		2011/12 £000's
	Finance Lease Liabilities	
13	Current	10
6	Non-current	1
18	Finance Costs Payable in Future Years	11
37	Minimum lease payments	22

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

	Minimum Lease Payments		Finance Lease Liabilities	
	2010/11 £000's	2011/12 £000's	2010/11 £000's	2011/12 £000's
Not later than one year	14	10	14	9
Later than one year and not later than five	21	10	4	0
Later than five years	2	2	1	1
Total	37	22	19	10

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 2011/12 £Nil contingent rents were payable by the Authority (2010/11 £Nil).

The Authority has sub-let some of the assets held under these finance leases. At 31 March 2012 the minimum payments expected to be received under non-cancellable sub-leases was £4,432 (£7,102 at 31 March 2011).

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:

2010/11 £000's		2011/12 £000's
18	Not later than one year	15
7	Later than one year and not later than five years	2
25	Total	17

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

2010/11 £000's		2011/12 £000's
0	Not later than one year	1
0	Total	1

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

2010/11 £000's		2011/12 £000's
22	Minimum lease payments	36
0	Sublease payments receivable	(1)
22	Total	35

34.2 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:

2010/11 £000's		2011/12 £000's
	Finance Lease Debtor (Net Present Value of Minimum Lease Payments):	
37	Current	33
84	Non-current	74
1,148	Unearned finance income	732
335	Unguaranteed residual value of property	230
1,604	Gross investment in the lease	1,069

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

	Gross Investment in the Lease		Minimum Lease Payments	
	2010/11 £000's	2011/12 £000's	2010/11 £000's	2011/12 £000's
Not later than one year	51	44	37	33
Later than one year & not later than five years	205	158	150	111
Later than five years	1,013	636	748	465
Total	1,269	838	935	609

The Authority has set aside allowance for uncollectable amounts of £Nil (£Nil at 31 March 2010/11).

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 2011/12 £3,590 contingent rents were receivable by the Authority (2010/11 £Nil).

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:

2010/11 £000's		2011/12 £000's
18	Not later than one year	53
7	Later than one year and not later than five years	4
25	Total	57

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 2011/12 £39,000 of contingent rents were receivable by the Authority (2010/11 £27,000).

Note 35 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 2011/12, the Authority paid £145,000 (2010/11 - £129,000) to Capita Teachers' Pensions in respect of teachers' retirement benefits, representing 14% of pensionable pay (2010/11 - 14%). There were no contributions remaining payable at the year end.

Note 36 Local Government Pension Scheme

36.1 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 needs to be disclosed at the time that employees earn their future entitlement.

The Authority participates in the Local Government Pension Scheme, administered by Cornwall 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.

36.2 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:

2010/11 £000's		2011/12 £000's
	Within Cost of Services:	
547	Current Service Cost	502
(1,439)	Past Service Gain (Non Distributed Costs)	0
	Financing and Investment Income and Expenditure:	
(613)	Expected Return on Assets in the scheme	(675)
766	Interest Costs	675
(739)	Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	502
	Other Post Employment Benefit Charged to the CIES:	
(2,592)	Actuarial (Gains) or Losses	1,198
(2,592)	Total Post Employment Benefit Charged to the Surplus or Deficit on the CIES	1,198

2010/11 £000's	Movement in Reserves Statement	2011/12 £000's
739	Reversal of Net Charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the code	(502)
	Actual amounts charged against the General Fund Balance for Pensions in the Year:	
582	Employer's Contributions Payable	584
1,321		82

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2012 is a loss of £3,724,000.

36.3 Assets and Liabilities in Relation to Post-employment Benefits

The underlying assets and liabilities for retirement benefits attributable to the Authority as at 31 March 2012 are as follows:

2010/11 £000's		2011/12 £000's
(12,175)	Estimated liabilities in the scheme	(13,766)
9,794	Estimated assets in the scheme	10,269
(2,381)	Net assets/(liabilities)	(3,497)

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

2010/11 £000's		2011/12 £000's
14,877	Liabilities as at 1 April	12,175
547	Current Service Costs	502
766	Interest Costs	675
183	Contributions by Members	185
(2,349)	Actuarial Losses / (Gains)	726
(1,439)	Past Service Costs	0
(2)	Estimated Unfunded Benefits Paid	(2)
(408)	Estimated Benefits Paid	(495)
12,175	Liabilities as at 31 March	13,766

