

COUNCIL OF THE ISLES OF SCILLY



STATEMENT OF ACCOUNTS

2006/2007

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Explanatory Foreword

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 2006/2007 are set out in the pages that follow. They consist of:

1. Income and Expenditure Account (I&E) (page 10) – a summary of resources generated and utilised by the Council in the year.
2. Statement of Movement on the General Fund Balance (page 11) – a reconciliation showing how the balance of resources generated/utilised in the year links in with the statutory requirements for raising council tax.
3. Statement of Total Recognised Gains and Losses (page 11) – demonstration of how the movement in the net worth in the Balance Sheet is identified to the I&E Account surplus/deficit and to other unrealised gains and losses.
4. Balance Sheet (page 12) – analyses the end of year financial position of the Council by outlining its assets, liabilities and net worth.
5. Cash Flow Statement (page 13) – shows all the sources of cash and how the cash was disbursed throughout the year.
6. Housing Revenue Account (HRA) Income and Expenditure Account (page 27) – shows in more detail the income and expenditure on HRA services.
7. Statement of Movement on the HRA Balance (page 27) – 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.
8. Collection Fund (page 28) – shows the transactions of the council in relation to non-domestic rates and Council tax.

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.

CIPFA Statement of Recommended Practice 2006/07 (SORP)

The 2006/07 Statement of Recommended Practice (SORP) has introduced a number of changes to the 2006/2007 Statement of Accounts. The most significant of these changes are:

- Removal of the requirement to make a capital financing charge.
- Replacement of the Consolidated Revenue Account and Statement of Total Movement on Reserves with an Income and Expenditure Account, Statement of Movement on the General Fund Balance and Statement of Total Recognised Gains and Losses (STRGL).
- Changes to the format of the Housing Revenue Account (HRA) to bring it in line with the above, i.e. HRA Income and Expenditure Account and Statement of Movement on the HRA Balance.

- A requirement to group the financial statements together as core or supplementary with corresponding notes. The core statements i.e. Income and Expenditure Account, Statement of Movement on the General Fund Balance and STRGL, Balance Sheet and Cash Flow Statement, should be presented first followed by the notes to the core financial statements, followed by the supplementary statements e.g. HRA Income and Expenditure Account and finally the notes to the supplementary statements.

Restatement of Accounts

The changes outlined above in respect of the SORP have led to a number of changes to the comparative information used throughout the financial statements. An analysis of these changes are outlined in Note 1 to the Core Financial Statements (page 14). The changes have had no impact on the bottom line position of the General Fund.

2006/2007 Revenue Expenditure

Details of the Authority's Revenue expenditure for the year are provided in the Income and Expenditure Account on page 10. The Account is classified in accordance with the CIPFA Best Value Accounting Code of Practice (BVACoP) Standard Service Expenditure Classification.

The overall expenditure and variances for each Committee's budget, excluding Trading Services, is set out below:

	Original Budget £000's	2006/2007 Actual £000's	Variance £000's
Community Services	859	614	245
Children's Services	465	311	154
General Purposes	1,344	987	357
Health Scrutiny	3	3	0
HRA	110	51	59
Licensing	12	15	(3)
Planning & Economic Development	206	130	76
Policy and Resources	1,185	929	256
Sea Fisheries	8	7	1
Standards	3	6	(3)
Tourism	106	103	3
Transport Strategy Select	11	9	2
Net Expenditure as per I&E Account	4,312	3,165	1,147

The Council has underspent against its budget for the year due largely to compliance with the changes for interest charges for capital assets (£0.5m) and successfully securing additional grant and other income. Revenue Support Grant received for 2006/07 was £269,000. The funding for education was separately allocated to the Council and totalled £2,346,000. Further details are included in Note 28, page 26, of the notes to the core financial statements. Revenue balances stand at £4,472,000 at the year end, of which £3,096,000 is set aside for specific purposes. This compares with £4,503,000 at the end of 2005/06 of which £3,123,000 was for specific purposes. Included in these totals are the balances of the General Fund, Housing Revenue Account, the Water and Sewerage Revenue Accounts, Earmarked Reserves and the Schools' balances. The sums shown against the airport heading includes the net effect of Revenue Support Grant contribution made by Central Government towards loan charges for expenditure on the Airport Runway Scheme.

FRS 17 – Pension Fund Requirements

Financial Reporting Standard 17 requires disclosure in the accounts of transactions, assets and liabilities in respect of the Pension Fund operated on our behalf by Cornwall County Council. The Council of the Isles of Scilly pension liability stands at £1,447,000 which is significant; however, the deficit has reduced by some £620,000 during this financial year and will continue to be made good by increased contributions over the remaining working life of our employees, as assessed by the actuary. This may mean increased burdens on the Council's revenue account over the forthcoming years.

2006/2007 Housing Revenue Account

The Council were able to contribute a total sum of £82,000 to HRA reserves; £11,000 to the HRA Account, £68,000 to the Major Repairs Reserve and £3,000 to the Housing Repairs Account. We have also continued to apply the Government's rent restructuring reforms and during 2006/07, increases or decreases of no more than 70p per week were applied.

The Council made a commitment to support housing development on the Islands in partnership with housing associations. This was achieved in 2006/2007 through the contribution of land, in lieu of cash, to support the construction of additional social housing. The impact of this contribution is appropriately reflected in the financial statements and the notes accompanying them.

Capital Expenditure 2006/2007

The Council spent £513,000 (£637,000 in 2005/2006) on approved capital schemes during the year. The Capital Programme was principally funded by Reserves (59%) and Grants (32%). Details of the schemes are outlined below:

	2006/2007 £000s	2005/2006 £000s
Airport	83	85
Education	130	114
Fire & Rescue service	45	4
General Purposes	126	70
Housing & Corporate Property	22	22
Policy and Resources	36	256
Water & Sewerage	71	86
Total	513	637

The Council have commenced a three-year review of its assets, 2006/2007 being year one. The outcome of these reviews will be considered when setting the budgets in future years.

Conclusion

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

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

Statement of Accounting Policies

1. General Principles

The Statement of Accounts has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice 2006 (SORP). They summarise the Council's transactions for the 2006/2007 financial year and its position at the 31st March 2007. The accounting convention of historical cost has been utilised, adapted only to reflect the revaluation of certain categories of tangible fixed assets.

Where the SORP has identified new/amended policies, the policies of the Council have been amended and adopted to reflect these changes when compiling the financial statements for 2006/2007.

2. Accounting Concepts

The Accounts have been prepared in accordance with the concepts of going concern and accruals as required by FRS 18 *Accounting Policies* and also with the concept of the primacy of legislative requirements.

3. Debtors and Creditors

The revenue transactions of the Council are recorded on an income and expenditure basis at the time that the service is received or provided, irrespective of whether the cash has actually been paid or received. The Council does not apply the accruals concept to quarterly accounts for energy and telephone payments, which are recorded as expenditure items at the date of the meter readings.

4. Stocks and Stores

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

5. Provisions and Reserves

Provisions are required for any liabilities of uncertain timing or amount that have been incurred. Provisions are required to be recognised under FRS 12 (Provisions, Contingent Liabilities and Contingent Assets) when:

- The local Authority has a present obligation (legal or constructive) as a result of a past event.
- It is probable that a transfer of economic benefits will be required to settle the obligation.
- A reliable estimate can be made of the amount of the obligation.

This definition includes provisions for bad debts.

Reserves are maintained to meet future expenditure of a general nature not covered by the definition of Provisions, and could potentially be used for the funding of Capital Expenditure, the replacement or renewal of Assets, or the sponsorship of a major event by the Council.

The Capital Accounting system requires the maintenance of two additional reserves:

- The Fixed Asset Restatement Account, which represents principally the balance of the surpluses or deficits arising on the periodic revaluation of fixed assets;
- The Capital Financing Account, which represents amounts set aside from revenue resources or capital receipts to finance expenditure on fixed assets or for the repayment of external loans and certain other capital financing transactions.

