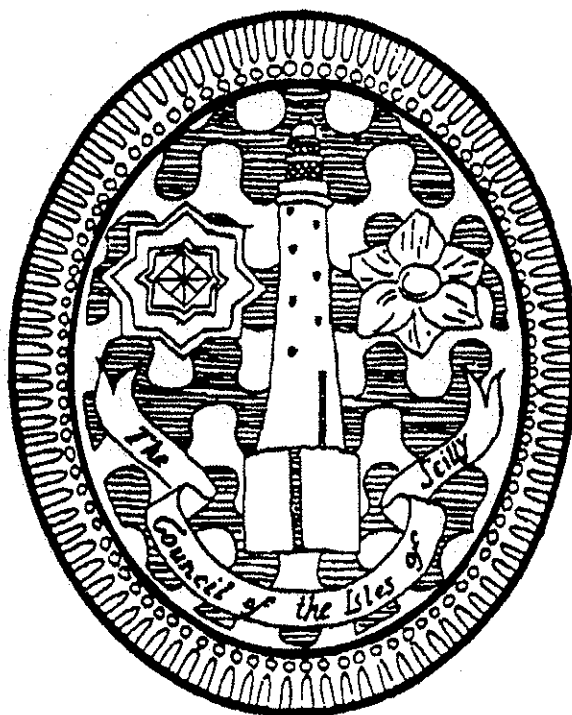


A.T.

COUNCIL OF THE ISLES OF SCILLY



ANNUAL STATEMENT OF ACCOUNTS

1st April 2003 to 31st March 2004

CONTENTS

| | Page: |
|---------------------------------------|-------|
| TREASURER'S FOREWORD | 1 |
| STATEMENT OF ACCOUNTING POLICIES | 5 |
| THE CONSOLIDATED REVENUE ACCOUNT | 9 |
| HOUSING REVENUE ACCOUNT | 17 |
| COLLECTION FUND | 21 |
| CONSOLIDATED BALANCE SHEET | 23 |
| CASH FLOW STATEMENT | 33 |
| INTERIM STATEMENT OF INTERNAL CONTROL | 36 |
| CERTIFICATION OF ACCOUNTS | 41 |
| AUDIT OPINION | 42 |

TREASURER'S FOREWORD

The pages which follow are the Council's Final Accounts for 2003/04 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.

Revenue Spending in 2003/04:

- 1 The Council's actual expenditure on services and income from all sources results in a surplus of £199,000 for the year. The overall expenditure and variances for each Committee's budget, excluding Trading Services, is set out below:

| Committee: | Actual 2002/03 £ '000 | Budget 2003/04 £ '000 | Actual 2003/04 £ '000 | Variance 2003/04 £ '000 |
|----------------------|-----------------------------|-----------------------------|-----------------------------|-------------------------------|
| Education | 1614 | 1,708 | 1,646 | -62 |
| Social Services | 537 | 582 | 532 | -50 |
| General Purposes | 1,100 | 1,083 | 1,025 | -58 |
| Economic Development | 64 | 53 | 63 | 10 |
| Tourism | 73 | 93 | 66 | -27 |
| Housing | 115 | 115 | 88 | -27 |
| Planning | 61 | 7 | -25 | -32 |
| Sea Fisheries | 8 | 5 | 4 | -1 |
| Policy & Resources | 724 | 749 | 657 | -92 |
| Total | 4296 | 4395 | 4056 | -339 |

- 2 Revenue Support Grant received for 2003/04 was £2,025,000 an increase of £267,000 over the previous year.
- 3 Revenue balances stand at £3,726,000 at the year end, of which £2,990,000 is set aside for specific purposes. This compares with £3,236,000 at the end of 2002/03 of which £2,692,000 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.

Capital Spending:

The Council spent £573,000 (£485,600 in 2002/03) on approved capital schemes during the year which are listed in the statement below:

| | 2003/04 £'000 | 2002/03 £ '000 |
|--|------------------|-------------------|
| Education: | | |
| Isles of Scilly Secondary School -Laboratories | 1 | 2 |
| New Deal for Schools | 47 | 11 |
| Equipment | 8 | 2 |
| Learning Isles Project | - | 28 |
| Expansion of Popular Schools | 47 | - |
| Standard Fund Allocation | - | 113 |
| Swimming Pool | 13 | 9 |
| Disability or Special Needs | 18 | - |
| Broadband | 79 | - |
| Schools Access Initiative | 16 | - |
| Water/Sewerage Services: | | |
| Water - Mains Renewal | 18 | 17 |
| Sewerage Treatment Works Telegraph | 14 | - |
| Sewerage Evaluation, St Mary's | - | 9 |
| General Purposes: | | |
| Incinerator | 27 | 34 |
| Strand Public Conveniences | - | 33 |
| Housing and Corporate Property: | | |
| Housing Improvements | 78 | - |
| Disabled Facilities Grant | - | 19 |
| Airport: | | |
| Fittings and equipment | 9 | 23 |
| Appliances | 33 | 11 |
| Terminal | 5 | 4 |
| Helipad | - | 22 |
| Runway Lighting | 10 | 90 |
| Health & Safety | 4 | - |
| Security | 5 | - |
| Fire Service | | |
| Fire Station | - | 26 |
| Fittings & Equipment | 19 | - |
| Resources | | |
| Implementing E-Government | 42 | 20 |
| Office Equipment | - | 10 |
| Skateboard Park | 52 | 4 |
| Purchase of Buzza Street | 28 | - |
| | ----- | ----- |
| | 573 | 486 |

The Capital Programme was principally funded by Government Credit Approvals (57%), Government Grant (43%) and the remainder by use of internal funds set aside from revenue spending or contributions from schools.

Housing:

Council rents were increased in 2003/04 by approximately 1%.

Retirement Benefits

For 2003/04 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 £1,314,000. This represents an unfunded liability to the Council which will be covered over future years.

Outlook:

The Government introduced the changes to the Formula Grant Distribution System for the Financial year 2003/04. The impact of these changes on Formula Spending Share on each service block was significant and will continue to acutely influence the Council's spending plans and Council Tax levels over the period 2004/05 and 2005/06.

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

The increase in Committee budgets, during 2003/04, to cover additional demands upon statutory services has fed through into 2004/05 budgets and will continue to require additional financial support into 2005/06. 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.

Finally I wish to thank all 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

July 2004

STATEMENT OF ACCOUNTING POLICIES

Principles adopted in preparing accounts

General:

The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) which is recognised by statute as representing proper accounting practices. These accounts have been prepared under the historic cost convention modified to account for the revaluation of fixed assets at their current value to the Council by reference to their current costs

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 of acquisition.

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

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 reserve.

Depreciation:

Assets other than land, are being depreciated over their useful economic life, except where the Authority is making regular repairs and maintenance to extend the asset's useful life, in its existing use, so that any provision for depreciation would not be material.

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 |

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 2004. The notional rates of interest used are 3.5%r those fixed assets included at current value and 6%

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 provision of the Local Government and Housing Act 1989, the Government has prescribed that the proportion of capital receipts which must be set aside to redeem debt must be 75% of Council house sales.

Debtors and Creditors:

The Revenue Accounts of the Council are maintained on an accruals basis in accordance with the Code of Accounting Practice and FRS18, 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.

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 Waste Disposal, and 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.

Pensions:

The Council now complies with the accounting requirements of FRS17. For details, please refer to Note 5 to the Consolidated Revenue Account on page 12. All contributions are apportioned to the service on which the employee is engaged.

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 2003/04.

Treasury Management:

The Council has adopted the CIPFA code of practice for Treasury Management which has been adhered to.

Investments:

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

Estimates:

The Council has set these amounts aside for potential future expenditure which may be incurred, but the amount of which cannot be determined with any certainty, or the dates on which these liabilities may arise. The Councils policy is to only create provision and accruals against any supplier or customer for sums greater than £100.

Redemption of Debt:

External borrowings are generally repaid half yearly. The minimum revenue provision, calculated at 4%, is set aside in order to repay these borrowings.

Contingent Assets and Liabilities:

Any contingent assets and liabilities would be excluded from accruals in the accounts and disclosed by way of a note to the accounts, although there are none in this financial year.

Trading Services:

Airport, Building Control, Commercial Refuse Collection, Tourism (Brochures), Water and Sewerage are non profit making accounts and expenses are met wholly by fees and charges to service users.

Partnerships:

The Councils policy is to disclose separately those partnerships/joint working arrangements which have a turnover of £50,000 or more.

Insurance Policies:

The Authorities existing insurance provision is provided by Zurich Municipal Insurance.

The arrangements for 2003-04 were as follows:-

Liability and motor vehicle insurance

The Authority insures itself for the full amount of the claim, except for the excess level, presently set at £100.

Education and Council Properties.

These are insured for such perils as storm and flood and again carry an excess of £100.

