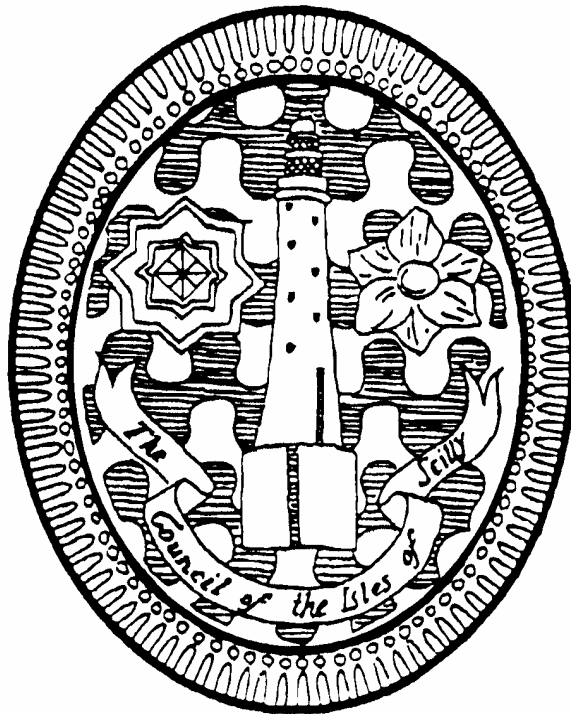


COUNCIL OF THE ISLES OF SCILLY



ANNUAL STATEMENT OF ACCOUNTS

1st April 2004 to 31st March 2005

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TREASURER'S FOREWORD

The pages which follow are the Council's Final Accounts for 2004/05 and comprise:

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

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

TREASURER'S FOREWORD (CONTINUED)

Revenue Spending in 2004/05:

- 1 The Council's actual expenditure on services and income from all sources results in a surplus of £318,000 for the year. The overall expenditure and variances for each Committee's budget, excluding Trading Services, is set out below:

Committee:	Actual 2003/04 £ '000	Budget 2004/05 £ '000	Actual 2004/05 £ '000	Variance 2004/05 £ '000
Education	1,646	1,794	1,662	-132
Social Services	532	639	479	-160
General Purposes	1,025	1,010	1,074	64
Economic Development	63	60	24	-36
Tourism	66	82	79	-3
Housing (excluding HRA)	88	109	214	105
Planning	-25	95	96	1
Sea Fisheries	4	7	7	0
Policy & Resources	657	733	762	29
Total	4,056	4,529	4,397	-132

- 2 Revenue Support Grant received for 2004/05 was £2,265,871 an increase of £240,000 over the previous year.
- 3 Revenue balances stand at £4,136,000 at the year end, of which £3,299,000 is set aside for specific purposes. This compares with £3,726,000 at the end of 2003/04 of which £2,990,000 was for specific purposes. Included in these totals are the balances of the General Fund, Housing Revenue Account, the Water and Sewerage Revenue Accounts, Earmarked Reserves and the Schools' balances.
- 4 The sums shown against the Airport Heading includes the net effect of Revenue Support Grant contribution made by Central Government towards loan charges for expenditure on the Airport Runway Scheme.

TREASURER'S FOREWORD (CONTINUED)

Capital Spending:

The Council spent £563,000 (£572,960 in 2003/04) on approved capital schemes during the year which are listed in the statement below:

	2004/05 £'000	2003/04 £ '000
Education:		
Isles of Scilly Secondary School Laboratories	-	1
New Deal for Schools	-	47
Equipment	19	8
Learning Network	9	-
Expansion of Popular Schools	-	47
Nursery Disadvantaged Areas	19	-
Swimming Pool	-	13
Disability or Special Needs	35	18
Broadband	-	79
Water/Sewerage Services:		
Water - Mains Renewal	11	18
Sewerage Treatment Works Telegraph	-	14
General Purposes:		
Incinerator	-	27
Housing and Corporate Property:		
Housing Improvements	26	78
Library	10	-
Airport:		
Fittings and equipment	34	9
Appliances	7	33
Terminal	321	5
Helipad	8	-
Runway Lighting	-	10
Health & Safety	-	4
Security	-	5
Fire Service		
Fittings & Equipment	9	19
Resources		
Implementing E-Government	67	42
Local Projects	3	-
Skateboard Park	-	52
Purchase of Buzza Street	-	28
	563	573

The Capital Programme was principally funded by Reserves (48%) and Grants (52%).

TREASURER'S FOREWORD (CONTINUED)

Housing:

Council rents were increased in 2004/05 by approximately 1%.

Retirement Benefits

For 2004/05 the Council has implemented in full, FRS17 (Financial Reporting Standards), which has meant an increase in the disclosure of pension assets and liabilities. This has resulted in the Council showing a present liability on its Balance Sheet of £2,072,000. This represents an unfunded liability to the Council which will be covered over future years.

Outlook:

The Government's changes to the Formula Grant Distribution System for the Financial year 2003/04, continues to have an impact on Formula Spending Share on each service block, into 2004/05 and 2005/06, and continues to acutely influence the Council's spending plans and Council Tax levels.

In addition the introduction, from 1st April 2004, of the "Prudential Code for Capital Finance" is now impacting upon funding available to support services provided by the Council. The quality of the financial information required and its timely production continues to necessitate additional staffing resources to ensure that the Council is able to make the right decisions to a much tighter time scale.

The increase in Committee budgets, during 2004/05, to cover additional demands upon statutory services has fed through into 2005/06 budgets and will continue to require additional financial support into 2006/07. It will therefore be essential for Committees to review service provisions and associated finances to ensure that their Budgets are adequate to provide and comply with Regulations and meet their Statutory Duties over future years as efficiently and effectively as is possible.

Local authority accounting and financial reporting is being merged into a system of 'Whole Government Accounts' that is intended to produce commercial style (Company Act compliant) accounts for the whole of the public sector (some 1,300 bodies). The aim is to provide a 'true and fair view' through greater transparency and comparability with emphasis on the principle that the Government will borrow only to invest and not to fund current spending.

The Treasury expects that WGA will provide better quality data and will allow the public sector balance sheet to be used more directly in fiscal management. Local Authorities' 2005-2006 accounts have to be completed in WGA shadow form and in 2006-2007, fully compliant. The introduction of WGA and the additional work that this will inevitably entail will place extra pressure on the Council to meet the end of June closedown deadline.

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



B Archer
Treasurer

18 Oct 2005

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 2005, and its income and expenditure for the year ended.

Barry Archer
Treasurer

18 October 2005

Certification by the Chairman of the Council

I confirm that these accounts were approved by the Council.

Chairman of Council
18 October 2005

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. For the 2004/05 accounts, the inspection period was 25 July to the 19 August 2005. These dates were advertised in the local press.