Reconciliation of fair value of the scheme (plan) assets

2010/11 £000's		2011/12 £000's
8,583	Assets as at 1 April	9,794
613	Expected Return on Assets	675
183	Contribution by Members	185
580	Contributions by Employer	582
2	Contribution in respect of Unfunded Benefits	2
243	Actuarial Gains / (Losses)	(472)
(2)	Unfunded Benefits Paid	(2)
(408)	Benefits Paid	(495)
9,794	Assets as at 31 March	10,269

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 2011 %		31 March 2012 %
Proportion of assets held within the Local Government Pension Scheme by type:		
72	Equity Investments	68
14	Bonds	16
7	Property	7
7	Cash	9
Long Term Expected Rate of Return on Assets in the Scheme:		
7.5	Equity Investments	6.2
4.9	Bonds	4.0
5.5	Property	4.4
4.6	Cash	3.5

The actual return on scheme assets in the year was £205,000 (2010/11 gain of £855,000).

36.4 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 2012.

The principal assumptions used by the actuary have been:

31 March 2011		31 March 2012
% p.a.		% p.a.
2.8	Price Increases (inflation)	2.5
5.1	Salary Increases	4.8
2.8	Pensions Increases	2.5
5.5	Discount Rate for scheme liabilities	4.8
Years		Years
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

36.5 Sensitivity Analysis

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 36.4 above.

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

31 March 2011		Change in assumptions at year ended	31 March 2012	
Approx % increase to Employer	Approx monetary amount £000's		Approx % increase to Employer	Approx monetary amount £000's
10%	1,237	0.5% decrease in Real Discount Rate	10%	1,410
3%	365	1 year increase in member life expectancy	3%	413
2%	285	0.5% increase in the Salary Increase Rate	3%	422
7%	873	0.5% increase in the Pension Increase Rate	7%	977

36.6 Scheme History

	2011/12 £000's	2010/11 £000's	2009/10 £000's	2008/09 £000's	2007/08 £000's
Present Value of Liabilities	(13,766)	(12,175)	(14,877)	(9,030)	(8,970)
Fair Value of Assets in the Local Government Pension Scheme	10,269	9,794	8,583	6,344	7,852
Actuarial Gain/(Loss) in Pension Fund	(3,497)	(2,381)	(6,294)	(2,686)	(1,118)

The liabilities show the underlying commitments that the Authority has in the long run to pay post employment (retirement) benefits. The total liability of £13.766 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 2013 is £592,000.

36.7 History of Experience Gains and Losses

The actuarial gains and losses identified as movements on the pensions reserve in 2011/12 can be analysed into the following categories, measured as a percentage of assets or liabilities as at 31 March 2012:

	2011/12 %	2010/11 %	2009/10 %	2008/09 %	2007/08 %
Differences between expected and actual return on assets	(4.60)	2.48	16.57	(38.40)	(2.45)
Experience gains and losses on liabilities	1.09	0.01	0.01	(2.98)	13.20

Note 37 Landfill Allowance Trading Scheme (LATS)

2010/11			2011/12	
Tonnes	Value £000's		Tonnes	Value £000's
3,393	0	Landfill Allowances b/fwd	1,206	0
1,206	0	Allowances received for the year	1,055	0
(3,393)	0	Expired by target year	0	0
1,206	0	Landfill Allowances c/fwd	2,261	0

The Isles of Scilly 2011/12 allocation awarded was 1,055 tonnes. The median value of trades during 2011/12 was £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 2012 as it was on 31 March 2011.

2012/13 will be a LATS target year and any unused allowances cannot be carried over from 2011/12.

Note 38 Trust Funds

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

2010/11	Income £000's	Expenditure £000's	Assets £000's
Richard Addison Charitable Trust	2	0	125
Pilots' Widows Fund	0	0	8
Edward MacDonald Trust	4	1	131
Total	6	1	264

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
Total	6	3	261

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.

Housing Revenue Account Income and Expenditure Statement

The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Statement of Movement on the HRA Balance.