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 Gross Expenditure £'000 | 2003/04 Income £'000 | 2003/04 Net Expenditure £'000 | 2003/04 Original Budget £'000 | 2002/03 Net Expenditure £'000 |
|--|--|----------------------------|--|--|--|
| <u>General Fund expenses:</u> | | | | | |
| Education | 2,684 | 1,078 | 1,606 | 1,669 | 1,576 |
| Library | 41 | 1 | 40 | 39 | 38 |
| Social Services | | | | | |
| - General | 124 | 30 | 94 | 146 | 141 |
| - Park House | 260 | 83 | 177 | 219 | 193 |
| - Community Care | 275 | 14 | 261 | 217 | 203 |
| Domestic Refuse collection & disposal | 498 | 92 | 406 | 408 | 463 |
| Public conveniences | 40 | | 40 | 37 | 36 |
| Misc. health functions | 24 | 7 | 17 | 21 | 16 |
| Highways | 65 | | 65 | 83 | 71 |
| Open spaces and beaches | 37 | 3 | 34 | 47 | 44 |
| Coast protection | 192 | | 192 | 196 | 233 |
| Fire service | 284 | 13 | 271 | 291 | 237 |
| Tourism | 143 | 77 | 66 | 93 | 73 |
| Miscellaneous housing | 160 | 119 | 41 | 56 | 49 |
| Corporate & Industrial | 35 | 46 | -11 | -5 | -6 |
| Housing Benefits | 128 | 106 | 22 | 23 | 23 |
| Town Hall | 110 | 74 | 36 | 41 | 49 |
| Planning | 173 | 198 | -25 | 7 | 61 |
| Off-Island launch service | 20 | | 20 | 21 | 20 |
| Economic Development & IAP | 126 | 63 | 63 | 53 | 64 |
| Other services | 750 | 122 | 628 | 733 | 662 |
| Provision for Bad Debts | 13 | | 13 | 0 | 50 |
| Net cost of Gen. Fund services | <u>6,182</u> | <u>2,126</u> | <u>4,056</u> | <u>4,395</u> | <u>4,296</u> |
| Housing Revenue Account | 749 | 390 | 359 | 345 | 595 |
| Net cost of services | | | 4,415 | 4,740 | 4,891 |
| FRS17 Interest Cost (Pensions) | | | 343 | | 338 |
| FRS17 Expected Return on Assets (Pensions) | | | -272 | | -315 |
| Transfer from Asset Management Revenue Account | Note | | -915 | -831 | -1,381 |
| Interest & Investment income | 1 | | -39 | -17 | -25 |
| Trading Services | 8 | | -177 | -55 | -140 |
| Net operating expenditure c/f | | | <u>3,355</u> | <u>3,837</u> | <u>3,368</u> |

| | | 2003/04 Net Expenditure | 2003/04 Original Budget | 2002/03 Net Expenditure |
|--|------|-------------------------------|-------------------------------|-------------------------------|
| | | £ | £ | £ |
| Net operating expenditure b/f | | 3,355 | 3,837 | 3,368 |
| Appropriations | Note | | | |
| Transfers to Housing | | | | |
| Housing Revenue Account | | 25 | -3 | -26 |
| Housing Repairs Account | | 28 | - | 35 |
| Major Repairs Reserve | | 59 | - | 60 |
| Earmarked Reserves | | | | |
| Contributions to earmarked reserves | 9 | 276 | 70 | 232 |
| Contributions from earmarked reserves | 10 | -95 | -11 | -66 |
| Contributions To/(From) FRS17 Pensions Reserve | | -47 | | -7 |
| Appropriations to Capital Finance Reserve | | | | |
| Excess of depreciation over MRP | 2 | -419 | -414 | -407 |
| Release of Exchequer Grants | | 143 | 143 | 143 |
| Deferred Charges Written Off | | - | - | -7 |
| Revenue Contribution to Capital | | | - | 74 |
| Amounts to be met from Government | | | | |
| Grants and local taxation | | 3,325 | 3,622 | 3,399 |
| Sources of finance | | | | |
| Council Tax payers | | 821 | 821 | 647 |
| Collection fund - transfer | | 26 | 26 | 30 |
| Revenue Support Grant | | 2,026 | 2,026 | 1,759 |
| Non-domestic rate income | | 651 | 651 | 661 |
| Total finance | | 3,524 | 3,524 | 3,097 |
| Net general fund surplus (deficit) for the year | | 199 | -98 | -302 |
| Balance on General Fund at 1 st April | | 521 | 599 | 823 |
| Carried forward at 31st March | | 720 | 501 | 521 |
| Collection Fund Balance | | 16 | 30 | 23 |
| | | 736 | 531 | 544 |

Notes to the Consolidated Revenue Account

1 Transactions on the Asset Management Revenue

| | 2003/04 £'000 | | 2002/03 £'000 | |
|---|------------------|---------------|------------------|---------------|
| Income | | | | |
| Capital Charges, General Fund | | | | |
| Cost of Capital | -455 | | -733 | |
| Depreciation | <u>-573</u> | -1,028 | <u>-564</u> | -1,297 |
| Capital Charges, Housing Revenue | | | | |
| Cost of Capital | -446 | | -651 | |
| Depreciation | <u>-63</u> | -509 | <u>-64</u> | -715 |
| Government Grants Deferred | | -143 | | -143 |
| | | <u>-1,680</u> | | <u>-2,155</u> |
| Expenditure: | | | | |
| Interest Paid to Lenders | 129 | | 146 | |
| Provision for depreciation of assets | <u>636</u> | 765 | <u>628</u> | 774 |
| Transfer to Consolidated Revenue Account | | <u>-915</u> | | <u>-1,381</u> |

2 Minimum Revenue Provision

| | 2003/04 £'000 | | 2002/03 £'000 | |
|---|------------------|-------------|------------------|-------------|
| Non-housing amount @ 4% of credit ceiling | | 206 | | 210 |
| Housing amount @ 2% of credit ceiling | | <u>11</u> | | <u>11</u> |
| | | 217 | | 221 |
| Deduct amount charged as depreciation | | <u>-636</u> | | <u>-628</u> |
| Transfer to Consolidated Revenue Account | | <u>-419</u> | | <u>-407</u> |

3 Discretionary Expenditure

Section 36 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 £1490.

4 Publicity

Each Local Authority is required to keep a separate account of its expenditure on publicity. The Council's expenditure in 2003/04 was as follows:-

| | 2003/04 £'000 | | 2002/03 £'000 | |
|-----------|------------------|----------|------------------|----------|
| Education | | 5 | | - |
| Tourism | | - | | 2 |
| | | <u>5</u> | | <u>2</u> |

5 (i) **Teacher's Pension Scheme:**

The Pension Scheme for Teachers is administered by the Department for Education and Skills. The rate of contribution set in 2003/04 was 13.5%, and the amount paid over to the scheme amounted to £89603. There was no cost incurred to provide added years' payments awarded by the authority.

(ii) **Local Government Pension Schemes:**

- (a) This report is required by Financial Reporting Standard 17 (FRS17), published in November 2000, and which was adopted for the first time as at the 31st March 2002.
- (b) FRS17 is to be implemented over a three-year period. For the financial year to 31st March 2002, the Council of the Isles of Scilly was required to disclose, as a note to its accounts, the balance sheet asset or liability calculated in accordance with FRS17. Full compliance has been made by 31st March 2004
- (c) Employees of the Council may participate in the Cornwall County Council Pension Fund, part of the Local Government Pension Scheme. The Fund is administered by the Cornwall County Council in accordance with the Local Government Pension Scheme Regulations 1997, as amended.
- (d) The latest formal valuation of the Fund was at the 31st March 2001, with the next formal valuation as at the 31st March 2004.
- (e) The fair value of the relevant assets held by the Pension Fund for the Isles of Scilly as at the 31st March 2004, as valued by the Fund's Actuarial Valuers, was as follows:

| Fund Value at 31 March 2003 £'000 | Assets | Fund Value at 31 March 2004 £ '000 | Distribution % | Expected Long- Term Rate of Return % per annum |
|---|----------|--|-------------------|--|
| 2584 | Equities | 3,483 | 74.0 | 7.7 |
| 692 | Bonds | 613 | 13.0 | 5.1 |
| 441 | Property | 445 | 9.5 | 6.5 |
| 70 | Cash | 164 | 3.5 | 4.0 |
| ----- | ----- | ----- | ----- | |
| 3787 | Total | 4,704 | 100 | |

- (f) The Financial assumptions for the purposes of the FRS17 calculations as at 31st March are as follows:

| | 2004 % per annum | 2003 Real % per annum |
|-------------------|---------------------|--------------------------|
| Price increases | 2.9 | 2.5 |
| Salary increases | 4.9 | 4.5 |
| Pension increases | 2.9 | 2.5 |
| Discount rate | 6.5 | 6.1 |

(g)

| Net Pension Asset (Liability) at 31st March | | 2004 | 2003 |
|---|-----------|---------------|---------------|
| | | £ '000 | £ '000 |
| Estimated Employer Assets (as (f) above) | (A) | 4704 | 3,787 |
| Present Value of scheme liabilities | (B) | 6018 | 5,600 |
| | | ----- | ----- |
| Net Pension Liability | (A) - (B) | -1,314 | -1,813 |
| | | ----- | ----- |

(h) An employer's contribution of £206,000 representing 16% of Superannuable Pay, (2002/03 £178,000 15.2%) was made in respect of all participating staff to the Cornwall County Council Superannuation Fund.