STATEMENT OF ACCOUNTING POLICIES

General

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

Intangible Assets

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

Fixed Assets

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

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

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

The basis of valuations is as follows:

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

Specialised Operational Property – Depreciated Replacement Cost

Non-Operational Property - Open Market Value

Infrastructure Assets - Historic Cost

Community Assets - at a Nominal Sum

Depreciation

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

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

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

Deferred Charges

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

STATEMENT OF ACCOUNTING POLICIES (continued)

Capital Charges

The Capital Charges made to service revenue accounts, central support services and the depot accounts, equate to the sum of depreciation plus a notional interest charge based on the net amount at which the fixed asset is included in the Balance Sheet at 31st March 2005. The notional rates of interest used are 3.5% for those fixed assets included at current value and 4.8% for infrastructure assets and community assets which are included in the Balance Sheet at historical cost.

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

Government Grants

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

Capital Receipts

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

Under the Prudential Capital Code, which was introduced from 1 April 2004, a proportion of income received from the disposal of a fixed asset is required to be paid over to Central Government as a "pooled capital receipt". The amounts we must pay across to the Office of the Deputy Prime Minister (ODPM) are:

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

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

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

Debtors and Creditors

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

STATEMENT OF ACCOUNTING POLICIES (continued)

Cost of Support Services

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

Stocks

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

Reserves

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

Local Government Pension Scheme and FRS 17 – Retirement Benefits

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

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

Investments

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

Trading Services:

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

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

STATEMENT OF ACCOUNTING POLICIES (continued)

VAT

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

Post Balance Sheet Events

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

Contingent Assets, Liabilities or Provisions

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

Internal Interest

Interest is credited to the Housing Repairs Account based upon the level of balances throughout the year. The amount is calculated using the average London Interbank Bid rates for 2004/05.

Prior Period Adjustments

A number of adjustments have been made to the format of the statements from the 2003/04 statements although the most significant of these is in relation to the format of the Income and Expenditure account. As a result, some 2003/04 figures have been adjusted to ensure that the statements can be presented in line with the SORP. None of the adjustments impact on the net cost of services or closing fund balances.

CONSOLIDATED REVENUE ACCOUNT

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

2003/04 Net Expenditure £'000	2004/05 Gross Expenditure £'000	2004/05 Income £'000	2004/05 Net Expenditure £'000	
704	Central Services	1,194	(408)	786
759	Cultural, environmental and planning services	1,266	(324)	942
1,606	Education services	3,024	(1,402)	1,622
85	Highways, roads and transport	97	-	97
422	Housing services	1,479	(778)	701
532	Social Services	699	(219)	480
36	Corporate and democratic core	155	(98)	57
271	Fire	326	(14)	312
-	Non-distributed costs	-	-	-
4,415	Net cost of services	8,240	(3,243)	4,997
(177)	(Surpluses)/deficits on trading operations - Note 7			(57)
(915)	Asset Management Revenue Account - Note 1			(1,138)
-	Contribution of housing capital receipts to Government Pool			-
(39)	Interest and investment income			(73)
71	Pensions interest costs and expected returns on pension assets - Note 12			(4)
3,355	Net operating expenditure			3,725
112	Transfer to HRA balances			(41)
181	Transfer to / (from) earmarked reserves			138
-	Capital expenditure financed from revenue			-
(47)	Contribution from the pensions reserve			(4)
(419)	Excess depreciation over Minimum Revenue Provision - Note 2			(528)
-	Deferred charges written off			-
143	Exchequer grants released from Government Grants Deferred Account			174
3,325	Amount to be met from Government grants and local taxation			3,464
(2,026)	General government grants			(2,266)
(651)	Non-domestic rates redistribution			(625)
(821)	Demand on the Collection Fund			(879)
(26)	Transfers to / (from) Collection Fund re prior years surplus/deficit			(12)
(199)	Net General Fund (surplus) / deficit for the year			(318)
(521)	Balance on General Fund brought forward			(720)
(720)	Balance on General Fund carried forward			(1,038)
(105)	General Fund balance attributable to schools budgets			(152)

Prior period adjustment made to all figures to ensure statement in line with BVACOP. No actual figures changed, only consolidated.

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

<u>Note 1 - Asset Management Revenue Account:</u>		
2003/04		2004/05
£'000	Income	£'000
	Capital Charges, General Fund	
(455)	Cost of Capital	(572)
(573)	Depreciation	(735)
(1,028)		(1,307)
	Capital Charges, Housing Revenue Account	
(446)	Cost of Capital	(505)
(63)	Depreciation	(179)
(509)		(684)
(143)	Government Grants Deferred	(174)
(1,680)		(2,165)
	Expenditure:	
129	Interest Paid to Lenders	113
636	Provision for depreciation of assets	914
765		1,027
(915)	Transfer to Consolidated Revenue Account	(1,138)

2003/04	<u>Note 2 - Minimum Revenue Provision</u>	2004/05
£'000		£'000
206	Minimum Revenue Provision	235
11	Less Commutation Adjustment	(24)
217		211
(636)	Less depreciation (excluding Major Repairs Allowance)	(739)
(419)	Transfer to Consolidated Revenue Account	(528)

Note 3 - Section 137 Expenditure

Section 137(3) of the Local Government and Housing Act 1989, empowers a Local Authority to incur expenditure which in its opinion is in the interests of its area and/or its inhabitants. The Council was able to spend up to £7440 under its power, its actual expenditure amounted to £850.

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

Note 4 - Publicity

Each Local Authority is required to keep a separate account of its expenditure on publicity. The Council's expenditure in 2004/05 was as follows:-

2003/04 £'000		2004/05 £'000
5	Education	4
-	Planning	6
-	Lighthouse	1
<u>5</u>		<u>11</u>

Note 5 - Income from Goods and Services

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

Note 6 - Officer Emoluments

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

2003/04 Number	<u>Remuneration Band</u>	2004/05 Number
4	£50,000 to £59,999	4
1	£60,000 to £69,999	1

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

Note 7 - Trading Services

2003/04 (Surplus)/ Deficit £'000		Gross Expenditure £'000	Income £'000	2004/05 (Surplus)/ Deficit £'000
(34)	Airport	926	956	(30)
(6)	Building Control	27	34	(7)
(131)	Water	318	297	21
(20)	Sewerage	107	142	(35)
(7)	Tourism (Brochures)	63	79	(16)
21	Commercial Trade Refuse	99	89	10
<u>(177)</u>		<u>1,540</u>	<u>1,597</u>	<u>(57)</u>

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

Note 8 - Members' Allowances

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

2003/04		2004/05
£'000	Allowances paid in year -	£'000
26	Basic/Attendance	27
8	Special Responsibility	9
34		36

Note 9 - Related Party Transactions

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

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

2003/04		2004/05
£'000		£'000
	Central Government and related quangos -	
3,800	-Revenue Support and other Grants	3,934
208	Cornwall County Council - Pension contributions	215
	Devon and Cornwall Police Authority -	
120	-Precept on Council Tax	139
90	Teachers' Pension Agency - Pension Contributions	140