2010/11 £000's	Expenditure	2011/12 £000's	Note
99	Repairs and Maintenance	169	44
132	Supervision and Management	104	
3,368	Depreciation and Impairment of Non-Current Assets	84	
0	Debt Management Costs	1	
37	Negative Housing Revenue Account subsidy	43	47
3,636	Total Expenditure	401	
	Income		
(341)	Dwelling Rents (gross)	(365)	
(9)	Non-dwelling Rents (gross)	(9)	
(13)	Charges for Services and Facilities	(13)	
0	Refund of Prior Year Housing Revenue Account Subsidies Paid	(123)	
(363)	Total Income	(510)	
3,273	Net Cost of HRA Services Included in the Comprehensive Income and Expenditure Statement	(109)	
20	Interest Payable and Similar Charges	18	
(18)	Interest and Investment Income	(17)	
3,275	(Surplus)/Deficit for the year on HRA Services	(108)	

Movement on the HRA Statement

2010/11 £000's		2011/12 £000's	
260	Balance on the HRA Brought Forward	296	
(3,275)	Surplus/(Deficit) for the year on the HRA Income and Expenditure Statement	108	
3,362	Adjustments between Accounting Basis and Funding Basis Under Statute	275	39
87	Net Increase/(Decrease) before Transfers to or from Reserves	383	
(51)	Transfers (to)/from Reserves	(81)	
36	Increase/(Decrease) in year on the HRA	302	
296	Balance on the HRA Carried Forward	598	

Notes to the Housing Revenue Account

Note 39 Statement of Movement on the HRA Balance

2010/11 £000's		2011/12 £000's
	Adjustments between accounting basis and funding basis under regulations	
(1)	Accumulating compensated absences and holiday pay	0
3,275	Revaluation Decrease/(Increase) and Impairment Losses on Non Current Assets	190
0	Adjustments on Leases	0
0	Adjustments on Deferred Charges	0
87	Depreciation Charge in the year	84
(4)	Employer's Contributions Payable to the Pension Fund and Retirement Benefits Paid Directly to Pensioners	6
5	Net Charges made for Retirement Benefits in accordance with IAS19	(5)
3,362		275
	Transfers to/(from) Earmarked Reserves	
(38)	Transfer to/(from) Major Repairs Reserve	(80)
(13)	Transfer to/(from) Housing Repairs Account	(1)
(51)		(81)

Note 40 Analysis of Council Housing Stock

2010/11 Number		2011/12 Number
	Flats & Bedsits	
36	One Bedroom	36
14	Two Bedrooms	14
1	Three Bedrooms	1
51	Total Flats and Bedsits	51
	Houses and Bungalows	
4	One Bedroom	4
10	Two Bedrooms	10
39	Three Bedrooms	39
4	Four or More Bedrooms	4
57	Total Houses and Bungalows	57
108	Total Number of Council Dwellings	108

Note 41 Value of HRA Assets

Operational Assets	Houses £000's	Garages £000's	Land £000's	Total £000's
At 1 April 2011	4,740	213	3,166	8,119
Additions	22	0	0	22
Revaluations	(110)	0	(77)	(187)
Charge for Year	(84)	(5)	0	(89)
Value as at 31 March 2012	4,568	208	3,089	7,865

The revaluation carried out by the District Valuer as at 1 April 2011 resulted in a net reduction in the existing use value of social housing within the HRA.

Note 42 Vacant Possession Value of Council Houses

The introduction of Resource Accounting in the Housing Revenue Account requires all HRA assets to be revalued as at 1st April each year. The basis of the valuation is Existing Use Value for Social Housing (EUV-SH) as defined by the Royal Institute of Chartered Surveyors (RICS). The method of valuation prescribed by the RICS to arrive at EUV-SH is based on the vacant possession value of the properties, adjusted to reflect the occupation by a secure tenant.

The Adjustment Factor for the South West for 2011/12 stands at 31%, (2010/11 31%) of the Vacant Possession Value. The value of the adjustment, in effect, reflects the cost of providing Council Housing at less than Market Value.

At 1 April 2011 the vacant possession value of dwellings within the Authority's HRA was £25.503 million (1 April 2010: £36.090 million).