(i) The movement in the net pensions deficit for the year is analysed as follows:-

| | 2004 | 2003 |
|--------------------------------------|--------------|--------------|
| | £'000 | £'000 |
| Net deficit at start of year | -1813 | -732 |
| Current service cost | -183 | -162 |
| Employers Contribution | 206 | 178 |
| Unfunded Benefit Contributions | 1 | 0 |
| Impact of settlements & curtailments | 0 | -7 |
| Net return on Assets | -71 | -23 |
| Actuarial Gains & Losses | 546 | -1067 |
| | ----- | ----- |
| | -1314 | -1813 |
| | ----- | ----- |

The actuarial Gains / Losses is analysed as follows:-

| | | |
|---|-------|--------|
| The difference between expected & actual return on Assets | 563 | -1085 |
| Value of Assets | 4704 | 3787 |
| Percentage of scheme assets | 12% | -28.7% |
| Experienced gains & losses on liabilities | -17 | 18 |
| Total reserve value of liabilities | 6018 | 5600 |
| Percentage of TPV OF Liabilities | -0.3% | 0.3% |
| Actuarial Gains & Losses | 546 | -1067 |
| Total reserve value of liabilities | 6018 | 5600 |
| Percentage of TPV of liabilities | 9.1% | 19.1% |

6 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.

7 Officer Emoluments:

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

| <u>Remuneration Band</u> | <u>Number of Employees</u> | |
|--------------------------|----------------------------|---------|
| | 2003/04 | 2002/03 |
| £50,000 to £59,999 | 4 | 1 |
| £60,000 to £69,999 | 1 | - |

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

8 Trading Services

| | Gross Expenditure £'000 | Income £'000 | 2003/04 Net Expenditure £'000 | 2003/04 Original Budget £'000 | 2002/03 Net Expenditure £'000 |
|-------------------------|----------------------------|-----------------|--|--|--|
| Airport | 903 | 937 | -34 | -11 | -65 |
| Building Control | 24 | 30 | -6 | 6 | 7 |
| Water | 194 | 324 | -131 | -34 | -90 |
| Sewerage | 96 | 117 | -20 | -25 | -9 |
| Tourism (Brochures) | 71 | 78 | -7 | -2 | -1 |
| Commercial Trade Refuse | 89 | 68 | 21 | 11 | 18 |
| | <u>1,377</u> | <u>1,554</u> | <u>-177</u> | <u>-55</u> | <u>-140</u> |

9 Contribution to Earmarked Reserves:

| | | 2003/04 | | 2002/03 | |
|------------------------|-------------|------------|-----------|------------|-----------|
| | | £'000 | £'000 | £'000 | £'000 |
| Airport | Runway | - | - | - | - |
| | Appliance | - | - | - | - |
| | Reserve | - | - | 1 | - |
| | Buildings | <u>34</u> | <u>34</u> | <u>64</u> | <u>65</u> |
| Repair Funds | Incinerator | <u>50</u> | - | - | - |
| | Highways | <u>30</u> | <u>80</u> | - | - |
| Water Services | Revenue | - | 131 | - | 90 |
| | Sewerage | - | 20 | - | 10 |
| Information Technology | Revenue | - | 8 | - | - |
| Direct Labour Force | Vehicles | - | 3 | - | 13 |
| Revenue Contingency | | - | - | - | 54 |
| | | <u>276</u> | | <u>232</u> | |

10 Contribution from Earmarked Reserves

| | 2003/04 £'000 | 2002/03 £'000 |
|------------------------|------------------|------------------|
| Desalination Plant | - | 12 |
| Incinerator Reserve | - | 35 |
| Equipment Fund | - | 10 |
| Swimming Pool | - | 9 |
| Coastal Protection | 20 | - |
| Nursery / Youth | 1 | - |
| Education Roof Reserve | 5 | - |
| Education Reserve | 15 | - |
| Revenue Contingency | <u>54</u> | <u>-</u> |
| | <u>95</u> | <u>66</u> |

11 Members' Allowances

The Council has 21 Members representing the 5 inhabited islands. Under the Local Authorities (Members Allowances) Regulations 1991, 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 £'000 | 2002/03 £'000 |
|---------------------------|------------------|------------------|
| Allowances paid in year - | | |
| Basic/Attendance | 26 | 15 |
| Special Responsibility | <u>8</u> | <u>2</u> |
| | <u>34</u> | <u>17</u> |

12 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 £'000 | 2002/03 £'000 |
|--|------------------|------------------|
| Central Government and related quangos - | | |
| -Revenue Support and other Grants | 3,800 | 3,553 |
| Cornwall County Council - Pension contributions | 208 | 178 |
| Devon and Cornwall Police Authority - | | |
| -Precept on Council Tax | 120 | 86 |
| Teachers' Pension Agency - Pension Contributions | 90 | 51 |

13 Building Control

| | 2003/04 £'000 | 2002/03 £'000 |
|---------------------------------------|------------------|------------------|
| Expenditure | 24 | 25 |
| Income | -30 | -18 |
| Surplus / Deficit for the year | <u>-6</u> | <u>7</u> |

14 Prior Year Adjustments

The previous years figures have been changed to take into account the implementation of Financial Reporting Standard 17 (FRS 17)

| Consolidated Revenue Account | 2002-03 | | |
|---|----------------|-------------|-------------|
| | As Reported | Adjusted | Restated |
| Net Cost of Services | 4907 | -16 | 4891 |
| FRS17 Interest cost | <u>0</u> | <u>338</u> | <u>338</u> |
| FRS17 Expected return on Assets | <u>0</u> | <u>-315</u> | <u>-315</u> |
| Contributions to FRS17 Revenue | <u>0</u> | <u>-7</u> | <u>-7</u> |
| Amounts to be met from government Grants and local taxes | <u>3399</u> | <u>0</u> | <u>4907</u> |

HOUSING REVENUE ACCOUNT

| | Note | 2003/04 £'000 | 2002/03 £'000 |
|--|------|------------------|------------------|
| Income: | | | |
| Dwelling Rents | | 290 | 285 |
| Non Dwelling Rents | | 7 | 7 |
| Charges for Services | | 12 | 14 |
| Total Income | | <u>309</u> | <u>306</u> |
| Expenditure: | | | |
| Contribution to Housing Repair Account | | 73 | 90 |
| Supervision and Management | | 44 | 67 |
| Special Support Services | | 12 | 9 |
| Rent, Rates and Taxes | | - | - |
| Rent Rebates | | 53 | 52 |
| Negative Subsidy Transferable to General | | 8 | 18 |
| Increased Provision for Bad/Doubtful Debts | | 1 | 1 |
| Cost of Capital | | 446 | 651 |
| Depreciation of Fixed Assets | | | |
| Dwellings | 7 | 59 | 61 |
| Other Assets | 7 | 4 | 3 |
| Debt Management Costs | | | |
| Total Expenditure | | <u>700</u> | <u>952</u> |
| Net Cost of Services | 11 | 391 | 646 |
| Adjustment Transfer N Asset Management | | -421 | -626 |
| Interest Received on Balance | | -2 | -2 |
| Net Operating Expenditure/Surplus | | <u>-32</u> | <u>18</u> |
| Appropriations | | | |
| Minimum Revenue Provision for Repaying | | 11 | 11 |
| Transfer to Major Repairs Account | 2 | -4 | -3 |
| Deficit (Surplus) for the Year | | <u>-25</u> | <u>26</u> |
| Housing Revenue Account Balance | | | |
| At beginning of year | | -59 | -85 |
| At end of year | | <u>-84</u> | <u>-59</u> |

HOUSING REPAIRS ACCOUNT

| | | | |
|---|--|-------------|-------------|
| Balance of Account at Beginning of Year | | -109 | -74 |
| Contribution from Housing Revenue Account | | -73 | -90 |
| Interest Earned on Balance | | -4 | -3 |
| Expenditure on Housing Repairs in Year | | 49 | 58 |
| Balance of Account at End of Year | | <u>-137</u> | <u>-109</u> |

MAJOR REPAIRS RESERVE

| | 2003/04 £'000 | 2002/03 £'000 |
|---|------------------|------------------|
| Depreciation of Fixed Assets. | | |
| Dwellings | -59 | -61 |
| Garages | -4 | -3 |
| | <hr/> | <hr/> |
| Total Income | -63 | -64 |
| Transfer to General Fund N Transitional relating to Negative Subsidy | - | - |
| HRA Appropriation N Other Fixed Assets | 4 | 3 |
| | <hr/> | <hr/> |
| Surplus at End of Year | -59 | -61 |
| Balance at 1 st April | -95 | -34 |
| | <hr/> | <hr/> |
| Balance at 31st March | -154 | -95 |