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

Note 10 - Building Control Trading Account

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

Total Building Control		Chargeable	Non-Chargeable	Total Building Control
2003/04		2004/2005	2004/2005	2004/2005
£000s	Building Regulations Charging Account	£000s	£000s	£000s
	Expenditure			
3	Employee expenses	2	-	2
4	Transport	4	-	4
1	Supplies and services	1	-	1
16	Central and support service charges	21	-	21
24	Total Expenditure	28	-	28
	Income			
(30)	Building Regulation charges	(35)	-	(35)
-	Miscellaneous income	-	-	-
(30)	Total Income	(35)	-	(35)
(6)	(Surplus)/Deficit for Year	(7)	-	(7)

2003/04	Note 11 - Audit Commission Fees	2004/05
£'000		£'000
	Fees Payable to the Audit Commission with regard to:	
	External audit services carried out by the appointed auditor under the Audit Commission's Code of Audit Practice in accordance with Section 5 of the Audit Commission Act 1998.	
33		43
2	Statutory inspection under Section 10 of the Local Government Act 1999.	4
	Certification of grant claims and returns by the appointed auditor under Section 28 of the Audit Commission Act 1998.	
7		3
-	Any other services provided by the appointed auditor not disclosed above.	3
42		53

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

Note 12 - Local Government Pension Scheme

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

The Authority participates in the Local Government Pension Scheme administered by Cornwall County Council. This is a funded scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets. An employer's contribution of £222,000 representing 16.5% of Superannuable Pay, (2003/04 £206,000 16%) was made in respect of all participating staff to the Cornwall County Council Superannuation Fund.

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

2003/04		2004/05
£'000		£'000
	Net Cost of Services:	
183	· Current service cost	232
-	· Past service costs, curtailment and settlement	-
	Net Operating Expenditure:	
343	· Interest Cost	330
(272)	· Expected return on assets in the scheme	(334)
	Amounts to be met from Government Grants and Taxation:	
(47)	· Movement on pensions reserve	(4)
	Actual amount charged to council tax for pensions in the year:	
207	· Employer's contributions payable to the scheme	224

CONSOLIDATED BALANCE SHEET as at 31st MARCH 2005

2003/04 £'000		Notes	£'000	2004/05 £'000
-	Intangible fixed assets	1 to 3		-
	Tangible fixed assets			
	<u>Operational Assets</u>	1 to 3		
13,518	Council Dwellings		13,930	
4,166	Other land and buildings		8,336	
1,305	Vehicles, plant, furniture & equipment		1,261	
4,949	Infrastructure		5,376	
-	Community Assets		-	
<u>23,938</u>				<u>28,903</u>
	<u>Non Operational Assets</u>	1 to 3		
212	Investment Properties			266
24,150	Total fixed assets			29,169
10	Long Term Investments	4		10
24,160	Total long term Assets			29,179
	Current Assets			
81	Stocks	5	90	
429	Debtors	6	691	
105	Cash in Hand		153	
1,435	Bank Balance		1,747	
-	Short Term Investments		-	
<u>2,050</u>				<u>2,681</u>
	Current Liabilities			
(982)	Short term borrowing		(701)	
(1,078)	Creditors	7	(1,392)	
(20)	Provisions	8	5	
<u>(2,080)</u>				<u>(2,088)</u>
(30)	Current assets less current liabilities			593
24,130	Total assets less current liabilities			29,772
	Long term liabilities			
(1,314)	Pensions Liability	14	(2,072)	
(1,473)	Long term borrowing	9	(1,271)	
<u>(2,787)</u>				<u>(3,343)</u>
21,343	Total Fixed and Current Assets			26,429
	Financed by:			
2,770	Grants deferred account		13	2,805
933	Capital Contributions Deferred			1,225
13,853	Fixed Asset Restatement Account			19,213
1,101	Capital Financing Account			848
274	Useable Capital Receipts Reserve			274
(1,314)	Pensions Reserve	14	(2,072)	
2,510	Earmarked Reserves			2,378
1,216	General Fund			1,758
21,343	Total Net Worth			26,429

* a prior period adjustment has been made to disclose capital grants payable in line with the SORP.

NOTES TO THE CONSOLIDATED BALANCE SHEET

Note 1 - Fixed Assets	Council	Dwellings	Other	Vehicles,	Infrastructure	Investment	TOTAL
	Housing Revenue	General Fund	Land and Buildings	Plant and Equipment		Properties	
	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000
Gross value at 1st April 2004	12,565	1,012	5,264	2,403	6,792	212	28,248
Revaluations and Restatements	1,514	1,476	895	20	(221)	54	3,738
Adjusted gross value at 1st April 2004	14,079	2,488	6,159	2,423	6,571	266	31,986
Additions in 2004/05	26	-	322	197	18	-	563
Disposals and other receipts	-	(16)	-	-	-	-	(16)
Gross book value at 31st March 2005	14,105	2,472	6,481	2,620	6,589	266	32,533
Cumulative amount of Depreciation at 31st March 2004	59	-	1,098	1,098	1,843	-	4,098
Adjustments to Value of Depreciation	(59)	-	(730)	-	(859)	-	(1,648)
Depreciation in 2004/05	175	56	193	261	229	-	914
Cumulative amount of Depreciation at 31st March 2005	175	56	561	1,359	1,213	-	3,364
Net Book Value of Assets as at 31st March 2005	13,930	2,416	5,920	1,261	5,376	266	29,169
Net Book Value as at 31st March 2004	12,506	1,012	4,166	1,305	4,949	212	24,150

NOTES TO THE CONSOLIDATED BALANCE SHEET

Note 2 - Fixed Assets

Major assets held at 31st March 2005 are as follows:

Council Houses	108
General Fund Houses	12
Garages	20
Education: - School Buildings	1
- Hostel	1
Residential care establishment	1
Administrative buildings	4
Public conveniences	6
Airport	1
Airport - vehicles and moveable plant	4
Works depot	1
Works vehicles and plant	19
Incinerator	1
Reservoirs	3
Desalination plant	1
Water/Sewerage pumping stations	4
Industrial Estate	1
Fire Station (St Mary's)	1
Fire Service Vehicles	7
Fire stations (Off-Islands)	4
Cemetery	1
Park/Garden	1
Miscellaneous Buildings	4
Roads (Adopted)	14.5 km

Note 3 - Capital Expenditure and Financing

2004/05
£'000

Opening Capital Financing Requirement at 1 April 2004	6,436,000
 <u>Capital investment</u>	
Operational assets	562,000
Non-operational assets	-
Deferred charges	-
 <u>Sources of finance</u>	
Capital receipts	-
Government grants and other contributions	(174,000)
Revenue contribution to capital expenditure	(275,000)
Closing Capital Financing Requirement as at 31 March 2005	<u>6,549,000</u>
 <u>Explanation of movements in the year</u>	
Increase in underlying need to borrowing (supported by Government financial assistance)	
Increase in underlying need to borrowing (unsupported by Government financial assistance)	113,000
Increase / (decrease) in Capital Financing Requirement	<u>113,000</u>

NOTES TO THE CONSOLIDATED BALANCE SHEET

2003/04	Note 4 - Long Term Investments	2004/05
£'000	Association of District Councils 1996-2011 Debenture Stock.	£'000
10		10

2003/04	Note 5 - Stock	2004/05
£'000		£'000
2	Stone	1
2	Tiles	2
1	Cylinders	1
44	Water and Desalination Plant	54
4	Tourist Information Centre	3
10	Airport	10
18	Incinerator	19
81		90

2003/04	Note 6 - Debtors	2004/05
£'000		£'000
24	Government grants	60
49	Rate and Taxpayers	57
18	Housing tenants	21
484	Sundry debtors	699
575		837
(146)	Less Provision for Bad and Doubtful debts	(146)
429		691

2003/04	Note 7 - Creditors and Receipts in Advance	2004/05
£'000		£'000
508	Sundry creditors	508
* 526	Government grants overpaid	858
38	Rate and Taxpayers	13
2	Housing tenants	2
-	Capital creditors	8
4	Rents accrued	3
1,078		1,392

* a prior period adjustment has been made to disclose capital grants payable in line with the SORP.