The revised provisions of FRS17 (Retirement Benefits) includes the establishment of a Pensions Reserve. This reserve has two principal functions, being to offset the Net Pensions Asset/Liability that has to be maintained in the Authority's Balance Sheet; and in doing so to also negate the effect of in-year pensions liability costs recognised in the Consolidated Revenue Account. This reserve is similar to the two Capital reserves (above) in that it does not constitute funds that can be used by the Authority to finance expenditure.

6. 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.

7. Tangible Fixed Assets

Tangible fixed assets are assets that have physical substance and are held for use in the provision of services. All expenditure on the acquisition, creation or enhancement of tangible fixed assets has been capitalised on an accruals basis.

Assets are initially measured at cost and subsequently introduced into the balance sheet using the following measurement bases:

- Investment properties and assets surplus to requirements – lower of net replacement cost or net realisable value
- Dwellings & other land and buildings - lower of net current replacement cost or net realisable value in existing use
- Infrastructure assets, vehicles and plant and community assets – depreciated historical cost

In order to ensure accurate valuations of its assets, a five-year rolling programme of revaluations was introduced, commencing 1st April 1998 with amendments being made each subsequent April. The basis of valuations is as follows:

- Non-Specialised operational property - open market value for existing use
- Specialised operational property – depreciated replacement cost
- Non-operational property - Open Market Value
- Infrastructure Assets - Historic Cost
- Community Assets - at a Nominal Sum

When a valuation is undertaken, impairment is also considered. Where a loss is identified that is attributable to the clear consumption of economic benefit, the loss is charged to the relevant service revenue account. In all other instances, the loss is written off against the Fixed Asset Restatement Reserve.

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.

The Council currently operates with a de-minimus level of £6000, when capitalising expenditure.

8. Depreciation

Assets other than land are being depreciated over their useful economic life. Where depreciation is provided for, assets are being depreciated using the straight line method over the following periods:

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

9. Deferred Charges

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

10. Charges to Revenue for Fixed Assets

The charges made to service revenue accounts, central support services and the depot accounts represents depreciation, impairment losses due to economic consumption and amortization of intangible fixed assets. The Council is not required to raise council tax to cover these costs.

11. Government Grants

The Code of Practice 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. 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. Capital grants principally relate to Children's Services, Education, Waste Disposal, Coastal Protection and the Airport.

12. Cost of Support Services

These costs, which include staff salaries, establishment costs and office expenses, are almost fully 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.

13. Local Government Pension Scheme and FRS 17 – Retirement Benefits

We pay an employer's contribution into the Cornwall County Council pension fund which provides staff 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 the General Fund 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.

14. Investments

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

15. Trading Services

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

16. VAT

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

17. Post Balance Sheet Events

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

18. Contingent Assets, Liabilities or Provisions

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

19. Internal Interest

Interest is credited to the Housing Repairs Account based upon the level of balances throughout the year. The amount is calculated using the average London Interbank Bid rates for 2006/07.

20. Capital Receipts

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. Prior-period Adjustments

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

Statement of Responsibilities and Certification of the Statement of Accounts

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

The Treasurer is responsible for:

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

The Council is responsible for:

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

Certification by the Treasurer

I certify that in my opinion the Statement of Accounts presents fairly the financial position of the Council of the Isles of Scilly at 31 March 2007, and its income and expenditure for the year ended.

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



Barry Archer
Treasurer

Date: 1 October 2007

Certification by the Chairman of the Council

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



Christine Savill
Chairman of Council

Date: 9 October 2007

Further information

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

Income and Expenditure Account

This account summarises the expenditure incurred to provide the broad range of services for which the council has responsibility. It also demonstrates how these costs have been financed. The 2005/2006 comparative position has been restated to comply with the 2006 SORP changes (Note 1).

	Gross Expenditure	2006/2007 Income	Net Expenditure	2005/2006 Net Expenditure	Note
	£000's	£000's	£000's	£000's	
Central Services	1,280	269	1,011	890	1
Corporate and Democratic Core	146	151	(5)	(35)	1
Cultural, Environmental and Planning Services	2,053	1,347	706	739	1
Education Services	2,957	2,742	215	1,593	1
Fire Services	382	29	353	329	1
Highways, Roads and Transport Services	127	0	127	102	1
Housing Services	784	695	89	89	1
Social Services	874	205	669	470	1
Net Cost of Services	8,603	5,438	3,165	4,177	
(Gain)/Loss on Disposal of Fixed Assets			95	425	1,11
Parish Council/Community Council Precepts			0	0	
(Surplus)/Deficit on Trading Services			(37)	(216)	1,3, 4
Interest Payable and Similar Charges			88	101	1
Contribution to Housing Capital Receipts Pool			0	0	
Interest and Investment Income			(110)	(103)	
Investment Losses			0	0	
FRS17 Interest Costs and Expected Return on Pension Assets			(24)	27	23
Net Operating Expenditure			3,177	4,411	
Collection Fund			(1,098)	(1,038)	
Revenue Support Grant			(269)	(2,311)	
Non-Domestic Rates			(1,391)	(734)	
(Surplus)/Deficit for the Year			419	328	22, 24

Statement of Movement on General Fund Balances

This statement summarises the differences between the (surplus)/deficit on the Income and Expenditure Account and the General Fund Balance.

	2006/2007	2005/2006	Note
	£000s	£000s	
Deficit for the year on the Income and Expenditure Account	419	328	
Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund balance for the year	(415)	(539)	2
(Increase)/Decrease in General Fund balance for the year	4	(211)	
General Fund Balance brought forward	(1,249)	(1,038)	22
General Fund Balance carried forward	(1,245)	(1,249)	22

Statement of Total Recognised Gains and Losses

	2006/2007	2005/2006	Note:
	£000s	£000s	
Deficit for the year on the Income and Expenditure Account	419	328	
(Surplus)/Deficit arising on revaluation/impairment of Fixed Assets	(1,346)	2,327	11
Actuarial (gain)/loss on pension fund assets and liabilities	(645)	(26)	24
Total Recognised (gains)/losses for the year	(1,572)	2,629	

The adjustments for the prior period have not resulted in the restatement of reserves for 2005/2006.

Balance Sheet

	31st March 2007	31st March 2006	Note:
	£000s	£000s	
Intangible Fixed Assets	0	0	
Tangible Fixed Assets			
Operational Assets:			
Council Dwellings	12,064	11,663	}
Other land and buildings	8,744	7,701	}
Vehicles, plant, furniture and equipment	1,140	1,244	}11-15
Infrastructure assets	5,070	5,256	}
Community Assets	0	0	}
Non-operational Assets:			
Investment properties	396	266	11-15
Assets under construction	20	0	
Total Fixed Assets	27,434	26,130	
Long-term investments	10	10	29
Long-term debtors	0	0	
Deferred premiums on the early repayment of debt	0	0	
Total Long-term assets	27,444	26,140	
Current Assets			
Stocks and work-in-progress	97	99	17
Debtors	613	690	18
Investments	0	0	
Cash and bank	2,703	2,283	
	3,413		
Total Assets	30,857	29,212	
Current liabilities			
Short-term borrowing	(701)	(701)	
Creditors	(1,943)	(1,772)	19
Provisions	(57)	(32)	20,21
	(2,701)		
Total Assets less Current Liabilities	28,156	26,707	
Long-term liabilities			
Long-term borrowing	(868)	(1,070)	16
Government Grants Deferred	(2,571)	(2,827)	13
Deferred Capital Grants	(959)	0	22
Liability related to defined benefit pension scheme	(1,447)	(2,067)	23
	(5,845)		
Total Assets less liabilities	22,311	20,743	
Financed by:			
Fixed Asset Restatement Account	18,266	16,461	}
Capital Financing Account	746	792	}
Deferred Capital Grants	0	(780)	
Usable Capital Receipts Reserve	274	274	}
Pensions Reserve	(1,447)	(2,067)	}
General Fund Balance	1,641	1,588	}
Housing Revenue Account Balance	595	513	}
Earmarked Reserves	2,236	2,402	}
Total Net Worth	22,311	19,963	