Notes to the Housing Revenue Account

1 The Council's housing stock at 31st March is analysed as follows.

| | 2004 | 2003 |
|--------------------------------------|------------------|------------------|
| Flats and Bedsits | | |
| One bedroom | 37 | 37 |
| Two bedrooms | 14 | 14 |
| Three bedrooms | 1 | 1 |
| Total of Flats and Bedsits | <hr/> 52 | <hr/> 52 |
| Houses and Bungalows | | |
| One bedroom | 3 | 3 |
| Two bedrooms | 10 | 10 |
| Three bedrooms | 39 | 39 |
| Four and more bedrooms | 4 | 4 |
| Total of Houses and Bungalows | <hr/> 56 | <hr/> 56 |
| Total number of dwellings | <hr/> 108 | <hr/> 108 |
| Number sold in year | 0 | 0 |

| 2 Value of HRA Assets | Houses £'000 | Garages £'000 | Land £'000 | Total £'000 |
|---------------------------------|---------------------|------------------|------------------|---------------------|
| Value at 1st April 2003 | 10,628 | 152 | 122 | 10,902 |
| Revaluation in year | 1,937 | 26 | 0 | 1,963 |
| Disposals | 0 | 0 | 0 | 0 |
| Depreciation in Year | -59 | -4 | 0 | -63 |
| Value at 31st March 2004 | <hr/> 12,506 | <hr/> 174 | <hr/> 122 | <hr/> 12,802 |

3 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:

| | 2003/04 £'000 | 2002/03 £'000 |
|--------------------------------------|------------------|------------------|
| Freehold and Leasehold dwellings | 22,438 | 18,979 |
| Vacant Possession value at 1st April | -9,873 | -8,351 |
| Value of Adjustment | <u>12,565</u> | <u>10,628</u> |
| South West Regional Adjustment @ 56% | - | - |
| Less Value of houses sold in year | -59 | -61 |
| Less Depreciation in year | | -59 |
| Less Depreciation in earlier years | | |
| Balance Sheet values at 31st March | <u>12,506</u> | <u>10,508</u> |

The value of the adjustment above, in effect, reflects the cost of providing Council Housing at less than Market Value.

| | 2003/04 £'000 | 2002/03 £'000 |
|--|------------------|------------------|
| 4 Capital Expenditure | | |
| Total Capital Outlay in year | 78 | - |
| Financed by - | | |
| Borrowing | -78 | - |
| 5 Capital Receipts | | |
| Sale of Council Houses - net sale proceeds | - | - |
| Sale proceeds set-aside for debt redemption (at 75%) | - | - |
| Net usable receipt from sale | <u>-</u> | <u>-</u> |

6 Capital Charges - an explanation

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.

| | | |
|------------------------------|-----------|-----------|
| 7 Total Depreciation in year | 2003/04 | 2002/03 |
| | £'000 | £'000 |
| Council Houses | 59 | 61 |
| Garages | 4 | 3 |
| | <u>63</u> | <u>64</u> |

8 Impairment/Deferred charges

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

| | | |
|---|-----------|-----------|
| 9 Rent Arrears | 2003/04 | 2002/03 |
| | £'000 | £'000 |
| Gross Rent Arrears at 31st March | 12 | 12 |
| Prepaid Rent | -2 | -2 |
| Net Rent Arrears | <u>10</u> | <u>10</u> |
| Value of Bad or Doubtful Debt Provision | 3 | 3 |

The arrears of £12,316 (£11,511 in 2002/03) represents 3.78% (3.75%) of the gross rent income for the year.

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 | 2002/03 |
| | £'000 | £'000 |
| Management Allowance | 45 | 45 |
| Maintenance Allowance | 56 | 56 |
| Major Repairs Allowance | 59 | 61 |
| Charges for Capital - | | |
| Admissible set-aside | 14 | 15 |
| Interest charge | 30 | 34 |
| Debt Management | 33 | 33 |
| Rent Rebates | 54 | 52 |
| | <u>291</u> | <u>296</u> |
| Less Notional Rent Income | -299 | -314 |
| | <u>-8</u> | <u>-18</u> |
| Adjustment (per rules) | 0 | 0 |
| Total of Negative Subsidy (rounded) | <u>-8</u> | <u>-18</u> |

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 -

| | | |
|---|------------|------------|
| | £ | £ |
| | £'000 | £'000 |
| Net cost of services, as in HRA | 391 | 646 |
| Deduct Transfer to Housing Repairs Account | -73 | -90 |
| Add actual Housing Repairs expenditure | 49 | 58 |
| Less Negative Subsidy | -8 | -19 |
| Net cost of services included in Consolidated Revenue Account | <u>359</u> | <u>595</u> |

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.

Income and expenditure of the Collection Fund for the year:

| | £'000 | 2003/04 £'000 | £'000 | 2002/03 £'000 |
|--|-------|------------------|-------|------------------|
| Income: | | | | |
| Council Tax - gross due (Note 1) | | 1,180 | | 927 |
| Less Discounts | -190 | | -151 | |
| Exemptions | -29 | | -21 | |
| Write offs | | | - | |
| Benefits | -34 | | -26 | |
| Previous years adjustment | | -253 | -3 | -201 |
| | | <u>927</u> | | <u>726</u> |
| Transfers from General Fund re Council Tax benefits | | 34 | | 26 |
| Income collectable from business ratepayers (Note 2) | | 848 | | 805 |
| | | <u>1,809</u> | | <u>1,557</u> |
| Expenditure: | | | | |
| Precepts - | | | | |
| General Fund | 821 | | 647 | |
| Police | 117 | | 82 | |
| Less subsidy benefit | - | 938 | - | 729 |
| Business Rate - | | | | |
| Payment to National Pool | 832 | | 791 | |
| Costs of collection | 15 | | 14 | |
| Interest | - | 847 | - | 805 |
| Provision for bad debts | | 1 | | - |
| Distribution of previous year's surplus | | | | |
| General Fund | 27 | | 30 | |
| Police | 3 | 30 | 4 | 34 |
| | | <u>1,816</u> | | <u>1,568</u> |
| Surplus (Deficit) for year | | -7 | | -11 |
| Balance - 1st April | | 23 | | 34 |
| Balance - 31st March | | <u>16</u> | | <u>23</u> |

Note 1:

Council Tax Base:

| Valuation Band | Range of Values | Relationship to Band D | Total | | |
|----------------|----------------------|------------------------|----------------------------|----------------------|-------------|
| | | | Dwellings on Valuation Lis | Discounted Dwellings | Tax Base |
| A | Up to £40,000 | 06-Sep | 13 | 11.75 | 8 |
| B | £40,001 to £52,000 | 07-Sep | 38 | 26.75 | 20 |
| C | £52,001 to £68,000 | 08-Sep | 70 | 53.25 | 46 |
| D | £68,001 to £88,000 | 09-Sep | 212 | 165.75 | 161 |
| E | £88,001 to £120,000 | 11-Sep | 311 | 263.75 | 313 |
| F | £120,001 to £160,000 | 13-Sep | 314 | 261.00 | 366 |
| G | £160,001 to £320,000 | 15-Sep | 154 | 127.25 | 206 |
| H | Over £320,000 | 18-Sep | 7 | 6.75 | 13 |
| | | | <u>1119</u> | <u>916.25</u> | <u>1133</u> |

Council Tax for 2003/04 was set at £724.69 (£579.75 in 2002/03) for Band D with each other Band being calculated in its weighted relationship to the Band D charge. The Police Precept was £103.27 (£73.80 in 2002/03) making a Band D total £827.96 (£653.55 in 2002/03)

Note 2

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 44.4p in the £ (43.7p in 2002/03). 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 £'000 | 2002/03 £'000 |
|-------------------------------------|------------------|------------------|
| NNDR debit | 919 | 903 |
| Less Transitional Relief, etc | -59 | -97 |
| Less previous years' adjustments | -12 | -1 |
| Net income from Business Ratepayers | <u>848</u> | <u>805</u> |
| Redistributed amount from Pool | 651 | 661 |