Note 43 Movement on the Major Repairs Reserve (MRR)

2010/11 £000's		2011/12 £000's
	Depreciation	
(87)	Dwellings	(84)
(6)	Garages	(6)
(93)	Total Depreciation	(90)
58	Major Repairs Expenditure	0
	Transfer to General Fund	
6	Depreciation of Other Buildings	6
12	Depreciation in Excess of MRA	4
76		10
(17)	(Surplus)/Deficit	(80)
(350)	Balance as at 1 April	(367)
(367)	Balance as at 31 March	(447)

Note 44 Movement on Housing Repairs Account

2010/11 £000's		2011/12 £000's
(103)	Balance at 1 April	(104)
(100)	Contribution from Housing Revenue Account	(169)
99	Expenditure on Housing Repairs	169
(104)	Balance at 31 March	(104)

Note 45 Analysis of Capital Expenditure

2010/11 £000's		2011/12 £000's
80	Capital Outlay - Houses	22
80		22
	Financed by:	
22	Supported Capital Expenditure	22
58	Major Repairs Reserve	0
80		22

Note 46 Rent Arrears

2010/11 £000's		2011/12 £000's
13	Gross Rent Arrears at 31 March	17
(4)	Prepaid Rent	(4)
9	Net Rent Arrears	13

The rent arrears are stated net of any impairment for doubtful rental receipts totalling £Nil (2010/11 - £Nil).

Note 47 Breakdown of HRA Subsidy

2010/11 £000's		2011/12 £000's
103	Management Allowance	106
93	Maintenance Allowance	101
75	Major Repairs Allowance	80
	Charges for Capital	
9	Interest Charge	11
39	Debt Management	40
319	Net Rent Arrears	338
(356)	Notional Rent Income	(381)
(37)	Housing Subsidy (Negative)	(43)

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.

2010/11 £000's		2011/12 £000's	Note
	Income		
(1,488)	Council Tax	(1,473)	49
(77)	Transfer from General Fund - Council Tax Benefits	(73)	
(1,366)	Income collectable from business ratepayers	(1,416)	
(2,931)	Total Income	(2,962)	
	Expenditure		
	Precepts		
1,245	General Fund	1,223	
189	Police	190	51
	Business rates		
1,297	Payment to national pool	1,385	
25	Costs of collection	25	
44	Bad/doubtful debts	11	
	Distribution of previous year's surplus		
147	General Fund	106	
22	Police	16	
2,969	Total Expenditure	2,956	
38	(Surplus)/Deficit on Collection Fund	(6)	
132	CIOS - Collection Fund Balance 1 April	99	
99	CIOS - Collection Fund Balance 31 March	104	

2010/11 £000's		2011/12 £000's
(33)	Billing Authority - Council of the Isles of Scilly	5
(5)	Precepting Authority - Devon & Cornwall Police Authority	1
(38)	(Surplus)/Deficit for the year on the Collection Fund	6

Notes to the Collection Fund

Note 48 Business Rates

2010/11 £000's		2011/12 £000's
4,628	Total Non-Domestic Rateable Value as at 31 March	4,456
Multiplier Rates		
41.4p	Non - Domestic	43.3p
40.7p	Small Business	42.6p

Note 49 Calculation of Net Council Tax

2010/11 £000's		2011/12 £000's
(1,752)	Council Tax - Gross Due	(1,751)
	Less	
134	Discounts	124
45	Exemptions	49
77	Benefits	73
8	Previous Year's Adjustment	32
(1,488)	Net Council Tax	(1,473)

Note 50 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 2011/12 was £1,186.74 (£1,186.74 in 2010/11). 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	12	10	7
B	£40,001 to £52,000	7/9	28	25	19
C	£52,001 to £68,000	8/9	84	67	60
D	£68,001 to £88,000	9/9	248	203	203
E	£88,001 to £120,000	11/9	332	285	348
F	£120,001 to £160,000	13/9	306	250	361
G	£160,001 to £320,000	15/9	147	119	198
H	Over £320,000	18/9	8	8	16
			1,165	967	1,212

Note 51 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 2011/12 of £190,000 (2010/11 - £189,000).

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 employers 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 employers' 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 87.

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

Isles of Scilly Firefighters' Pension Fund Accounts

2010/11 £000's		2011/12 £000's
	Contributions Receivable	
	Fire Authority:	
(5)	- contributions in relation to pensionable pay	(7)
(7)	Firefighters' Contributions	(9)
(12)	Net amount payable for the year	(16)
12	Top-up grant payable to / (from) the Government	16
0		0

2010/11 £000's	Net Assets Statement as at 31 March	2011/12 £000's
12	Top-up receivable from the Government	16
(12)	Amounts payable to Government	(16)
0	Total Net Assets	0

2010/11 £000's	Within Cost of Services:	2011/12 £000's
20	Current Service Cost	23
(13)	Past Service Gain (Non Distributed Costs)	0
	Financing and Investment Income and Expenditure:	
0	Interest Costs	6
7	Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	29
	Other Post Employment Benefit Charged to the CIES:	
(6)	Actuarial (Gains) or Losses	6
(6)	Total Post Employment Benefit Charged to the Surplus or Deficit on the CIES	6

2010/11 £000's	Movement in Reserves Statement	2011/12 £000's
(7)	Reversal of Net Charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the code	(29)
	Actual amounts charged against the General Fund Balance for Pensions in the Year:	
(5)	Employer's Contributions Payable	(7)
(12)		(36)

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement is £nil.

51.1 Liabilities in Relation to Post-employment Benefits

The underlying liabilities for retirement benefits attributable to the Authority as at 31 March 2012 are as follows:

2010/11 £000's	Estimated liabilities in the scheme	2011/12 £000's
(93)	Estimated liabilities in the scheme	(135)
(93)	Net Liabilities	(135)

Reconciliation of present value of the scheme (plan) liabilities

2010/11 £000's		2011/12 £000's
87	Liabilities as at 1 April	93
20	Current Service Costs	23
0	Interest Costs	6
5	Contributions by Members	7
(6)	Actuarial Losses / (Gains)	6
(13)	Past Service Costs / (Gains)	0
93	Liabilities as at 31 March	135

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

2010/11 £000's		2011/12 £000's
0	Assets as at 1 April	0
5	Contribution by Members	7
(5)	Contributions by Employer	(7)
0	Assets as at 31 March	0

51.2 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 2012.

The principal assumptions used by the actuary have been:

31 March 2011 % p.a.		31 March 2012 % p.a.
3.6	Price Increases (inflation)	3.3
4.6	Salary Increases	3.5
2.8	Pensions Increases	2.5
5.5	Discount Rate for scheme liabilities	4.8
Mortality Assumptions		
Years		Years
27.6	Current pensioners: Male	27.9
31.0	Current pensioners: Female	30.8
29.2	Future Pensioners: Male	29.5
32.7	Future Pensioners: Female	32.3

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

51.3 Scheme History

	2011/12 £000's	2010/11 £000's	2009/10 £000's
Present Value of Liabilities	(135)	(93)	(87)
Actuarial Gain/(Loss) in Pension Fund	(135)	(93)	(87)

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 2013 is £32,000.

51.4 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 51.3 above.

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

31 March 2011 Approx % increase to Employer Liability	Approx monetary amount £000's	Change in assumptions at year ended	31 March 2012 Approx % increase to Employer Liability	Approx monetary amount £000's
20%	17	0.1% decrease in Real Discount Rate	4%	5
3%	3	1 year increase in member life expectancy	3%	4
10%	8	0.5% increase in the Salary Increase Rate	9%	13
9%	8	0.5% increase in the Pension Increase Rate (CPI)	9%	13

Auditor's Report and Opinion

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

Opinion on the Authority and firefighters' pension fund financial statements

I have audited the financial statements and the firefighters' pension fund financial statements of the Council of the Isles of Scilly for the year ended 31 March 2012 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, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. The firefighters' pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. 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 2011/12.

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.

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 Authority's Statement of Accounts, which include the Authority financial statements and the firefighters pension fund 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. My 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 me 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, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view of the financial position of Council of the Isles of Scilly as at 31 March 2012 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial transactions of the firefighters' pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In my 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 I report by exception

I report to you if:

- in my 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;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I 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
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects

Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

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

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing

economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

I have undertaken my audit in accordance with the Code of Audit Practice and, having regard to the guidance issued by the Audit Commission in October 2011, I have considered the results of the following:

- my 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 my responsibilities.