Note 8 - Provisions			
This sum represents a timing difference for the recovery rates of the Direct Labour Force.			
2003/04		2004/05	2004/05
year-end		+	-
£'000		£'000	year-end
£'000		£'000	£'000
20	Provision	-	25
		(5)	

NOTES TO THE CONSOLIDATED BALANCE SHEET

2003/04 £'000	Note 9 - Analysis of loans by maturity	2004/05 £'000
982	Loans maturing within 1 year	701
201	Loans maturing after 1 year	201
558	Loans maturing in 2 to 5 years	500
487	Loans maturing in 5 to 10 years	397
227	Loans maturing in more than 10 years	173
1,473	Long term loans	1,271

The loans are borrowed from the Public Works Loan Board and have Interest rates, ranging from 3% to 8.125% with an average rate of 5.59%. Only one other loan exists, which is a short term loan borrowed from Ipswich Building Society at an interest rate of 4.82%

2003/04 £'000	Note 10 - Deferred Charges	2004/05 £'000
-	Balance at 1st April 2004	-
-	Payment of Disabled Facilities Grant	-
-	Exchequer Subsidy at 60%	-
-	Amount written off to Consolidated Revenue Account	-
-	Balance at 31st March 2005	-

Note 11 - Impairment

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

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

The District Valuer has certified that as at the 31st March 2005, there was no evidence of any impairment to any fixed asset of the Council.

Note 12 - Capital commitments:

At 31st March 2005, there were no payments due to contractors relating to existing contracts (£2004 - £Nil).

Note 13 - Government Grants - Deferred

	Incinerator £'000	Airport £'000	Coast Protection £'000	Other £'000	Total £'000
Gross Value at 1st April 2004	360	366	1,740	304	2,770
Additions in year	0	-	-	209	209
	360	366	1,740	513	2,979
Grants released in year	42	32	54	46	174
Gross Value at 31st March 2005	318	334	1,686	467	2,805

NOTES TO THE CONSOLIDATED BALANCE SHEET

Note 14 - Local Government Pension Scheme

Note 10 to the Consolidated Revenue Account contains details of the Authority's participation in the Local Government Pensions Scheme (administered by Cornwall County Council). The underlying assets and liabilities for retirement benefits attributable to the Council at 31st March 2005 are as follows:

	31 st March 2004 £'000	31 st March 2005 £'000
Estimated funded liabilities in scheme	(6,002)	(7,346)
Estimated unfunded liabilities in scheme	(16)	(33)
Estimated Assets in scheme	4,704	5,307
Net asset / (liability)	(1,314)	(2,072)

The liabilities show the underlying commitments that the Authority has in the long run to pay retirement benefits. Whilst the net liability of £2,072 at 31st March 2005 is significant, statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy. This is because the deficit on the scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. The liabilities have been assessed by Hymans Robertson, an independent firm of actuaries. They are based on the latest full valuation of the scheme as at 31st March 2005.

The main assumptions used in their calculations are as follows:

Assumptions at -	31 st March 2004 % Per Annum	31 st March 2005 % Per Annum
Price increases	2.90%	2.90%
Salary increases	4.90%	4.90%
Pension increases	2.90%	2.90%
Discount rate	6.50%	5.40%

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

Assets (Employer)	Long Term Return at 31 st March 2004	31 st March 2004 £'000	Long Term Return at 31 st March 2005	31 st March 2005 £'000
Equities	7.70%	3,483	7.70%	3,864
Bonds	5.10%	613	4.80%	770
Property	6.50%	444	5.70%	513
Cash	4.00%	164	4.80%	160
Total	7.10%	4,704	7.00%	5,307

HOUSING REVENUE ACCOUNT

2003/04 £'000		Note	2004/05 £'000
	Income:		
290	Council House Rents		301
7	Other Property Rents		7
12	Charges for services and facilities		11
309	Total Income		319
	Expenditure:		
73	Contribution to Housing Repair Account		80
44	Supervision and Management		58
12	Special Support Services		15
53	Rent Rebates		-
8	Negative Subsidy Transferable to General Fund		-
1	Increased Provision for Bad/Doubtful Debts		-
-	Notional Surplus Paid to Exchequer		40
446	Cost of Capital		505
	<u>Depreciation of Fixed Assets</u>		
59	Dwellings	7	175
4	Other Assets	7	4
-	Debt Management Costs		1
700	Total Expenditure		878
391	Net Cost of Services	11	559
(421)	Adjustment Transfer – Asset Management Revenue Account		(475)
(2)	Interest Received on Balance		(3)
(32)	Net Operating Expenditure/Surplus		81
	Appropriations		
11	Minimum Revenue Provision for Repaying Borrowing		-
(4)	Transfer to / (from) Major Repairs Reserve	2	(117)
(25)	Deficit (Surplus) for the Year		(36)
	Housing Revenue Account Balance		
(59)	Balance brought forward 1 April 2004		(84)
(84)	Balance carried forward 31 March 2005		(120)

NOTES TO THE HOUSING REVENUE ACCOUNT

2003/04 £'000	Note 1 - Housing Repairs Account	2004/05 £'000
(109)	Balance of Account at 1 April 2004	(137)
(73)	Contribution from Housing Revenue Account	(80)
(4)	Interest Earned on Balance	(5)
49	Expenditure on Housing Repairs in Year	53
<hr/>		<hr/>
(137)	Balance of Account at 31 March 2005	(169)

2003/04 £'000	Note 2 - Major Repairs Reserve	2004/05 £'000
(59)	Depreciation of Fixed Assets.	(175)
(4)	Dwellings	(4)
	Garages	
<hr/>		<hr/>
(63)	Total Income	(179)
4	Transfer to General Fund - depreciation on non-dwellings	4
	Transfer to General Fund - depreciation in excess of MRA	113
-	HRA Appropriation – Other Fixed Assets	4
-	Major Repairs Expenditure	-
<hr/>		<hr/>
(59)	Surplus at End of Year	(58)
(95)	Balance at 1 st April 2004	(154)
<hr/>		<hr/>
(154)	Balance at 31st March 2005	(212)