CONSOLIDATED BALANCE SHEET as at 31st MARCH 2004

| | | 2003/04 | | 2002/03 | |
|--|-------|---------------|---------------|---------------|---------------|
| | Notes | £'000 | £'000 | £'000 | £'000 |
| Fixed Assets: | | | | | |
| Operational Assets | | | | | |
| Council Dwellings | | 13,518 | | 11,520 | |
| Other land and buildings | | 4,166 | | 4,184 | |
| Vehicles, plant, furniture & equipment | | 1,305 | | 1,327 | |
| Infrastructure | | 4,949 | | 5,156 | |
| Community Assets | | | 23,938 | | 22,187 |
| Non Operational Assets | | | | | |
| Investment Properties | 1 | | 212 | | 212 |
| | | | <u>24,150</u> | | <u>22,399</u> |
| Long Term Investments | 2 | | 10 | | 10 |
| Total Long Term Assets | | | <u>24,160</u> | | <u>22,409</u> |
| Current Assets | | | | | |
| Stocks | 8 | 81 | | 77 | |
| Debtors | 9 | 429 | | 557 | |
| Cash in Hand | | 105 | | 100 | |
| Bank Balance | | 1,435 | | 415 | |
| Short Term Investment | | | | 300 | |
| | | <u>2,050</u> | | <u>1,449</u> | |
| Current Liabilities | | | | | |
| Short term borrowing | | -982 | | -833 | |
| Creditors | 10 | -2,011 | | -1,690 | |
| Provisions | 11 | -20 | | -64 | |
| | | <u>-3,013</u> | -963 | <u>-2,587</u> | -1,138 |
| Total Assets less current liabilities | | | <u>23,197</u> | | <u>21,271</u> |
| FRS17 Pensions Liability | | -1,314 | | -1,813 | |
| Long term borrowing | 12 | -1,473 | | -1,705 | |
| | | | <u>-2,787</u> | | <u>-3,518</u> |
| Total Fixed and Current Assets | | | <u>20,410</u> | | <u>17,753</u> |
| Financed by: | | | | | |
| Grants deferred account | 13 | | 2,770 | | 2,913 |
| Fixed Asset Restatement Reserve | 14 | | 13,853 | | 12,019 |
| Capital Financing Reserve | 15 | | 1,101 | | 1,123 |
| Useable Capital Receipts Reserve | 16 | | 274 | | 274 |
| Earmarked Reserves | 17 | | 2,510 | | 2,329 |
| FRS17 Pensions Reserve | | | -1,314 | | -1,813 |
| Fund Balances | | | | | |
| General Fund | 18 | | 720 | | 521 |
| Collection Fund | 18 | | 16 | | 24 |
| Schools' Balances | 18 | | 105 | | 100 |
| Housing Revenue a/c | 18 | | 84 | | 59 |
| Housing Repairs a/c | 18 | | 137 | | 109 |
| Housing Major Repairs a/c | 18 | | 154 | | 95 |
| Total Equity | | | <u>20,410</u> | | <u>17,753</u> |

BALANCE SHEET NOTES:

1 Movement of Fixed Assets 2003/04:

| | Council Dwellings | | Other Land and Buildings | Vehicles, Plant and Equipment | Infrastructure | Investment Properties | TOTAL |
|---|-------------------|--------------|--------------------------|-------------------------------|----------------|-----------------------|---------------|
| | Housing Revenue | General Fund | | | | | |
| | £ '000 | £ '000 | £ '000 | £ '000 | £ '000 | £ '000 | £ '000 |
| Gross value at 1st April 2003 | 10,628 | 1,012 | 5,157 | 2,220 | 6,752 | 212 | 25,981 |
| Revaluations and Restatements | 1,937 | - | 27 | - | - | - | 1,964 |
| Adjusted gross value at 1st April 2002+A14 | 12,565 | 1,012 | 5,184 | 2,220 | 6,752 | 212 | 27,945 |
| Additions in 2003/04 | - | - | 80 | 183 | 40 | - | 303 |
| Disposals and other receipts | - | - | - | - | - | - | - |
| Gross book value at 31st March 2004 | 12,565 | 1,012 | 5,264 | 2,403 | 6,792 | 212 | 28,248 |
| Cumulative amount of Depreciation at 31st March 2003 | 120 | - | 973 | 893 | 1,596 | - | 3,582 |
| Adjustments to Value of Depreciation | -120 | - | - | - | - | - | -120 |
| Depreciation in 2003/04 | 59 | - | 125 | 205 | 247 | - | 636 |
| Cumulative amount of Depreciation at 31st March 2004 | 59 | 0 | 1,098 | 1,098 | 1,843 | 0 | 4,098 |
| Net Book Value of Assets as at 31st March 2004 | 12,506 | 1,012 | 4,166 | 1,305 | 4,949 | 212 | 24,150 |
| Net Book Value as at 31st March 2003 | 10,508 | 1,012 | 4,184 | 1,327 | 5,156 | 212 | 22,399 |

2 Long Term Investment

Association of District Councils 1996-2011 Debenture Stock.

2003/04
£'000
10

2002/03
£'000
10

3 Statement of Capital Expenditure and Funding

Expenditure in Year:

| | 2003/04 £'000 | 2002/03 £'000 |
|--|------------------|------------------|
| Education | 217 | 152 |
| Airport | 65 | 152 |
| Water Undertaking | 18 | 16 |
| Water - Desalination Plant | - | 13 |
| Sewerage Undertaking | 14 | 9 |
| Refuse Disposal | 27 | 28 |
| Fire Service | 19 | 26 |
| Public Conveniences | - | 33 |
| Swimming Pool | 13 | 9 |
| Skateboard Park | 52 | 4 |
| Office Equipment | - | 10 |
| Implementing E-Government | 42 | 20 |
| Purchase of Property | 28 | - |
| | <u>495</u> | <u>472</u> |
| HRA Housing schemes | 78 | - |
| Deferred Charge - (see note 20) Disabled Facilities Grant | - | 19 |
| | <u>573</u> | <u>491</u> |
| Financed by: | | |
| Loans | 319 | 248 |
| Revenue Contributions | - | 74 |
| Exchequer grants | 254 | 176 |
| | <u>573</u> | <u>498</u> |
| Movement in creditors | -20 | -7 |
| | <u>553</u> | <u>491</u> |

4 Capital commitments:

At 31st March 2004, there were no payments due to contractors relating to existing contracts.

5 Fixed Assets:

Major assets held at 31st March 2004 are as follows:

| | |
|---------------------------------------|---------|
| Council Houses | 108 |
| General Fund Houses | 18 |
| Garages | 20 |
| Education: - School Buildings | 1 |
| - Hostel | 1 |
| Residential care establishment | 4 |
| Administrative buildings | 6 |
| Public conveniences | 1 |
| Airport | 8 |
| Airport - vehicles and moveable plant | 1 |
| Works depot | 20 |
| Works vehicles and plant | 1 |
| Incinerator | 3 |
| Reservoirs | 1 |
| Desalination plant | 4 |
| Water/Sewerage pumping stations | 1 |
| Industrial Estate | 1 |
| Fire Station (St Mary's) | 5 |
| Fire Service Vehicles | 4 |
| Fire stations (Off-Islands) | 1 |
| Cemetery | 1 |
| Park/Garden | 4 |
| Miscellaneous Buildings | 14.5 km |
| Roads (Adopted) | |

6 Fixed Asset Valuation:

The freehold and leasehold properties which comprise the Authority's property portfolio are valued on a rolling 5-year cycle basis by the District Valuer and Valuation Officer on the undermentioned bases in accordance with the Statements of Asset Valuation Practice and Guidance Notes of the Royal Institution of Chartered Surveyors except that not all the properties were inspected. This was neither practicable nor considered to be necessary for the purpose of the valuation.

Plant and machinery is included in the valuation of the buildings, where applicable.

Properties regarded by the Authority as operational were valued on the basis of open market value for the existing use or, where this could not be assessed because there was no market for the subject asset, the depreciated replacement cost.

Properties regarded by the Authority as non-operational have been valued on the basis of open market value.

7 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

| | See Note | 2003/04 | | 2002/03 | |
|---|-------------|---------|--------------|---------|------------|
| | | £'000 | £'000 | £'000 | £'000 |
| Increase/Deficit of Revenue Fund | 15 | 192 | | -313 | |
| Add net increase in specific revenue reserves | 14 | 181 | | 165 | |
| Increase in housing funds | 15 | 112 | | 70 | |
| Increase/decrease in school balances | 15 | 5 | | -84 | |
| Movement on FRS17 Pension Reserve | | -47 | | -7 | |
| Total increase/decrease in Revenue Reserves | | | 443 | | -169 |
| Increase in Useable Capital Receipts | A | - | | - | |
| Unapplied Capital grants and contributions | | - | | - | |
| Total increase in realised capital resources | | | - | | - |
| Gains/losses on revaluation of Fixed Assets | | 1,643 | | 2,199 | |
| FRS17 Actuarial Gains / Losses | | 546 | | -1,067 | |
| Impairment losses on Fixed Assets due to material reduction in values | | - | | - | |
| Total increase in unrealised value of Fixed Assets | B(i) | | 2,189 | | 1,132 |
| Value of Assets sold in year | B(ii) | | - | | |
| Capital Receipts set-aside | | - | | - | |
| Movement on Government grants deferred | C | 143 | | 143 | |
| Revenue resources set-aside | C | -405 | | -308 | |
| Total increase/decrease in amounts set aside to Finance capital investment | C | | -262 | | -165 |
| Total recognised gains and losses | | | <u>2,370</u> | | <u>798</u> |