Cash Flow Statement

	2006/2007		2005/2006	<i>Note:</i>
	£000s	£000s	£000s	
Revenue Activities				
Cash Outflows				
Cash paid to and on behalf of employees	4,173		3,839	
Other operating cash payments	4,249		3,0782	
Housing Benefit paid out	275		239	
National non-domestic rate payments to national pool	1,040		941	
Precepts paid	174		156	
Payments to the Capital Receipts Pool	0		0	
		9,911	8,247	
Cash Inflows				
Rents (after rebates)	(583)		(588)	
Council Tax Receipts	(1,229)		(1,172)	
Precepts received	0		0	
National non-domestic rate receipts from national pool	(1,391)		(734)	
Non-domestic rate receipts	(966)		(885)	
Revenue Support Grant	(269)		(2,311)	
DSS grants for benefits	(288)		(251)	
Other Government Grants	(3,976)		(1,733)	27
Cash received for goods and services	(1,653)		(902)	
Other operating cash receipts	(101)		(512)	
		(10,456)	(9,088)	
Net Revenue Activities cash flow		(545)	(841)	24
Returns on Investments and Servicing of Finance				
Cash Outflows				
Interest paid	93		101	
Interest element of finance lease rental payments	0		0	
Cash Inflows				
Interest Received	(121)	93	(103)	
		(121)		
Net Returns on Investments and Servicing of Finance cash flow		(28)	(2)	
Capital Activities				
Cash Outflows				
Purchase of Fixed Assets	513		637	
Cash Inflows				
Capital grants received	(505)		(322)	
Net Capital Activities cash flow		8	315	
Net cash (inflow)/outflow before financing		(565)	(528)	
Financing				
Cash Outflows				
Repayments of amount borrowed	701		701	
Cash Inflows				
New loans raised	(500)		(500)	
Net Financing		201	201	
Net (increase)/decrease in cash		(364)	(327)	25

Note 1: Reconciliation of 2005/06 Consolidated Revenue Account to 2005/06 Income and Expenditure Account.

In the 2006/07 Statement of Accounts, to ensure compliance with the 2006 Statement of Recommended Practice (SORP), the Council has adopted three new accounting policies that will have an impact on the comparative figures in the 2005/06 Income and Expenditure Account:

- Capital financing charges for the use of fixed assets are no longer made to service revenue accounts, support services and trading accounts.
- Credits for Government Grants deferred are now posted to service revenue accounts, support services and trading accounts rather than credited as a corporate income item.
- Gains and losses on the disposal of fixed assets are recognised in the Income and Expenditure Account.

The table below analyses the impact that these changes have had on those figures published in the 2005/06 Statement of Accounts. A figure is not included in the table if it has not changed as a result of implementing the SORP.

	2005/06 CRA (Statement of Accounts)	Removal of Capital Financing Charges	Relocation of Government Grants Deferred Credits	Recognition of Gains/ losses on Disposal of Assets	2005/06 Comparative Income & Expenditure Account
	£000s	£000s	£000s	£000s	£000s
Central Services	951	(13)	(48)	-	890
Corporate and Democratic Core	52	(86)	(1)	-	(35)
Cultural, Environmental and Planning Services	987	(152)	(96)	-	739
Education Services	1,670	(49)	(28)	-	1593
Fire Services	337	(8)	-	-	329
Highways, Roads and Transport	104	(2)	-	-	102
Housing Services	596	(507)	-	-	89
Social Services	490	(19)	(1)	-	470
Impact on Net Cost of Services	5,187	(836)	(174)	-	4,177
Net (Surplus)/ Deficit on Trading Services	(12)	(162)	(42)	-	(216)
Loss on disposal of Asset	-	-	-	425	425
AMRA - interest payable and similar charges	(1,113)	998	216	-	101
Impact on Net Operating Expenditure	4,062	0	0	425	4,487

Note 2: 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.

	2006-2007 £000s	2005-2006 £000s
Amortisation of intangible assets	0	0
Depreciation and impairment of fixed assets	(1014)	(925)
Government Grants Deferred amortization	256	216
Write downs of deferred charges to be financed from capital resources	0	0
Net loss on sale of Fixed Assets	(95)	(425)
Net charges made for retirement benefits in accordance with FRS 17	(376)	(277)
Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the movement on the General Fund balance for the year	(1,229)	(1,411)
Minimum Revenue Provision for Capital Financing	242	330
Capital expenditure charged in-year to the General Fund Balance	305	202
Transfer from Usable Capital Receipts to meet payments to the Housing Capital Receipts Pool	0	0
Employers contributions payable to the Pension Fund and retirement benefits payable direct to pensioners	351	250
Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the Movement on the General Fund Balance for the year	898	782
Housing Revenue Account balance	82	66
Voluntary revenue provision for capital financing	0	0
Net transfer to or from earmarked reserves/other statutory funds	(166)	24
Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year	(84)	90
Net additional amount required to be credited to the General Fund Balance for the year	(415)	(539)

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.

	2006/2007			2005/2006
	Gross Expenditure £000s	Income £000s	(Surplus)/ Deficit £000s	(Surplus)/ Deficit £000s
Airport	925	876	49	(88)
Building Control	27	27	0	(4)
Water	337	342	(5)	(44)
Sewerage	88	174	(86)	(85)
Tourism (Brochures)	66	95	(29)	(18)
Commercial Trade Refuse	149	115	34	23
Total	1,592	1,629	(37)	(216)

Note 4: Building Regulations Charging Account

The Building (Local Authority Charges) Regulations 1998 require the disclosure of information regarding the setting of charges for the administration of the building control function. The statement below shows the total cost of the chargeable activities of the building control unit identified as chargeable and non-chargeable activities.

	2006/2007			2005/2006
	Chargeable £000s	Non-chargeable £000s	Total £000s	Total £000s
Expenditure				
Employee expenses	2	0	2	1
Transport	3	0	3	4
Supplies & Services	1	0	1	1
Central and support service charges	21	0	21	14
Total Expenditure	27	0	27	20
Income				
Building Regulations Charges	27	0	27	(24)
Miscellaneous Income	0	0	0	
Total Income	27	0	27	(24)
(surplus)/Deficit for the year	0	0	0	(4)

Note 5: Expenditure on Publicity (S5 Local Government Act 1986)

The council's expenditure on publicity was as follows:

	2006/2007 £000s	2005/2006 £000s
Recruitment Advertising	16	10
Other	4	2
Total	20	12

Note 6: Section 137 Expenditure

Section 137 of the Local Government Act 1972, as amended, empowers local authorities to make contributions to certain charitable funds, not-for-profit bodies providing a public service and mayoral appeals. The council's expenditure under this power was £1,500 (£2,100 in 2005/2006).

Note 7: Income from Goods and Services

The Council is empowered by the Local Authority (Goods and Services) Act, 1970 to provide goods and services to other public bodies, however, income from this source has been nil this financial years as in previous years.

Note 8: Officers Emoluments & Members' Allowances

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

Remuneration Bands:	2006/2007	2005/2006
50,000 – 59,999	2	3
60,000 – 69,999	2	1
70,000 – 79,999	1	0

The total amount of allowances paid to Members during the year was £77,500. (2005/2006: £41,000).

Note 9: Related Party Transactions

During the year, transactions with related parties arose as follows:

	2006/2007 £000s	2005/2006 £000s
Central Government		
Revenue Support Grant and other grants	4,245	3,728
Precepts and Levies		
Devon and Cornwall Police Authority	174	156
Pension Contributions (Employers)		
Cornwall County Council	349	286
Teachers' Pension Agency	116	102

Note 10: External Audit Costs

The Authority incurred the following fees relating to external audit and inspection:

	2006/2007 £000s	2005/2006 £000s
External Audit Services	53	45
Inspection Fees	16	8
Grant Claims	5	2
Other	1	0
Total	75	55

The other costs represent training support that has been provided by the Audit Commission as part of our staff training program.