2004	Note 3 - Council Housing Stock	2005
	The Council's housing stock at 31st March is analysed as follows.	
	Flats and Bedsits	
37	One bedroom	37
14	Two bedrooms	14
1	Three bedrooms	1
<hr/>		<hr/>
52	Total of Flats and Bedsits	52
	Houses and Bungalows	
3	One bedroom	3
10	Two bedrooms	10
39	Three bedrooms	39
4	Four and more bedrooms	4
<hr/>		<hr/>
56	Total of Houses and Bungalows	56
<hr/>		<hr/>
108	Total number of dwellings	108
	- Number sold in year	-

NOTES TO THE HOUSING REVENUE ACCOUNT

Note 4 - Value of HRA Assets	Operational assets			
	Houses £'000	Garages £'000	Land £'000	Total £'000
Value at 1st April 2004	12,506	173	122	12,801
Additions in year	26	-	-	26
Revaluation in year	1,573	30	28	1,631
Disposals				-
Depreciation in Year	(175)	(4)	-	(179)
Value at 31st March 2005	13,930	199	150	14,279

Note 5 - Vacant Possession Value of Council Houses

The introduction of Resource Accounting in the Housing Revenue Account requires all HRA assets to be revalued as at 1st April each year. The basis of the valuation is Existing Use Value for Social Housing (EUV-SH) as defined by the Royal Institute of Chartered Surveyors. The method of valuation prescribed by the RICS to arrive at EUV-SH is based on the vacant possession value of the properties, adjusted to reflect the occupation by a secure tenant. The Adjustment Factor for the South West is 56% 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.

2003/04 £'000		2004/05 £'000
	Freehold and Leasehold dwellings	
22,438	Vacant Possession value at 1st April 2004	12,565
	Additions	26
(9,873)	Revaluation adjustment	1,514
<u>12,565</u>		<u>14,105</u>
-	Less Value of houses sold in year	-
(59)	Less Depreciation in year	(175)
-	Less Depreciation in earlier years	-
<u>12,506</u>	Balance Sheet values at 31st March 2005	<u>13,930</u>

NOTES TO THE HOUSING REVENUE ACCOUNT

2003/04 £'000	<u>Note 6 - Capital Expenditure</u>	2004/05 £'000
78	Total Capital Outlay in year	26
	(78) Financed by: Reserves and temporary borrowing	(26)
	<u>Capital Receipts</u>	
-	- Sale of Council Houses - net sale proceeds	-
-	- Sale proceeds set-aside for debt redemption (at 75%)	-
-	- Net usable receipt from sale	-
	<u>Capital Charges</u>	
<p>The Housing Revenue Account reflects both the cost of capital employed and the depreciation of those assets. The cost of capital employed is calculated at 3.5% in respect of the net book value for fixed assets, and at 4.625% for infrastructure (both at 6% in earlier years): plus depreciation, which represents the consumption, or using-up, of those assets over their expected life.</p>		

2003/04 £'000	<u>Note 7 - Total Depreciation in year</u>	2004/05 £'000
59	Council Houses	62
4	Garages	4
63		66

Note 8 - Impairment/Deferred charges

There has been no material decline in the value of any HRA assets, and no deferred charges have been incurred.

2003/04 £'000	<u>Note 9 - Rent Arrears</u>	2004/05 £'000
12	Gross Rent Arrears at 31st March	13
(2)	Prepaid Rent	(1)
10	Net Rent Arrears	12
3	Value of Bad or Doubtful Debt Provision	3
<p>The arrears of £13,317 (£12,316 in 2003/04) represents 3.97% (3.78%) of the gross rent income for the year.</p>		

NOTES TO THE HOUSING REVENUE ACCOUNT

Note 10 - HRA - Exchequer Subsidy

The following is a breakdown of the various elements in the Housing Subsidy calculation. The net result of this calculation is that the Council does not receive any Government Subsidy in aid of the Housing Revenue Account; the calculation reveals in fact the opposite, which is termed a Negative Subsidy. The rules require that the value of the Negative Subsidy be paid into another account of the authority, which is the General Fund.

2003/04 £'000		2004/05 £'000
45	Management Allowance	70
56	Maintenance Allowance	62
59	Major Repairs Allowance	61
	Charges for Capital -	4
14	Admissible set-aside	-
30	Interest charge	34
33	Debt Management	34
54	Rent Rebates	-
291		265
(299)	Less Notional Rent Income	(305)
(8)		(40)
-	Adjustment (per rules)	-
(8)	Total of Negative Subsidy (rounded)	(40)

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

2003/04 £'000		2004/05 £'000
391	Net cost of services, as in HRA	446
(73)	Deduct Transfer to Housing Repairs Account	(80)
49	Add actual Housing Repairs expenditure	57
(8)	Less Negative Subsidy	-
359	Revenue Account	423

COLLECTION FUND

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

2003/04 £'000	Notes	2004/05 £'000	2004/05 £'000
<u>Income from Council Tax</u>			
(1,180)	1	(1,262)	
190		90	
29		31	
-		-	
34		49	
-		4	
(927)			(1,088)
<u>Transfers from General Fund</u>			
(34)			(49)
(848)	2		(928)
(1,809)			(2,065)
<u>Expenditure:</u>			
Precepts -			
821		879	
117		138	
938			1,017
<u>Business Rate -</u>			
832		906	
15		22	
-		-	
847			928
1		-	
<u>Distribution of previous year's surplus</u>			
27		13	
3		2	
31			15
7			(105)
(23)			(16)
(16)			(121)

NOTES TO THE COLLECTION FUND

Note 1 - Council Tax Base

Valuation Band	Range of Values	Relationship to Band D	Dwellings on Valuation List	Discounted Dwellings	Dwellings Tax Base
A	Up to £40,000	6/9	14	11	7
B	£40,001 to £52,000	7/9	38	27	21
C	£52,001 to £68,000	8/9	71	54	48
D	£68,001 to £88,000	9/9	214	167	169
E	£88,001 to £120,000	11/9	312	260	317
F	£120,001 to £160,000	13/9	315	255	368
G	£160,001 to £320,000	15/9	152	128	213
H	Over £320,000	18/9	7	7	13
			<hr/>		
			1,123	909	1,156

Council Tax for 2004/05 was set at £779.04 (£724.69 in 2003/04) for Band D with each other Band being calculated in its weighted relationship to the Band D charge. The Police Precept was £113.39 (£103.27 in 2003/04) making a Band D total £892.43 (£827.96 in 2003/04).