Notes to the Statement of Total Movements on Reserves

| Note A | Usable Capital Receipts £'000 | Unapplied Capital grants and Contributions £'000 |
|--|--|--|
| | | |
| Movements in realised Capital Resources | | |
| Amounts received in year | 0 | 0 |
| Amounts applied to finance new capital investment in year | <u>0</u> | <u>0</u> |
| Total increase/decrease in realised capital resources during year | 0 | 0 |
| Balance at start of year | 274 | 0 |
| Balance at end of year | <u>274</u> | <u>0</u> |

Note B(i)

| Movements in unrealised value of Fixed Assets | Fixed Asset Restatement Reserve £'000 |
|--|--|
| Gains/losses on revaluation of assets in year | 1,964 |
| Impairment loss due to material reduction in values | -321 |
| Total increase/decrease in unrealised capital resources in year | <u>1,643</u> |

Note B(ii)

Value of Assets sold or otherwise disposed of

| | |
|--|---------------|
| Value of property sold in year | - |
| Total movement on Reserve in year | <u>1,643</u> |
| Balance at start of year | 12,018 |
| Balance at end of year | <u>13,661</u> |

Note C

| | Capital Financing Reserve £'000 | Exchequer Grants Deferred £'000 | Totals £'000 |
|---|--|--|-----------------|
| Capital receipts set-aside in year | - | - | - |
| Usable receipts applied | - | - | - |
| Total capital receipts set aside and used in year | - | - | - |
| Transfer between accounts | - | - | - |
| Revenue resources set aside in year | - | - | - |
| Capital expenditure financed from revenue | - | - | - |
| Provision for loan repayments | -418 | -143 | -561 |
| Total revenue resources set aside in year | <u>-418</u> | <u>-143</u> | <u>-561</u> |
| Restatements | - | - | - |
| Grants applied to capital investment in year | 254 | - | 254 |
| Amounts credited to the Asset Management Revenue account in year | 143 | - | 143 |
| Total movement of grants in year | <u>397</u> | <u>0</u> | <u>397</u> |
| Total increase/decrease in amounts set aside to finance capital investment | <u>-21</u> | <u>-143</u> | <u>-164</u> |
| Total movement on reserve in year | -21 | -143 | -164 |
| Balance at start of year | 1,123 | 2,913 | 4,036 |
| Balance at end of year | <u>1,102</u> | <u>2,770</u> | <u>3,872</u> |

| | 2003/04 £'000 | 2002/03 £'000 |
|------------------------------|------------------|------------------|
| 8 Stock | | |
| Stone | 2 | 2 |
| Tiles | 2 | 2 |
| Cylinders | 1 | 1 |
| Water and Desalination Plant | 44 | 39 |
| Tourist Information Centre | 4 | 5 |
| Airport | 10 | 10 |
| Incinerator | 18 | 18 |
| | <u>81</u> | <u>77</u> |

| | 2003/04 £'000 | 2002/03 £'000 |
|---|------------------|------------------|
| 9 Debtors | | |
| Government grants | 24 | 71 |
| Rate and Taxpayers | 49 | 35 |
| Housing tenants | 18 | 17 |
| Sundry debtors | 484 | 563 |
| Suspense account | - | 3 |
| | <u>575</u> | <u>689</u> |
| | -146 | -132 |
| Less Provision for Bad and Doubtful debts | <u>429</u> | <u>557</u> |

| | 2003/04 £'000 | 2002/03 £'000 |
|---|------------------|------------------|
| 10 Creditors and Receipts in Advance | | |
| Sundry creditors | 508 | 669 |
| Government grants overpaid | 1,459 | 979 |
| Rate and Taxpayers | 38 | 14 |
| Housing tenants | 2 | 2 |
| Capital creditors | - | 20 |
| Rents accrued | 4 | 6 |
| | <u>2,011</u> | <u>1,690</u> |

| | 2002/03 year-end £'000 | 2003/04 + | 2003/04 - | 2003/04 year-end £'000 |
|--|------------------------------|--------------|--------------|------------------------------|
| 11 Provisions | | | | |
| This sum represents a timing difference for the recovery rates of the Direct Labour Force. | | | | |
| Provision | 64 | - | 44 | 20 |

| | 2003/04 £'000 | 2002/03 £'000 |
|---|------------------|------------------|
| 12 Analysis of loans by maturity | | |
| Loans maturing within 1 year | 201 | 233 |
| Loans maturing after 1 year | 558 | 604 |
| Loans maturing in 2 to 5 years | 487 | 588 |
| Loans maturing in 5 to 10 years | 227 | 280 |
| Loans maturing in more than 10 years | <u>1,473</u> | <u>1,705</u> |
| | <u>2,455</u> | <u>2,538</u> |

All loans are borrowed from the Public Works Loan Board. Interest rates range from 3% to 8.125% with an average rate of 5.64% .

13 Government Grants - Deferred

| | Incinerator £'000 | Airport £'000 | Coast Protection £'000 | Other £'000 | Total £'000 |
|--------------------------------|----------------------|------------------|------------------------------|----------------|----------------|
| Gross Value at 1st April 2003 | 402 | 399 | 1,794 | 318 | 2,913 |
| Additions in 2003/04 | - | - | - | - | - |
| | 402 | 399 | 1,794 | 318 | 2,913 |
| Grants released in year | 42 | 33 | 54 | 14 | 143 |
| Gross Value at 31st March 2004 | 360 | 366 | 1,740 | 304 | 2,770 |

14 Fixed Asset Restatement Reserve

| | 2003/04 £'000 | 2002/03 £'000 |
|--|------------------|------------------|
| Balance at 1st April | 12,019 | 9,819 |
| Disposal of Fixed Assets | - | - |
| Revaluation of Assets | 1,963 | 2,426 |
| Other adjustments | 120 | 57 |
| Enhancements | -249 | -283 |
| Balance carried forward at 31st March | 13,853 | 12,019 |

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.

15 Capital Financing Account

| | 2003/04 £'000 | 2002/03 £'000 |
|--|------------------|------------------|
| Balance at 1st April | 1,123 | 1,155 |
| Set-Aside of Capital Receipts in year | - | - |
| Release of Exchequer Grants | 143 | 143 |
| Expenditure financed from Revenue Funds | - | 74 |
| Capital Grants received | 169 | 52 |
| Standard Fund Grant | 85 | 113 |
| Expenditure financed from Capital Reserves | - | - |
| | 1,520 | 1,537 |
| Less Depreciation, net of Minimum Revenue Provision and Deferred Charge written off | -419 | -414 |
| Balance at 31st March | 1,101 | 1,123 |

16 Usable Capital Receipts Reserve

| | 2003/04 £'000 | 2002/03 £'000 |
|---|------------------|------------------|
| Balance unused at 1st April | 274 | 274 |
| Net sale proceeds in year | - | - |
| | 274 | 274 |
| Less Capital Receipts set-aside to Capital Financing Reserve | - | - |
| | 274 | 274 |
| Less Capital Outlay financed by Capital Receipts | - | - |
| Balance unused at 31st March | 274 | 274 |

17 Earmarked Reserves

| | 2002/03 year-end | Transfer to Gen.Fund | Transfer from Revenue | 2003/04 year-end |
|--------------------------|---------------------|----------------------------|-----------------------------|---------------------|
| | £'000 | £'000 | £'000 | £'000 |
| Capital | 238 | - | - | 238 |
| Airport | 876 | - | 34 | 910 |
| Repairs Fund | 380 | - | 81 | 461 |
| Coastal Protection | 20 | -20 | - | - |
| Plant Fund | 74 | - | 3 | 77 |
| Water Revenue | 474 | - | 131 | 605 |
| Sewerage Revenue | 170 | - | 20 | 190 |
| Nursery / Youth | 1 | -1 | - | - |
| Education Roof Reserve | 5 | -5 | - | - |
| Equipment Fund | 23 | -1 | - | 22 |
| Education Reserve | 14 | -14 | - | - |
| Revenue Contingency Fund | 54 | -54 | - | - |
| I.T. Revenue | - | - | 7 | 7 |
| | <u>2,329</u> | <u>-95</u> | <u>276</u> | <u>2,510</u> |

18 Details of Fund Balances

Revenue Account Balances as at 31st March

| | 2002/03 year-end | Change in year | 2003/04 year-end |
|--------------------------|---------------------|-------------------|---------------------|
| | £'000 | £'000 | £'000 |
| General Fund | 521 | 199 | 720 |
| Collection Fund | 24 | -8 | 16 |
| School Balances | 100 | 5 | 105 |
| Housing Account Balances | 263 | 112 | 375 |
| | <u>908</u> | <u>308</u> | <u>1,216</u> |

19 Deferred Charge

| | 2003/04 £'000 | 2002/03 £'000 |
|--|------------------|------------------|
| Balance at 1st April | - | - |
| Payment of Disabled Facilities Grant | - | 19 |
| Exchequer Subsidy at 60% | - | -11 |
| Amount written off to Consolidated Revenue Account | - | -8 |
| Balance at 31st March | <u>-</u> | <u>-</u> |

20 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, there was no evidence of any impairment to any fixed asset of the Council.