Note 11: Movement on Fixed Assets

	Council Dwellings		Other	Vehicles,	Infra-	Total
	Housing Revenue	General Fund	land and buildings	plant etc	structure	
	£000s	£000s	£000s	£000s	£000s	£000s
Gross Value at 31/3/06	11,811	2,047	6,511	2,892	6,703	29,964
Accumulated depreciation and impairment	(148)	(102)	(754)	(1,648)	(1,447)	(4,099)
Net book value at 31/3/06	11,663	1,945	5,757	1,244	5,256	25,865
Movement in 2006/2007:						
Additions	22	0	179	238	54	493
Disposals	0	0	(95)	0	0	(95)
Revaluations	384	74	954	0	0	1,412
In-year depreciation	(153)	(53)	(226)	(342)	(240)	(1,014)
Adjusted b/f depreciation	148	11	394	0	0	553
Impairments	0	0	(196)	0	0	(196)
Net Value at 31/3/07	12,064	1,977	6,767	1,140	5,070	27,018
Net value at 31/3/06	11,663	1,945	5,757	1,244	5,256	25,865

	Assets under Construction	Investment properties	Total	Total Fixed Assets
	£000s	£000s	£000s	£000's
Gross Value at 31/3/06	0	266	266	30,230
Accumulated depreciation and impairment	0	0	0	(4,099)
Net book value at 31/3/06	0	266	266	26,131
Movement in 2006/2007:				
Additions	20	0	20	513
Disposals	0	0	0	(95)
Revaluations	0	130	130	1,542
In-year Depreciation	0	0	0	(1,014)
Adjusted b/f depreciation				553
Impairments	0	0	0	(196)
Net Value at 31/3/07	20	396	416	27,434
Net Value at 31/3/06	0	266	266	26,131

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 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 12: Capital Expenditure and Financing

	2006/2007 £000s	2005/2006 £000s
Opening Capital Financing Requirement	6,050	6,303
Capital Investment		
Operational Assets	493	637
Non-operational Assets	20	0
Deferred Charges	0	0
Sources of Finance		
Capital Receipts	0	0
Government grants and other contributions	(165)	(357)
Revenue Contribution	(305)	(202)
Minimum Revenue Provision	(242)	(331)
Closing Capital Financing Requirement	5,851	6,050
Explanation of movements in the year		
Increase in underlying need to borrowing (supported by Government financial assistance)	0	7
Increase in underlying need to borrowing (unsupported by Government financial assistance)	199	246
Increase in Capital Financing Requirement	199	253

Note 13: Government Grants Deferred

The table below summarises the movements on government grants deferred during the year.

	2006/2007				Total £000s
	Incinerator £000s	Airport £000s	Coastal Protection £000s	Other £000s	
Gross value 1 st April 2006	276	301	1,632	618	2,827
Additions					
Grants Released	(9)	(33)	(54)	(160)	(256)
Gross value 31st March 2007	267	268	1,578	458	2,571

Note 14: Tangible fixed assets

The council is required to give a descriptive insight into the range of assets that make up our tangible fixed assets in the balance sheet. Major assets held at 31st March 2006, are as follows:

Council Houses	108
General Fund Houses	9
Garages	20
Education – School Buildings	1
- Hostel	1
Residential Care Home	1
Administrative Buildings	4
Public Conveniences	6
Airport	1
Airport – vehicles and moveable plant	4
Works Depot	1
Works – vehicles and plant	19
Incinerator	1
Reservoirs	3
Desalination Plant	1
Water/sewerage pumping stations	4
Industrial Estate	1
Fire Station (St. Mary's)	1
Fire Stations (Off-Islands)	4
Fire Service vehicles	7
Cemetery	1
Park/garden	1
Miscellaneous Buildings	4
Roads (adopted)	14.5km

Note 15: 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 at 31st March 2007. 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.

	Council Dwellings		Other	Vehicles,	Infra-	Invest-	Total
	Housing	General	land and	plant	structure	ment	
	Revenue	Fund	buildings	etc.		properties	
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Valued at historical cost	-	-	-	1,140	5,070	-	6,210
Valued at current value in:							
2006/07	12,064	288	2,577	-	-	316	15,245
2005/06	-	-	-	-	-	-	-
2004/05	-	1,689	4,118	-	-	80	5,887
2003/04	-	-	-	-	-	-	-
2002/03	-	-	63	-	-	-	63
2001/02	-	-	9	-	-	-	9
	12,064	1,977	6,767	1,140	5,070	396	27,414

Note 16: Analysis of long-term borrowing

	As at 31 st March 2007	As at 31 st March 2006
Analysis of loans by type:		
Public Works Loan Board	868	1070
	868	1070
Analysis of loans by maturity:		
Between 1 and 2 years	154	201
Between 2 and 5 years	366	441
Between 5 and 10 years	271	308
More than 10 years	77	120
	868	1070

Note 17: Stock

	2006/2007 £000s	2005/2006 £000s
Stone	1	1
Tiles	2	2
Cylinders	1	1
Water and Desalination Plant	60	65
Tourist Information Centre	2	2
Airport	12	9
Incinerator	19	19
Total	97	99

Note 18: Debtors

	2006/2007 £000s	2005/2006 £000s
Government Grants	40	131
Rates and Taxpayers	33	46
Housing Tenants	18	18
Sundry Debtors	642	615
	733	810
Less Provision for bad and doubtful debtors	(120)	(120)
Total	613	690

Note 19: Creditors and Receipts in Advance

	2006/2007 £000s	2005/2006 £000s
Sundry Creditors	737	631
Government Grants overpaid	1,187	931
Rate and Taxpayers	15	16
Housing Tenants	1	2
Capital Creditors	0	188
Rents Accrued	3	4
Total	1,943	1,772

Note 20: Provisions

The council has established a provision to recognise those liabilities which arose during the financial year 2006/07 but remained unpaid as at 31st March 2007. The provision stands at £57,000.

Note 21: Contingent Liabilities

An amount of £51,400 is being claimed by Cambridge Education for consultancy fees. The council disputes the validity of these invoices and has returned the invoices accordingly.

Note 22: 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 practise or may be earmarked resources for future spending plans.

Reserve	Balance 1/4/06	In-year Movement		Balance 31.3.07
	£000s	(In) £000s	Out £000s	£000s
Fixed Asset Restatement Reserve	(16,461)	(2,180)	375	(18,266)
Capital Financing Account	(792)	(968)	1,014	(746)
Usable Capital Receipts	(274)	0	0	(274)
Pensions Reserve	2,067	(620)	0	1,447
Housing Revenue Account	(186)	(11)	0	(197)
Major Repairs Reserve	(191)	(68)	0	(259)
Housing Repairs Account	(136)	(95)	92	(139)
General Fund	(1,249)	0	4	(1,245)
Collection Fund	(131)	0	0	(131)
School Fund	(208)	(57)	0	(265)
Water Reserve	(495)	(5)	52	(448)
Airport Reserve	(602)	0	133	(469)
Capital Reserve	(238)	0	45	(193)
Repairs Fund	(683)	(79)	106	(656)
Plant Fund	(89)	(18)	0	(107)
Sewerage Reserve	(285)	(86)	18	(353)
Equipment Fund	(10)	0	0	(10)
Deferred Capital Receipts	(780)	(540)	361	(959)
Total	(20,743)	(4,727)	2,200	(23,270)

Movement on Fixed Asset Restatement Reserve:

	£000s
Opening Balance 1 st April 2007	(16,461)
Add: Disposal	95
Impairment	197
	<u>(16,170)</u>
Less: Revaluation	(2,095)
Closing Balance 31 st March 2007	<u>(18,266)</u>

Movement on Capital Financing Account:

	£000s
Opening Balance 1 st April 2007	(792)
Add: Depreciation	1,014
	222
Less: MRP	(242)
Deferred Charges	(256)
Contributions to Expenditure	(470)
Closing Balance 31 st March 2007	<u>(746)</u>

Note 23: Local Government Pension Scheme

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

The Authority participates in the Local Government Pension Scheme administered by Cornwall County Council. This is a funded scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pension's liabilities with investment assets. An employer's contribution of £349,000 representing 20.2% of Superannuable Pay, (2005/06 £275,000 18.5%) 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:

	2006/2007 £000s	2005/2006 £000s
Income and Expenditure Account		
Net cost of services:		
Current Service Cost	400	271
Net Operating Expenditure		
Expected return on assets in the scheme	(457)	(372)
Interest Costs	433	399
	(24)	27
Net Charge to the Income and Expenditure Account	376	298
Statement of Movement on the General Fund Balance		
Reversal of net charges made for retirement benefits in accordance with FRS 17	(376)	(277)
Employers Contributions payable	351	250

The underlying assets and liabilities for retirement benefits attributable to the authority as at 31st March 2007 are as follows:

	2006/2007 £000s	2005/2006 £000s
Estimated liabilities in the scheme	8,855	8,770
Estimated assets in the scheme	7,408	6,703
Net asset/(liability)	(1,447)	(2,067)

The net position indicates the council's commitment to reducing the deficit position by increasing contributions over the remaining working life of employees, as assessed by the scheme actuary.

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. The liabilities have been assessed by Hymans Robertson, an independent firm of actuaries. They are based on the latest full valuation of the scheme as at 31st March 2007.

The main assumptions used in their calculations are as follows:

	31st March 2007 % Per Annum	31st March 2006 % Per Annum
Price increases	3.2	3.1
Salary Increases	5.2	5.1
Pension Increases	3.2	3.1
Discount Rate	5.4	4.9

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

	31st March 2007 % Per Annum	31st March 2006 % Per Annum
Equity Investments	7.8	7.4
Bonds	4.9	4.6
Property	5.8	5.5
Cash	4.9	4.6

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

	2006/2007 £000s	2005/2006 £000s	2004/2005 £000s	2003/2004 £000s	2002/2003 £000s
Actual return less expected return on assets	141	1,006	226	563	(1,085)
Experience gains and losses arising on Liabilities	2	(2)	229	(17)	18
Changes in assumptions underlying the present value of liabilities	502	(978)	(1,209)	0	0
Actuarial Gain/(Loss) in Pension Plan	645	26	(754)	546	(1,067)

Note 24: Reconciliation of net surplus/deficit on the I&E Account to the revenue activities net cash flow shown in the Cash Flow Statement.

	2006/2007 £000s	2005/2006 £000s
General Fund (Surplus)/Deficit	419	328
Collection Fund (Surplus)/Deficit	0	10
	419	338
Adjustment for non-cash transactions		
Depreciation and Impairment of Fixed Assets	(1,014)	(925)
Contribution (to)/from Reserves	166	(24)
Government Grants Deferred	256	216
Profit/(loss) on disposal of Fixed Assets	(95)	(425)
Net Retirement Benefit Charges	(24)	27
	(711)	(1,131)
Adjustments for items on an accruals basis		
(Increase)/Decrease in total creditors	(171)	(58)
(Increase)/Decrease in total provisions	(25)	0
Increase/(Decrease) in total stocks	(2)	9
Increase/(Decrease) in total Debtors	(77)	(1)
	(275)	(50)
Items classified elsewhere in the Cash Flow Statement		
Interest received	110	103
Interest paid	(88)	(101)
	22	
Revenue Activities net cash flow	(545)	(841)

Note 25: Reconciliation of the movement in cash to the movement in net debt

	2006/2007 £000s	2005/2006 £000s
Increase/decrease in cash in the period		
Cash inflow from new debt	(500)	(500)
Investment	0	0
Cash outflow from debt repaid and finance lease payments	701	701
Cash inflow/outflow from decrease/increase in liquid resources	364	327
Change in net debt resulting from cash flows	565	528
Net Debt 1st April 2006	304	(224)
Net Debt 31st March 2007	869	304

Note 26: Reconciliation of financing and management of liquid resources section of Cash Flow Statement to the Balance Sheet

	1st April 2006 £000s	Movement in-year £000s	31st March 2007 £000s
Bank and Cash in Hand	2,283	420	2,703
School Bank Accounts	(208)	(56)	(264)
	2,075	364	2,439
Loans outstanding at 31 st March 2007	(1,771)	201	(1,570)
Net Cash Balances	304	565	869

Note 27: Analysis of Government Grants

	2006/2007 £000s	2005/2006 £000s
Transitional Relief	121	191
Council Tax Discounts	105	96
Cost of Collection	23	23
Standards Fund	238	719
Other	3489	704
Total	3976	1,733

Note 28: Disclosure of deployment of Dedicated Schools Grant

The council's expenditure on schools is funded by grant monies provided by the Department for Education and Skills (DFES). For this council, this also includes funding previously referred to as Standards Fund. Details of the use of the funding for 2006/2007 are as follows:

	Central Expenditure £000s	Individual Schools Budget £000s	Total £000s
Original grant allocation to Schools Budget for the current year in the authority's budget	513	1,833	2,346
Adjustment to finalized grant allocation	0	0	0
IOS Education Grant receivable for the year	520	1,833	2,353
Actual expenditure for the year	500	1,840	2,340
(Over)/underspend for the year	20	(7)	13
Planned top-up funding of ISB from council resources	0	0	0
Use of schools balances brought forward	0	(208)	(208)
(Over)/underspend from 2005/2006	0	0	0
(Over)/underspend carried forward to 2007/2008	0	(7)	(7)

Note 29: Long Term Investments

The council has long term investments currently valued at £10,000. These are represented by Association of District Councils Debenture Stock (1996 – 2011).

Housing Revenue Income and Expenditure Account

	2006/2007	2005/2006	Note
	£000s	£000s	
Income			
Dwelling Rents (gross)	(305)	(296)	
Non-dwelling rents (gross)	(7)	(6)	
Charges for services and facilities	(11)	(11)	
Total Income	(323)	(313)	
Expenditure			
Repairs and Maintenance	92	121	7
Supervision and Management	116	75	
Depreciation and Impairment of Fixed Assets	157	152	3,5
Debt Management Costs	1	1	
Special Support Services	3	15	
Negative Housing Revenue Account subsidy	6	16	10
Total Expenditure	375	380	
Net Cost of HRA Services per authority Income and Expenditure Account	52	67	
HRA share of CDC	0	0	
HRA share of other amounts included in the whole authority Net Cost of Services but not allocated to specific services	0	0	
Net Cost of HRA Services	52	67	
(Gain) or loss on sale of HRA fixed assets	95	0	3
Interest payable and similar charges	37	30	
Amortisation of premiums and discounts	0	0	
Interest and investment income	(14)	(10)	
(Surplus)/Deficit for the year on HRA services	170	87	

Statement of Movement on the Housing Revenue Account Balance

	2006/2007	2005/2006	Note
	£000s	£000s	
(Surplus)/Deficit on the HRA Income and Expenditure Account	170	87	
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	(181)	(153)	1
(Increase)/Decrease in the Housing Revenue Account Balance	(11)	(66)	
Housing Revenue Account surplus brought forward	(186)	(120)	
Housing Revenue Account surplus carried forward	(197)	(186)	

Collection Fund

	2006/2007		2005/2006	Note
	£000s	£000's	£000s	
Income				
Council Tax	(1,208)		(1,148)	11
Transfer from General Fund - Council Tax Benefits	(65)		(56)	
Income collectable from business ratepayers	<u>(1,064)</u>		(964)	12
Total Income		(2,337)	(2,168)	
Expenditure				
Precepts				
General Fund	983		928	14
Police	<u>156</u>	1,139	149	14
Business rates				
Payment to national pool	1,041		941	
Costs of collection	<u>23</u>	1,064	23	12
Distribution of previous years surplus				
General Fund	115		110	
Police	<u>19</u>	134	7	
Total Expenditure		2,337	2,158	
(Surplus)/Deficit on Collection Fund		0	(10)	
Collection Fund Balance brought forward		131	121	
Collection Fund Balance carried forward		131	131	

Statement of Movement on Collection Fund Balance

	2006-2007		2005-2006	Notes
	£000s	£000s	£000s	
Surplus for the year on the Collection Fund		<u>0</u>	10	

Note 1: Statement of Movement on HRA Balance

	2006/2007 £000s	2005/2006 £000s
Items included in the HRA Income and Expenditure Account but excluded from the movement on the HRA Balance for the year		
Difference between amounts charges to Income and Expenditure for amortization of premiums and discounts and the charge for the year determined in accordance with statute	0	0
Gain or loss on sale of HRA fixed assets	(95)	0
	(95)	0
Items not included in the HRA Income and Expenditure Account but included in the movement on HRA balance for the year		
Transfer to /(from) Major Repairs Reserve	(89)	(120)
Transfer to /(from) Housing Repairs Account	3	(33)
Capital Expenditure funded by HRA	0	0
	(86)	(153)
Net Additional amount required by statute to be debited or (credited) to the HRA balance for the year	(181)	(153)

Note 2: Analysis of Council Housing Stock

	2006/2007	2005/2006
Flats and Bedsits		
One bedroom	37	37
Two bedrooms	14	14
Three bedrooms	1	1
Total of Flats and Bedsits	52	52
Houses and Bungalows		
One bedroom	3	3
Two bedrooms	10	10
Three bedrooms	39	39
Four and more bedrooms	4	4
Total Houses and Bungalows	56	56
Total Number of Dwellings	108	108

Note 3: Value of HRA Assets

	Operational Assets			Total £000s
	Houses £000s	Garages £000s	Land £000s	
Value at 1 st April 2006	11,811	210	154	12,175
Additions in year	22	0	0	22
Revaluations in year	384	10	(59)	335
Disposals	0	0	(95)	(95)
Depreciation	(153)	(4)	0	(157)
Value at 31st March 2007	12,064	216	0	12,280

Note 4: 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 values thus arrived at for this authority's HRA is as follows. The value of the adjustment, in effect, reflects the cost of providing Council Housing at less than Market Value. At 1st April 2006 the vacant possession value of dwellings within the Council's HRA was £27,766,000.

Note 5: Impairment costs

The SORP clearly defines impairment costs as being those costs that have arisen due to the economic consumption of an asset. There have been such costs incurred by the council in 2006/07.

Note 6: Movement on the Major Repairs Reserve

	2006/2007 £000s	2005/2006 £000s
Depreciation		
Dwellings	(153)	(148)
Garages	(4)	(4)
Total Depreciation	(157)	(152)
Transfer to General Fund		
Depreciation of other buildings	4	4
Depreciation in excess of MRA	85	115
(Surplus)/Deficit	(68)	(33)
Balance at 1st April	(191)	(158)
Balance at 31st March	(259)	(191)

Note 7: Movement on Housing Repairs Account

	2006/2007 £000s	2005/2006 £000s
Balance at 1 st April	(136)	(169)
Contribution from Housing Revenue Account	(95)	(88)
Interest Earned on Balance	0	0
Expenditure on Housing Repairs	92	121
Balance at 31 st March	(139)	(136)

Note 8: Analysis of Capital Expenditure

	2006/2007 £000s	2005/2006 £000s
Capital Outlay	22	22
Financed by:		
Reserves and temporary borrowing	(22)	(22)

Note 9: Rent Arrears

	2006/2007 £000s	2005/2006 £000s
Gross Rent Arrears at 31 st March	11	12
Prepaid Rent	(1)	(2)
Net Rent Arrears	10	10
Value of Bad or Doubtful Debt Provision	3	3

The arrears of £10,631 represents 3.5% of the gross rent income for the year (being £12,192 at 3.8% for 2005/2006).

Note 10: Breakdown of HRA subsidy

The council is required to provide a breakdown of the various elements of the Housing Subsidy calculation. The net result of this calculation is that the council does not receive any government subsidy in aid of the HRA, in fact, we have a negative subsidy.

	2006/2007 £000s	2005/2006 £000s
Management Allowance	95	87
Maintenance Allowance	82	73
Major Repairs Allowance	68	65
Charges for Capital		
Admissible set-aside	1	2
Interest Charge	37	35
Debt Management	36	35
Rent Rebates	0	0
	319	297
Notional Rent Income	(325)	(313)
Housing Subsidy (Negative)	(6)	(16)

Note 11: Calculation of Net Council Tax

	2006/2007 £000s	2005/2006 £000s
Council tax – gross due	(1,404)	(1,328)
Less		
Discounts	104	96
Exemptions	25	25
Benefits	65	56
Previous years adjustment	2	3
Net Council Tax	(1,208)	(1,148)

Note 12: 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.

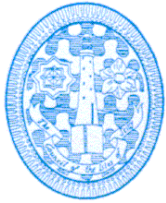
	2006/2007 £000s	2005/2006 £000s
NNDR Debit	1,298	1,239
Less		
Transitional relief	(232)	(272)
Previous years adjustments	(2)	(3)
Net Income from Business Ratepayers	1,064	964
Redistributed amount from pool	1,391	734
Multiplier rate – non-domestic	43.3p	42.2p
Small business	42.6p	41.5p

Note 13: Council Tax Base relationship

Valuation Band	Range of Values	Link to Band D	Dwellings on Valuation List	Discounted Dwellings	Dwellings Tax Base
A	Up to £40,000	6/9	13	11	7
B	£40,001 to £52,000	7/9	26	21	16
C	£52,001 to £68,000	8/9	69	54	47
D	£68,001 to £88,000	9/9	219	175	171
E	£88,001 to £120,000	11/9	317	266	316
F	£120,001 to £160,000	13/9	312	264	372
G	£160,001 to £320,000	15/9	150	127	206
H	Over £320,000	18/9	9	8	16
			1,115	926	1,151

Note 14: 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.



STATEMENT ON INTERNAL CONTROL 2006/07

1. SCOPE OF RESPONSIBILITY

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

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

2. THE PURPOSE OF THE SYSTEM OF INTERNAL CONTROL

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

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

A system of internal control arrangements have been in place at the Council of the Isles of Scilly for the year ended 31st March 2007 and up to the date of approval of the annual accounts. However, the Council recognise there are a number of internal control issues at section 6 which need to be addressed and the Council should continue to review the control environment to ensure it operates effectively.

3. THE INTERNAL CONTROL ENVIRONMENT

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

No	Element of Internal Control
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.
3.2	Facilitation of policy and decision making is through the Policy and Resources Committee providing overall direction to the organisation and

No	Element of Internal Control
	satisfying reasonable expectations of accountability. 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/or challenge the performance of the Council.
3.3	Effective procedures are in place to establish and monitor statutory obligations and the corporate priorities. Legislative changes are identified and communicated to ensure implementation and/or action taken.
3.4	The Council's priorities are reflected in the Community Strategy 2020 and Corporate Best Value Plan 2006/07. These plans set out the Council's strategic and service objectives together with individual service plans. These strategies provide direction for the Council and are accessible to officers, Councillors, partners and the public. The strategies are supported by action plans with targets and progress is monitored by regular reporting to the appropriate parent committee.
3.5	The Communication Strategy establishes and maintains effective channels of communication between directors, managers and employees and stakeholders to enable the Council's goals and objectives to be clearly understood, acted upon and achieved.
3.6	Each Chief Officer is responsible for ensuring that internal channels of communication are operating, and monitoring that information is cascaded appropriately in both directions, with Chief Officers reporting feedback at Management Team meeting. Regular meetings between middle managers and the Chief Officer Management team take place to ensure the effective cascading of strategy and new developments and to ensure the flow of information from senior officers back to Chief Officers.
3.7	Recruitment processes followed up by induction training for Members, Officers and staff, (which includes information on the Members Handbook, key policies, procedures, laws and regulations appropriate to the post and experience of the post holder) and on-going training and development.
3.8	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 Best Value Performance Plan, service plans and are included on the Council's website and intranet.
3.9	The Council of the Isles of Scilly seeks to ensure the economical, effective and efficient use of resources through reviews by external auditors, Internal Audit and Best Value reviews and for securing continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness as required by the Best Value duty.
3.10	Best Value reviews and service managers identify key performance indicators and results which are included in the Best Value Performance Plan are approved annually. The performance indicators assist in challenging the services contribution to Strategic Objectives and reviews and monitoring shows the authority how it is performing against its planned outcomes through presentation of regular reports to Members.
3.11	Continuous improvements to the performance management systems are to take place during 2007/08. SMART action plans to improve performance are reported to Members of the appropriate committee. Continuous improvement to ensure performance targets are adjusted in the light of benchmarking with other authorities and review of actual performance during 2007/08.
3.12	Appraisals for chief officers and staff are carried out to set clear and challenging targets for the following 6 months linked to corporate

No	Element of Internal Control
	priorities and performance indicators. Staff needs are reviewed to develop a programme of training.
3.13	The Council has systems and processes in place for the identification and management of strategic and operational risk. The Risk Management Policy has the full support of the Councillors and Strategic Management Team and is approved by Senior Members.
	The Modernisation Officer is the lead officer for risk management. Reviews of the risk management process is undertaken by the Modernising Local Government Group, 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.
3.14	Risk management is embedded in the activity of the authority through the business plan and service planning stages. A Corporate Risk Register identifies the benefits of active risk management.
	The process for ongoing risk management is the responsibility of the Strategic Management Team and Chief Officers.
	Departmental Risk Registers linked to service plans have been implemented to identify risk management at lower level and are the responsibility of the Service Managers.
3.15	The Council has developed 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.
3.16	Project Managers are aware of the risks in partnership working and risk assessments are undertaken before commencement of major projects and reviewed and reported on a regular basis
3.17	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.
3.18	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.
3.19	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 follow 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.
	The Treasurer as the statutory appointed Section 151 Officer is charged inter alia with the obligation to ensure the provision of a programme (currently through the engagement of Cornwall County Council) of Internal Audit and timely accounts
3.20	The Council of the Isles of Scilly employ Cornwall County Council to supply Internal Audit during 2007/08. The risk based audit plan is determined by Internal Audit and discussed with the Treasurer and approved by Members. The Head of Internal Audit supplies the Council with an Internal Audit opinion that sets out any significant weaknesses in the system of internal financial control that they have identified during the year and this opinion provides assurance of the Internal Control environment.
3.21	A Medium Term Finance Strategy has been approved and implemented to support the aims of the Corporate Plan.

No	Element of Internal Control
3.22	<p>Sound financial management is provided in the form of budget and monitoring reports to Service Managers monthly and to Members at each meeting of each committee.</p> <p>Chief Officers are accountable to their Committees for the operational control and management of Capital and Revenue budgets, having regard for the achievement of economy, efficiency and effectiveness and is evidenced by reports and minutes of the Members meetings.</p> <p>Nominated Officers of the Council of the Isles of Scilly are included in the Fidelity Guarantee Policy.</p>
3.23	<p>The commissioning of the Asset Management Plan for Capital Strategy aims to ensure that investment is linked to strategic objectives. Bids for capital and other asset management funding and the progress in delivering projects are formally monitored by the Chief Officer/Management Team and Members of the parent Committee and is evidenced by minutes of the committee meetings.</p> <p>Chief Officers are authorised to take the appropriate action for the implementation of the Capital programme approved for the year, but subject also to such actions being in compliance with any Central Government expenditure controls.</p>
3.24	<p>Financial Papers for Members, cover both revenue and capital spend and sets out fees and charges, provides for the planning and monitoring of resources required</p>
3.25	<p>Financial Regulations contained within the Council's Handbook set out the overall framework that governs the management of the Council's finances. Standing Orders are also contained within the Council's Handbook. Both are reviewed periodically and communicated to all staff.</p> <p>The Prudential Code for Capital Finance are contained in the Strategic Plans Handbook for Members</p>
3.26	<p>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.</p>
3.27	<p>A Register of gifts and hospitality and a Register of Interests, identifying the declarable interests of Members and Officers in relation to community and life interests, is reviewed and updated annually.</p>
3.28	<p>A corporate procurement strategy has been drawn up, formally approved and communicated to all staff and is reviewed and updated regularly to take account of new initiatives.</p>
3.29	<p>The Internal Control framework is subject to regular assessment and is to be developed further in 2007/08. The Council has an objective and professional relationship with external auditors and statutory inspectors.</p>
3.30	<p>A corporate Health & Safety policy has been formally approved, is subject to regular review and has been communicated to all relevant staff</p>
3.31	<p>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 new website and intranet.</p>
3.32	<p>An Equality and Diversity policy has been formally approved and has been communicated to all staff.</p>

4. REVIEW OF EFFECTIVENESS

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

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

No	Effectiveness of controls
4.1	Full Council review the assurances and action plans of internal controls twice annually and areas needing attention are highlighted. The Council is aware that the level of control is in need of further development during 2007/08 (see Significant Issues at Section 5)
4.2	External assurance reports from such agencies as Audit Commission, CSCI and Benefit Fraud Inspectorate, 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.
4.3	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 against known and evolving risks to be undertaken along with action plans. Reports including any recommendations are taken to the appropriate committee
4.4	In addition to the Annual Audit letter, the Council has this year received CPA assessment from the Audit Commission and Joint Annual Review the results of which are yet to be received.
4.5	A framework for annual service plans to align service development against strategic objectives and the identified risks are in place and further development is planned during 2007/08.
4.6	Ongoing review of the business of and the decisions taken by the Council by the Monitoring Officer which include an assurance that the Council has acted lawfully and that agreed standards of the Standards Committee have been met.
4.7	The Modernising Local Government Panel reviews Corporate Risks and reports to the appropriate committee. Departmental Risk Registers are being linked to service plans and are reported to the appropriate committee. The Council is aware that further development of the Departmental Risk Registers is needed and training is planned for 2007/08 for Members and officers. (see Significant Issues at Section 5)
4.8	Reviews of the conduct of risk analysis and management of major projects is undertaken by senior officers and reported to the relevant committee.
4.9	A monitoring system for obtaining and evaluating assurances of internal control by the assigned person is in place. Further development of the collection of assurances is planned for 2007/08 (see Significant Issues at Section 5) .
4.10	The Modernising Local Government Group meet on a regular basis to review progress on performance indicators, risk management and Best Value Evidence is provided by Service Providers to ensure accuracy of the indicators and are monitored annually. Reports are taken to the

No	Effectiveness of controls
	relevant committee
4.11	The Authority has commissioned a Corporate Asset Management plan to assist Members and Officers assess priority based on an audit of need. Closedown arrangements have been reviewed to ensure compliancy with the target date for the preparation of accounts to be set for approval by members
4.12	A review of the Council's Financial Regulations, Terms of Reference and Standing Orders is planned during 2007/08.

There are several areas where improvements must be made and the key issues identified for improvement are included in significant internal control issues section 5, with action plans.

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

5. SIGNIFICANT INTERNAL CONTROL ISSUES

The following significant internal control issues have been identified:

No	Issue	Action
5.1	The Risk Management Strategy needs to be updated and communicated to all staff and consistently applied	The Risk Strategy to be reviewed, updated and approved by Members by August 2007. New Risk Strategy to be communicated to all staff and on intranet and website.
5.2	Performance Management is an area for focus and needs moving on from monitoring to management and a corporate overview is needed. This should be communicated to all staff to ensure targets are consistently SMART, the outcome focused and performance management is consistently applied throughout the authority	Development of performance management within service plans to be implemented during 2007/08.
5.3	The Corporate Procurement Strategy is not consistently applied. Performance management of stakeholders needs developing	The Corporate Procurement Strategy and a guide for staff to be publicised on the developing intranet by August 2007. Development of performance management of suppliers to be implemented during 2007
5.4	The Internal Control framework needs further development to ensure a more robust approach	Guidance to be given to appropriate managers regarding what is expected to identify and agree appropriate key controls. Control and guidance on Risk Self Assessment to be developed and implemented in each department during 2007/08.

No	Issue	Action
5.5	Internal communications should be improved to facilitate appropriate reporting of audit reports and other external reports, and ensure timely audit responses.	Improvements made to the assurance checking of corporate governance to reduce the risk of untimely reporting and non communication through the authority to be implemented from April 2007 in line with the approved Communication Strategy.
5.6	The procedures for recording and reporting risk is in need of further development to identify new and emerging risks and ensure any unidentified risks reported by internal audit is fed into the risk management process	Development of a framework for recording and reporting risk to be communicated to all departments a publicised on the intranet during 2007/08.
5.7	<p><i>Being healthy:</i></p> <ul style="list-style-type: none"> ◦ development of pooled budgets and prioritisation of health needs <p><i>Staying safe:</i></p> <ul style="list-style-type: none"> ◦ operational working protocols with health/education - decision making processes within children's services ◦ SLA for support from the mainland for an out of hours' service and fostering and adoption service. ◦ lack of qualified social workers <p><i>Enjoying and achieving:</i></p> <ul style="list-style-type: none"> ◦ long-term vision for the support of school improvement ◦ strategy for the management of and support for children who do not attend school. <p><i>Making a positive contribution:</i></p> <ul style="list-style-type: none"> ◦ Disaggregating of data. <p><i>Achieving economic well-being:</i></p> <ul style="list-style-type: none"> ◦ lack of 14-19 strategy ◦ lack of data post-16. <p><i>Management of children's services</i></p> <ul style="list-style-type: none"> ◦ significant changes with senior personnel has delayed moving multi-agency work forward - lines of decision making remain unclear. 	<p>Recognised as part of the self-assessment for the Joint Area Review in 2007 and was flagged as an area to be developed with the new Primary Care Trust</p> <p>Protocol being developed in collaboration with Health, Safeguarding Children's Board and Police.</p> <p>An SLA is soon to be finalised</p> <p>One qualified social worker has been appointed and arrangements are in hand to appoint a supervising social worker commencing in September 2007</p> <p>The Council commissioned an independent report and agreed a strategy in November 2006.</p> <p>A policy will be presented to the Children & Young People Committee in June 2007.</p> <p>Disaggregation of data between Cornwall and IOS is now available for analysis.</p> <p>A strategy will be presented to Committee by summer 2007.</p> <p>Available now that data has been disaggregated.</p> <p>Interim structure now in place. It will need to be further refined in the light of the Cambridge contract and the Dorset arrangement ending in 2009.</p>

No	Issue	Action
5.8	<p>The Council and its partners should establish an effective safeguarding system to:</p> <ul style="list-style-type: none"> - ensure robust systems are in place to identify and respond to child protection issues - ensure that roles and responsibilities for the management and provision of children's services, within the council and amongst contracted services, are clear and formally agreed - establish a children's complaints service - provide an independent advocacy service for children and young people - establish, and implement as needed, a strategy for the support of young people leaving care - develop a protocol for missing children - agree processes and procedures to identify eligibility criteria to services, thresholds for access to children's social care and child protection thresholds. 	<p>Part of the Children's Social Care Improvement Plan</p> <p>To form part of contract monitoring meetings in 2007</p> <p>Completion planned by April 2008</p> <p>Completion planned by September 2007</p> <p>Completion planned by September 2007</p> <p>This is planned for approval by Members in June 2007</p>
5.9	<p>The Council and its partners should agree policies to support children and young people:</p> <ul style="list-style-type: none"> - educated other than at school - with learning difficulties and/or disabilities. 	<p>This is planned for approval by Members in June 2007</p>
5.10	<p>The Council should improve its children's social care policies and procedures, including:</p> <ul style="list-style-type: none"> - updating and refining its children in need procedures - establishing comprehensive procedures for looked after children. 	<p>These form part of Dorset's children's social care improvement plan</p>
5.11	<p>The Council and its partners should:</p> <ul style="list-style-type: none"> - strengthen the council's plans for children's services by establishing clear performance management frameworks which contain outcome-based targets, both within the council's own plans and those to be delivered in partnership. 	<p>To feature within the children's social care improvement plan (ongoing), the JAR Action Plan (October 2007) and the Children and Young People's Plan (January 2008)</p>
5.12	<p>There are currently gaps in key areas that are vital in sustaining the community including waste management, green transport plan and an older people's strategy</p>	<p>A strategic approach to be developed in these areas to ensure a planned and pragmatic approach during 2007/08</p>

No	Issue	Action
5.13	The Community Strategy needs improvement to ensure it can be used as an overall planning document. Service plans need to be consistent and contain costed measurable priorities underpinned by outcome facing targets. Links with medium term financial plan and service planning. Risk and performance management also need to link to the service planning process.	Improvements planned during 2007/08. Training sessions planned in July and August to link the planning with risk and performance management.
5.14	Improvements are required with the current HR strategy to ensure it links to organisational development and the business needs of the organisation, including improvements in succession planning to ensure effective plans for future staffing needs.	HR Strategy under review during 2007/08 addressing the needs of organisational development and linked to Performance Management
5.15	Improvements to embed the strategic approach to diversity and ensure a consistent and integrated approach for all activities and delivery of services to the community	Production and adoption of Diversity & Equality scheme in progress. Diversity & Equality consultations to take place and reviews arranged. Assessment of all new documents and working papers to continue. Review and update recruitment and selection process papers by during 2007/08. Training to be made available to all staff and webpages updated by March 2007.
5.16	The Health & Safety Policy needs to be updated and communicated to all staff and consistently applied	The Health & Safety Policy to be reviewed, updated and approved by Members by November 2007 and communicated to all staff and on intranet and website.
5.17	The Council currently have a range of issues outstanding with Cambridge Education relating to compliance with the Council's Financial Regulations resulting in: <ul style="list-style-type: none"> • Breaches of the Council's Standing Orders and Financial Instructions • Lack of orders to support work invoiced • Absence of supporting documentation • Inconsistent charging • Invoices received long after periods to which they relate • Absence of an annual Management Plan • Very high error rate on invoices 	A number of Invoices in respect of 2005/06 and 2006/07 services have been returned to Cambridge on the basis that they did not comply with one or more of the control breaches identified. Cambridge Education have also been formally advised on the 9 th May 2007 that no further invoices will be paid unless fully compliant with the Council's Financial Regulations. The Council will continue to monitor closely compliance with Financial Regulations in respect of this contract.

Signed: 

Chairman of the Council

Dated: 9 October 2007

Signed: 

Chief Executive

Dated: 9 October 2007

Independent auditor's report to the Members of the Council of the Isles of Scilly

Opinion on the financial statements

I have audited the financial statements for the year ended 31 March 2007 under the Audit Commission Act 1998. The financial statements comprise the Explanatory Foreword, Income and Expenditure Account, Balance Sheet, Statement of Total Recognised Gains and Losses, Cash Flow Statement and the related notes. The financial statements have been prepared under the accounting policies set out within them.

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

Respective responsibilities of the Treasurer and auditor

The Treasurer's responsibilities for preparing the financial statements, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006 are set out in the Statement of Responsibilities.

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

I report to you my opinion as to whether the financial statements and the firefighters' pension fund accounting statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006:

- the financial position of the Authority and its income and expenditure for the year;
- the financial transactions of its firefighters' pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year; and

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

I read other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only that included in the 'Lighthouse' publication. I consider the

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

Basis of audit opinion

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

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

Opinion

In my opinion:

- The financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006, the financial position of the Authority as at 31 March 2007 and its income and expenditure for the year then ended; and
- The Authority has not implemented the statutory requirements to maintain and publish information with respect to firefighters' pension fund accounting statements and I am unable to form an opinion in this respect.

Auditor:



Alun Williams

Address:

3-6 Blenheim Court,
Matford Business Park,
Lustleigh Close.
EXETER
EX2 8PW

Date:

9th October 2007

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

Authority's Responsibilities

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

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

Auditor's Responsibilities

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

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

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

Adverse Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities and fire and rescue authorities specified by the Audit Commission and published in December 2006, I am not satisfied that, in all significant respects, the Council of the Isles of Scilly made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2007 in that it did not put in place:

- arrangements to monitor the quality of its published performance information, and to report the results to members;
- arrangements to maintain a sound system of internal control;
- arrangements to manage and improve value for money
- a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities;
- arrangements for managing performance against budgets; and
- arrangements for the management of its asset base

Best Value Performance Plan

I issued my statutory report on the audit of the authority's best value performance plan for the financial year 2006/07 on 15 December 2006. I did not identify any matters to be reported to the authority and did not make any recommendations on procedures in relation to the plan.

Certificate

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

Auditor:



Alun Williams

Address:

3-6 Blenheim Court,
Matford Business Park,
Lustleigh Close.
EXETER
EX2 8PW

Date:

9th October 2007