Note 2 - Business Rates

Under the arrangements for Uniform Business Rates, the Council collects non-domestic rates for its area which are based on Rateable Values multiplied by the national rate of 45.6p in the £ (44.4p in 2003/04). The total amount, less reliefs granted, is then paid into a central pool. The Government redistributes the sums paid into the pool back to authorities on the basis of a fixed amount per head of population. The amounts collected on behalf of the Government can be analysed as follows:

2003/04		2004/05
£'000		£'000
919	NNDR debit	975
(59)	Less Transitional Relief, etc	(44)
(12)	Less previous years' adjustments	(3)
<hr/>		<hr/>
848	Net income from Business Ratepayers	928
651	Redistributed amount from Pool	625

STATEMENT OF TOTAL MOVEMENT IN RESERVES

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

2003/04 £'000	Notes	2004/05 £'000	2004/05 £'000
<u>Surplus / (deficit) for the year :</u>			
199	General Fund	318	
25	Housing Revenue Account	72	
181	Add back Movements on earmarked reserves	132	
(47)	Deduct appropriation from pensions reserve	4	
546	Actuarial gains and (losses) relating to pensions	(754)	
904	Total increase / (decrease) in revenue resources		(228)
-	Increase / (decrease) in useable capital receipts	-	
-	Increase / (decrease) in unapplied capital grants and contributions	(292)	
-	Total increase / (decrease) in realised capital resources		(292)
1,834	Gains / (losses) on revaluation of fixed assets	5,360	
-	Impairment losses on fixed assets due to general change in prices	-	
1,834	Total increase / (decrease) in unrealised value of fixed assets		5,360
-	Value of assets sold, disposed of or decommissioned		-
-	Capital receipts set aside	-	
-	Revenue resources set aside	641	
(143)	Movement of Government Grants Deferred	(388)	
59	Movement on Major Repairs Reserves	-	
(84)	Total increase / (decrease) in amounts set aside to finance capital investment		253
-	Increase / (decrease) on the pensions reserve		-
2,654	Total recognised gains and losses		5,093

This statement has been revised from 2003/04 and so prior period adjustments made where applicable

NOTES TO THE STATEMENT OF TOTAL MOVEMENT IN RESERVES

	General Fund Balances £'000	HRA balances £'000	Earmarked revenue reserves £'000	Pensions reserve £'000
<u>Note 1 - Movements in revenue resources</u>				
(Surplus) / deficit for 2004/05	(318)	(36)	-	-
Appropriations (to) / from revenue account	-	(36)	132	4
Actuarial gains and losses relating to pensions	-	-	-	754
<hr/>				
<hr/>				
Balance brought forward at 1 April 2004	(720)	(375)	(2,510)	1,314
Balance carried forward at 31 March 2005	(1,038)	(447)	(2,378)	2,072

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

	Useable capital receipts £'000	Capital Contributions Deferred £'000
<u>Note 2 - Movements in realised capital resources</u>		
Amounts receivable in 2004/05	-	(501)
Amounts applied to finance new capital investment in 2004/05	-	209
Total increase / (decrease) in realised capital resources in 2004/05	-	(292)
Balance brought forward at 1 April 2004	(274)	(933)
Balance carried forward at 31 March 2005	(274)	(1,225)

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

NOTES TO THE STATEMENT OF TOTAL MOVEMENT IN RESERVES

Note 3 - Movements in unrealised value of fixed assets	Fixed Asset Restatement Account £'000
(Gains)/losses on revaluation of assets in 2004/05	(5,360)
Impairment loss due to general change in prices in 2004/05	-
Total increase/decrease in unrealised capital resources in year	<u>(5,360)</u>
Value of Assets sold or otherwise disposed of	
Amounts written off to fixed asset balances for disposals	-
Total movement on Reserve in 2004/05	(5,360)
Balance brought forward at 1 April 2004	<u>(13,853)</u>
Balance carried forward at 31 March 2005	<u>(19,213)</u>

The system of capital accounting requires the establishment of the Fixed Asset Restatement Reserve. The balance represents the difference between the valuation of assets under the previous system of capital accounting and their subsequent revaluation. The Reserve will be written down by the net book value of assets as they are disposed of, and debited or credited with the deficits or surpluses arising on future revaluations. The Reserve Account is not represented by cash.

Note 4 - Movement in amounts set aside to finance capital investment	Capital Financing Account £'000	Government Grants Deferred £'000	Total £'000
Capital receipts set-aside in 2004/05	-	-	-
Usable receipts applied	-	-	-
Total capital receipts set aside and used in year	<u>-</u>	<u>-</u>	<u>-</u>
Revenue resources set aside in 2004/05			
- Capital expenditure financed from revenue	-	(209)	(209)
- Depreciation less MRP	528	174	702
- HRA depreciation in excess of Major Repairs Allowance	113	-	113
Total revenue resources set aside in year	<u>641</u>	<u>(35)</u>	<u>493</u>
Grants applied to capital investment in year	(214)	-	(214)
Amounts credited to the Asset Management Revenue Account	(174)	-	(174)
Total movement of grants in year	<u>(388)</u>	<u>-</u>	<u>(388)</u>
Total increase/decrease in amounts set aside to finance capital investment	<u>253</u>	<u>(35)</u>	<u>105</u>
Total movement on reserve in year	253	(35)	105
Balance brought forward at 1 April 2004	<u>(1,101)</u>	<u>(2,770)</u>	<u>(3,871)</u>
Balance carried forward at 31 March 2005	<u>(848)</u>	<u>(2,805)</u>	<u>(3,766)</u>

NOTES TO THE STATEMENT OF TOTAL MOVEMENT IN RESERVES

Note 5 - Details of General Fund Balances

	1 April 2004 £'000	Transfer to reserve £'000	Transfer from reserve	31 March 2005 £'000
General Fund	(720)	(318)	-	(1,038)
Collection Fund	(16)	(105)	-	(121)
School Balances	(105)	(47)	-	(152)
Housing Account Balances	(375)	(72)	-	(447)
				-
	(1,216)	(542)	-	(1,758)

Note 6 - Earmarked Reserves

	1 April 2004 £'000	Transfer from reserve £'000	Transfer to reserve £'000	31 March 2005 £'000
Capital	(238)			(238)
Airport	(910)	250	(30)	(690)
Repairs Fund	(461)	10	(100)	(551)
Plant Fund	(77)		(2)	(79)
Water Revenue	(605)	32		(573)
Sewerage Revenue	(190)		(35)	(225)
Equipment Fund	(22)			(22)
I.T. Revenue	(7)	7		-
				-
	(2,510)	299	(167)	(2,378)

CASHFLOW STATEMENT

2003/04 £'000	Notes	2004/05 £'000	2004/05 £'000
<u>Revenue Activities</u>			
<u>Cash outflows</u>			
3,230		3,473	
3,153		3,359	
102		216	
147		140	
806		906	
7,438			8,094
<u>Cash inflows</u>			
(571)		(546)	
(930)		(1,092)	
(869)		(831)	
(2,026)		(2,266)	
(651)		(625)	
(106)		(224)	
(1,221)		(1,475)	
(1,423)		(1,510)	
(853)		(725)	
(8,650)			(9,294)
(1,212)	Total revenue activities cashflow		(1,200)
 <u>Returns on investments and servicing of finance</u>			
<u>Cash outflows</u>			
129	Interest paid	113	
<u>Cash inflows</u>			
(39)	External Interest received	(73)	
90	Total returns on investments and servicing of finance		40
 <u>Capital Activities</u>			
<u>Cash outflows</u>			
573	Purchase of fixed assets	563	
<u>Cash inflows</u>			
-	Sale of fixed assets	-	
(254)	Capital Grants received	(199)	
-	Other Capital	-	
319	Total capital activities		364
(803)	Net Cash Flow before Financing		(796)
 <u>Financing</u>			
<u>Cash outflows</u>			
833	Repayments of amounts borrowed	983	
(300)	Investment of Funds	-	
<u>Cash inflows</u>			
-	New loans raised	-	
(750)	Short Term loans raised	(500)	
(217)	Total Financing		483
(1,020)	Increase / (decrease) in cash and bank balances		(313)

NOTES TO THE CASHFLOW STATEMENT

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

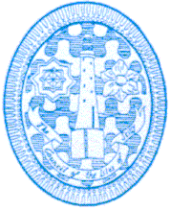
2003/04 £'000		2004/05 £'000	2004/05 £'000
199	General Fund (Surplus) / Deficit		318
(8)	Collection Fund (Surplus) / Deficit		105
<u>191</u>			<u>423</u>
	<u>Adjustment for non-cash transactions</u>		
217	Minimum Revenue Provision	211	
181	Contributions to Reserves	138	
(44)	Provisions	(20)	
-	Excess depreciation	113	
112	Transfer to HRA	(41)	
<u>466</u>			<u>401</u>
	<u>Adjustments for items on an accruals basis</u>		
341	(Increase) / Decrease in total Creditors	771	
(4)	Increase / (Decrease) in total Stocks	(9)	
128	Increase / (Decrease) in total Debtors	(426)	
<u>465</u>			<u>336</u>
	<u>Items classified elsewhere in cashflow statement</u>		
(39)	Interest received	(73)	
129	Interest Paid	113	
<u>90</u>			<u>40</u>
<u>1,212</u>	Net revenue cashflow		<u>1,200</u>

2003/04 £'000	<u>Note 2 - Movement in cash resources</u>	At 1 April 2004 £'000	Movement in year £'000	At 31 March 2005 £'000
1,540	Bank and cash in hand	1,540	360	1,900
(105)	School bank accounts	(105)	(47)	(152)
1,435	Subtotal	1,435	313	1,748
-	Investments of surplus cash	-	-	-
(2,455)	Loans we have not repaid	(2,455)	483	(1,972)
415	Net cash balances	(1,020)	796	(224)

NOTES TO THE CASHFLOW STATEMENT

<u>Note 3 - Government Grants</u>		
2003/04		2004/05
£'000		£'000
44	Transitional Relief	28
190	Council Tax Discounts	90
14	Cost of Collection	22
548	Standards Fund	725
425	Other	610
<u>1,221</u>		<u>1,475</u>

<u>Note 4 - Reconciliation of net cash flow to movement in net debt.</u>		
2003/04		2004/05
£'000		£'000
	<u>Increase / decrease in cash in the period.</u>	
(750)	Cash inflow from new debt	(500)
(300)	Investment	-
832	Cash outflow from debt repaid and finance lease payments	983
1,020	Cash inflow / outflow from decrease / increase in liquid resources	224
<u>802</u>	Change in net debt resulting from cash flows	<u>707</u>
<u>(1,822)</u>	Net debt as at 1 April 2004	<u>(1,020)</u>
<u>(1,020)</u>	Net debt as at 31 March 2005	<u>(313)</u>



COUNCIL of the
ISLES OF SCILLY

STATEMENT ON INTERNAL CONTROL

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 2005 and up to the date of approval of the annual accounts. However, as stated, 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. Although the Council have taken steps to develop the reviews of effectiveness, we recognise that further work is required to develop the review process. Plans have been developed to address this in the coming year.

3. THE INTERNAL CONTROL ENVIRONMENT

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

Performance Management

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

- The Council's priorities are reflected in the Community Strategy 2020 and Corporate Best Value Plan 2005-06. These plans set out the Council's strategic and service objectives together with individual service plans. These strategies provide direction for the Council and are accessible to officers, Councillors, partners and the public. The strategies are supported by action plans with targets and progress is monitored by regular reporting to the appropriate parent committee.
- 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 will be included on the Council's new website and intranet.
- 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.
- To support performance management, the Council is developing a Communication Strategy for internal and external communication.
- Best Value reviews and service managers identify key performance indicators and assist in challenging the services contribution to Strategic Objectives.
- Performance Indicator results which are included in the Best Value Performance Plan are approved annually.
- Rigorous 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.
- Appraisals for chief officers are carried out annually and appraisals for all staff to SO1 have been undertaken within the last year. The Authority is planning to cascade this to all staff within two years.

Financial Management

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

- Financial Papers for Members, covering both revenue and capital spend and setting out fees and charges, provides for the planning and monitoring of resources required
- 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 is formally monitored by the Chief Officer/Management Team and Members of the parent Committee and is evidenced by minutes of the committee meetings.
- 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.
- 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.
- The Council of the Isles of Scilly has adopted CIPFA's "Code for Treasury Management in Local Authorities".

- 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.
- 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.
- The management of investments is the responsibility of the Treasurer under the direction of the Policy and Resources Committee and at all times follow the principles laid down in CIPFA's "Code of Guidance on Treasury Management for Local Authorities".
- Chief Officers are responsible for periodic checks of items on the inventory records of the department, at least annually.
- Financial Regulations contained within the Council's Handbook set out the overall framework that governs the management of the Council's finances.

Risk Management

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

- A Corporate Risk Register implemented this year, identifies the benefits of active risk management, the process for ongoing risk management are the responsibilities of the Strategic Management Team and Chief Officers.
- The Risk Management Policy has the full support of the Councillors and Strategic Management Team and is approved by Senior Members.
- Periodic reviews of all insurances are the responsibility of the Chief Officers.
- Chief Officers and Chairmen have the responsibility to monitor and review the risk management process and Corporate Risk Register, and report to the Modernising Local Government Group every 6 months.
- Training and communication of Risk Management is the responsibility of the Modernisation Officer and Member training is planned for 2005/06 and will be included in the Council's existing Induction Training.
- 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.
- 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.
- Training and communication of Health and Safety is the responsibility of the Assistant Chief Technical Officer and regular training is undertaken.
- Standing Orders are contained within the Council's Handbook and are reviewed periodically, the last review being March 2005.
- Nominated Officers of the Council of the Isles of Scilly are included in the Fidelity Guarantee Policy.
- Members of the public are made aware of the complaints procedure and policy in operation by leaflet distribution and will be included on the new website and intranet.

- The Council of the Isles of Scilly employ Cornwall County Council to supply Internal Audit during 2004/05. The risk based audit plan is determined by Internal Audit and discussed with the Treasurer and approved by Members. During the year Internal Audit prepare reports and action plans which are reported to the Treasurer and are being planned to report on to the appropriate committee. The Head of Internal Audit supplies the Council with an Internal Audit opinion that sets out any significant weaknesses in the system of internal financial control that they have identified during the year and this opinion provides assurance of the Internal Control environment. The Council of the Isles of Scilly have received this opinion and have noted that there is a need to improve the response time as noted in significant issues at section 6.

4. REVIEW OF EFFECTIVENESS

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

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

- Annual reviews of the Council's systems by Internal Audit against known and evolving risks. Reports are taken to the appropriate committee, evidenced by the minutes of the meetings.
- Reviews by Internal Audit of internal controls in operation within each service area against known and evolving risks to be undertaken.
- Reviews by Social Services Inspectorate, Audit Commission and CPA have contributed to the implementation of new controls and reviews of existing systems. These reviews and changes have been reported to the appropriate committee evidenced by the minutes of the meetings.
- The developing framework for annual service planning to align service development against strategic objectives.
- Ongoing review of the business of and the decisions taken by the Council by the Monitoring Officer which include an assurance that the Council has acted lawfully and that agreed standards of the Standards Committee have been met.
- Review of Corporate Risks and future development in other service areas.
- Reviews of the conduct of risk analysis and management of major projects undertaken by the Council.
- The Council's Financial Regulations, Terms of Reference and Standing Orders were reviewed in March 2005 and updated as appropriate.

The Audit Commission during 2004 revisited the Corporate Performance Assessment scores for the Council of the Isles of Scilly. The Corporate Performance overall score remained at 2. However, due to the findings of the Social Services Inspection, the Council's star rating was reduced to 0. This external assessment contributed to the Council being judged as "weak" by the Comprehensive Performance Assessment process.

The table below shows the appropriate detailed results and changes from 2003. Scores are from 1 (low) to 4 (top).

Score Area	Score 2004	Score 2003
Financial Standing		
Setting a Balanced Budget	2	2
Setting a Capital Programme	2	2
Financial Monitoring and Reporting	2	2
Meeting Financial Targets	1	1
Financial Reserves	2	2
Systems of Internal Financial Control		
Monitoring of Financial Systems	2	2
Internal Audit	2	3
Risk Identification and Management	1	1
Standards of Financial Conduct, and the prevention and detection of fraud and corruption		
Ethical Framework	2	2
Governance Arrangements	1	1
Treasury Management	2	3
Prevention and Detection of Fraud and Corruption	1	2
Financial Statements		
Timeliness	1	2
Quality	1	1
Supporting Records	2	2
Legality of Transactions		
Roles and responsibilities	3	3
Consideration of the Legality of Significant Financial Transactions	4	4
New Legislation	3	3

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

In addition to the Annual Audit letters, the Council has over the past few years received CPA assessment from the Audit Commission. The capacity to improve was not reassessed in 2004.

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

5. CORPORATE GOVERNANCE

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

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

The following steps have been initiated during the year 2005/06 to further improve the Corporate Governance arrangements of the Council:

- Development of a Member training programme
- Development of a Management training programme
- Development of key performance indicators
- Development of an employee and visitors policy
- Development of a Corporate Calendar in order to pinpoint dates for monitoring reviews and achieving deadlines for statutory documents
- Link more closely the financial planning and corporate priorities
- Work will be done in the following year to develop the role of risk management, with training in respect of risk management and embedding this within the culture of the Council
- External consultants have been engaged to improve the Capacity Building facility
- Arrangements with Dorset County Council for the remainder of the financial year to provide professional social services support to the Social Services department and strategic support to the Director.
- Further development of a framework of Service Plans
- Further development of the risk analysis and mitigation procedures
- Appraisals for all staff planned to develop and monitor individual work programmes and SMART targets, linking them to corporate priorities and objectives
- A Communication Strategy in relation to the Code of Corporate Governance is being developed for approval and implementation
- Development of a staff Counselling Services policy
- Development of a Procurement Strategy

6. SIGNIFICANT INTERNAL CONTROL ISSUES

The following significant internal control issues have been identified:

No	Issue	Action
1	Review of budget setting to identify the reasons for underspend occurring and improve the process to achieve a balanced outturn	Committee Chairmen and Chief Officers to review individual Committee budgets to achieve a balanced outturn
2	The Capital setting programme should be based around service needs rather than finance	The Authority has commissioned a Corporate Asset Management plan to assist Members and Officers assess priority based on an audit of need
3	An Internal Audit plan to be agreed to ensure adequate Internal Audit coverage is in place annually	A programme of continuous Internal Audit of accounting and financial operations of the Council is to be undertaken during 2005/06 and monitored and maintained annually
4	Guidance on monitoring arrangements within the Council to be formalised for the Standards Committee	A report will be taken to a meeting of the Standards Committee for approval by the end of 2005
5	Increased CIPFA requirements to be adopted by the Council	The Council of the Isles of Scilly has adopted CIPFA's "Code for Treasury Management in Local Authorities"
6	Review the closedown arrangements to ensure a compliant set of financial statements are produced by 31 July 2005	Closedown arrangements reviewed to ensure compliancy with the target date for the preparation of accounts to be set for approval by members Target date for the preparation of the SIC set for approval by members. Achieved for 2005.
7	Comprehensive or timely responses to review and other audit and inspection reports needed	Additional capacity secured through external support to ensure timely responses
8	Produce and publish the agreed set of Performance Indicators	Best Value Plan, including a complete set of agreed Performance Indicators to be achieved by June 2005
9	Information from the BVPIs to be used to improve decision making and performance	Reviews of the use of performance information to improve decision making and performance to be prepared by October 2005 for resource usage by end March 2006

No	Issue	Action
10	Assurance controls needed to ensure that all published indicators are accurate and conform to the guidance issued by the ODPM	Evidence provided by Service Providers to ensure accuracy of the indicators implemented in April 2005 and to be monitored annually Amended definitions of the indicators to be forwarded to the relevant service providers and monitored annually
11	Complete the Council's risk register and consequent action plan to be in active use in all departments Identify priorities and reflect these priorities in the setting of the 2005/06 budget	Further development of the Risk Management and Performance Management systems. A risk register has been completed for major risks to the Council and will be further developed in 2005/06. An action plan is to be prepared by October 2005 for use by end March 2006
12	Ensure that the required actions set out in the Council's IEG statement are achieved to ensure that the opportunities presented by government funding are achieved	External consultants have been contracted to ensure that this is delivered. An IEG Implementation Business Plan has been approved by Members and is to be implemented by end March 2006
13	Regular monitoring processes for all significant actions plans to be put in place	This has been set out in the Corporate and Service Planning framework and approved in May 2005
14	Further development of the reviews of effectiveness process needed	Plans to further develop reviews during 2005/06
15	Review of the management of grant funding to ensure that all expenditure is properly reported and claimed	The appropriate Chief Officer, in consultation with the Treasurer, to be responsible for the control of Capital and Revenue expenditure under the several heads of the annual Estimate
16	Key recommendations of the BFI to be considered and addressed	To develop during 2005/06 a risk assessed/proportionate response
17	Communication Strategy to be drafted and implemented	A Communication Strategy has been drafted and is to be reported to Members and underway by September 2005
18	Response for evaluation of quality assurance for service delivery processes to be established	To be developed during 2005 for use as from April 2006
19	Mechanisms to be established for collection of assurances for SIC by the assigned person	A monitoring questionnaire is being developed for use from October 2005
20	There is a need to formalise a process to manage external provision	Formalisation of the process to manage external provision to be included in the developing Procurement Strategy

Signed: *Christine Savill*

Dated:

Chairman of the Council

Signed: *P. S. [Signature]*

Dated:

Chief Executive