21 Audit Commission Fees

Fees Payable to the Audit Commission with regard to:

| | 2003/04 £'000 |
|---|------------------|
| 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 |
| Statutory inspection under Section 10 of the Local Government Act 1999. | 2 |
| Certification of grant claims and returns by the appointed auditor under Section 28 of the Audit Commission Act 1998. | 7 |
| Any other services provided by the appointed auditor not disclosed above. | 0 |
| | <u>42</u> |

22 Provision for Credit Liabilities (Memorandum Account)

| | 2003/04 £'000 | 2002/03 £'000 |
|--|------------------|------------------|
| Balance 1st April | - | - |
| Minimum Revenue Provision Reserved Receipts | 217 | 221 |
| | <u>217</u> | <u>221</u> |
| Less External Loans Repaid | <u>217</u> | <u>221</u> |
| | <u>-</u> | <u>-</u> |

23 Prior Year Adjustment

The previous years figures have been changed to take into account the implementation of Financial Reporting Standard 17 (FRS17)

Balance Sheet

| | 2002/03 As Reported £'000 | 2002/03 Adjusted £'000 | 2002/03 Restated £'000 |
|--------------------------|---------------------------------|------------------------------|------------------------------|
| FRS 17 Pension Liability | 0 | -1314 | -1314 |
| FRS 17 Pension Reserve | 0 | 1314 | 1314 |

Cash Flow Statement

| | 2003/04 | | 2002/03 | |
|---|----------|-------|---------|-------|
| | £'000 | £'000 | £'000 | £'000 |
| Revenue Activities | | | | |
| Cash paid to and on behalf of Employees | 3230 | | 3043 | |
| Other Operating Costs | 3153 | | 2670 | |
| Housing Benefit paid out | 102 | | 98 | |
| Precept | 147 | | 105 | |
| NNDR Pool Payment | 806 | | 758 | |
| | | 7438 | | 6674 |
| Income | | | | |
| Rents | -571 | | -493 | |
| Council Tax Income | -930 | | -729 | |
| Non Domestic Rate Income | -869 | | -807 | |
| Revenue Support Grant | -2026 | | -1759 | |
| NNDR Pool Distribution | -651 | | -661 | |
| DSS Grants for Rebates | -106 | | -92 | |
| Other Government Grants (Note 2) | -1221 | | -1357 | |
| Cash received for goods and services | -1423 | | -1299 | |
| Other Revenue Income | -853 | | -503 | |
| | | -8650 | | -7700 |
| | (Note 1) | -1212 | | -1026 |
| Servicing of Finance | | | | |
| Expenditure: | | | | |
| Interest paid | 129 | | 146 | |
| Income | | | | |
| External Interest received | -39 | | -25 | |
| | | 90 | | 121 |
| | | -1122 | | -905 |
| Capital Activities | | | | |
| Purchase of fixed assets | 573 | | 498 | |
| Income | | | | |
| Sale of fixed assets | 0 | | 0 | |
| Capital Grants received | -254 | | -176 | |
| Other Capital | 0 | | 0 | |
| | | 319 | | 322 |
| Net Cash Flow before Financing | | -803 | | -583 |
| Financing | | | | |
| Expenditure: | | | | |
| Repayments of amounts borrowed | 833 | | 926 | |
| Investment of Funds | -300 | | 300 | |
| Income | | | | |
| New loans raised | 0 | | 0 | |
| Short Term loans raised | -750 | | -600 | |
| | | -217 | | 626 |
| | | -1020 | | |
| Change in Funds held | 1025 | | -127 | |
| Change in School Balances | -5 | | 84 | |
| | | 1020 | | -43 |
| | | 0 | | 0 |

Notes to Cash Flow Statement

1 Reconciliation of Net Surplus to Cash Inflow from Revenue Activities

| | 2003/04 | | 2002/03 | |
|--|---------|------------|---------|------------|
| | £'000 | £'000 | £'000 | £'000 |
| General Fund - Surplus / Deficit | | 199 | | -302 |
| Collection Fund - Surplus / Deficit | | <u>-8</u> | | <u>-11</u> |
| | | 191 | | -313 |
| Add | | | | |
| Interest Paid | 129 | | 146 | |
| Minimum Revenue Provision | 217 | | 221 | |
| Contributions to Reserves | 181 | | 165 | |
| Provisions | -44 | | 34 | |
| Transfer to HRA | 112 | | 70 | |
| Revenue Capital Financing | 0 | | 74 | |
| | | <u>595</u> | | <u>710</u> |
| | | 786 | | 397 |
| Interest received | | <u>-39</u> | | <u>-25</u> |
| | | 747 | | 372 |
| Add | | | | |
| Increase / Decrease in total Creditors | 341 | | 696 | |
| Increase / Decrease in total Stocks | -4 | | -2 | |
| Increase / Decrease in total Debtors | 128 | | -40 | |
| | | <u>465</u> | | <u>654</u> |
| | | 1212 | | 1026 |

2 Government Grants

| | 2003/04 | 2002/03 |
|-----------------------|-------------|-------------|
| | £'000 | £'000 |
| Transitional Relief | 44 | 74 |
| Council Tax Discounts | 190 | 151 |
| Cost of Collection | 14 | 14 |
| Standards Fund | 548 | 752 |
| Other | 425 | 366 |
| | <u>1221</u> | <u>1357</u> |

3 Analysis of changes in net debt

| | As at 31st March 2003 | Change in Year | As at 31st March 2004 |
|--------------------------|-----------------------------|----------------------|-----------------------------|
| | £'000 | £'000 | £'000 |
| Cash at bank and in hand | 515 | 1025 | 1540 |
| School bank accounts | -100 | -5 | -105 |
| Debt due within one year | -833 | -149 | -982 |
| Debt due after one year | -1704 | 231 | -1473 |
| Investment | 300 | -300 | 0 |
| | <u>-1822</u> | <u>802</u> | <u>-1020</u> |

4 Reconciliation of net cash flow to movement in net debt.

| | 2003/04 | 2002/03 |
|--|--------------|--------------|
| | £'000 | £'000 |
| Increase / decrease in cash in the period. | | |
| Cash inflow from new debt | -750 | -600 |
| Investment | -300 | 300 |
| Cash outflow from debt repaid and finance lease payments | 832 | 926 |
| Cash inflow / outflow from decrease / increase in liquid resources | 1020 | -43 |
| | <u>802</u> | <u>583</u> |
| Change in net debt resulting from cash flows | | |
| Net debt as at 1 April 2003 | <u>-1822</u> | <u>-2405</u> |
| Net debt as at 31 March 2004 | <u>-1020</u> | <u>-1822</u> |

INTERIM STATEMENT OF INTERNAL CONTROL

1. Statutory Framework

For financial year ending 31 March 2005, the Council of the Isles of Scilly, along with all other principal councils in England and Wales, will be required to approve and publish a statement of internal control. Leading up to this date for financial year ended 31 March 2004; Councils are required to produce an interim statement of internal control.

2. The Scope of the Responsibility of Internal Control

The Council of the Isles of Scilly is required to operate within the law and proper standards of conduct. It is required to ensure that public money is safeguarded and accounted for. The Council also has a duty under the Local Government Act 1999 to secure continuous improvement in the discharge of its functions as measured against economy, efficiency and effectiveness. Key to these overall responsibilities is the particular responsibility to ensure that there are appropriate systems of internal control and that these include systems of risk management.

3. The Aim of Internal Control Systems

The Council's internal control system aims to manage risk to reasonable levels, not to pretend that risk can be completely eliminated in the pursuit of the duties aims and objectives of the Council. It is about reasoned and reasonable, not absolute, assurance. The system of internal control used by the council is a recurrent process designed to identify evaluate and prioritise risks. It seeks to go beyond describing potential risks to make judgements on the likelihood of risks being realised and the consequent impact should the risk turn into reality. This includes the objective of economically, efficiently and effectively dealing with realised risks. Another important factor in risk management is risk mitigation through risk analysis and developing appropriate mitigation procedures. This has been a key area of development work for the Council this year.

4. The Culture of Internal Control

The Council's internal control systems are not static. They aim to cope with rapid change in Local Government. The current priorities in internal control are to;

- Underpin and facilitate the financial management of the Council
- Ensure compliance with law regulation, policies and establish custom and practice
- Facilitate policy making
- Underpin the resolutions of Council and its Committees
- Facilitate performance management
- In each of the above, to ensure the economical, efficient and effective use of resources to ensure continuous improvement in the way the Council's functions are exercised and its objective striven for.