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

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, the Council of the Isles of Scilly put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

Certificate

I certify that I have completed the audit of the accounts 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
District Auditor

Audit Commission
3-4 Blenheim Court
Lustleigh Close
Matford Business Park
Exeter
Devon EX2 8PW

27 September 2012

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
Accounting Policies	These are the policies and codes of practice adopted when preparing the Statement of Accounts.
Accrual	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.
Actuarial Gain or Loss	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.
Actuarial Valuation	A valuation of assets within the pension fund carried out by an actuary (an independent pension valuation specialist).
Asset	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.
Balance Sheet	This statement shows the financial position of the Authority as at the end of the financial year.
Budget	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.
Capital Expenditure	Expenditure on new assets or on the enhancement of existing assets which extends their useful life or increases their market value.
Capital Financing Requirement (CFR)	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.
Capital Grant	Grant received for the purpose of funding Capital Expenditure.
Capital Grants Unapplied	Capital Grants that have not been spent during the financial year.
Capital Receipts	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.
Chartered Institute of Public Finance and Accountancy (CIPFA)	The professional body for accountancy within the public sector.
Code of Practice (Code)	This is the guidance issued by CIPFA on the application of the IFRS for the public sector.

TERM	DEFINITION
Comprehensive Income and Expenditure Statement (CIES)	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.
Corporate & Democratic Core	The costs associated with corporate policy making and member based activities, together with costs relating to corporate management, public accountability and treasury management.
Creditor	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.
Current Service Cost (Pensions)	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.
Debtor	An amount owed to the Authority at the Balance Sheet date for goods or services provided prior to the year end.
Deficit	Where the balance of expenditure exceeds the balance of income.
Depreciation	The measure of the consumption or other reduction in the useful economic life of a non-current asset.
Earmarked Reserves	Reserves representing monies set aside that can only be used for their stated specific "earmarked" services.
Emoluments	All taxable sums paid to or received by an employee including the value of any none cash benefits received.
Fair Value	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.
Finance Lease	A lease whereby the risks and rewards of ownership are transferred to the lessee.
Financial Reporting Standard (FRS)	The standards by which the preparation and presentation of the Statement of Accounts has historically been governed within the UK
Financial Year	The year covered by the financial statements. The Authority's financial year commences 1 April and finishes 31 March the following year.
Financial Instruments	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.
General Fund (GF)	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.
Housing Revenue Account (HRA)	This is a statutory account recording the revenue expenditure and income relating to the Authority's housing stock.

TERM	DEFINITION
Impairment	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.
International Financial Reporting Standard (IFRS)	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).
Liability	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.
Medium Term Financial Strategy (MTFS)	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.
Minimum Revenue Provision (MRP)	The amount which the Authority charges to revenue on an annual basis as a provision for the redemption of debt.
Movement in Reserves Statement (MiRS)	This statement details the movements in the reserve balances.
Net Book Value	The value at which non-current assets are included in the balance sheet after the consideration of impairment, revaluation, enhancements, depreciation etc.
Non-Current Assets	Assets which are of a physical nature owned by the Authority such as land, buildings, vehicles etc.
Operating Lease	A lease which is not a Finance Lease.
Operational Assets	Non-current assets held/used by the Authority in the direct delivery of services for which it has a statutory responsibility.
Past Service Cost (Pensions)	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.
Present Value	The discounted value of future payments or receipts to show their value if they were to be received as at the balance sheet date.
Professional, Technical and Administration (PT&A)	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.
Public Works Loan Board (PWLB)	A Government Agency that provides loans to Local Authorities.
Remuneration	Reward for employment in the form of pay, salary or wage, including allowances, benefits, bonuses, cash incentives and monetary value of non-cash incentives.
Revenue Expenditure	The day to day running costs incurred by the Authority in providing services.
Revenue Financing	Resources provided from the Authority's revenue budget to finance the cost of Capital Expenditure.

TERM	DEFINITION
Statement of Recommended Practice (SORP)	This is the guidance issued by CIPFA on the application of the FRS for the public sector.
Surplus	Where the balance of income exceeds the balance of expenditure.
Trust	A savings account established under a trust agreement whereby a trustee administers the funds for the benefit of one or more beneficiaries.
Unusable Reserves	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.
Usable Reserves	These are held as a working balance for a specific future purpose.
Yield	Income earned from an investment.