



# Statement of Accounts

**2009/10**

**Council of the Isles of Scilly**

... a strong, sustainable and dynamic island  
community



2009/10 Statement of Accounts  
Council of the Isles of Scilly  
Hugh Town  
St Mary's, Isles of Scilly  
TR21 0LW

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## Contents

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Explanatory Foreword.....	4
Statement of Accounting Policies .....	9
Statement of Responsibilities and Certification of the Statement of Accounts .....	17
Income & Expenditure Account .....	18
Statement of Movement on General Fund Balances.....	19
Statement of Total Recognised Gains and Losses.....	19
Balance Sheet.....	20
Cash Flow Statement .....	21
Notes to the Financial Statements.....	22
Collection Fund .....	45
Housing Revenue Income and Expenditure Account.....	46
Notes to the Supplementary Financial Statements .....	47
Annual Governance Statement for 2009/10.....	51
Auditor's Report and Opinion .....	82

### Introduction

The purpose of this foreword is to provide readers with an easy to understand guide to the most significant matters that have been reported in the accounts and to explain the Council's overall financial position.

The Council's accounts for 2009/10 are set out in the pages that follow. They consist of:

- Income and Expenditure Account (I&E) (page 18) – a summary of resources generated and utilised by the Council in the year.
- Statement of Movement on the General Fund Balance (page 19) – a reconciliation showing how the balance of resources generated/utilised in the year links with the statutory requirements for raising Council Tax.
- Statement of Total Recognised Gains and Losses (page 19) – demonstration of how the movement in the net worth in the Balance Sheet is linked to the Income & Expenditure Account surplus/deficit and to other unrealised gains and losses.
- Balance Sheet (page 20) – analyses the end of year financial position of the Council by outlining its assets, liabilities and net worth.
- Cash Flow Statement (page 21) – shows all the sources of cash for the year and also how cash was disbursed.
- Collection Fund (page 45) – shows the transactions of the Council in relation to Non-Domestic Rates and Council Tax.
- Housing Revenue Account (HRA) Income and Expenditure Account (page 46) – shows in more detail the income and expenditure on HRA services.
- Statement of Movement on the HRA Balance (page 47) – shows how the HRA Income and Expenditure Account surplus or deficit for the year reconciles to the movement on the HRA account balance for the year.

Further supporting information is provided in the **Statement of Accounting Policies**, which outlines those policies adopted when compiling the financial statements and the notes to the financial statements.

## 2009/10 Revenue Expenditure

Details of the Authority's revenue expenditure for the year are provided in the Income and Expenditure Account on page 18. The Account is classified in accordance with the CIPFA (Chartered Institute of Public Finance & Accountancy) Best Value Accounting Code of Practice (BVACoP) Standard Service Expenditure Classification. However, the Council manages its financial resources on a committee basis. An analysis of the net expenditure and variances for each Committee's budget, excluding Trading Services, is set out below:

Committee	2009/10		Under/ (Over spend) £000's
	Approved Budget £000's	Actual £000's	
Health, Overview & Scrutiny	3	1	2
General Purposes	1,348	1,304	44
Community Services	956	879	77
Transport Strategy Select	16	60	(44)
Policy & Resources	1,192	1,877	(685)
Children & Young People's Services	464	434	30
Licensing	20	62	(42)
Planning & Development	74	227	(153)
Sea Fisheries	10	15	(5)
Tourist Board	150	123	27
Standards	4	10	(6)
<b>Net Expenditure as per Income &amp; Expenditure Account</b>	<b>4,237</b>	<b>4,992</b>	<b>(755)</b>

The Net Cost of Service variance from budget for the Council for 2009/10 shows an over spend of £755,000 with the significant variances reported on almost all committees. However, the figures reported above include an impairment charge against the Town Hall, other Council owned premises and other pension related adjustments. These accounting adjustments have no overall financial impact on the Council's accounts as they are subsequently reversed out in the Statement of Movement on the General Fund Balance (see Note 1 on page 22), however Local Government accounting requires these to be shown within net expenditure by service. Further details on the fixed asset impairment can be found on Note 7 on page 27; and further details on the pensions adjustment can be found on Note 27 on page 38.

The summary below shows the position once these adjustments are removed from the figures reported above. This makes for a clearer picture for the reader of overall performance of the Council and results in an under-spend of £563,000 in the year.

Committee	2009/10		Under/ (Over spend) £000's
	Approved Budget £000's	Actual £000's	
Health, Overview & Scrutiny	3	1	2
General Purposes	1,348	1,134	214
Community Services	956	700	256
Transport Strategy Select	16	34	(18)
Policy & Resources	1,192	1,201	(9)
Children & Young People's Services	464	343	121
Licensing	20	17	3
Planning & Development	74	109	(35)
Sea Fisheries	10	10	0
Tourist Board	150	119	31
Standards	4	6	(2)
<b>Net Expenditure as per Income &amp; Expenditure Account</b>	<b>4,237</b>	<b>3,674</b>	<b>563</b>

Overall the Council was, as in previous years under spent. Over spends on committees such as Transport Strategy Select (reflecting the large amount of time spent by Members and Officers on the crucial Route Partnership negotiations); and Planning & Development (reflecting the increased investment in economic regeneration initiatives such as the Local Area Group and Strategic Investment Framework) are offset by under spends on Community Services, General Purposes, and Children and Young People's Services. Progress has been made during the year on budget monitoring and forecasting and further improvements are planned for 2010/11. However there is still opportunity for future improvement.

## **Income & Grant Funding**

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The Council relies very heavily on grant income to fund a substantial proportion of its activities, and would like to publically acknowledge the crucial support and assistance provided by Central Government and the European Union through the European Regional Development Fund (ERDF) which directly and indirectly makes a huge contribution to the Islands.

The Council received General Government Grants of £623,000 in 2009/10. The largest proportion of this comes from the Revenue Support Grant of £416,000. Further details can be found on Note 32 on page 43.

A further £5.56 million of government grants earmarked for specific programmes or initiatives have been received. This figure includes funding for education which is separately allocated as the Isles of Scilly Education Grant and amounted to £2.796 million in 2009/10.

The Council has been successful in attracting £2.25 million of Local Area Group (LAG) funding over the next few years. In 2009/10 £82,000 of ERDF grant funding under this programme was received from the South West Regional Development Agency (SWRDA). This represents the first tranche of funding to be made available for a wide range of social, economic, and infrastructure related projects which the Council anticipates will make a significant difference to the quality of life and opportunities available to our small community.

More details on these grants can be found in Note 31 and Note 32 on pages 42 and 43 to the core financial statements.

Although not included in the grant totals reported above the Council is very pleased to have secured a further £912,000 of EU funding under the Structural Investment Framework. This funding is for the promotion of regional development and employment and can be used for a wide range of activities including developing transport and communications infrastructure, supporting innovation, enterprise and business development, and protecting and enhancing the environment. Key post holders are in place and the foundations are in place for further progress in the coming year.

The Council receives fees and charges for a wide range of services from registry and burial charges to licensing fees. The Council also runs a number of trading activities of which the Airport and Water & Sewerage are by far the largest activities. Gross Income from trading activities was £1.866 million in 2009/10. Of this Airport income was £1.092 million and Water & Sewerage was £586,000. More details on trading activities can be found in Note 3 on page 24.

## **Reserves**

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Total reserves stand at £17.457 million at the 31 March 2010. Within this figure useable reserves remain unchanged at £5.446 million. Included within these totals are the balances for the General Fund, Housing Revenue Account, the Water and Sewerage Revenue Accounts and other reserves earmarked for future expenditure.

## The Financial Needs and Resources of the Council

The Council continues to deliver one of the largest ranges of services of any UK authority on a limited budget. The demographic changes in the composition of the Island's population point to a growing elderly population which will require more support. Medium term projections show increasing cost pressures and tighter budgets. Given the severe financial constraints facing the public sector for the foreseeable future there is no guarantee that current levels of funding will grow significantly and the Council, like all authorities, will have to work more efficiently to meet the rising public expectations of service delivery, and to ensure that it is able to take advantage of, and effectively make use of, available UK and European Union grant funding opportunities.

## FRS 17 – Pension Fund Requirements

Financial Reporting Standard (FRS17) requires disclosure in the accounts of transactions, assets and liabilities in respect of the Pension Fund operated on our behalf by Cornwall Council. The Council of the Isles of Scilly's pension liability has increased substantially from £2.686 million to £6.294 million as a result of the recent actuarial review which reviewed and updated a number of the scheme assumptions. This large increase primarily reflects the increasing liabilities associated with lengthening life expectancy and the poor returns associated with the difficult investment climate of the past few years. This large liability may mean increased burdens on the Council's revenue account over the forthcoming years should it be necessary to raise contributions to meet the increasing liabilities.

## The Housing Revenue Account

The Council was pleased to be able to make a £94,000 overall contribution to the HRA reserves this year. There has been a movement on each of the three individual reserves; £12,000 to the HRA Account, £64,000 to the Major Repairs Reserve and £18,000 to the Housing Repairs Account.

The Council has made significant progress against its ongoing capital maintenance programme for its housing stock which has seen the replacement of windows and doors across a significant proportion of its stock. This has been complemented by the rolling programme of routine repairs and maintenance.

## Capital Expenditure

The Council spent £1.743 million on capital projects during 2009/10 (£465,000 in 2008/09).

The capital programme was funded principally by Reserves (22%) and from Grants (69%). A summary of the main schemes and expenditure by committee is outlined below. The impact on the Council's asset base is reflected in the notes to the main statements – Note 7, page 27.

2008/09 £000's	Committee & Main Projects (2009/10)	2009/10 £000's
140	Children & Young People's Services Committee (New School)	1,059
69	General Purposes Committee (Airport & Fire & Rescue)	461
152	Policy and Resources Committee (Town Hall Extension)	108
104	Community Services Committee (Housing, Normandy Pool)	115
<b>465</b>		<b>1,743</b>

### *Children & Young People*

In the educational field the single largest investment which will positively affect the lives of many families on the Islands is the new Five Islands School project. This project will replace the existing primary and secondary school buildings with a new, purpose built, state-of-the-art school to meet the Islands evolving educational needs over the coming years.

## *General Purposes*

This committee has responsibility for the Island's infrastructure and has a number of projects under way.

The ongoing investment programme to improve St Mary's Airport continued in 2009/10. Property was acquired to house additional Air Traffic Control staff; significant refurbishments were completed in the terminal building, and equipment including the baggage trailers was upgraded or replaced.

Under the auspices of the Fire & Rescue department works have been carried out to improve St Agnes fire station and further equipment has been purchased for both Off-Island and St Mary's fire stations and additional premises have been purchased on St Mary's.

## *Policy & Resources*

The new Town Hall reception area extension was also completed and finalised in 2009/10. This provides a welcoming reception area for visitors to the Town Hall and is the location for the new One Stop Shop Team.

## *Community Services*

Considerable progress has been made on the refurbishment of Normandy swimming pool to include a new roof to enable all weather use. At the Park House Residential Home the kitchen has been completely refurbished. In the housing field the Council continues to make steady progress in refurbishing the housing stock under the government's Decent Homes Initiative.

## **Conclusion**

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2009/10 has been year of achievement in a number of areas. A number of key vacancies have been recruited to and important projects such as the new Five Islands School and Normandy Pool have started to bear fruit.

However the coming years promise to be more challenging for both the Council and the wider community. Chief Officers and Members must continue to reassess the services provided in response to community needs and financial pressures while maximising every opportunity to identify and leverage grant funding opportunities as they arise.

The accounts have been produced on schedule in accordance with the statutory deadlines. I am grateful to the staff of the Finance and Resources Department and our external support, provided by Symbiont Services Ltd., for their dedicated work and commitment which has, again, resulted in a high quality publication. I would like to thank colleagues in other departments whose support in achieving such tight deadlines is essential and much appreciated.

**Peter Lawrence, Director of Finance & Resources**



## Statement of Accounting Policies

### 1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2009/10 financial year and its position at the year-end of 31 March 2010. It has been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2009 – A Statement of Recommended Practice (the SORP). The accounting convention adopted is historical cost, modified by the revaluation of certain categories of tangible fixed assets.

The overriding accounting conventions below have been followed:

**Accruals** – Financial Statements other than the Cash Flow Statement are prepared on an accruals basis.

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

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

### 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:

- Fees, charges and rents due from customers are accounted for as income at the date the Council provides the relevant goods or services;
- 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 stocks on the Balance Sheet;
- Interest payable on borrowings and receivable on investments is accounted for 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 income 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 it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to the income and expenditure account for the income that might not be collected;
- The Council does not apply the accruals concept to quarterly utility bills which are recorded at the date of meter readings.

### 3. Provisions

Provisions are made where an event has taken place that gives the Council an obligation that is likely to require settlement by a transfer of economic benefits, but where the timing of the transfer is uncertain.

For instance, the Council may be involved in an insurance dispute that could eventually result in the making of a settlement or the payment of compensation. Provisions are charged to the appropriate service revenue account in the year that the Council becomes aware of the obligation, based on the best estimate of the likely settlement. When payments are eventually made, they are charged to the provision set up in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year. Where it becomes more likely than not that a transfer of economic benefits will not now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service revenue account.

Where some or all of the payment required to settle a provision is expected to be met by another party (e.g. from an insurance claim), the income is only recognised in the relevant service revenue account if it is virtually certain that reimbursement will be received if the obligation is settled.

#### **4. Reserves**

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The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by transferring amounts in the Statement of Movement on the General Fund Balance. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in that year to score against the Net Cost of Services in the Income and Expenditure Account. The reserve is then transferred or released back into the General Fund Balance statement so that there is no net charge against Council Tax for the expenditure.

Certain reserves are kept to manage the accounting processes for tangible fixed assets and retirement benefits and those that do not represent usable resources for the Council – these reserves are explained in the relevant policies.

#### **5. Government Grants & Contributions**

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The SORP requires Government Grants to be accounted for in accordance with the accruals concept i.e. where expenditure has been incurred in a period and it satisfies any grant conditions, income in respect of revenue grants should be credited to the appropriate revenue account irrespective of whether cash has been received.

Revenue grants are matched in service revenue accounts with the service expenditure to which they relate. Grants to cover general expenditure (e.g. Revenue Support Grant) are credited to the foot of the Income and Expenditure Account after Net Operating Expenditure.

In respect of capital grants, the credit is to be taken to a Governments Grants - Deferred account. An appropriate share of the grant is to be released annually from this account to the relevant service revenue account to offset any provision for depreciation charged in respect of the assets to which the grants relate.

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

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We pay an employer's contribution into the Cornwall Council pension fund which provides staff that are members of the pension scheme with pensions and other benefits that are related to their pay and length of service. Our rate of contribution is determined by the pension fund's actuary following a revaluation of the fund every 3 years and an assessment of the likely demand on the fund and performance of the fund's investments. The cost of early retirements, redundancies and retirements due to ill-health are also considered.

The assets and liabilities of the pension scheme, attributable directly to the Council, are included in our balance sheet. The amount chargeable to General Fund services for the year is determined in accordance with statutory requirements, which restricts the amount a Council can seek to cover through raising Council Tax. Where the actual cost recorded in the Council's Income and Expenditure Account differs from this a corresponding adjustment must be made to the Council's Pension Reserve.

#### **7. Value Added Tax (VAT)**

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

#### **8. Overheads & Support Services**

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These costs, which include staff salaries, establishment costs and office expenses, are allocated to the appropriate services on the basis of the estimated time spent by each member of staff. Some costs are retained within Corporate and Democratic Core, costs relating to operating a democratic organisation, and Non-Distributed costs, which represent the cost of discretionary benefits awarded to employees retiring early. Administrative building costs are recovered on the basis of floor area occupied.

## 9. Intangible Assets

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

## 10. Tangible Fixed Assets

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

**Recognition:** expenditure on the acquisition, creation or enhancement of tangible fixed assets is capitalised on an accruals basis, provided that it yields benefits to the Council and the services that it provides for more than one financial year. Expenditure that secures but does not extend the previously assessed standards of performance of an asset (e.g. repairs and maintenance) is charged to revenue as it is incurred.

The Council operates a de-minimus level of £6,000 when capitalising expenditure unless they are creating or enhancing a group of assets, when amounts below this level can be capitalised.

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

- Investment properties and assets surplus to requirements – lower of net current replacement cost or net realisable value;
- Dwellings, other land and buildings, vehicles, plant and equipment – lower of net current replacement cost or net realisable value in existing use;
- Infrastructure assets and community assets – depreciated historical cost.
- Net current replacement cost is assessed as:
  - Non-specialised operational properties – existing use value;
  - Specialised operational properties – depreciated replacement cost;
  - Investment properties and surplus assets – market value;
  - Community assets – a nominal sum.

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

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

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

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

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

**Disposals:** when an asset is disposed of or decommissioned, the value of the asset in the Balance Sheet is written off to the Income and Expenditure Account as part of the gain or loss on disposal. Receipts from disposals are credited to the Income and Expenditure Account as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account. When an asset is disposed of, any gain or loss above current valuation resulting from the disposal is presented in the Council's Income and Expenditure Account and Statement of Movement on the General Fund Balance.

**Depreciation:** depreciation is provided for on all assets with a determinable finite life (except for investment properties and assets under construction), by allocating the value of the asset in the Balance Sheet over the periods expected to benefit from their use.

Depreciation is calculated on the following bases:

- Dwellings and other buildings – straight-line allocation over the life of the property as estimated by the valuer – currently between 0 and 80 years;
- Vehicles, plant and equipment – straight-line allocation over the life of each class of asset in the Balance Sheet, as advised by a suitably qualified officer – currently between 0 and 15 years;
- Infrastructure – straight-line method of between 20 to 40 years.

Where an asset has major components with different estimated useful lives, these are depreciated separately.

Where an asset has been enhanced the amount of the enhancement is depreciated on the mid point of the first year, irrespective of the date of the enhancement.

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.

## 11. Charges to Revenue for Fixed Assets

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

- Depreciation attributable to the assets used by the relevant service;
- Impairment losses attributable to the clear consumption of economic benefits on tangible fixed assets used by the service and other losses where there are no accumulated gains in the Revaluation Reserve against which they can be written off;
- Amortisation of intangible fixed assets attributable to the service.

The Council is not required to raise Council Tax to cover depreciation, impairment losses or amortisations. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement (equal to at least 4% of the underlying amount measured by the adjusted Capital Financing Requirement, excluding amounts attributable to HRA activity). Depreciation, impairment losses and amortisations are therefore replaced by revenue provision in the Statement of Movement on the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account for the difference between the two.

## 12. Revenue Expenditure Funded from Capital Under Statute

Legislation allows some expenditure to be classified as capital for funding purposes when it does not result in the expenditure being carried on the Balance Sheet as a fixed asset. The purpose of this is to enable it to be funded from capital resources rather than be charged to the General Fund and impact on that year's council tax.

These items are generally grants and expenditure on property not owned by the Council, and amounts directed under section 16(2) of Part 1 of the Local Government Act 2003. Such expenditure will be charged to the Income and Expenditure Account in accordance with the general provisions of the SORP.

### **13. Statutory Provision for the Repayment of Debt (MRP)**

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External borrowings are repaid on maturity. In accordance with the Local Government Act 2003 a Minimum Revenue Provision (MRP) calculated at 4% of the Capital Finance Requirement is set aside annually in order to repay borrowing.

### **14. Landfill Tax Allowances (LATS)**

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The Landfill Allowances Trading Scheme (LATS) allocates tradable landfill allowances to each of the waste disposal authorities (WDA). These allowances can be used for disposal of biodegradable waste or sold to other WDAs.

Surplus landfill allowances are valued at the lower of cost and net realisable value.

### **15. Stocks and Stores**

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The Council holds stocks at its Airport and in its Waste Disposal, Water and Tourism services. The Council 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.

### **16. Trading Services**

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The Council has a number of trading services: Airport, Commercial Refuse Collection, Tourism (Brochures), Water and Sewerage. These services are all non-profit making accounts and expenses are met wholly by fees and charges to service users. The accounts summarise the activity of these services for the year and the net surplus or deficit is either transferred to the Income and Expenditure Account in accordance with the SORP or allocated against an earmarked reserve held.

### **17. Post Balance Sheet Events**

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In the occurrence of a material post balance event, this will be treated in accordance with FRS21 – Accounting for Post Balance Sheet Events.

### **18. Contingent Assets and Contingent Liabilities**

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

Contingent assets and liabilities are not recognised in the primary accounting statements, but are disclosed by way of notes when there is a possible obligation which may require a payment or a transfer of economic benefits. For each class of contingent asset or liability, the following information will be disclosed; the nature of the contingency, a brief description, an estimate of its financial effect (where this is possible to estimate) an indication of the uncertainties relating to the amount or timing of any outflow and the possibility of any reimbursement.

### **19. Internal Interest**

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Interest is credited to the Housing Revenue Account based upon the level of balances throughout the year. The amount is calculated using the average London Interbank Bid Rates for the financial year.

## 20. Capital Receipts

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Capital receipts are presented in the accounts in accordance with the SORP. Use of these receipts is determined under the Prudential Capital Code and the sums paid over to central government as laid out therein. Any other sums are recorded as Usable Capital Receipts and reflected in the Balance Sheet accordingly.

## 21. Exceptional Items, Extraordinary Items and Prior Period Adjustments

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**Exceptional items** are either included in the cost of the service to which they relate or separately disclosed on the face of the Income and Expenditure Account if that degree of prominence is necessary in order to give a fair presentation of the accounts. A description of each exceptional item is given within the notes to the accounts.

**Extraordinary items** are disclosed and described on the face of the Income and Expenditure Account after dealing with all items within the ordinary activities of the Council and are explained fully in a note to the accounting statements.

**Prior Period Adjustments** arise predominantly from corrections and adjustments that are the natural result of estimates inherent in the accounting process. Such adjustments constitute normal transactions for the year in which they are identified, and are accounted for accordingly.

Material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors are accounted for by restating the comparative figures for the preceding period in the statement of accounts and notes and adjusting the opening balance of reserves for the cumulative effect. The cumulative effect of the adjustments is also noted at the foot of the Statement of Total Recognised Gains and Losses of the current period. The effect of prior period adjustments on the outturn for the preceding period is disclosed where practicable.

## 22. Accounting for the Collection Fund

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The transactions of the Collection Fund are wholly prescribed by legislation. Billing authorities have no discretion to determine which receipts and payments are accounted for within the fund and which outside.

The statutory provisions for Collection Fund accounting are to be found in the following sources:

- Section 90(1) of the 1988 Act: setting out the main types of income from other parties which must be paid directly into the Collection Fund (Council Tax and NNDR receipts, sums received from precepting authorities to meet a deficit on the fund arising in the previous year adjustments in the fund's favour in contributions due to the NNDR national pool);
- Section 90(2) of the 1988 Act: setting out the main types of expenditure which must be made directly from the Collection Fund (precepts, excluding parish precepts, payments to precepting authorities to distribute a surplus on the fund arising in the previous year, contributions to the NNDR national pool, Council Tax and NNDR refunds);
- Section 97 of the 1988 Act: providing for transfers between the General Fund and the Collection Fund in relation to the billing authority's own demand on the latter;
- Fund Regulations made under section 99 of the 1988 Act: prescribing the timing of transactions specified in the sections of the 1988 Act cited above and arrangements for holding and investing surplus cash belonging to the fund;
- General Specifications and Directions made under sections 90(1), 90(2), 98(4) and 98(5) of the 1988 Act: specifying that interest on Fund investments with other parties, residual community charge receipts, contributions in aid, refunds and adjustments to community charge grant and precepts issued before 1993/94 must be accounted for in the Collection Fund and directing the transactions to be effected between the General Fund and the Collection Fund for the cash flow transfers, council tax benefits, reliefs and adjustments, interest on NNDR refunds, NNDR reliefs

and costs of collection and netted off payments made to and from billing and precepting authorities.

The effect on the Collection Fund is:

- Revenue Support Grant and amounts distributed from the NNDR national pool are paid directly to all billing and precepting authorities and will be disclosed on the face of the Income and Expenditure Account;
- Parish precepts are paid from the General Fund of billing authorities and will be disclosed on the face of the Income and Expenditure Account;
- Interest is not payable on cash flow transfers between the General Fund and the Collection Fund;
- The year-end surplus or deficit on the Collection Fund is to be distributed between billing and precepting authorities on the basis of estimates made on 15 January of the year-end balance.

Billing authorities act as agents, collecting council tax on behalf of the major preceptors and itself. Council Tax transactions and balances therefore need to be allocated between the billing authority and major preceptors, this change has resulted in the need to make a number of prior period adjustments – denoted through the statements in the 2008/09 comparatives with a \*, and listed in Note 2.

## **23. Financial Liabilities**

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Income and Expenditure Account for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For most of the borrowings that the Council has this means that the amount presented in the Balance Sheet is the outstanding principal repayable, and interest charged to the Income and Expenditure Account is the amount payable for the year in the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to Net Operating Expenditure in the Income and Expenditure Account 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 Income and Expenditure Account 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 Income and Expenditure Account, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain/loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Income and Expenditure Account 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 Statement of Movement on the General Fund Balance.

## 24. Financial Assets

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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.

### **Loans and Receivables**

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Income and Expenditure Account for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument.

### **Available-for-sale Assets**

Available-for-sale assets are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Income and Expenditure Account for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Income and Expenditure Account when it becomes receivable by the Council.



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

The following statement describes the respective responsibilities of the Council of the Isles of Scilly and the Council's Director of Finance & Resources for the accounts.

The Director of Finance & Resources is responsible for:

The preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code of Practice') so as to present a true and fair view of the financial position at the accounting date, and its income and expenditure for the year.

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

- Selected suitable accounting policies and then applied them consistently;
- Kept proper accounting records which were up to date;
- Taken reasonable steps for the prevention and detection of fraud and other irregularities;
- Made reasonable and prudent judgments and estimates;
- Complied in all material aspects with the Code of Practice on Local Authority Accounting in the United Kingdom and applying accounting policies consistently.

The Authority is responsible for:

- Making 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 & Resources;
- Managing its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- Approving the Statement of Accounts.

### 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 at 31 March 2010, 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 MA ACA**  
Director of Finance & Resources  
Date:

*by the Chairman of the Council*

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

**Julia Day**  
Chairman of Council  
Date:

### 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.

## Income & Expenditure Account

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

	2008/09 Net Expenditure £000's	2009/10		Net Expenditure £000's	Note
		Gross Expenditure £000's	Gross Income £000's		
162	Central Services	3,872	(3,701)	171	
1,210	Cultural, Environmental & Planning Services	3,076	(1,739)	1,337	
222	Children's & Education Services	4,281	(3,807)	474	
350	Fire & Rescue Services	406	(22)	384	
51	Highways, Roads & Transport Services	213	(104)	109	
1,252	Housing Services	982	(867)	115	
442	Social Services	998	(290)	708	
866	Corporate & Democratic Core	1,726	(35)	1,691	
1	Court Services	3	0	3	
100	Non Distributed Costs	0	0	0	27
<b>4,656</b>	<b>Net Cost of Services</b>	<b>15,557</b>	<b>(10,565)</b>	<b>4,992</b>	
(198)	(Surplus)/Deficit on Trading Services			244	3
42	Interest Payable and Similar Charges			35	
(145)	Interest and Investment Income			(13)	
66	Pensions Interest Costs and Expected Return on Pension Assets			215	27
<b>4,421</b>	<b>Net Operating Expenditure</b>			<b>5,473</b>	
* (1,241)	Income from Council Tax			(1,320)	
(501)	General Government Grants			(623)	32
(1,888)	Non-Domestic Rates			(1,802)	
<b>* 791</b>	<b>Net (Surplus)/Deficit for the year</b>			<b>1,728</b>	

\* Prior Period Adjustments - see Note 2

## Statement of Movement on General Fund Balances

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

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

2008/09 £000's	2009/10 £000's	Note
* 791 (Surplus)/Deficit for the year on the Income and Expenditure Account	1,728	
Net additional amount required by statute and non-statutory proper		
* (939) practices to be debited or credited to the General Fund (Council Fund) balance for the year	(1,758)	1
<b>(148) (Increase)/Decrease in General Fund (Council Fund) balance for the year</b>	<b>(30)</b>	
(1,406) General Fund (Council Fund) Balance brought forward	(1,554)	24
<b>(1,554) General Fund (Council Fund) Balance carried forward</b>	<b>(1,584)</b>	24

\* Prior Period Adjustments - see Note 2

## Statement of Total Recognised Gains and Losses

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

2008/09 £000's	2009/10 £000's	Note
* 791 (Surplus)/Deficit for the year on the Income and Expenditure Account	1,728	
808 (Surplus)/Deficit arising on revaluation of Fixed Assets	(2,180)	
1,596 Actuarial (Gain)/Loss on pension fund assets and liabilities	3,680	27
* 63 Collection Fund Surplus & other balances	(41)	
<b>* 3,258 Total Recognised (Gains)/Losses for the year</b>	<b>3,187</b>	
23,902 Balance Sheet as at 1 April 2009	20,644	
* 20,644 Balance Sheet as at 31 March 2010	17,457	
<b>* 3,258 Movement during year</b>	<b>3,187</b>	

\* Prior Period Adjustments - see Note 2

The cumulative effect of the Prior Period Adjustments made to the 2008/09 comparative figures (marked\*) is a net reduction in the net worth of the Council's Balance Sheet of £22,000.

## Balance Sheet

31 March 2009		31 March 2010		
£000's		£000's	£000's	Note
<b>Tangible Fixed Assets</b>				
Operational Assets:				
11,009	Council Dwellings HRA	11,185		
1,877	Council Dwellings General Fund	2,178		
7,205	Other Land and Buildings	7,110		
286	Vehicles, Plant, Furniture and Equipment	289		
4,615	Infrastructure Assets	4,405		
Non-operational Assets:				
396	Investment Properties	439		
154	Assets under Construction	1,233		
<b>25,542</b>	<b>Total Long-term Assets</b>		<b>26,839</b>	7
<b>Current Assets</b>				
104	Stocks and Work-In-Progress	105		19
* 948	Debtors	1,607		18
3,340	Cash and Bank	8,072		20
	<b>Total Current Assets</b>		<b>9,784</b>	
<b>29,934</b>	<b>Total Assets</b>		<b>36,623</b>	
<b>Current Liabilities</b>				
(146)	Short-term Borrowing	(145)		15
* (2,477)	Creditors	(3,864)		21
0	Provisions	(30)		23
	<b>Total Current Liabilities</b>		<b>(4,039)</b>	
<b>27,311</b>	<b>Total Assets less Current Liabilities</b>		<b>32,584</b>	
<b>Long-term liabilities</b>				
(580)	Long-term Borrowing	(436)		15
(2,336)	Government Grants Deferred	(3,270)		12
(1,065)	Capital Grants (unapplied)	(5,127)		13
(2,686)	Liability related to defined benefit pension scheme	(6,294)		27
	<b>Total Long-term Liabilities</b>		<b>(15,127)</b>	
<b>* 20,644</b>	<b>Total Assets less Liabilities</b>		<b>17,457</b>	
<b>Financed by:</b>				
265	Revaluation Reserve		1,718	24,25
17,345	Capital Adjustment Account		16,313	24,26
274	Usable Capital Receipts Reserve		274	24
(2,686)	Pensions Reserve		(6,294)	24
* 1,947	General Fund Balance		2,018	24
619	Housing Revenue Account Balance		713	24
2,880	Earmarked Reserves		2,715	24
<b>* 20,644</b>	<b>Total Net Worth</b>		<b>17,457</b>	

\* Prior Period Adjustments - see Note 2

## Cash Flow Statement

2008/09 £000's	2009/10		Note
	£000's	£000's	
	<b>Revenue Activities</b>		
	Cash Outflows		
4,064	Cash Paid to and on Behalf of Employees	4,199	
4,718	Other Operating Cash Payments	5,936	
304	Housing Benefit Paid Out	167	
<b>* 9,086</b>		<b>10,302</b>	
	Cash Inflows		
(400)	Rents (after rebates)	(307)	
* (1,329)	Council Tax Receipts	(1,199)	
(1,888)	National Non-Domestic Rate Receipts from National Pool	(1,802)	
(263)	Revenue Support Grant	(416)	
(214)	Grants for Benefits	(170)	
(5,031)	Other Government Grants	(5,167)	31
* (1,652)	Cash Received for Goods and Services	(2,639)	
<b>* (10,777)</b>		<b>(11,700)</b>	
<b>* (1,691)</b>	<b>Net Revenue Activities Cash Flow</b>	<b>(1,398)</b>	28
	<b>Returns on Investments and Servicing of Finance</b>		
	Cash Outflows		
45	Interest Paid	37	
	Cash Inflows		
(145)	Interest Received	(13)	
<b>(100)</b>	<b>Net Returns on Investments and Servicing of Finance Cash Flow</b>	<b>24</b>	
	<b>Capital Activities</b>		
	Cash Outflows		
465	Purchase of Fixed Assets	1,744	
1,779	Capital Payments	201	
	Cash Inflows		
(956)	Capital Grants Received	(5,499)	
<b>1,288</b>	<b>Net Capital Activities Cash Flow</b>	<b>(3,554)</b>	
	<b>Other Liquid Resources</b>		
* 3	On Behalf of Devon & Cornwall Police (Collection Fund)	(9)	
* 15	On Behalf of the Government (NNDR)	116	
<b>* 18</b>	<b>Net Other Liquid Resources</b>	<b>107</b>	
<b>(485)</b>	<b>Net Cash (Inflow)/Outflow before Financing</b>	<b>(4,821)</b>	29
	<b>Financing</b>		
	Cash Outflows		
155	Repayments of Amounts Borrowed	142	
<b>155</b>	<b>Net Financing</b>	<b>142</b>	
<b>(330)</b>	<b>Net (Increase)/Decrease in Cash</b>	<b>(4,679)</b>	30

\* Prior Period Adjustments - see Note 2

## Notes to the Financial Statements

### Note 1 Statement of Movement on the General Fund Balance

The Statement of Movement on the General Fund Balance (SMGFB) includes a consolidated sum as the net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund balance for the year. This note contains an analysis of this consolidated sum.

2008/09 £000's		2009/10 £000's	Note
(2,029)	Depreciation and Impairment of Fixed Assets	(2,557)	26
0	Excess of depreciation charged to HRA services over the Major Repairs Allowance element of Housing Subsidy	(67)	
224	Government Grants Deferred Amortisation	344	12
0	Revenue Expenditure Funded from Capital Under Statute	(30)	11
(473)	Net charges made for Retirement Benefits in Accordance with FRS 17	(473)	27
<b>(2,278)</b>	<b>Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the movement on the General Fund (Council Fund) balance for the year</b>	<b>(2,783)</b>	
231	Minimum Revenue Provision for Capital Financing	224	11
207	Capital Expenditure charged during the year to the General Fund Balance	400	11
501	Employer's Contributions payable to the Pension Fund and Retirement Benefits Payable Direct to Pensioners	545	27
<b>939</b>	<b>Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the Movement on the General Fund (Council Fund) Balance for the year</b>	<b>1,169</b>	
23	Housing Revenue Account Balance	21	
* 377	Net transfer to or from earmarked reserves or other statutory funds	(165)	24
<b>400</b>	<b>Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund (Council Fund) Balance for the year</b>	<b>(144)</b>	
<b>* (939)</b>	<b>Net additional amount required to be credited to the General Fund (Council Fund) Balance for the year</b>	<b>(1,758)</b>	

\* Prior Period Adjustments - see Note 2

## Note 2 Prior Period Adjustments

The 2009 SORP has determined that Local Authorities should account for Council Tax Collection and Non Domestic Rates Collection on an agency basis, from 2009/10. This effectively means that the share of the Collection Fund Balance, unpaid and prepaid Council Tax and associated impairments for bad debts for precepting authorities should appear in their accounts rather than in those of the billing authority. Similarly, NNDR is collected by the Council exclusively on behalf of the Government.

This accounting change means that the comparative figures for 2008/09 need to be restated and this has resulted in a number of figures being amended. The table below summarises where those changes have been made and shows the figures which were published in the Statement of Accounts of 2008/09 for clarity.

Throughout the core financial statements, and their associated notes, we have denoted where figures have been amended with a \* in the 2008/09 columns.

	2008/09 Published £000's	2008/09 Restated £000's
<b>Extract from the Income and Expenditure Account</b>		
Demand on the Collection Fund	(1,237)	(1,241)
Net (Surplus)/Deficit for the year	795	791

### Statement of Movement on General Fund Balances & Note 1

(Surplus)/Deficit for the year from the Income & Expenditure Account	795	791
Net transfer to or from earmarked reserves or other statutory funds (Collection Fund Adjustment Account)	373	377
Net additional amount required to be credited to the general Fund (Council Fund) Balance for the year	(943)	(939)

### Extract from the Statement of Recognised Gains and Losses

Net (Surplus)/Deficit for the year	795	791
Collection Fund and other balances	37	63
Total Recognised (gains) / losses for the year	3,236	3,258
Balance Sheet as at 31 March 2009	20,666	20,644
Movement during the year	3,236	3,258

### Extract from the Summary of Movement on Reserves (Note 24)

General Fund - Collection Fund	166	144
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	31 March 2009 Published £000's	31 March 2009 Restated £000's
<b>Extract from the Balance Sheet</b>		
Debtors	1,011	948
Creditors	2,518	2,477
<b>Total Assets less Liabilities</b>	20,666	20,644
General Fund Balance (which includes Collection Fund)	1,969	1,947
<b>Total Net Worth</b>	20,666	20,644

Note 2 continues over the page.

### Extract from the Cashflow Statement

National Non-Domestic Rate Payments to National Pool	1,192	0
Precepts Paid	285	0
<b>Revenue Activities - Cash Outflows</b>	<b>10,563</b>	<b>9,086</b>
Council Tax Receipts	(1,332)	(1,329)
Non-Domestic Rate Receipts	(1,086)	0
Cash Received for Goods and Services	(2,022)	(1,652)
<b>Revenue Activities - Cash Inflows</b>	<b>(12,236)</b>	<b>(10,777)</b>
<b>Revenue Activities Cash Flow</b>	<b>(1,673)</b>	<b>(1,691)</b>
Management of Liquid Resources: On Behalf of Devon & Cornwall Police Authority	0	3
Management of Liquid Resources: On Behalf of the Government	0	15
<b>Net Other Liquid Resources</b>	<b>0</b>	<b>18</b>

	2008/09 Published £000's	2008/09 Restated £000's
<b>Extract from Note 28 to the Cashflow</b>		
Net (Surplus)/Deficit for the year	795	791
(Increase)/Decrease in Total Creditors	(377)	(336)
Increase/(Decrease) in Total Debtors	(311)	(374)

### Extract from Note 18 - Debtors

Rates & Taxpayers	115	52
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### Extract from Note 21 - Creditors and Receipts in Advance

Rates & Taxpayers	59	0
Sundry Creditors	418	436

### Note 3 Trading Activities

The Council operates a number of activities which are deemed by the SORP to be trading activities. A summary of the financial position is outlined below.

The net surpluses for the Airport and the Water and Sewerage trading services shown below are taken to the respective reserves (see Note 24 on page 37).

2008/09 Net (surplus) /deficit £000's		2009/10		Net (surplus) / deficit - per I&E £000's	Items later reversed out through SMGFB	Net (surplus) / deficit £000's
		Gross Expenditure £000's	Gross Income £000's			
(150)	Airport	1,338	(1,092)	246	134	112
(106)	Water & Sewerage	496	(586)	(90)	26	(116)
(14)	Tourism Brochure	92	(93)	(1)	0	(1)
57	Trade Refuse	184	(95)	89	4	85
<b>(213)</b>	<b>Total</b>	<b>2,110</b>	<b>(1,866)</b>	<b>244</b>	<b>164</b>	<b>80</b>

The above account shows the net position on the trading activities after excluding items included in the Income and Expenditure Account, but which are required by statute to be excluded when determining the movement on reserves through the Statement of Movement on the General Fund Balance (SMGFB).

Following direction from the SORP, the Council is no longer required to disclose the Building Control Account (2008/09: Net deficit of £15,000).



## Note 4 Officers Emoluments and Members Allowances

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

2008/09	Remuneration Bandings	2009/10
1	£50,000 - £54,999	0
2	£55,000 - £59,999	2
1	£60,000 - £64,999	1
1	£70,000 - £74,999	1
0	£74,999 - £79,000	1
<b>5</b>	<b>Total</b>	<b>5</b>

### Senior Officers emoluments whose annualised salary is between £50,000 and £150,000 per year.

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

Post holder information	Salary		Total remuneration		Total remuneration	notes below:
	(including fees & allowances)	Election Duties	excluding pension contributions	Pension contributions	including pension contribution	
Chief Executive	£73,836	£1,344	£75,180	£15,672	£90,852	
Chief Technical Officer	£63,499	none	£63,499	£13,478	£76,977	
Director of Finance & Resources	£59,069	none	£59,069	£12,537	£71,606	
Chief Planning Officer	£59,069	none	£59,069	none	£59,069	
Director of Community Services	£47,255	none	£47,255	none	£47,255	a
Director of Childrens' Services	£23,628	none	£23,628	£5,009	£28,637	b,c
Chief Fire Officer	£11,814	none	£11,814	£2,507	£14,321	d
	<b>£338,170</b>	<b>£1,344</b>	<b>£339,514</b>	<b>£49,203</b>	<b>£388,717</b>	

a. The Director of Community Services works 29.6 hrs per week. The annualised salary is £59,069.

b. The Director of Childrens' Services works 22.2 hrs per week. The annualised salary is £59,069.

c. The Director of Childrens' Services post moved from Cambridge Education to Council payroll on the 1st August 2009.

d. The Chief Fire Officer works 7.4 hours per week. The annualised salary is £59,069.

There are no senior officers with an annualised salary is excess of £150,000.

### Allowances paid to Members

The total amount of allowances paid to Members during the year was £110,822 (2008/09: £93,240).

## Note 5 Related Party Transactions

These are material transactions with bodies or individuals that have the potential to control or influence the Council, or to be controlled or influenced by the Council. Disclosure of these transactions allows the reader to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit other parties from bargaining freely with the Council.

**Central Government** has effective control over the general operations of the Council. It is responsible for providing the statutory framework, within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties. Details of transactions with government departments are set out in Note 31 & Note 32 to the Cashflow Statement.

**Members of the Council** have direct control over the Council's financial and operating policies. The Council's constitution requires members to declare their interests in related parties in a register of interests. In addition members are asked to declare their interests during Committee meetings. During 2009/10, payments of £384,000 were made to companies or organisations in which 12 separate declarations of interest were made by Members in the register. These payments were made in compliance with the Council's Financial Regulations.

**Officers** are required to declare their interests in the register of interests and during Committee meetings when in attendance. During 2009/10, payments of £86,500 were made to companies or organisations in which 7 separate declarations of interest were made by Officers in the register. These payments were made in compliance with the Council's Financial Regulations.

The register of Declarations of Interest made during the year at Committee meetings is available to view on the Council's website.

No further material transactions have been disclosed.

**Other Public bodies** - Devon and Cornwall Police Authority precept upon the Council for sums collected by the Council Tax. This precept is shown within the Collection Fund (page 45). As a member of the Local Government Pension Scheme, the Council paid employer's contributions to Cornwall County Council during the year. This contribution is shown within Note 27- Local Government Pension Scheme.

The Council also contributes £41,000 per year, under contract, to Scout Enterprises to deliver the Isles of Scilly Local Involvement Network (LINK).

## Note 6 External Audit Fees

2008/09 £000's		2009/10 £000's
66	External Audit Services	71
6	Inspection Fees	13
5	Grants Claims	4
<b>77</b>		<b>88</b>

Note 7 Movement on Fixed Assets

Operational Assets	Council Dwellings					Total £000's
	Housing Revenue Account £000's	General Fund £000's	Other Land & Buildings £000's	Vehicles, Plant etc £000's	Infra- structure £000's	
<b>Cost or Valuation</b>						
At 1 April 2009 - Value	13,098	2,127	9,513	1,650	6,785	33,173
At 1 April 2009 - Revaluations	(1,924)	0	0	0	0	(1,924)
Additions	31	0	497	41	17	586
Not previously recognised	0	0	40	0	0	40
Duplicate removed	0	0	(55)	0	0	(55)
Donations	0	0	0	70	0	70
Reclassifications	0	0	79	0	0	79
Revaluations (upwards)	19	133	1,088	0	222	1,462
Revaluations (downwards)	(39)	(3)	(1,557)	0	(164)	(1,763)
<b>At 31 March 2010</b>	<b>11,185</b>	<b>2,257</b>	<b>9,605</b>	<b>1,761</b>	<b>6,860</b>	<b>31,668</b>
<b>Depreciation and Impairments</b>						
Accumulated depreciation & impairment	(165)	(251)	(2,309)	(1,364)	(2,169)	(6,258)
Charge for 2009/10	(140)	(56)	(358)	(108)	(286)	(948)
Revaluations	305	228	172	0	0	705
<b>At 31 March 2010</b>	<b>0</b>	<b>(79)</b>	<b>(2,495)</b>	<b>(1,472)</b>	<b>(2,455)</b>	<b>(6,501)</b>
<b>Balance sheet amount 31 March 2010</b>	<b>11,185</b>	<b>2,178</b>	<b>7,110</b>	<b>289</b>	<b>4,405</b>	<b>25,167</b>
<b>Balance sheet amount 1 April 2009</b>	<b>12,933</b>	<b>1,876</b>	<b>7,204</b>	<b>286</b>	<b>4,616</b>	<b>26,915</b>
<b>Nature of Asset Holding</b>						
<b>Owned</b>	<b>11,185</b>	<b>2,178</b>	<b>7,110</b>	<b>289</b>	<b>4,405</b>	<b>25,167</b>

Note 7 continues over the page.

<b>Non - Operational Assets</b>	<b>Assets Under Construction £000's</b>	<b>Investment Properties £000's</b>	<b>Total £000's</b>	<b>Total Fixed Assets £000's</b>
<b>Cost or Valuation</b>				
At 1 April 2009	154	396	550	33,723
At 1 April 2009 - Revaluations	0	0	0	(1,924)
Additions	1,158	0	1,158	1,744
Not previously recognised	0	0	0	40
Duplicate removed	0	0	0	(55)
Donations	0	0	0	70
Reclassifications	(79)	0	(79)	0
Revaluations (upwards)	0	43	43	1,505
Revaluations (downwards)	0	0	0	(1,763)
<b>At 31 March 2010</b>	<b>1,233</b>	<b>439</b>	<b>1,672</b>	<b>33,340</b>
<b>Depreciation and Impairments</b>				
Accumulated depreciation & impairment	0	0	0	(6,258)
Charge for 2009/10	0	0	0	(948)
Revaluations	0	0	0	705
<b>At 31 March 2010</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(6,501)</b>
<b>Balance sheet amount 31 March 2010</b>	<b>1,233</b>	<b>439</b>	<b>1,672</b>	<b>26,839</b>
<b>Balance sheet amount 1 April 2009</b>	<b>154</b>	<b>396</b>	<b>550</b>	<b>27,465</b>

#### **Nature of Asset Holding**

<b>Owned</b>	<b>1,233</b>	<b>439</b>	<b>1,672</b>	<b>26,839</b>
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The fixed assets note has been remodelled for 2009/10 to more closely match the structure expected for the Whole of Government Accounts return as required by the SORP. The remodelling ensures that the brought-forward cost or valuation of each class of assets is clearly identified from accumulated depreciation. The intention of the remodelled note is that impairments resulting from formal revaluations are recorded in the revaluation line of the Cost or Valuation section, with impairments only being taken to the bottom half of the note where they have not been measured as part of a formal revaluation (for example, a loss in respect of fire or flood) and the balance will need to be accumulated.

#### **Asset Values**

The opening balances have changed to reflect the re-classification of the Council's Incinerator from Vehicles, Plant, Furniture and Equipment to Other Land and Buildings.

The Council brought land at Carn Gwaval on to the balance sheet this year that was not previously recognised within assets on the balance sheet.

The play park on the Garrison was donated to the Council from the St Mary's Play Park Committee and brought into the balance sheet at a value of £70,000.

One asset which formed part of a property was found to have been duplicated within the assets and has been removed.

#### **Revaluation and Impairment of Property Values**

The District Valuation Service revalued the Council Dwellings (Housing Revenue) and garages on 1 April 2009 and 31 March 2010. The revaluation resulted in some properties rising in value and some falling in value. Any falls in values were written off to the Income and Expenditure Account as there were no revaluation gain balances within the revaluation reserve to offset them. Increases in values were written

back to the Income and Expenditure Account to offset the impairment balances that arose in 2008/09 up to the value of that impairment and then to the revaluation reserve.

The District Valuation Service also carried out a review of selected capital property asset valuations as at 1 April 2009 as part of the five year valuation rolling programme. This review covered operational assets (non-specialised), operational assets (specialised) and non operational assets held as investments.

For some properties including the Town Hall and Wesleyan Chapel offices the valuer has now valued them on the basis of Depreciated Replacement Cost. The method of valuation used a methodology known as Modern Equivalent Asset. This has reduced the carrying value of the assets by £1.464 million. Any impairment is charged initially against any revaluation gains recorded in the revaluation reserve on a property by property or asset by asset basis. However, no accumulated gains had been built up from previous revaluations and therefore the sum is charged to the relevant services within the Income and Expenditure Account. This sum is then reversed out of the Statement of Movement in General Fund Balance so that it does not fall as a cost against Council Tax.

The Airport runway was also revalued and the land value was reduced to reflect the diminishing lease period remaining. The reduction totalled £163,800 and has been charged to the Airport Trading Account as no accumulated balances exist in the revaluation reserve to offset it.

The total impairment charges resulting from formal revaluation for 2009/10 are therefore £1.763 million.

The officers of the Council also reviewed fixed assets to determine if there had been any impairment in values resulting from significant damage or other physical factors at the year end. None were identified.

### *Assets Under Construction*

These include the new school under construction, the weighbridge at the household waste recycling centre and the swimming pool roof and works. These assets will be reclassified and depreciated when they have been brought into use.

### *Note 8 Tangible Fixed Assets*

<b>Asset Description</b>	<b>Number</b>	<b>Asset Description</b>	<b>Number</b>
Council Houses	108	Reservoirs	3
General Fund Houses	18	Desalination Plant	1
Garages	21	Water/sewerage pumping stations	4
Education - School Buildings	1	Industrial Estate	1
- Hostel	1	Fire Station (St. Mary's)	1
Residential Care Home	1	Fire Stations (Off Islands)	4
Administrative Buildings	6	Fire Service - Other Buildings	1
Public Conveniences	6	Fire Service - Vehicles	7
Airport	1	Cemetery	1
Airport - vehicles and moveable plant	6	Parks/Gardens/Play areas	8
Works Depot	1	Miscellaneous Buildings	5
Works - vehicles and plant	19	Roads (adopted)	14.5km
Incinerator	1	Car Parks	1

## Note 9 Valuation of Tangible Fixed Assets Carried at Current Value

The following statement shows the progress of the Council's rolling programme for the revaluation of fixed assets. Assets are recorded at net book value as at 31 March 2010. The valuations are carried out by District Valuer Services (South West) in full compliance with the RICS Appraisal and Valuation Standards 5th Edition as published by the Royal Institute of Chartered Surveyors. The basis for valuation is set out in the Statement of Accounting Policies. (Excludes assets under construction).

	<b>Council Dwellings</b>		<b>Other</b>	<b>Vehicles,</b>	<b>Infra-</b>	<b>Invest-</b>	<b>Total</b>
	<b>Housing</b>	<b>General</b>	<b>Land &amp;</b>	<b>Plant etc</b>	<b>structure</b>	<b>ment</b>	
	<b>Revenue</b>	<b>Fund</b>	<b>Buildings</b>	<b>Plant etc</b>	<b>structure</b>	<b>Properties</b>	
	<b>Account</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>
	<b>£000's</b>						
Valued at historical cost			215	289	2,853		3,357
Valued at current value in:							0
2009/10	11,185	1,912	4,304		1,552	123	19,076
2008/09			197				197
2007/08			255				255
2006/07		266	2,139			316	2,721
	<b>11,185</b>	<b>2,178</b>	<b>7,110</b>	<b>289</b>	<b>4,405</b>	<b>439</b>	<b>25,606</b>

## Note 10 Land Leases

Fixed assets include buildings constructed on land that is not owned by the Council. The land is leased from the Duchy of Cornwall for a nominal sum and the length of these leases varies, although some are on an annual rolling basis.

Whilst it is unusual for a Council not to own the freehold to the land on which its assets are built, it is reasonable to continue to recognise these as assets and to depreciate them over their useful lives.

Note 11 Capital Expenditure & Financing

2008/09 £000's		2009/10 £000's
5,765	<b>Opening Capital Financing Requirement</b>	5,597
	<b>Capital Investment</b>	
331	Operational Assets	656
134	Non-operational Assets	1,158
0	Revenue Expenditure Funded from Capital under Statute	30
	<b>Sources of Finance</b>	
(195)	Government grants and contributions	(1,278)
(207)	Revenue Contribution - General Fund	(400)
(231)	Minimum Revenue Provision	(224)
<b>5,597</b>	<b>Closing Capital Financing Requirement</b>	<b>5,539</b>
	<b>Explanation of movements in year</b>	
63	Increase/(Decrease) in underlying need to borrow (supported by Government financial assistance)	125
0	Increase/(Decrease) in underlying need to borrow (unsupported by Government financial assistance)	41
(231)	Repayment of debt	(224)
<b>(168)</b>	<b>Increase/(Decrease) in Capital Financing Requirement</b>	<b>(58)</b>

The Council has a three-year capital programme. The most significant schemes and their financial commitments are outlined in the table below:

2008/09 £000's		2009/10 £000's
	<b>New Five Island School (St. Mary's)</b>	
4,000	2010/11	7,902
4,343	2011/12	4,343
<b>8,343</b>	<b>Total Financial Commitment</b>	<b>12,245</b>

Note 12 Government Grants and Other Contributions – Deferred

	2009/10					Total £000's
	Incinerator £000's	Airport £000's	Coastal Protection £000's	Childrens Services £000's	Other £000's	
<b>Gross Value 1 April 2009</b>	<b>148</b>	<b>203</b>	<b>1,468</b>	<b>105</b>	<b>412</b>	<b>2,336</b>
Additions	0	0	0	1,039	239	1,278
Grants released in year	(42)	(33)	(54)	(5)	(210)	(344)
<b>Gross Value 31 March 2010</b>	<b>106</b>	<b>170</b>	<b>1,414</b>	<b>1,139</b>	<b>441</b>	<b>3,270</b>

Note 13 Capital Grants and Other Contributions - Unapplied

2008/09 £000's		In year Movements	2009/10 £000's
0	Council Tax - New Burdens	10	10
5	Disabled Facilities Grant	7	12
0	Fire Service Equality & Diversity Grant	34	34
0	ICS Capital Grant	20	20
56	Implementing Electronic Government	0	56
50	Mental Health Capital Grant	50	100
444	New School Build	3,870	4,314
0	Normandy Pool	194	194
201	Off Island Quays	(201)	0
4	Special Educational Needs & Disability Act Grant	0	4
305	Standards Fund (de-classified, not capital)	(305)	0
0	Waste Equipment Grant	383	383
<b>1,065</b>		<b>4,062</b>	<b>5,127</b>

Note 14 Financial Instruments

Financial instruments are formally defined in the SORP as contracts that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Amounts relating to such things as Council Tax, Non-Domestic Rates and other rates for example are outside the scope of the accounting provisions as they are statutory debts and do not arise from contracts. The balance sheet of the Council includes the following financial instruments.

2008/09 £000's		31 March 2010 £000's	Note
	<b>Loans and Receivables:</b>		
948	Short-Term Debtors	1,617	18
<b>948</b>	<b>Loans and Receivables:</b>	<b>1,617</b>	
	<b>Financial Liabilities at Amortised Cost:</b>		
580	Long-Term Borrowing	436	
146	Short-Term Borrowing	145	
2,477	Short-Term Creditors	3,858	21
<b>3,203</b>	<b>Financial Liabilities at Amortised Cost:</b>	<b>4,439</b>	



## Note 15 Long & Short Term Borrowing

The loans outstanding are as follows:

31 March 2009 £000's		31 March 2010 £000's
	<b>Long Term</b>	
570	Financial Liabilities at Amortised Costs	428
10	Accrued Interest	8
<b>580</b>		<b>436</b>
	<b>Short Term</b>	
143	Financial Liabilities at Amortised Costs	142
3	Accrued Interest	3
<b>146</b>		<b>145</b>
<b>726</b>	<b>Total Borrowings</b>	<b>581</b>

In accordance with the Accounting Code of Practice accrued interest is added to the value of the long-term loans outstanding, depending upon the maturity date of the loans, even though interest is payable within a year.

## Note 16 Liquidity Risk

As the Council has ready access to borrowings from the Public Works Loans Board (PWLB), there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

The maturity analysis of borrowing is as follows:

	PWLB Loans £000's	Accrued Interest on PWLB Loans £000's	Total £000's
Less than 1 Year	142	3	145
Between one and two years	81	1	82
Between two and five years	174	3	177
More than five years	173	3	176
<b>Total</b>	<b>570</b>	<b>10</b>	<b>580</b>

The fair value of PWLB loans as at 31 March 2010 is £637,000 (31 March 2009: £806,000), the additional costs indicated in that figure reflect early repayment penalties that would be applied by PWLB should the loans be repaid early.

### Interest-rate Risk

The Council's borrowing consists of fixed-rate PWLB debt at interest rates ranging between 3% and 8.125%. Borrowings are not carried at fair value, so nominal gains and losses on fixed-rate borrowings will not affect the Income and Expenditure Account.

## Note 17 Short Term Investments

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Surplus cash balances were placed on deposit with the Council's approved bankers Lloyds TSB. The level of short-term investments includes the effect pooling all surplus income including grant income.

Investments are typically for short periods ranging up to three months.

### Credit Risk

Credit risk arises from deposits with banks and financial institutions.

Whilst the Council did not have any investments outstanding at the end of the financial year it did undertake investment transactions totalling £18.35 million during the year on short term deposits.

The Council's Treasury Management Policy allows deposits to be placed only with an approved bank within the acceptable risk limitations of Local Authority investment.

No credit limits were exceeded during 2009/10 and the Council did not experience any losses from non-performance by the bank in relation to deposits.

### Interest-rate Risk

The Council is exposed to risk in terms of its exposure to interest-rate movements on its investments. For example, a rise in interest rates would have the following effects:

- Investments at variable rates - the interest income credited to the Income and Expenditure Account will rise;
- Investments at fixed rates - the fair value of investments will fall. Where fixed-rate investments have short maturities, the effect will be similar to that for variable-rate investments, as the replacement investments will generate more income to the Income and Expenditure Account.

The Council has a number of strategies in place for managing interest-rate risk. Interest-rate changes are monitored regularly and the investment of surplus cash is made where a financial advantage can be achieved.

### Foreign Exchange Risk

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

## Note 18 Debtors

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Debtors, classified as loans and receivable financial instruments, are due within one year without interest and as such, they include impairment for bad or doubtful debts of £143,000, analysed below.

2008/09 £000's		2009/10 £000's
226	Government Grants	299
* 51	Rates and Taxpayers	257
7	Housing Tenants	17
663	Sundry Debtors	1,034
<b>* 947</b>		<b>1,607</b>

\* Prior Period Adjustments - see Note 2

## Analysis of Impaired Debts

	31 March 2009 £000's
Cita Shipwreck Clean Up	78
Airport Fees	23
Trade Waste	17
Water & Sewerage	8
Albatross Shipwreck Clean Up	8
Community Care Fees	4
House & Garage Rents	3
Other	2
<b>Total</b>	<b>143</b>

## Note 19 Stock

2008/09 £000's		2009/10 £000's
3	General raw materials	3
65	Water & Desalination plant	58
1	Tourist Information Centre	3
16	Airport	12
19	Incinerator	29
<b>104</b>		<b>105</b>

## Note 20 Cash & Bank

31 March 2009 £000's		Movement during the year £000's	31 March 2010 £000's
3,090	Cash held at bank	4,680	7,770
249	School's local bank accounts	52	301
1	Petty cash	0	1
<b>3,340</b>		<b>4,732</b>	<b>8,072</b>

## Note 21 Creditors and Receipts in Advance

2008/09 £000's		2009/10 £000's
* 436	Sundry Creditors	1,092
2,036	Unspent Government Grants	2,767
* 0	Rate and Taxpayers	0
5	Rents Accrued	5
<b>* 2,477</b>		<b>3,864</b>

\* Prior Period Adjustments - see Note 2

## Note 22 Landfill Allowance Trading Scheme – LATS

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As a Waste Disposal Authority (WDA) the Council is required to comply with the Landfill Allowance Trading Scheme (LATS) which commenced operation on 1 April 2005.

LATS is a 'Cap and Trade' Scheme whereby Landfill Vintage Allowances are allocated free of charge to authorities. These allowances can then be traded with other WDA's depending on the needs of each authority. The Council undertook no trading of allowances in 2009/10.

The allowances received by the Council are shown below, and have a nil value as at 31 March 2010.

2008/09			2009/10	
Tonnes	Value £000's		Tonnes	Value £000's
1,086	0	Landfill Allowances b/fwd	2,036	0
950	0	Allowances received for the year	1,357	0
0	0	Expired by target year	(2,036)	0
<b>2,036</b>	<b>0</b>	<b>Landfill Allowances c/fwd</b>	<b>1,357</b>	<b>0</b>

£0 Value per tonne

£0

## Note 23 Contingent Assets/Liabilities & Provisions

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A provision of £30,304 (2008/09: Nil) has been included in the Fire and Rescue budget 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 has been reached in principle with the Fire Brigades Union. The provision is based on estimates provided by the Local Government Employers Association of the financial implications arising from the agreement. It is expected that negotiations will be finalised and the payment made during the course of 2010/11.

## Note 24 Summary of Movement on Reserves

The Council keeps a number of reserves which have been established in the balance sheet. They have been established either to comply with statutory requirements or proper accounting practice or may be earmarked resources for future spending plans.

Balance 1 April 2009 £000's	Reserve	Movements during the		Balance 31 March 2010	Notes
		Increases £000's	Used in year £000's		
265	Revaluation Reserve	2,085	(632)	1,718	25
17,345	Capital Adjustment Account	1,602	(2,634)	16,313	26
274	Usable Capital Receipts	0	0	274	
(2,686)	Pensions Reserve	545	(4,153)	(6,294)	
248	HRA - Housing Revenue Account	0	12	260	
286	HRA - Major Repairs Reserve	145	(81)	350	
85	HRA - Housing Repairs Account	18	0	103	
1,554	General Fund - Council Fund	3,876	(3,846)	1,584	
* 144	General Fund - Collection Fund	0	(12)	132	
249	General Fund - School Fund	58	(5)	302	
492	Earmarked - Water Reserve	37	0	529	
786	Earmarked - Airport Reserve	0	(400)	386	
207	Earmarked - Capital Reserve	0	(26)	181	
629	Earmarked - Repairs Fund	13	(53)	589	
58	Earmarked - Plant Fund	25	(1)	82	
542	Earmarked - Sewerage Reserve	79	0	621	
10	Earmarked - Equipment Fund	0	0	10	
41	Earmarked - Social Care Transport	0	0	41	
11	Earmarked - Pollution Reduction Control	0	0	11	
104	Earmarked - Service Carry Forwards	265	(104)	265	
<b>* 20,644</b>		<b>8,748</b>	<b>(11,935)</b>	<b>17,457</b>	

\* Prior Period Adjustments - see Note 2

## Note 25 Revaluation Reserve

2008/09 £000's		2009/10 £000's
1,244	Opening Balance	265
69	Upward Revaluations	1,505
0	Assets not Previously Recognised	40
0	Accumulated Depreciation Written Back to I&E	(16)
(1,048)	Downward Revaluations & Impairment	(76)
<b>265</b>	<b>Closing Balance</b>	<b>1,718</b>

## Note 26 Capital Adjustment Account

2008/09 £000's		2009/10 £000's
18,541	Opening Balance	17,345
(2,029)	Depreciation and Impairments during the year to I&E	(2,696)
171	Reversal of Accumulated Depreciation	726
224	Government Grants Deferred Amortisation	344
207	Contribution from Revenue	400
0	Capital funded from Revenue Under Statute	(30)
231	Minimum Revenue Provision	224
<b>17,345</b>	<b>Closing Balance</b>	<b>16,313</b>

## Note 27 Local Government Pension Scheme

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

The Council participates in the Local Government Pension Scheme administered by Cornwall County Council which is a defined benefit final salary scheme, with index-linked pension benefits. It is a funded scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the fund's liabilities with investment assets. An employer's contribution of £543,000 representing 21.2% of Superannuable pay, (2008/09: £499,000; 21.5%) was made in respect of all participating staff to the Cornwall County Council Superannuation Fund.

We recognise the cost of retirement benefits in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. The following entries have been made in the Income and Expenditure Account and Statement of Movement in the General Fund Balance:

2008/09 £000's		2009/10 £000's
	<b>Within Net Cost of Services:</b>	
307	Current Service Cost	258
100	Past Service Cost (Non Distributed Costs)	0
	<b>Within Net Operating Expenditure</b>	
(562)	Expected Return on Assets in the scheme	(412)
628	Interest Costs	627
66	<b>Pensions interest costs and expected return on pension assets</b>	<b>215</b>
<b>473</b>	<b>Net Charge to the Income and Expenditure Account</b>	<b>473</b>

2008/09 £000's	Statement of Movement on the General Fund Balance	2009/10 £000's
(473)	Reversal of Net Charges made for Retirement Benefits in Accordance with FRS 17	(473)
501	Employers Contributions Payable	545
<b>28</b>		<b>72</b>

In addition to the recognised gains and losses included in the Income and Expenditure Account, actuarial losses of £3,680,000 (loss of £1,596,000 2008/09) were included in the Statement of Total Recognised Gains and Losses. The cumulative amount of actuarial gains and losses recognised in the Statement of Total Recognised Gains and Losses is a loss of £5,118,000.

### Assets and Liabilities in Relation to Retirement Benefits

The underlying assets and liabilities for retirement benefits attributable to the Council as at 31 March 2010 are as follows:

2008/09 £000's		2009/10 £000's
(9,030)	Estimated <b>liabilities</b> in the scheme	(14,877)
6,344	Estimated <b>assets</b> in the scheme	8,583
<b>(2,686)</b>	<b>Net assets/(liabilities)</b>	<b>(6,294)</b>

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. The liabilities have been assessed by Hymans Robertson, an independent firm of actuaries. They are based on the latest full valuation of the scheme as at 31 March 2010.

### Reconciliation of Present Value of Liabilities:

2008/09		2009/10
£000's		£000's
8,970	Liabilities as at 1 April	9,030
307	Current Service Costs	258
628	Interest Costs	627
150	Contributions by Members	147
(840)	Actuarial Losses / (Gains)	5,102
100	Past Service Costs	0
(2)	Estimated Unfunded Benefits Paid	(2)
(283)	Estimated Benefits Paid	(285)
<b>9,030</b>	<b>Liabilities as at 31 March</b>	<b>14,877</b>

### Reconciliation Fair Value of Assets:

2008/09		2009/10
£000's		£000's
7,852	Assets as at 1 April	6,344
562	Expected Return on Assets	412
150	Contribution by Members	147
499	Contributions by Employer	543
2	Contribution in respect of Unfunded Benefits	2
(2,436)	Actuarial Gains / (Losses)	1,422
(2)	Unfunded Benefits Paid	(2)
(283)	Benefits Paid	(285)
<b>6,344</b>	<b>Assets as at 31 March</b>	<b>8,583</b>

The above asset values as at 31 March 2010 are at bid value as required under FRS17.

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

Proportion of assets held within the Local Government Pension Scheme by type:		%
66	Equity Investments	72
16	Bonds	15
7	Property	6
11	Cash	7

Long Term Expected Rate of Return on Assets in the Scheme:		% p.a.
7.0	Equity Investments	7.8
5.6	Bonds	5.0
4.9	Property	5.8
4.0	Cash	4.8

The actual return on scheme assets in the year was a gain of £1.834 million (loss of £1.801 million in 2008/09).

The main assumptions used in the calculations are as follows:

<b>31 March 2009</b>	<b>31 March 2010</b>
% p.a.	% p.a.
3.1 Price Increases (inflation)	3.8
5.1 Salary Increases	5.8
3.1 Pensions Increases	3.8
6.9 Discount Rate for scheme liabilities	5.5

  

<b>Mortality Assumptions - expected longevity after age 65:</b>	<b>Years</b>
19.6 Current pensioners: Male	20.8
22.5 Current pensioners: Female	24.1
20.7 Future Pensioners: Male	22.3
23.6 Future Pensioners: Female	25.7

### Commutation

An allowance is included for future retirements to elect to take 40% of the maximum additional tax-free cash up to HM Revenue & Customs limits for pre-April 2008 service and 70% of the maximum tax-free cash for post-April 2008 service.

### Scheme History

The actuarial gains identified as movements on the Pensions Reserve are analysed below:

	2009/10 £000's	2008/09 £000's	2007/08 £000's	2006/07 £000's	2005/06 £000's
Present Value of Liabilities	(14,877)	(9,030)	(8,970)	(8,855)	(8,770)
Fair Value of Assets in the Local Government Pension Scheme	8,583	6,344	7,852	7,408	6,703
<b>Actuarial Gain/(Loss) in Pension Fund</b>	<b>(6,294)</b>	<b>(2,686)</b>	<b>(1,118)</b>	<b>(1,447)</b>	<b>(2,067)</b>

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2011 is £533,000 (31 March 2010: £545,000).

### History of Experience Gains and Losses

The actuarial gains and losses identified as movements on the pensions reserve in 2009/10 can be analysed into the following categories, measured as a percentage of assets or liabilities as at 31 March 2010:

	2009/10 %	2008/09 %	2007/08 %	2006/07 %	2005/06 %
Difference between expected and actual return on assets	16.57	(38.40)	(2.45)	1.90	15.01
Experience gains and losses on liabilities	0.01	(2.98)	13.20	(0.02)	0.02

### Post Balance Sheet Events affecting the Local Government Pension Scheme

The Chancellor of the Exchequer announced in his Emergency Budget on 22 June 2010 that the consumer prices index rather than the retail prices index will be the basis for future public sector pension increases. In accordance with paragraph 21 of Financial Reporting Standard 21 (Events after the balance sheet date), this change is deemed to be a non-adjusting post balance sheet event. It is estimated that this change will reduce the value of an average employer's FRS17 liabilities in the Fund by around 6-8%.



*Note 28 Reconciliation of net surplus/deficit on the Income & Expenditure Account to the revenue activities net cash flow shown in the Cash Flow Statement.*

2008/09 £000's		2009/10 £000's
* 791	General Fund (Surplus)/Deficit	1,588
(5)	Collection Fund (Surplus)/Deficit	14
<b>* 786</b>		<b>1,602</b>
	<b>Adjustment for Non-Cash Transactions</b>	
(2,029)	Depreciation and Impairment of Fixed Assets	(2,557)
171	Other Non Cash Adjustments	85
(305)	Contribution (to)/from Reserves	(165)
224	Government Grants Deferred	344
66	Net Retirement Benefit Charges	72
<b>(1,873)</b>		<b>(2,221)</b>
	<b>Adjustments for Items on an Accruals Basis</b>	
* (336)	(Increase)/Decrease in Total Creditors	(1,387)
0	(Increase)/Decrease in Total Provisions	(30)
3	Increase/(Decrease) in Total Stocks	1
* (374)	Increase/(Decrease) in Total Debtors	659
<b>(707)</b>		<b>(757)</b>
	<b>Items Classified Elsewhere in the Cash Flow Statement</b>	
145	Interest Received	13
(42)	Interest Paid	(35)
<b>103</b>		<b>(22)</b>
<b>* (1,691)</b>	<b>Revenue Activities net cash flow</b>	<b>(1,398)</b>

\* Prior Period Adjustments - see Note 2

*Note 29 Reconciliation of the Movement in Cash to the Movement in Net Debt*

2008/09 £000's		2009/10 £000's
	<b>Increase/Decrease in Cash in the Period</b>	
155	Cash Outflow from Debt Repaid and Finance Lease Payments	142
330	Cash Inflow from Increase in Liquid Resources	4,679
<b>485</b>	<b>Change in Net Debt Resulting from Cash Flows</b>	<b>4,821</b>
<b>1,023</b>	<b>Net Debt 1 April</b>	<b>538</b>
<b>538</b>	<b>Net Debt 31 March</b>	<b>(4,283)</b>

*Note 30 Movement in Cash, Liquid Resources and Borrowing*

1 April 2009 £000's		Movements during the year £000's	31 March 2010 £000's	Note
3,340	Bank & Cash in Hand	4,732	8,072	20
(249)	School Bank Accounts	(53)	(302)	
<b>3,091</b>		<b>4,679</b>	<b>7,770</b>	
(713)	Loans Outstanding at 31 March	143	(570)	
<b>2,378</b>	<b>Net Cash Balances</b>	<b>4,822</b>	<b>7,200</b>	

2008/09 £000's		2009/10 £000's
<b>Education</b>		
2,697	Isles of Scilly Education Grant	2,796
263	Sure Start	284
0	Post 16 Accommodation / travel	200
0	Contact Point	129
110	Convergence (Progressive Isles)	129
194	Learning Skills Council (Core)	93
94	Learning Skills Council (Other)	0
87	6th Form Special Education Needs	89
125	Youth Opportunities	51
0	Childrens Work Force Development	45
41	Teacher Development Agency	43
0	Standards Fund	39
0	DCSF Playbuilder	36
0	DCSF 14-19 Grants	20
148	Other Grants	12
<b>3,759</b>	<b>Education Total</b>	<b>3,966</b>
<b>Environmental Services</b>		
0	Anti Social Behaviour	44
0	Other Grants	15
0	DEFRA Animal Welfare	14
0	DEFRA Waste Performance & Efficiency	6
23	Safer Communities	1
<b>23</b>	<b>Environmental Services Total</b>	<b>80</b>
<b>Central Services</b>		
0	Council Tax	80
24	NNDR Admin Grant	25
0	Training & Development Agency	15
0	Other Grants	2
<b>24</b>	<b>Central Services Total</b>	<b>122</b>
<b>Adult &amp; Community Services</b>		
75	Department of Health - Stroke Pathways	75
0	Social Care Reform	12
0	Other Grants	7
<b>75</b>	<b>Adult &amp; Community Services Total</b>	<b>94</b>
<b>Fire &amp; rescue</b>		
0	New dimensions	10
0	Community Safety	5
<b>0</b>	<b>Fire &amp; rescue Total</b>	<b>15</b>
<b>Childrens Social Care</b>		
0	Other Grants	3
<b>0</b>	<b>Childrens Social Care Total</b>	<b>3</b>
<b>Planning Services</b>		
157	Natural England	146
128	European Social Fund	0
77	Planning Delivery Grant	113
0	SWRDA	82
65	English Heritage	25
0	Climate Change	17
0	Other Grants	5
<b>427</b>	<b>Planning Services Total</b>	<b>388</b>

Note 31 continues over the page.

<b>Housing Services</b>		
65	Local Housing Allowance	65
0	Handyperson Funding	50
0	Homelessness	31
0	Administration Grant	18
0	Repossession Prevention	10
0	Other Grants	5
<b>65</b>	<b>Housing Services Total</b>	<b>179</b>
<b>Highways, Roads &amp; Transport</b>		
39	Concessionary travel grants	53
0	Highways (Department Of Transport)	50
<b>39</b>	<b>Highways, Roads &amp; Transport Total</b>	<b>103</b>
<b>Other Operating Income &amp; Expenditure</b>		
197	Area Based Grant	205
19	Council Tax	3
0	NNDR : Deferral Scheme	9
<b>216</b>	<b>Other Operating Income &amp; Expenditure Total</b>	<b>217</b>
262	Other Grants unclassified	0
<b>4,890</b>	<b>Grand Total</b>	<b>5,167</b>

*Note 32 General Government Grants*

2008/09		2009/10
£000's		£000's
263	Revenue Support Grant	416
197	Area Based Grant	205
41	Local Authority Business Growth Incentive Grants	2
<b>501</b>		<b>623</b>

*Note 33 Disclosure of deployment of Isles of Scilly Education Grant*

The Council's expenditure on schools is funded primarily by the Isles of Scilly Education Grant received from the Department for Children, Schools, and Families (DCSF).

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. It receives the "Isles of Scilly Education Grant" which is classified as a separate grant in its own right as a Standards Fund. 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 2009/10 are as follows:

	Central Expenditure £000's	Individual Schools Budget £000's	Total £000's
Brought forward from 2008/9			0
Isles of Scilly Education Grant for 2009/10			2,796
Agreed budgeted distribution of grant in 2009/10	(588)	(2,208)	(2,796)
Local Authority contribution for 2009/10	(188)	0	(188)
Actual central expenditure	697	0	697
Actual ISB deployed to schools	0	2,208	2,208
<b>Carry forward to 2010/11</b>			<b>(79)</b>

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

## Note 34 Isles of Scilly Fire Fighters Pension Scheme

The funding arrangements for the Fire Fighters Pension Scheme in England changed on 1 April 2006 when the Fire Fighters Pension Scheme (Amendment) (England) order 2006 was introduced.

Prior to this date the scheme did not have a percentage of pensionable pay type of employer's contribution. Rather each Fire and Rescue Authority (FRA) was responsible for paying the pensions of its former employees on a pay-as-you-go basis. Under the new funding arrangements the schemes remain unfunded but will no longer be on a pay-as-you-go basis as far as an individual FRA is concerned. Authorities no longer meet the pension outgoings directly and instead pay an employer's pension contribution based on a percentage of pay into the Pension Fund. Each individual FRA in England is required by legislation to operate a Pension Fund and the amounts that must be paid into and out of the Pension Fund are specified by regulation.

The Council, acting as a Fire and Rescue Authority, administers and pays Fire Fighters Pensions. Employee contributions and a new employer's contribution are paid into the pension fund from which pension payments are 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 Government.

No payments to members of the pension scheme have occurred as shown on the statement.

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

The Fire Fighters Pension Scheme fund 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.

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

### Fire & Rescue Pension Fund Accounts

2008/09 £000's		2009/10 £000's
	Contributions Receivable	
	Fire Authority:	
(4)	- contributions in relation to pensionable pay	(5)
(6)	Firefighters' Contributions	(8)
<b>(10)</b>	<b>Deficit for the year</b>	<b>(13)</b>
10	Top-up grant payable (to) / from the Government	13
<b>0</b>		<b>0</b>

Net Assets Statement as at 31 March		
2008/09 £000's		2009/10 £000's
10	Net current liabilities	13
(10)	Top-up grant payable from the Government	(13)
<b>0</b>	<b>Total Net Liabilities</b>	<b>0</b>

## Collection Fund

2008/09 £000's		2009/10 £000's	Note
	<b>Income</b>		
(1,355)	Council Tax	(1,432)	45
(74)	Transfer from General Fund - Council Tax Benefits	(79)	
(1,275)	Income collectable from business ratepayers	(1,336)	46
<b>(2,704)</b>	<b>Total Income</b>	<b>(2,847)</b>	
	<b>Expenditure</b>		
	Precepts		
1,120	General Fund	1,203	
169	Police	182	
	Business rates		
1,250	Payment to national pool	1,311	
24	Costs of collection	25	
	Bad/doubtful debts		
	Distribution of previous year's surplus		
117	General Fund	117	
19	Police	23	
<b>2,699</b>	<b>Total Expenditure</b>	<b>2,861</b>	
<b>(5)</b>	<b>(Surplus)/Deficit on Collection Fund</b>	<b>14</b>	
<b>* 140</b>	<b>CIOS - Collection Fund Balance 1 April</b>	<b>144</b>	
<b>* 144</b>	<b>CIOS - Collection Fund Balance 31 March</b>	<b>132</b>	

### Statement of Movement on Collection Fund Balance

2008/09 £000's		2009/10 £000's
(4)	Billing Authority - Council of the Isles of Scilly	(12)
(1)	Precepting Authority - Devon & Cornwall Police Authority	(2)
<b>(5)</b>	<b>(Surplus)/Deficit for the year on the Collection Fund</b>	<b>(14)</b>

## Housing Revenue Income and Expenditure Account

2008/9 £000's	2009/10		Note
	£000's	£000's	
	<b>Income</b>		
(325)	Dwelling Rents (gross)	(330)	
(9)	Non-dwelling rents (gross)	(9)	
(13)	Charges for services and facilities	(15)	
<b>(347)</b>	<b>Total Income</b>		<b>(354)</b>
	<b>Expenditure</b>		
155	Repairs and Maintenance	121	41
105	Supervision and Management	98	
1,213	Depreciation and Impairment of Fixed Assets	170	
0	Debt Management Costs	1	
3	Special Support Services	0	
31	Negative Housing Revenue Account subsidy	39	44
<b>1,507</b>	<b>Total Expenditure</b>		<b>429</b>
<b>1,160</b>	<b>Net Cost of HRA Services per authority Income and Expenditure Account</b>		<b>75</b>
26	Interest payable and similar charges		19
(14)	Interest and investment income		(12)
<b>1,172</b>	<b>(Surplus)/Deficit for the year on HRA services</b>		<b>82</b>

### Statement of Movement on the Housing Revenue Account Balance

2008/9 £000's		2009/10 £000's	
1,172	(Surplus)/Deficit on the HRA Income and Expenditure Account	82	
(1,196)	Additional items required by statute and non-statutory proper practices to be taken into account in determining the movement in the Housing Revenue Account Balance	(94)	35
<b>(24)</b>	<b>(Increase)/Decrease in the Housing Revenue Account Balance</b>	<b>(12)</b>	
<b>(224)</b>	<b>Housing Revenue Account surplus brought forward</b>	<b>(248)</b>	
<b>(248)</b>	<b>Housing Revenue Account surplus carried forward</b>	<b>(260)</b>	

## Notes to the Supplementary Financial Statements

### Note 35 Statement of Movement on the HRA Balance

2008/9 £000's		2009/10 £000's
	<b>Items included in the HRA Income and Expenditure Account but excluded from the movement on the HRA Balance for the year</b>	
(1,042)	Impairment Losses on Fixed Assets	(41)
0	Net charges made for retirement benefits in accordance with FRS17	(3)
<b>(1,042)</b>		<b>(44)</b>
	<b>Items not included in the HRA Income and Expenditure Account but included in the movement on HRA balance for the year</b>	
(99)	Transfer to /(from) Major Repairs Reserve	(72)
(55)	Transfer to /(from) Housing Repairs Account	18
0	Employer's contributions payable to the pension fund and retirement benefits paid directly to pensioners	4
<b>(1,196)</b>	<b>Net Additional amount required by statute to be debited or (credited) to the HRA balance for the year</b>	<b>(94)</b>

### Note 36 Analysis of Council Housing Stock

2008/9 Number		2009/10 Number
	<b>Flats &amp; Bedsits</b>	
37	One Bedroom	37
14	Two Bedrooms	14
1	Three Bedrooms	1
<b>52</b>	<b>Total Flats and Bedsits</b>	<b>52</b>
	<b>Houses and Bungalows</b>	
3	One Bedroom	3
10	Two Bedrooms	10
39	Three Bedrooms	39
4	Four or more bedrooms	4
<b>56</b>	<b>Total Houses and Bungalows</b>	<b>56</b>
<b>108</b>	<b>Total Number of Council Dwellings</b>	<b>108</b>

### Note 37 Value of HRA Assets

Operational Assets	Houses £000's	Garages £000's	Total £000's
As at 1 April 2009 - Value	13,098	225	13,323
As at 1 April 2009 - Revaluation	(1,924)	0	(1,924)
Additions in the year	31	0	31
Revaluations & Impairment on revaluation	(20)	0	(20)
Depreciation & Impairment	0	(5)	(5)
<b>Value as at 31 March 2010</b>	<b>11,185</b>	<b>220</b>	<b>11,405</b>

### Note 38 Vacant Possession Value of Council Houses

The introduction of Resource Accounting in the Housing Revenue Account requires all HRA assets to be revalued as at 1st April each year. The basis of the valuation is Existing Use Value for Social Housing (EUV-SH) as defined by the Royal Institute of Chartered Surveyors. The method of valuation prescribed by the RICS to arrive at EUV-SH is based on the vacant possession value of the properties, adjusted to reflect the occupation by a secure tenant. The Adjustment Factor for the South West remains at 44% 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 2009 the vacant possession value of dwellings within the Council's HRA was £25.548 million (1 April 2008: £29.791 million).

### Note 39 Impairment Costs

The impairment charge does not fall as a cost to the Housing Revenue Account rent payers because it is an unrealised loss. The charges are reversed out of the Housing Revenue Account in the Statement of Movement on the Housing Revenue Account Balance.

The District Valuation Service revalued the Council Dwellings (Housing revenue) and garages on 1 April 2009 and 31 March 2010. The revaluation resulted in some properties rising in value and some falling in value. Any falls in values were written off to the Income and Expenditure Account as there were no revaluation gain balances within the revaluation reserve to offset them. Increases in values were written back to the income and expenditure account to offset the impairment balances that arose in 2008/09 up to the value of that impairment and then to the Revaluation Reserve. A total of £39,000 was charged to the HRA as impairment for downward valuations. Upward valuations accounted for £19,000 and £15,000 was credited back to the HRA to offset part of last year's impairment charge and £4,000 was credited to the Revaluation Reserve.

### Note 40 Movement on the Major Repairs Reserve

2008/9 £000's		2009/10 £000's
	<b>Depreciation</b>	
(165)	Dwellings	(140)
(6)	Garages	(5)
<b>(171)</b>	<b>Total Depreciation</b>	<b>(145)</b>
<b>18</b>	<b>Major Repairs Expenditure</b>	<b>9</b>
	<b>Transfer to General Fund</b>	
6	Depreciation of other buildings	5
93	Depreciation in excess of MRP	67
<b>117</b>		<b>81</b>
<b>(54)</b>	<b>(Surplus)/Deficit</b>	<b>(64)</b>
(232)	Balance as at 1 April	(286)
<b>(286)</b>	<b>Balance as at 31 March</b>	<b>(350)</b>

### Note 41 Movement on Housing Repairs Account

2008/9 £000's		2009/10 £000's
(140)	Balance at 1 April	(85)
(100)	Contribution from Housing Revenue Account	(139)
155	Expenditure on Housing Repairs	121
<b>(85)</b>	<b>Balance at 31 March</b>	<b>(103)</b>



Note 42 Analysis of Capital Expenditure

2008/9 £000's		2009/10 £000's
38	Capital Outlay - houses	31
38		31
<b>Financed by:</b>		
20	Supported Capital Expenditure	22
18	Major Repairs Reserve	9
38		31

Note 43 Rent Arrears

2008/9 £000's		2009/10 £000's
14	Gross Rent Arrears at 31 March	17
(4)	Prepaid Rent	(5)
<b>10</b>	<b>Net Rent Arrears</b>	<b>12</b>

The arrears of £11,839 represent 3.4% of the gross rent income for the year (being £10,389 at 3.0% for 2008/09).

Note 44 Breakdown of HRA Subsidy

2008/9 £000's		2009/10 £000's
102	Management Allowance	103
90	Maintenance Allowance	90
72	Major Repairs Allowance	73
<b>Charges for Capital</b>		
26	Interest Charge	15
37	Debt Management	38
<b>327</b>	<b>Net Rent Arrears</b>	<b>319</b>
(358)	Notional Rent Income	(358)
<b>(31)</b>	<b>Housing Subsidy (negative)</b>	<b>(39)</b>

Note 45 Calculation of Net Council Tax

2008/09 £000's		2009/10 £000's
(1,586)	Council Tax - Gross Due	(1,658)
Less		
117	Discounts	126
25	Exemptions	17
74	Benefits	79
15	Previous Year's Adjustment	4
<b>(1,355)</b>	<b>Net Council Tax</b>	<b>(1,432)</b>

## Note 46 Business Rates

The Council collects non-domestic rates for its area based on rateable values multiplied by the national rate. This is collected on behalf of the Government and paid into a central pool. The Council then receives an allocation based on a fixed amount per head of population.

2008/09		2009/10
£000's		£000's
1,430	NNDR Debit	1,482
(154)	Less: Transitional & Other Relief	(146)
(1)	Previous year adjustments	0
<b>1,275</b>	<b>Net Income from Business Ratepayers</b>	<b>1,336</b>
1,888	Redistributed amount from NNDR Pool	1,802
<b>Multiplier Rates</b>		
46.2p	Non - Domestic	48.5p
45.8p	Small Business	48.1p

## Note 47 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 Council 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 table below.

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	11	7
B	£40,001 to £52,000	7/9	29	23	18
C	£52,001 to £68,000	8/9	85	69	61
D	£68,001 to £88,000	9/9	246	203	203
E	£88,001 to £120,000	11/9	333	285	348
F	£120,001 to £160,000	13/9	306	263	380
G	£160,001 to £320,000	15/9	149	126	211
H	Over £320,000	18/9	8	8	16
			<b>1,168</b>	<b>988</b>	<b>1,244</b>

All bands are linked to the Basic Band D, proportionately. The amount for a Band D property (£1,135 in 2009/10) is multiplied by the proportion specified for the particular band to give the individual amount due.

## Note 48 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 Council is required to make payments to Devon and Cornwall Police Authority.

### 1. SCOPE OF RESPONSIBILITY

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

In discharging this overall responsibility, the Council of the Isles of Scilly (Members and Officers) is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.

The Council of the Isles of Scilly has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. A copy of the code is on our website at [www.scilly.gov.uk/governance](http://www.scilly.gov.uk/governance) or can be obtained by e-mail from [governance@scilly.gov.uk](mailto:governance@scilly.gov.uk) or in hard copy from the Town Hall. This statement explains how the Council of the Isles of Scilly has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit [Amendment] (England) Regulations 2006 in relation to the publication of a statement on internal control.

### 2. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the policies, aims and objectives of the Council of the Isles of Scilly, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at the Council of the Isles of Scilly for the year ended 31 March 2010 and up to the date of approval of the annual report and statement of accounts.

### 3. THE GOVERNANCE FRAMEWORK

The Council of the Isles of Scilly is a small unitary authority delivering a broad range of services to a unique island community, located 45km south west from mainland Britain. The population of the Islands was recorded as 2153 at the last census in 2001 and is spread over five inhabited Islands. The vast majority of the population, 1,600, lives on St Mary's. The population has remained stable for the last 100 years but over the past ten years the elderly population has increased by around seven per cent while under 16's have decreased by six per cent. Diversity issues are focused on access to services for the small off island communities and the influx of seasonal migrant workers which number in excess of 100 predominantly from Eastern Europe.

The Duchy of Cornwall owns the vast majority of land on the islands, apart from a small area of the main town on St Mary's. There are just over a 100 Council houses and a key issue is providing sufficient affordable and key worker housing.

Education levels are considerably higher than the national average. The Five Islands School provides primary and secondary education on the islands with post-16 further and higher education undertaken on the mainland.

The Authority delivers the widest range of services of any council in the country, all of the usual statutory services as well as some additional services such as tourism (the economy is 85% dependent on this) water, sewerage and operates St Mary's Airport, the 10th busiest regional passenger airport in the UK. This wide range of services, is delivered with a limited budget; the 2007/08 requirements was £3,352,000 and a small core of staff. In addition the geographic context means that there is an additional cost and complexity to all service delivery. This combined with very small cohorts of clients means that it is not necessarily meaningful to benchmark against national statistics and all statistics need careful interpretation.

The special nature of Scilly is reflected in its unique constitutional position. It has its own 'Isles of Scilly Clause', the aim of which is to try to ensure that all UK laws applied to the Islands are appropriate to the size and scope of the Isles of Scilly. The Clause is added to all new UK legislation meant to apply to the Council and omitted from all UK legislation not meant to apply.

The Authority has always been non-political and is currently made up of 21 independent Members, 13 elected by St Mary's residents and two each, elected by residents of Bryher, St Martins, St Agnes and Tresco. The Council is an Option 4 Authority under the Local Government Act 2000 and retains a committee system consisting of ten standing committees and the statutory Council meetings. The Council's business is transacted within a general framework of authority comprising statutory provisions, orders and directions, bylaws and a variety of specific resolutions by the Council and its various Committees.

Responsibility for the appointment of the Chief Executive is reserved to Council. The Chief Executive has overall corporate management and operational responsibility (including overall management responsibility for and authority over all Officers), and is responsible for advice to Members on strategy, policy, management and organisation and has primary responsibility for ensuring that decisions taken by Council are taken in accordance with proper processes and after full considerations of all relevant facts, circumstances and legal advice where necessary.

Cornwall Council is commissioned as Internal Auditors for the Council of the Isles of Scilly. The Head of Internal Audit provides an annual report giving opinion on overall adequacy and effectiveness of the Authority's risk management systems and internal controls and an interim report during the year. These reports draw attention to any issues the Head of Internal Audit assesses as relevant to the preparation of the Annual Governance Statement, summarising the Authority's performance and that of the internal audit function.

The reports of the Head of Internal Audit, as well as assurances and reports from external auditors, third parties, Members and Officers are used in the preparation of the Annual Governance Statement prior to its review, challenge and approval by Council.

The key elements of the Council's systems and processes that comprise the authority's governance arrangements are outlined below:

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**No**   **Element of Governance**

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**Statutory Obligations and Organisational Objectives**

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- 3.1 The Council of the Isles of Scilly has adopted a Code of Conduct that is in line with suggested best practice principles and expects all its Members, Officers and contractors to adhere to the highest standards of public service, with particular reference to the Code of Conduct and policies of the Council and applicable statutory requirements. Members follow procedures to ensure that the authority is efficient, transparent and accountable to the local people, including Council minutes showing delegation of Members and Officers and Committee terms of reference.
- 3.2 Records of statutory obligations are accessible to our community and stakeholders via a central legal library, held in the Town Hall, and on the Council's website and intranet.
- 3.3 Effective procedures are in place to establish and monitor statutory obligations and the corporate priorities. Assurance is given to the Chief Executive that legislative changes are identified and communicated to Members to ensure implementation and/or action to be taken. Following induction training, awareness training is periodically arranged to apprise Members of new or changes to statutory obligations and legislation.
- 3.4 Action is taken where areas of non-compliance are found in either mechanism or legislation. Audit reports are reviewed and corrective action reports are taken to the appropriate committee. The Modernising Local Government Group reviews risks registers and action plans in respect of legal risks. Internal Audit reports are reported to the Management Team and Members at the relevant Committee meetings.
- 3.5 The Council involves the community and stakeholders by holding consultations to ensure the Council's priorities and objectives within the business plans reflect the wants and needs of the stakeholders.
- 3.6 The Council's priorities are decided upon following consultation and taking into account the feedback from the consultations with our community and stakeholders. This is reflected in partnership arrangements that are aligned to the Council's corporate priorities.
- 3.7 The Council's priorities are published in the Sustainable Community Strategy 2020 and Local Area Agreement by taking into account the annual budget and medium term financial plans.
- 3.8 The Council's service plans include each department's contribution to the strategic objectives outlined in the Sustainable Community Strategy and Local Area Agreement and are supported by action plans with targets taking into account the available funding. These plans provide direction for the Council and are accessible to Officers, Councillors, partners and the public. Progress is monitored by regular reporting to the appropriate parent committee.
- 3.9 The Communication Strategy establishes and maintains effective channels of communication between directors, managers, employees, partners and stakeholders to
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**No Element of Governance**


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enable the Council's goals and objectives to be clearly understood, acted upon and achieved. All key documents clearly set out the corporate objectives and are accessible to Officers, Councillors, partners and the public via the Council's website and intranet.

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- 3.10 A Local Code of Governance has been developed from the six core principles of good governance, and supporting principles, in line with the CIPFA/SOLACE guidance and adopted by the Policy and Resources Committee. The communication strategy relating to the code is published within the code itself as the final section. The Authority's Local Code of Governance is accessible to all stakeholders on the Council's website and intranet and is included within the Annual Governance Statement.
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- 3.11 The Local Code of Governance is reviewed annually and is monitored not less than twice per year. The annual review of the Code of Governance is the responsibility of the Corporate Governance Lead, is reviewed and reported to the Policy and Resources Committee. Decisions are recommended to relevant committees.
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- 3.12 The Policy and Resources Committee has responsibility for receiving and ensuring the Council's compliance with Corporate Governance issues as set out in the Terms of Reference in the Members Handbook. The Policy and Resources Committee receives reports not less than twice per year on the progress of the Annual Governance Statement, including the Local Code of Governance.
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- 3.13 Training for Officers, key staff and Members is planned to continue in 2010. Awareness and induction training for new staff and Members is planned following the initial training.
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- 3.14 The Local Code of Governance is published on the Council's website and intranet and communicated to all stakeholders to ensure all staff are aware of the Code of Governance and how their responsibilities fit into the authority plans. Partner organisations are made aware of the importance of the Council's Code of Governance and processes to ensure that their employees and any third party involved are also aware of the Council's Code. External stakeholders are informed to assure them that the authority is managing its internal controls and that the authority will deliver services as expected.
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- 3.15 The Council of the Isles of Scilly has a developing performance management framework that supports the effective monitoring and management of performance. Measures are being introduced to ensure that performance issues can be communicated and addressed across the Authority. Objectives, targets and action plans are publicised in accessible formats through the Local Area Agreement, service plans and are included on the Council's website and intranet.
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- 3.16 Officers and service managers identify key performance indicators that are included in the Corporate and Service Plans and are approved annually.
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- 3.17 The performance indicators assist in challenging the services contribution to Strategic Objectives. Reviews and monitoring shows the authority how it is performing against its planned outcomes through presentation of regular reports to Members.
- The Local Strategic Partnership are developing a management framework to scrutinise delivery of the Local Area Agreement and Sustainable Community Strategy.
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**No Element of Governance**

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A set of performance indicators are being produced to be monitored quarterly by the Senior Management Team.

The Council has implemented a performance management ICT system and a Performance Management Group has been formed to monitor and review the performance management across the Authority.

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3.18 SMART action plans to improve below par performance are reported to Members of the appropriate committee. Subsequent corporate and service plans are revised in the light of these action plans and the subsequent performance results.

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3.19 Continuous improvements are being planned by the Performance Management Group to ensure performance targets are adjusted in the light of benchmarking with other authorities and review of actual performance during the coming year.

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**The Six Core Principles of Governance****The Requirement****How the Council will demonstrate compliance**

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3.20 Develop and promote the authority's purpose and vision

The authority's purpose and vision is clearly communicated to all Members, Officers and staff as background on computers and the intranet, and to the community on the Council website on Best Value Performance Review documentation and within the policy documents.

The Sustainable Community Strategy has taken the vision forward and identified key areas to be addressed over the coming years.

The authority's corporate plans inform how the Council is to achieve the priorities to support the Sustainable Community Strategy by working in partnership with the community and cascades further to the service and departmental plans.

Strategies and plans are brought together in the developing the Local Area Agreement to reflect and link to the authority's purpose and vision and are central to the authority's corporate planning.

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3.21 Review the authority's vision for the local area and its impact on the authority's governance arrangements on a regular basis

A review and restructure of the Local Strategic Partnership has taken place in 2009/10.

During 2009/10 the development of Strategic Investment Framework has taken place.

A Grant Appraisal Committee has been established to monitor external funding applications.

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### The Six Core Principles of Governance

#### The Requirement

#### How the Council will demonstrate compliance

3.22	Ensure that partnerships are underpinned by a common vision of their work that is understood and agreed by all parties	<p>The Council has improved its service planning by increased partnership working. The Sustainable Community Strategy has been developed to ensure a common vision with clear targets and the Local Area Agreement also reflects a common vision with clear targets.</p> <p>A standard Statement is being developed to be used in partnership agreements for signature by designated signatories on behalf of the partners.</p>
3.23	Publish an annual report on a timely basis to communicate the authority's activities and achievements, its financial position and performance	<p>Annual Financial statements are produced in June and agreed by Members at Full Council and is published on the website.</p> <p>A formal annual report is also produced in June and agreed by Members at Full Council, to inform the community of the performance of the authority over the previous year and set out the plans for the future.</p>
3.24	Decide how the quality of service for users is to be measured and make sure that the information needed to review service quality effectively and regularly is available	<p>The Council has a developing performance management framework that supports the effective monitoring and management of performance.</p> <p>Objectives, targets and action plans are published in accessible formats through the Local Area Agreement, service plans and are included on the Council's website and intranet.</p> <p>Quality of service is reflected in the service plans and these are monitored by the Modernising Local Government Group.</p> <p>The Council has implemented a performance management ICT system.</p> <p>Measures are being introduced to ensure that performance issues can be communicated and addressed across the Authority.</p> <p>Continuous improvements to the performance management framework have taken place during 2009/10.</p> <p>An improved framework for Service Plans has been implemented during 2009/10.</p>

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## The Six Core Principles of Governance

### The Requirement

### How the Council will demonstrate compliance

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SMART action plans to improve performance are reported to Members of the appropriate committee.

3.25 Put in place effective arrangements to identify and deal with failure in service delivery

The Council has a set of national and local performance indicators including a selection of agreed LAA targets.

LAA targets are monitored through the Local Strategic Partnership and reported to Full Council.

National and Local Performance indicators are monitored by the Data Quality Team and reported to Policy and Resources Committee and published annually on internet, intranet and Audit Commission website.

Full Council receives reports relating to compliments, complaints and service improvements.

The LAA sets out the Council's plans for improvement based on consultation, Council's reviews, external inspections and audit, and Corporate Assessments.

3.26 Decide how value for money is to be considered and ensure that the authority or partnership has the information needed to review value for money and performance effectively.

A Medium Term Financial Strategy has been approved and implemented to support the aims of the Corporate Plan.

Efficiency gains are reflected in the MTFS and reported to Full Council.

Service Plans reflect efficiency outcomes.

The Corporate Procurement Strategy gives policy and objectives and is published on the website and intranet.

The Contract Management Framework assists in maintaining efficiencies within contracts and service level agreements.

3.27 Consider the environmental impact of policies, plans and decisions

The islands were designated as an Area of Outstanding Natural Beauty in 1975.

The Area of Outstanding Natural Beauty Management Plan contains policy and objectives, and identifies the actions or projects that will take objectives forward, highlighting the organisation responsible for carrying out projects and the timetable within which work is to be completed. This plan is reviewed on a 5 year basis.

The AONB Management Plan also provides a supportive document for related project funding applications.

The development of the Integrated Area Plan followed on from a major social, economic and environmental review of the Isles of Scilly and concentrates on Sustainable Environment, Sustainable Businesses and Sustainable Communities.

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## The Six Core Principles of Governance

### The Requirement

### How the Council will demonstrate compliance

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#### The Isles of Scilly Partnership appraises and recommends projects for support under the Isles of Scilly Integrated Area Plan.

<p>3.28 Set out a clear statement of the respective roles and responsibilities of the executive's and of the executive's Members individually and the authority's approach towards putting this into practice</p>	<p>The special nature of Scilly is reflected in its unique constitutional position. It has its own 'Isles of Scilly Clause', the aim of which is to try to ensure that all laws applied to the Islands are appropriate to the size and scope of the Isles of Scilly. The Clause is added to all new legislation meant to apply to the Council and omitted from all legislation not meant to apply.</p> <p>The Authority has always been non-political and is currently made up of 21 independent Members, 13 elected by St Mary's residents and two each, elected by residents of Bryher, St Martins, St Agnes and Tresco.</p> <p>The Council is an Option 4 Authority under the Local Government Act 2000 and retains a committee system consisting of ten standing committees and the statutory Council meetings.</p>
<p>3.29 Set out a clear statement of the respective roles and responsibilities of the authority's Members and Senior Officers</p>	<p>Terms of reference of powers delegated to Standing Committees sets out the areas for which individual Committees have responsibility and is contained in the Members and Officers Handbook.</p> <p>The Council's business is transacted within a general framework of authority comprising statutory provisions, orders and directions, bylaws and a variety of specific resolutions by the Council and its various Committees.</p> <p>A set of principal instruments for the internal regulation of the Council's affairs is set out in Standing Orders and reviewed periodically.</p> <p>Roles &amp; responsibilities for Members are being defined and a statement and a set of job descriptions are being developed for Members for implementation in 2010.</p> <p>Job descriptions for Senior Officers are reviewed and updated regularly by Human Resources.</p> <p>The National Code of Local Government Conduct is contained within the Members and Officers Handbook.</p>

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## The Six Core Principles of Governance

### The Requirement

### How the Council will demonstrate compliance

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3.30	Determine a scheme of delegation and reserve powers within the constitution, including a formal schedule of those matters specifically reserved for collective decisions of the authority taking account of relevant legislation and ensure that it is monitored and updated when required	<p>Terms of reference of powers delegated to Standing Committees sets out the areas for which individual Committees have responsibility and is contained in the Members and Officers Handbook.</p> <p>Most functions are delegated to Committees with the exception of certain functions that are reserved for decision by Council.</p> <p>A list of functions is set out in Standing Orders.</p>
3.31	Ensure the Chief Executive is responsible and accountable to the authority for all aspects of operational management	<p>Responsibility for the appointment of the Chief Executive is reserved to Council.</p> <p>The Chief Executive has overall corporate management and operational responsibility (including overall management responsibility for and authority over all Officers.</p> <p>The Chief Executive is responsible for advice to Members on strategy, policy, management and organisation and has primary responsibility for ensuring that decisions taken by Council are taken in accordance with proper processes and after full considerations of all relevant facts, circumstances and legal advice where necessary.</p> <p>The Chief Executive may include any item on the agenda of Council if necessary, having notified the Chairman, and will be given the opportunity to comment on every report submitted to a decision-making body.</p>
3.32	Develop protocols to ensure that the Chairman and Chief Executive acknowledge their respective roles early in the relationship and that a shared understanding of roles and objectives is maintained	<p>The developing Protocol on Member/Officer Relations gives guidance on communication between Officers and Members in their various roles, including guidance on the advice and information Members can expect from Officers.</p>

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**The Six Core Principles of Governance**
**The Requirement**
**How the Council will demonstrate compliance**


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3.33	Ensure the Director of Finance (section 151 officer) is responsible to the authority for ensuring that appropriate advice is given on all financial matters, for keeping proper financial records and accounts, and for maintaining an effective system of internal financial control	The Director of Finance and Resources has been appointed as the Section 151 Officer and is responsible for the supervision of all accounts and financial records, the organisation of all accounting systems, in co-operation with the Chief Officers of the Council.
3.34	Ensure a senior officer (other than the Responsible Finance Officer) is responsible to the authority for ensuring that agreed procedures are followed and that all applicable statutes, regulations are complied with	The Head of Finance and Reporting is responsible for ensuring that agreed financial procedures and statutes are followed and complied with.  Reports to Policy and Resources Committee show compliance with procedures and statutes. Any lapse is reported together with details of the corrective action taken.
3.35	Develop protocols to ensure effective communication between Members and Officers in their respective roles	A Communication Strategy has been approved by Council and took effect from December 2006.
3.36	Set out the terms and conditions for remuneration of Members and Officers and an effective structure for managing the process including an effective remuneration panel (if applicable)	The Council of the Isles of Scilly Members' Allowance Scheme took effect from 1 April 2006.  The Members' Allowance Scheme forms part of the Members Handbook and includes sections on special responsibility allowance, part year entitlements and special responsibilities.  An Independent Panel makes recommendations to Policy and Resources Committee.

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## The Six Core Principles of Governance

### The Requirement

### How the Council will demonstrate compliance

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3.37	Ensure that effective mechanisms exist to monitor service delivery	Service delivery is monitored through: <ul style="list-style-type: none"><li>• National and Local Performance Indicators</li><li>• Deficiencies brought to the attention of Chief Officers and Members</li><li>• Corporate complaints are monitored to identify weaknesses and drive improvement</li><li>• Employee and Chief Officer Performance Reviews</li><li>• Customer Satisfaction Survey</li></ul>
3.38	Ensure that the organisation's vision, strategic plans, priorities and targets are developed through robust mechanisms, and in consultation with the local community and other key stakeholders, and that they are clearly articulated and disseminated	<p>The Council's Vision and objectives are set out in the Sustainable Community Strategy and the Local Area Agreement and were developed through consultation with the community and partners.</p> <p>The Council's Local Area Agreement and Service Plans are published on the website</p>
3.39	When working in partnership ensure that Members are clear about their roles and responsibilities both individually and collectively in relation to the partnership and to the authority	The Council is in the process of producing a register of partners to include allocation of the roles and responsibilities of Members in relation to the partnership.
3.40	When working in partnership: <ul style="list-style-type: none"><li>◦ ensure that there is clarity about the legal status of the partnership</li><li>◦ ensure that representatives or organisations both understand and make clear to all other partners the extent of their authority to bind their organisation to partner decisions.</li></ul>	<p>The Council is in the process of producing a register of partners, including resource responsibility and governance arrangements.</p> <p>Co-opted Members are required to sign an agreement on legal duties and responsibilities.</p>

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### The Six Core Principles of Governance

#### The Requirement

#### How the Council will demonstrate compliance

3.41	Ensure that the authority's leadership sets a tone for the organisation by creating a climate of openness, support and respect	The Member and Officer induction programme promotes openness, support and respect and is formalised within the Members and Officers Handbook. Values of good governance are emphasised in the training programme for Members and Officers.
3.42	Ensure that standards of conduct and personal behaviour expected of Members and staff, of work between Members and staff and between the authority, its partners and the community are defined and communicated through codes of conduct and protocols	The Authority develops and maintains good standards of conduct for the Members, Officers and its employees and stakeholders. Employees are provided with a handbook containing a number of codes of conduct, including Disciplinary procedures, equal opportunities, fraud and corruption, grievance procedures and internet and e-mail policy.
3.43	Schedule arrangements to ensure that Members and employees of the authority are not influenced by prejudice, bias or conflicts of interest in dealing with different stakeholders and put in place appropriate processes to ensure that they continue to operate in practice	Equality and Diversity training has taken place for Members and staff to ensure the Authority is not influenced by prejudice, bias or conflicts of interest in dealing with different stakeholders.
3.44	Develop and maintain shared values including leadership values both for the organisation and staff reflecting public expectations and communicate these with Members, staff, the community and partners	Members and Officers values are set out in the Sustainable Community Strategy that supports the objectives and is underpinned by the Local Area Agreement, reflecting the community's expectations. Policies and plans are communicated through Council meetings, partnership meetings, the Council website and intranet and via newsletters to the community.
3.45	Schedule arrangements to ensure that procedures and operations are designed in	The developing protocol for Member/Officer relations will ensure that processes are operated in an effective, appropriate and ethical manner.

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## The Six Core Principles of Governance

### The Requirement

### How the Council will demonstrate compliance

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conformity with appropriate ethical standards, and monitor their continuing effectiveness in practice

National and local measures are in place to safeguard against unfair bias, prejudice or conflicts of interest.

The Chief Executive has been designated as the Monitoring Officer to ensure compliance with established policies, procedures, laws and regulations.

The Monitoring Officer reports to Members should any proposal, decision or omission give rise to unlawfulness or maladministration.

The Standards Committee meet at least three times per year.

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3.46 Develop and maintain an effective standards committee

The Standards Committee includes seven Members of the Council plus three independent Members with voting rights, one of the independent Members serving as the Chairman.

The Standards Committee meet at least three times per year.

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3.47 Use the organisations shared values to act as a guide for decision making and as a basis for developing positive and trusting relationships within the authority

The Code of Conduct and Planning Protocol within the Members and Officers handbook ensures that Members and Officers know what is expected of them.

The shared values of the Members and Officers are demonstrated by the positive attitudes and trusting relationships within the authority and the decision making processes.

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3.48 In pursuing the vision of a partnership, agree a set of values against which decision making and actions can be judged. Such values must be demonstrated by partners' behaviour both individually and collectively

The Council is considering a way forward in respect of an agreed set of values for partnership arrangements.

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3.49 Develop and maintain an effective scrutiny function which encourages constructive challenge and enhances the organisation's performance overall and of any organisation for which it is responsible

Full Council is the scrutinising body and provides overall direction to the organisation and satisfying reasonable expectations of accountability.

Council meetings are open to the public with the exception of confidential or personal matters being disclosed.

Councillors are made aware of significant policy related proposals and service reviews through reports taken to the appropriate committee. Councillors have the opportunity to discuss and challenge the performance of the Council.

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### The Six Core Principles of Governance

#### The Requirement

#### How the Council will demonstrate compliance

3.50	Develop and maintain open and effective mechanisms for documenting evidence for decisions and recording the criteria, rationale and considerations on which decisions are based	<p>All meetings are open to the public with the exception of confidential or personal matters being disclosed.</p> <p>Major meetings are web cast for those who cannot attend the meeting or wish to view the decisions at a later time.</p>
3.51	Arrangements are put in place to safeguard Members and employees against conflicts of interest and appropriate processes are put in place to ensure that they continue to operate in practice	<p>Members register their interests as defined in the Members' Code of Conduct approved at Annual Council.</p> <p>Officers and employees register their interests as defined in the Officers Code of Conduct approved at Full Council.</p> <p>Members and Officers declare a personal or prejudicial interest at the start of each meeting in any discussions involving a matter in which they have an interest, and again as the matter falls to be discussed.</p> <p>Induction training for Members and Officers reinforces the rules on conflicts of interest.</p> <p>The Monitoring Officer may be approached for advice on conflicts of interest.</p>
3.52	Develop and maintain an effective audit committee (or equivalent) which is independent or make other appropriate arrangements for the discharge of the functions of such a committee	<p>The Council has a Policy and Resources Committee that has delegated powers from Full Council and sits three times per year.</p> <p>The Policy and Resources Committee consists of the Chairmen of each standing committee, with the exception of Standards and Licensing committees and any select committee.</p>
3.53	Arrangements are put in place effective transparent and accessible arrangements for dealing with complaints	<p>Procedures for complaints are publicised on the website and forms are available on the website, in the Town Hall reception and on request.</p> <p>The Chief Executive has been designated as the Monitoring Officer to ensure compliance with established policies, procedures, laws and regulations.</p> <p>The Monitoring Officer reports to Members should any proposal, decision or omission give rise to unlawfulness or</p>

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## The Six Core Principles of Governance

### The Requirement

### How the Council will demonstrate compliance

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maladministration.

3.54	Ensure that those making decisions whether for the authority or partnership are provided with information that is fit for the purpose – relevant, timely and gives clear explanations of technical issues and their implications	<p>All reports to Members are required to include justification for the proposed action with environmental impact, financial, legal, crime and disorder, best value and community health implications.</p> <p>Reports are sent to decision makers with the agenda of the meeting on a timely basis.</p>
3.55	Ensure that professional advice on matters that have legal or financial implications is available and recorded well in advance of decision making and used appropriately	<p>Professional opinion where appropriate is sought and implications are included on every report sent to Members prior to each committee meeting.</p>
3.56	Ensure that risk management is embedded into the culture of the organisation , with Members and managers at all levels recognising that risk management is part of their job	<p>The Council has implemented a framework for risk management.</p> <p>The Corporate Risk Management Strategy 2010-13 has been approved by Council and is communicated to all Members and employees and is published on the internet and intranet.</p> <p>Risk management is embedded in the activity of the authority through the business plan, service planning and contract management stages. A Corporate Risk Register identifies the benefits of active risk management.</p> <p>The process for ongoing risk management is the responsibility of the Strategic Management Team and Chief Officers. Senior Management Team review the risk registers quarterly.</p> <p>Departmental Risk Registers linked to service plans have been implemented to identify risk management at a departmental level and are the responsibility of the Service Managers.</p> <p>The Council has developed a programme of risk management training for relevant staff and Members on assessing, managing and monitoring of risk.</p> <p>A corporate approach to risk management to identify and evaluate risk is disseminated to staff at induction and awareness sessions.</p> <p>Project and Contract Managers are aware of the risks in partnership working and risk assessments are undertaken</p>

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### The Six Core Principles of Governance

The Requirement	How the Council will demonstrate compliance
3.57 Ensure that arrangements are in place for whistle blowing to which staff and all those contracting with the authority have access	before commencement of major projects and reviewed and reported on a regular basis. Communication of internal control processes to staff forms part of the staff induction process and includes Confidential Reporting, Managing Financial Irregularities (whistle-blowing) and Code of Conduct policies.
3.58 Actively recognise the limits of lawful activity placed on them by, for example the ultra vires doctrine but also strive to utilise powers to the full benefit of their communities	A programme of awareness training for Members and has been developed, to be included in induction training. Issues of vires are dealt with by early involvement of the Council's legal advisors in all major projects to ensure a lawful solution for the benefit of the community.
3.59 Recognise the limits of lawful action and observe both the specific requirements of legislation and the general responsibilities placed on local authorities by public law	Early involvement of the Council's legal advisors in all major issues to ensure a lawful solution for the benefit of the community.
3.60 Observe all specific legislative requirements placed upon them, as well as the requirements of general law, and in particular to integrate the key principles of good administrative law – rationality, legality and natural justice into their procedures and decision making processes	Early involvement of the Council's legal advisors in all major issues to ensure a lawful solution for the benefit of the community. Each report to Committee informs Members of whether legal advice is necessary and the results of that advice if sought.
3.61 Provide induction programmes tailored to individual needs and opportunities for Members and Officers to update their	All new Councillors and Officers are offered an induction programme to give information on their basic rights, roles and responsibilities and how the Council works.

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## The Six Core Principles of Governance

### The Requirement

### How the Council will demonstrate compliance

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knowledge on a regular basis

Induction information is to be found within the Members and Officers Handbook.

The ongoing training programme for Members and Officers is monitored and arranged through the Modernising Local Government Group and offers up to date knowledge through in-house seminars and training workshops and external courses and conferences.

3.62 Ensure that the statutory Officers have the skills, resources and support necessary to perform effectively in their roles and that these roles are properly understood throughout the organisation

The Council has a Chief Officer Performance and Development Programme that offers the opportunity for each Officer to participate in a performance related interview on a regular basis, with the primary purpose of agreeing individual work targets that relate to the delivery of services to the Community and to discuss the skills and support needed to perform those tasks.

Quarterly Service Managers Meetings are part of the Performance Management improvements to assist in the awareness of the Council's corporate values and assist learning of new starters and improve senior management visibility.

Information is passed on from the Quarterly meetings to the departments by Service Managers.

3.63 Assess the skills required by Members and Officers and make a commitment to develop those skills to enable roles to be carried out effectively

Learning and development needs are established at induction to influence future development and influence the range of activities to be offered.

As part of the ongoing training programme and following consultation with Members, the needs of the Members are considered and makes arranges the activities to be offered.

3.64 Develop skills on a continuing basis to improve performance including the ability to scrutinise and challenge and to recognise when outside expert advice is needed

The Council is aware that it's most important resource is the staff that delivers the services to the community. To provide a quality service to all residents and visitors, an effective staff performance and development programme is necessary to improve and maintain quality services.

Each member of staff is required to participate in a performance related interview on a regular basis, with the primary purpose of agreeing individual work targets that relate to the delivery of their Departmental Service Plan that arises from both the Sustainable Community Strategy and the Local Area Agreement.

The Staff Performance and Development Programme encourages staff to analyse, scrutinise and challenge, and to recognise the need for expert advice through discussions on a one to one basis with their line manager or Chief Officer.

Members, Officers and staff effect learning and development through access to the intranet, e-learning, training

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## The Six Core Principles of Governance

### The Requirement

### How the Council will demonstrate compliance

The Requirement	How the Council will demonstrate compliance
3.65 Ensure that effective arrangements are in place for reviewing the performance of the authority as a whole and agreeing an action plan which might for example aim to address any training or development needs	<p>courses, workshops, Members' seminars and conferences, mentoring and peer support.</p> <p>Some training sessions and workshops held in the Council Chamber are recorded on the web-casting facility for those staff and Members who are unable to attend at the time of the session.</p> <p>A Performance Management Group has been established to develop an improved Performance Monitoring and Development system for staff, to be implemented during 2010/11.</p> <p>Individual Members are encouraged to identify needs for development, although there is no formal process for reviewing individual Members.</p> <p>The 'Grow Your Own' project has been developed. This hopes to address various recruitment and retention issues around appropriately qualified staff and housing.</p>
3.66 Ensure that effective arrangements designed to encourage individuals from all sections of the community to engage with, contribute to and participate in the work of the authority	<p>Information leaflets are distributed throughout the community prior to elections and by-elections to encourage individuals from the community to contribute to the work of the Council</p> <p>Individuals are encouraged to participate in the work of the Council through extensive consultation on plans and strategies such as the Sustainable Community Plan and the Local Area Agreement.</p> <p>The Local Strategic Partnership has been formed by encouraging the community to be involved and has the active involvement of young people within the partnership.</p> <p>The 'Council Calendar', 'News' and 'What's on', on the Council website, informs the community of forthcoming meetings, events and items in which the community is able to participate.</p> <p>Members of the community are encouraged to become co-opted Members, with voting rights, and advisors for certain Council Committee meetings.</p>
3.67 Ensure that career structures are in place for Members and Officers to encourage participation and development	<p>Members are encouraged to use their skills in progressing to Chairman or Vice-Chairman of individual Committees with ultimate progression to Chairman or Vice-Chairman of the Council.</p> <p>Every opportunity is taken to progress a career structure within the Council of the Isles of Scilly; existing staff have</p>

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## The Six Core Principles of Governance

### The Requirement

### How the Council will demonstrate compliance

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		<p>equal access to job opportunities through internal notice boards and the media.</p> <p>Staff are responsible for progressing their own development and are encouraged to participate in training courses and workshops to progress their career and advance their capacity and capabilities to work within the Council setting.</p> <p>A variety of training courses and workshops are offered to Members and Officers in a wide range of subject areas such as Prince2, IT, Management, Risk, Procurement, Service Planning and more.</p>
3.68	Make clear to Members, Officers and the community, to whom they are accountable and for what	<p>The Council's vision, priorities and values are published in the Sustainable Community Strategy, Local Area Agreement and Service Plans. These include performance targets.</p> <p>The Council's Standing Orders and Financial Regulations inform Members and Officers of their obligations and processes.</p>
3.69	Consider those institutional stakeholders to whom they are accountable and assess the effectiveness of the relationships and any changes required	<p>Arrangements are to be reviewed for the content and publication of the annual report on the work of stakeholder committees and consider whether it should be given a higher profile.</p>
3.70	Produce an annual report on scrutiny function activity	<p>An Annual Report (Lighthouse) is produced in June/July, to inform the community of the performance of the authority over the previous year and set out the plans for the future.</p>
3.71	Ensure that clear channels of communication are in place with all sections of the community and other stakeholders including monitoring arrangements to ensure that they operate effectively	<p>The Communication Strategy ensures the Council communicates clearly, openly and regularly with the public, partners and with each other to promote a high level of mutual understanding and to facilitate a better service to the island community.</p> <p>The Communication Strategy is a standing item on the agenda of the Policy and Resources Committee and Members report progress at each meeting with an annual review of Strategy.</p> <p>The Communication Strategy is a key tool in ensuring the Authority's successful delivery of our vision statement.</p> <p>The Council Committee Calendar is published on the Council website, agendas, minutes &amp; reports may be downloaded.</p> <p>News, policies and information for the public and staff are to be found on the website and the developing intranet will inform staff of up to date information.</p>

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## The Six Core Principles of Governance

### The Requirement

### How the Council will demonstrate compliance

		<p>The public are able to view various Council meetings that are web-cast for those who are unable to attend the Council Chamber in person; the web-casts are recorded and can be downloaded for those who are unable to watch the meeting at the allocated time.</p> <p>Where there is expected to be a large public interest, the meetings are web-cast in the Town Hall for those who do not have internet access.</p> <p>Staff newsletters are distributed to all staff on a monthly basis.</p> <p>A bi-monthly 'Lighthouse' newsletter is available at various distribution centres to inform the public and stakeholders of recent events and up to date information.</p>
3.72	Hold meetings in public unless there are good reasons for confidentiality	Council meetings are open to the public with the exception of 'exempt and confidential information' whereby the public are asked to leave the Council Chamber.
3.73	Ensure arrangements are in place to enable the authority to engage with all sections of the community effectively. These arrangements should recognise that different sections of the community have different priorities and establish explicit processes for dealing with these competing demands	<p>The Communication Strategy and the Local Area Agreement aim to ensure that the island community is well informed and is involved in consultation to influence what happens on the islands.</p> <p>The public is able to view various Council meetings that are web-cast for those who are unable to attend the Council Chamber in person; the web-casts are recorded and can be downloaded for those who are unable to watch the meeting at the allocated time.</p> <p>Where there is expected to be a large public interest, the meetings are web-cast to a large screen in the Town Hall for those who do not have internet access.</p> <p>Community Strategy leaflets are distributed throughout the islands to every household.</p> <p>Council meetings are arranged in the mornings during winter and evenings during the summer to enable off-island participation.</p>

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## The Six Core Principles of Governance

### The Requirement

### How the Council will demonstrate compliance

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Booklets are produced for local access information and are distributed to migrant and seasonal workers. These workers also receive a welcome talk from the Community Safety Officer and the Community Police Support Officer.

The Council has published pages in the Cornwall and IOS Migrant Worker book June 2008-10.

Strategies and Policies can be produced in alternative formats, such as Braille, audio or alternative languages, on request.

A written or oral translation service is available on request.

Review questionnaire to Migrant and Seasonal workers informs the Council of difficulties and response to the services provided.

The Authority has adopted a 'Single Equality Scheme', and has established an Equality and Diversity working group. There are representatives from across the organisation, as well as a Member with the role of Equality champion. The authority is committed to equality monitoring, training, internal and external consultation and Equality Impact Assessments to ensure that all the diverse groups within the community are recognised and engaged with.

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3.74 Establish a clear policy on the types of issues they will meaningfully consult on or engage with the public and service users including a feedback mechanism for those consultees to demonstrate what has changed as a result

Consultation is an integral part of any large project plan.

Results of consultations are communicated to the public via the website and publications to inform of the influence the consultation has had on the project.

The public are encouraged to give comments, compliments and complaints in order for the Members and Officers to achieve a greater understanding of the views of residents and visitors.

When faced with a decision making situation, the comments, compliments and complaints from the public assist Members who are more able to respond to conflicting views of residents and take into consideration other influencing factors such as resources, statutory requirements and partner organisations views.

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3.75 Publish a performance plan on an annual basis giving information on the authority's vision, strategy, plans and financial statements as well as information about its outcomes, achievements and the satisfaction of service users in the previous period

The Council's vision, priorities and values are published in the Sustainable Community Strategy, Local Area Agreement and Service Plans. These include performance targets.

Financial Statements are published on the website annually, including the Annual Governance Statement.

Outcomes and achievements are to be communicated to the public and stakeholders in the Annual Report (Lighthouse).

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## The Six Core Principles of Governance

### The Requirement

### How the Council will demonstrate compliance

3.76	Ensure that the authority as a whole is open and accessible to the community, service users and its staff and ensure that it has made a commitment to openness and transparency in all its dealings, including partnerships subject only to the need to preserve confidentiality in those specific circumstances where it is proper and appropriate to do so	<p>The Communication Strategy ensures the Council communicates clearly, openly and regularly with the public, partners and with each other to promote a high level of mutual understanding and facilitate a better service to the island community.</p> <p>The Council website includes the Council Calendar of meetings where agendas, minutes and reports may be downloaded together with community news, council policies and information for the public.</p> <p>Staff have access to all policies and strategies on the website and intranet.</p> <p>Quarterly meetings have been re-established as part of the improvements of the Performance Management Group to ensure information is exchanged and updated upward and Service Managers share the information downwards to the staff in their respective departments.</p> <p>The public are able to view various Council meetings that are web-cast for those who are unable to attend the Council Chamber in person; the web-casts are recorded and can be downloaded for those who are unable to watch the meeting at the allocated time. Where there is expected to be a large public interest, the meetings are web-cast in the Town Hall for those who do not have internet access.</p> <p>The public are able to access information held by the Council under the terms of the Freedom of Information Act 2000 through the Central Services.</p> <p>The Local Standards Committee make an initial assessment of misconduct allegations.</p> <p>Staff newsletters are distributed to all staff on a regular basis and a bi-monthly 'Lighthouse' newsletter is available at various distribution centres to inform the public and stakeholders of recent events and up to date information.</p>
3.77	Develop and maintain a clear policy on how staff and their representatives are consulted and involved in decision making	<p>Consultation with staff forms part of the Communication Strategy and is published on the Council website and intranet.</p> <p>Staff are encouraged to participate in decision-making and problem solving through meetings and surveys.</p> <p>A Staff Mediation Service provides assistance and is available to all staff.</p> <p>The Council works in partnership with the Trade Unions and a representative is on hand to assist staff with queries and</p>



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**The Six Core Principles of Governance****The Requirement****How the Council will demonstrate compliance**

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advice.

Human Resources meet representatives of the Trade Union on a monthly basis and information is passed on to staff via the Trade Union representatives.

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**No Element of Governance**

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Principal Risks to Achievement of Objectives

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3.78 The Risk Management Strategy has the full support of the Councillors and Corporate Management Team and has been approved by Senior Members.

All relevant Staff, Members and partners are made aware of the Risk Management Strategy through Council meetings and workshops. The strategy is accessible to staff, Members and the public on the Council's website and intranet.

Reviews of the risk management process are undertaken by the Senior Management Team.

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3.79 The Council has systems and processes in place for the identification and management of strategic and operational risk.

The process for ongoing risk management is the responsibility of the Strategic Management Team and Chief Officers. Principal Risks are monitored by the Strategic Management Team at least quarterly.

Risk management is embedded in the activity of the authority through the business plan and service planning stages.

The Chairman of Policy and Resources Committee has the role of Member Risk Champion; the Strategic Development Officer has the role of Officer Risk Champion. The Corporate Governance Lead is the designated officer for Risk Management.

The Risk Management Strategy contains clear definitions of the roles and responsibilities for risk identification, management and reporting throughout the Authority, including Internal Audit, Project Managers and partners.

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No	Element of Governance
3.80	<p>The Council has a programme of risk management training for relevant staff and Members on assessing, management and monitoring of risk. A corporate approach to risk management to identify and evaluate risk is disseminated to staff at induction and awareness sessions.</p> <p>A Guide to Risk Management setting out the framework for risk analysis has been approved and communicated via the intranet and workshops.</p>
3.81	<p>The Authority's framework for risk analysis, recording and reporting risk is well defined within the Guide to Risk Management. The framework is communicated to all staff and stakeholders via the intranet and workshops.</p> <p>A Corporate Risk Register identifies the benefits of active risk management at a strategic level; Departmental Risk Registers linked to service plans identify risk management at operational level.</p>
3.82	<p>The authority has an arrangement for financing risk, including requirements for insurance being met and monitoring of incidents of claims and reporting the results of those claims. Periodic reviews of all insurances are the responsibility of the Chief Officers.</p>
3.83	<p>Following the approval and adoption of the new risk management framework in July 2007, and In order to meet objectives set out in the Risk Management Strategy, a programme of training workshops took place for Chief Officers and Service Managers. Further training workshops have taken place during 2009 for Members and remaining staff. New staff and partners receive induction training.</p> <p>Evaluation of the workshop sessions has shown that the updated framework has improved the understanding of the approach to Risk Management and the perception of its importance through all levels of the authority.</p>
3.84	<p>The Modernising Local Government Group has the role of overall co-ordination of risk management throughout the Authority.</p> <p>Reviews of the risk management process are undertaken by the Senior Management Team, including procedures for recording and reporting risk, identifying areas of overlapping risk, reviewing risk training and reviewing risk registers. Changes are reported to Members and Management.</p> <p>The Senior Management Team reviews the Corporate and Departmental risk registers at least twice annually. The Strategic Management Team monitors principal risks at least quarterly.</p>
3.85	<p>The Corporate Governance Lead is the designated officer for Risk Management with the role of management and implementation of the risk management framework, strategy and process on behalf of the Council. Responsibilities include providing the council with guidance, advice and support on risk management, managing the performance of the risk management process and reporting on the effectiveness and implementation of the strategy, supporting the risk champions in delivering their</p>

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**No Element of Governance**

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role and ensuring all appropriate staff are adequately trained in risk management and risk assessment techniques.

3.86 The Risk Management Strategy defines the role of the Service Managers for ensuring staff are aware of risk management and their roles within the organisational structure. Service Managers' responsibilities include communicating the corporate approach to risk management to staff, identifying training needs of staff and reporting these to the Corporate Governance Lead, seeking clarification on corporate risk requirements from the Corporate Governance Lead and passing on the information to all staff, and supporting the Corporate Governance Lead and Officer Risk Champion in their role by facilitating the effective operation of the risk management within their department.

3.87 Risk management is embedded into the authority's business systems to ensure that risk management is an intrinsic part of the way business is conducted and is a part of the corporate planning process linked to business continuity and performance management. At all levels, the levels of activity support each other, is led from the top and is part of the normal working routines and activities of the organisation. Training is planned to ensure that all staff are aware of the relevance of risk to the achievement of their objectives.

3.88 Project Managers and partners are made aware of the risks in partnership working and risk assessments are undertaken before commencement of major projects and are reviewed and reported on a regular basis.

The Contract Management Framework assists in identifying risks of partnership working and to identify risks associated with the project.

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**Controls to Manage Principal Risks**

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3.89 The authority has systems and procedures to mitigate principal risks. The Council of the Isles of Scilly has adopted CIPFA's "Code for Treasury Management in Local Authorities". Management of investments is the responsibility of the Treasurer under the direction of the Policy and Resources Committee and at all times follows the principles laid down in CIPFA's "Code of Guidance on Treasury Management for Local Authorities". The Prudential Indicators continue to be considered to ensure compliance with the Prudential Code.

Financial Regulations contained within the Council's Handbook set out the overall framework that governs the management of the Council's finances.

3.90 The Council's Standing Orders have been formally adopted, are contained within the Council's Handbook, and are reviewed periodically and communicated to all staff via the internet and intranet.

3.91 Communication of internal control processes to staff forms part of the staff induction process and includes Confidential Reporting, Managing Financial Irregularities (whistle-blowing) and Code of Conduct policies. These policies are reviewed periodically and communicated to all staff.

3.92 The Council's Anti Fraud and Corruption Policy has been adopted and is widely communicated to all staff and the public via the Council's website and intranet.

A Register of gifts and hospitality is maintained, reviewed and updated annually.

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No	Element of Governance
3.93	A Code of Conduct has been formally adopted and is communicated to staff as part of the staff induction process. The Code of Conduct policy is reviewed periodically and communicated to all staff via the intranet.
3.94	A Register of Interests, identifying the declarable interests of Members and Officers in relation to community and life interests, is reviewed and updated annually.
3.95	The Council is developing a Scheme of Delegation that incorporates adequate controls and sanctions and has been adopted by Council.
3.96	<p>A Corporate Procurement Strategy has been formally approved and widely communicated to staff and stakeholders via the Council's website and intranet. The procurement policy is reviewed and updated regularly to take account of new initiatives.</p> <p>A Procurement Guide, for those staff dealing with procurement, has been produced and approved by Members and is published on the intranet. The Guide is reviewed on a regular basis.</p> <p>A Contract management Framework has been produced in order to monitor service level agreements and contracts from introduction to the end of the contract, and is published on the intranet.</p> <p>The Contract Management Framework was produced and implemented in order to monitor service level agreements and contracts from introduction to the end of the contract, and is published on the intranet. This has assisted in ensuring all parties to a contract meet their obligations to deliver the objectives required from the contract and achieve value for money. Risks are identified by all parties early in the relationship and continued monitoring and review takes place during each year.</p>
3.97	A framework for the delivery of the Authority's Business Continuity Programme has been agreed and the initial stage completed. The Council lists over 100 services provided to the community and a review of these has resulted in the production of a Corporate Critical Services Priority Report. Business Impact Analyses are currently being conducted for the most critical of these services.
3.98	<p>The Corporate Risk Register identifies, addresses and monitors principal risks. Departmental Risk Registers identify risks from the Service Plan objectives, addresses and monitors risks.</p> <p>Risk owners are assigned to each risk in order for the principal risks to be managed and controlled.</p> <p>Risk Management workshops have taken place for Chief Officers and Service Managers to underpin the principles of the Authority's Risk Management Framework. Further workshops are planned for staff and Members during 2010.</p>
3.99	All risk registers are reviewed by Service Managers at least twice annually.

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**No** **Element of Governance**

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- 3.100 The Internal Control framework is subject to regular assessment and is planned to be developed further. The Council has an objective and professional relationship with external auditors and statutory inspectors.
- 3.101 The corporate Health and Safety policy has been formally approved. An updated policy is has been approved by Council and is to go to consultation prior to final approval. Following final approval, this is to be communicated to all relevant staff via the Council's website and intranet.
- 3.102 A corporate complaints procedure has been formally approved. Members of the public and other stakeholders are made aware of the complaints procedure and policy in operation by leaflet distribution and are included on the Council's website and intranet.
- The public is able to register their dissatisfaction with services of the Council or its staff via the complaints procedure that can be accessed on the website or by hard copy from the Town Hall and are able contact the Ombudsman through the complaints system.
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**4. REVIEW OF EFFECTIVENESS**

The Council of the Isles of Scilly has responsibility for conducting, at least annually, a review of the effectiveness of the governance framework including the system of internal control. The review of the effectiveness is informed by the work of the senior managers within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

The process that has been applied in maintaining and reviewing the effectiveness of the governance framework is:

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**No** **Effectiveness of controls**

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- 4.1 The responsibility for maintaining and reviewing the system of internal control rests with the authority.
- Internal Audit reviews internal controls in operation within each service area. External sources of assurance are received from such agencies as the Audit Commission, OfSTED, the Benefit Fraud Inspectorate and other agencies relevant to the Authority.
- 4.2 Key controls are identified within the Annual Governance Statement and progress reports including examples of assurances and evidence are sent to Chief Officers and relevant Service Managers to give guidance on monitoring the internal controls within their service area.
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**No Effectiveness of controls**


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- 4.3 The Annual Governance Statement and progress reports, including examples of assurances and evidence and actual evidence of supporting documentation, are evaluated by the Strategic Management Team and reported to the Policy and Resources committee at least twice per year.
- Chief Officers and relevant Service Managers have the opportunity to review the controls and provide assurance statements at the end of the financial year.
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- 4.4 External assurance reports are agreed and reviewed by Senior Management and action plans are prepared as appropriate. Reports are taken to the relevant committee and progress on recommendations is reported as appropriate.
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- 4.5 Internal Audit reviews internal controls against known and evolving risks. Actions are planned and reported to Internal Audit. Reports including any recommendations are taken to the appropriate committee.
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- 4.6 A monitoring system for obtaining and evaluating assurances of internal control by the assigned person is in place. Internal and External audit reports are received and reviewed by Chief Officers and Heads of Department.
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- 4.7 Evidence is provided by Service Providers to ensure accuracy of the indicators and is monitored annually. Reports are taken to the relevant committee.
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- 4.8 An Equality and Diversity Group has been established and plans to meet at least 6 weekly to improve monitoring and management of Equality & Diversity.
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- 4.9 A Grant Appraisal Committee has been formed and is intended to improve the quality of grant applications made by the Council of the Isles of Scilly and ensure they are deliverable and pose no reputational or financial risk.
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- 4.10 Responsibilities for evaluation of assurances are stated within the Communication sections of the Risk Strategy and the Local Code of Governance and are to be found on the Council's website and intranet.
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- 4.11 Comprehensive arrangements continue to ensure the timely closedown and production of accurate financial statements for future years.
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- 4.12 Significant improvements have been made in the budget setting process, with Members and Officers fully involved. The Council has moved strongly to a balanced budget position and is strengthening monitoring and reforecasting processes.
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- 4.13 Councils will be required to implement the full requirements of IFRS from 2010/11 and plans are being made to ensure these requirements are met. The Council is developing a plan to manage the transition to accounting and reporting under an IFRS-based Code of Practice on Local Authority Accounting.
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**No Effectiveness of controls**

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4.14 The Council has a rolling programme of Condition and Suitability surveys of all Council Assets. This work is part of a five year rolling assessment and maintenance programme. The survey provides structural information to enable the Council to better assess need in event of future funding application and to effectively develop long term plans for the configuration of Council facilities as evidenced by recent extension and refurbishment to parts of the Town Hall.

In addition, the Council has adopted the Porthcressa Master Plan which focuses on the redevelopment/refurbishment of key Council assets including the rear of Town Hall, Porthcressa shelter/Registry Office, library and Bulb store/garage.

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4.15 Further improvements are planned for the Human Resources strategy including improving the Council's systems which will aide succession planning.

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We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Authority, the chief Officers, Internal Audit and external review, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

## 5. SIGNIFICANT GOVERNANCE ISSUES

The following significant internal control issues have been identified:

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No	Issue	Action Required
5.1	<p>A number of errors in the financial statements were identified. The most important of these included:</p> <ul style="list-style-type: none"><li>the incinerator had not been revalued since 2001.</li><li>the airport runway had been depreciated that differed from that assessed by the District Valuer</li><li>in the fixed asset note to the accounts, the gross book value and accumulated depreciation of 'plant, vehicles and equipment' were overstated, whilst the gross book value</li></ul>	<p>Assets included in the balance sheet at current value are to be formally revalued at intervals of not more than five years.</p>

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No	Issue	Action Required
	<p>and accumulated depreciation</p> <p>of 'other land and buildings' were understated.</p> <ul style="list-style-type: none"> <li>▪ the in-year impairment to fixed assets was incorrectly disclosed in the fixed asset note to the accounts, resulting in both the gross book value and the accumulated depreciation of 'Council dwellings' being materially understated.</li> </ul>	
5.2	<p>A number of weaknesses where key controls were not operating effectively throughout the financial year 2008/09 included:</p> <ul style="list-style-type: none"> <li>▪ key reconciliations were not always being completed monthly;</li> <li>▪ suspense accounts were not being regularly reviewed and cleared;</li> <li>▪ key IT policies in respect of disaster recovery and access control were not fully implemented; and</li> <li>▪ effective credit control of debtors balances had not operated effectively throughout the year.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Work has been undertaken to ensure greater control over reconciliations</li> <li>▪ A number of IT policies have been strengthened and reissued during the year. Work continues on others</li> <li>▪ An improved system of credit control is being developed and will be brought into effect early in 2010/11</li> </ul>
5.3	<p>The need for further improvement was identified in two criteria; use of information and performance management, and strategic asset management.</p>	<p>Key actions include:</p> <ul style="list-style-type: none"> <li>▪ the capacity of the finance team has been improved so that it can achieve higher standards of financial reporting and implement new requirements including International Financial Reporting Standards; See paragraph 4.13</li> <li>▪ improved arrangements have been made for use of information and performance management. See 3.65; and</li> <li>▪ arrangements for asset management have improved and further improvements are planned for 2010. See paragraph 4.14.</li> </ul>



No	Issue	Action Required
5.4	A list of all claims requiring audit and certification should be provided in good time in accordance with the grants protocol. Ensure there is an adequate audit trail of supporting documentation for all relevant figures included in claims and returns.	The protocol will be implemented as part of the 2009/10 process for the audit and certification of claims.
5.5	An issue has arisen in connection with Recruitment and Retention of some staff within the Authority which has given rise to significant public interest.	Full due process of the Council has been adhered to and numerous external advisors have been involved.

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed: .....

Signed: .....

Dated: .....

Dated: .....

**Chairman of the Council**

**Chief Executive**

**Auditor's Report and Opinion**