These internal control systems have developed over very many years responding to changing circumstances. The control systems, therefore, comprise a number of elements stemming from law and regulation, and the management systems of the Council as they have developed over the years. In virtually every council, elements have been managed in a largely separate and individual way. The introduction of the system of statement of internal control requires that in future they operate in a cohesive and coherent way. The current elements of internal control are as follows;

- Standing Orders
- Financial regulations
- The Best Value Performance Plan
- Service Planning
- Performance Management Framework
- Code of conduct for Members
- Code of conduct for employees
- The Council's constitution
- Council and Committee papers
- Executive Decision sheets
- Policy and Resources Committee
- Risk Management Strategy
- The work of the internal and external auditors and the various inspection regimes
- Whistle blowing procedure
- Monthly budget monitoring reports
- Published Statement of Accounts
- Various quality assurance processes within certain departments

5. Reviewing the Effectiveness of Internal Control

The Council is now required to conduct recurrent reviews of the effectiveness of its internal control measures. These reviews should occur at least annually. The reviews need to be informed from the work of internal audit, service managers and relevant comments made by external auditors and inspectorates. In future years, arrangements for reviewing internal control will be set out in the Best Value Performance Plan.

Current Situation

5.1 External Audit and Inspection

The Comprehensive Performance Assessment 2003 scored the Council 3 out of 4 for the ability to manage its affairs which demonstrates a commitment by the Council to manage itself wisely.

The results of CPA are presented to and considered by the Policy and Resources Committee. Actions for improvement are set out in the subsequent Best Value Performance Plan.

In the Best Value Performance Plan the Council also sets out priorities for service delivery. Those that will lead to further improvement in Internal Control are:

- A commitment to improve performance management systems
- A commitment to make the best use of electronic opportunity to improve service delivery.
- A commitment to Partnership working

The Authority continues to attract a broad range of inspections and these serve to improve internal controls and service standards. The recommendations of Inspections are reported to Parent Committees and Policy and Resources Committee, accompanied by action plans for responding to improvements set out in the Inspection Reports. Policy and Resources Committee then has an active monitoring role to ensure that there is satisfactory progress against proposed action plans.

5.2 2002/03 Statement of Internal Financial Control

Last year the Treasurer reported that "during 2002/03 a number of areas were identified as giving significant cause for concern primarily in relation to the size of the Council, which is responsible for providing a wider range of services than many of its urban counterparts with a limited number of employees. To achieve this most members of staff have multiple roles, with a number having sole responsibility for individual service areas. As a result of this, and despite detailed financial regulations, the separation of duties with appropriate internal checks is a requirement that cannot always be maintained to my satisfaction and must be seen as an ongoing weakness".

This continues to be a difficulty for the Council, however staffing levels in the finance department have increased and this is the start of the process to ensure segregation of duties is an effective internal control for the Council. In other small service areas difficulties are likely to be ongoing.

- In order to correct these weaknesses in 2004 the Council has requested Officers to re-look at the separation of duties within departments to improve internal controls.

5.3 Internal Audit

The Council's Internal Audit plan will aim to be risk based and agreed annually with the Treasurer. This plan and audit provide the basis for any review of internal control within the Council. The findings of internal audit will be considered by Members annually through the Policy and Resources Committee.

Officers consider the areas for improvement set out by internal auditors and produce an action plan with SMART targets in order to ensure that actions are put into place so improvement is made where needed. Each service manager must prepare a plan that relates to issues raised in their section. Progress is monitored by the Treasurer and in the future through update reports to the Policy and Resources Committee.

Current Issues:

- For 2004/05 no Internal Audit work was undertaken between April and October and there was no agreed audit plan in place, this was due to pressure of work at the Council of the Isles of Scilly and not to an unwillingness by the service provider to undertake the work.
- The Council and School have not formally responded to the Internal Audit reports issued for 2003/04 and subsequently there have been no reports made to Policy & Resources Committee, Internal Audit reports have been considered by service departments and by the Chief Officer Management team

Action plans have been drawn up for all services subject to an Internal Audit report and a response prepared, but there has been no formal monitoring of actions taking place.

In order to correct these weaknesses in 2004 the Council agreed that:

- A risk based Internal Audit plan for the Council will be in place before the start of each financial year. Performance against this plan will be reported quarterly through Policy and Resources Committee;
- From 1 November 2004 a formal response will be made to all Internal Audit reports within two months of receipt of the draft report;
- Final reports incorporating management responses and action plans will be brought to the Policy and Resources Committee from 30th November 2004 onwards; and
- Action plans resulting from Internal Audit reviews will be reported to Committees quarterly by the service manager, with effect from 1 January 2005.
- This year the Internal Audit programme was not agreed until September 2004, simply due to pressure of work in the Authority. Arrangements are now in place to ensure that this does not happen in 2005/6 a planning meeting is scheduled for the end of November.

Summary

Clearly this is the first time in the History of the Council that internal controls have been considered in such an all encompassing way. It is recognised that the Council needs to develop a more consistent and comprehensive approach. It is noted that in the future the Council will be required to publish a full statement, rather than an interim report. Developing robust processes of assurance will therefore be a priority for the Authority and future policy will be set out as part of the Best Value Performance Plan 05/06. Specific areas for improvement will include:

- Assurance Processes: Developing a more comprehensive approach to the provision of assurance over all the Council's key process.
- Risk Management, although much work has been done over the last 2 years to develop a risk strategy, risk register and controls. Further work is needed on mitigation, prioritising risks and on linking the register to corporate planning.
- Performance Management. This was identified by CPA as an area for improvement and more work is needed in this area, particularly in terms of the reporting and monitoring of performance by Committees.
- Internal Audit, ensuring a full programme is delivered on the Isles

The Council welcomes the challenges set out by this process of developing a proportionate yet effective process of internal control and recognises that this will result in service improvements for the Island Community that it serves.

Signed D.M. Jones

Chairman of Council

Date 22/11/04

Signed [Signature]

Chief Executive

Date 22/11/04

Statement of Responsibilities for the Statement of Accounts

This section explains our responsibilities for the Council's financial affairs and how we make sure the responsibilities are properly carried out.

Our responsibilities:

Statute demands that the Council must:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for administration of those affairs. In this Council the Treasurer holds its statutory position and is therefore responsible for preparing the Statement of Accounts.
- Manage the Council's affairs to ensure that resources are used efficiently and effectively and that assets are protected.
- Approve the Statement of Accounts.

In preparing this statement, the Treasurer has:

- Selected suitable accounting policies and applied them consistently;
- Made reasonable and sensible judgements and estimates;
- Followed the Chartered Institute of Public Finance and Accountancy's "Code of Practice on Local Authority Accounting in Great Britain".
- Kept proper accounting records which are up to date;
- Taken steps to prevent and detect fraud.

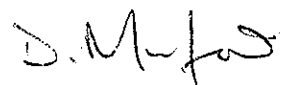
Certification of Accounts

As required by section 10 of the Accounts and Audit Regulations 2003, I certify that this Statement of Accounts presents fairly the financial position of The Council of the Isles of Scilly at 31st March 2004, and its income and expenditure for the year ended 31st March 2004.



Barry Archer ACMA
Treasurer
Section 151 Officer

July 2004



D. Mumford
Chairman
Council of the Isles of Scilly

November 2004

Independent Auditors' Report to the Council of the Isles of Scilly

We have audited the statement of accounts on pages 1 to 34 which have been prepared in accordance with the accounting policies applicable to local authorities as set out on pages 5 to 8.

This report is made solely to the Council of the Isles of Scilly in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 54 of the Statement of Responsibilities of Auditors and of Audited Bodies, prepared by the Audit Commission.

Respective Responsibilities of the Chief Financial Officer and Auditor

As described on page 38 the Chief Financial Officer is responsible for the preparation of the statement of accounts in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2003. Our responsibilities, as independent auditors, are established by statute, the Code of Audit Practice issued by the Audit Commission and our profession's ethical guidance.

We report to you our opinion as to whether the statement of accounts present fairly the financial position of the Council and its income and expenditure for the year,

We review whether the statement on internal control on pages 35 to 37 reflect compliance with CIPFA's guidance 'The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003' published on 2 April 2004. We report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered whether the statement on internal control covers all risks and controls. We are also not required to form an opinion on the effectiveness of the authority's corporate governance procedures or its risk and control procedures. Our review was not performed for any purpose connected with any specific transaction and should not be relied upon for any such purpose.

We read the other information published with the statement of accounts and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the statement of accounts.

Basis of audit opinion

We conducted our audit in accordance with the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission, which requires compliance with relevant auditing standards 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 judgements made by the council in the preparation of the financial statements, and of whether the accounting policies are appropriate to the council's circumstances, consistently applied and adequately disclosed. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the statement of accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we evaluated the overall adequacy of the presentation of the information in the financial statements.

Opinion

In our opinion the statement of accounts present fairly the financial position of the Council of the Isles of Scilly as at 31 March 2004 and its income and expenditure for the year then ended.

Certificate

We certify that we 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.

Signature: 

Name: P. A. LAWRENCE

Date: 30 NOVEMBER 2004

Address: