APPENDIX 2

Isle of Wight Council

Statement of Accounts

2014-15



CONTENTS

Explanatory Foreword

1. Introduction

Much of the format, terminology and presentation of the full statement of accounts is prescribed by the Code of Practice on Local Authority Accounting in the United Kingdom, which all Local Authorities are required to follow. The full statement of accounts is also intended to meet the needs of various readers who might include central government and agencies or regulators, grant awarding bodies, suppliers, contractors and lenders as well as the general public. We understand that this presentation of technical accounting information can make the full statement of accounts difficult to interpret.

The statement of accounts details the financial statements as follows:

Statement of responsibilities	This sets out the respective responsibilities of the council and the Head of Finance and Section 151 officer for the accounts.
Movement in reserves statement	This shows the movement in the year on the different reserves held by the council. These reserves are separated into 'usable reserves' (those that can be applied to fund expenditure or reduce taxation) and other reserves.
Comprehensive income and expenditure statement	This statement shows the costs in the year of providing services and compares them with the previous year.
Balance sheet	The balance sheet includes information on the council's assets and liabilities. The net assets (assets less liabilities) are matched by the reserves held by the council.
Cash flow statement	This statement shows changes in cash and cash equivalents of the council during the reporting period. This provides a summary of the inflows and outflows of cash for revenue and capital purposes.
Statement of accounting policies	This explains the policies adopted in preparing the accounts, which are based on the relevant Codes of Practice applicable to local authorities.
Collection fund	The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to the Police and Crime Commissioner for Hampshire (for Council Tax) and central government (for non-domestic rates).
Firefighters' pension fund	This summarises the income and expenditure of the firefighters' pension fund and identifies the arrangements in place to close the balance for the year.
Isle of Wight Council pension fund	This summarises the income and expenditure of the pension fund and provides information about the financial position, performance and financial adaptability.

This foreword therefore aims to assist the reader in interpreting the accounts and provides a more concise summary of the key points of the council's financial performance and position for 2014/15. In addition, this foreword also aims to present a general guide to the main statements that make up the full statement of accounts. Its purpose is not to comment on the policies of the council, but it does give factual details of strategic objectives and spending priorities where these provide a context to reporting on financial performance.

This foreword follows the recommended topics included in the Code of Practice on Local Authority Accounts 2014/15, and covers the relevant points of the Governments Financial Reporting Manual which Local Authorities are being encouraged to take into consideration in presenting their accounts. This recommends a management commentary be provided covering a wider range of topics than just financial performance and that the foreword looks to the future as well as the past.

As a result, this foreword also includes a summary of the council's performance against key priorities, trends and factors likely to affect the future, environmental matters, staffing and social and community issues and key contractual arrangements. It also looks at changes to statutory functions which have occurred in 2014/15 or are planned for 2015/16.

Whilst we have tried to remove or explain technical jargon where possible, a detailed glossary of terms is provided at the end of the statement of accounts to assist the reader.

2. Summary of financial position for 2014/15

Revenue income and expenditure

Where the council has costs related to the day to day provision of services e.g. salaries, supplies and services, utilities, these costs are called revenue expenditure. The council is required to set a balanced budget each year, so the amount of revenue the council can spend depends on the income the council receives from various sources. However, in some service areas, for instance adult social care, the demand for the services can be unpredictable and change midyear. This can lead to over or underspends across individual services although the council aims to end the year either in balance or with a net saving against the overall council budget.

The table below shows a summary of the:

- Revised budget – the amount of money we planned to spend on services
- Net expenditure - the actual costs of those services
- Net outturn position – the resulting over/(under) spend at the end of the year.

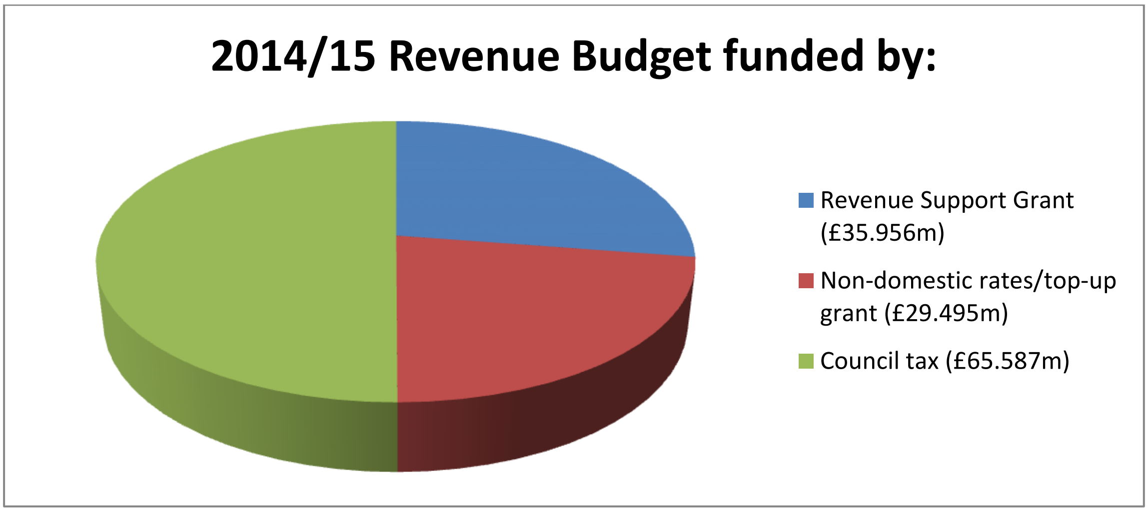
Service area	Revised budget £000's	Net expenditure £000s	Net outturn position £000's
Managing Director & Head of Paid Service	231	200	(31)
Director of Public Health	0	0	0
Strengthening Families	169	(40)	(209)
Children & Families	31,140	30,414	(726)
Education & Inclusion	8,098	7,254	(844)
Access Performance & Resources	(11,501)	(10,796)	705
Fire Service	6,693	6,737	44
Adult Social Care Packages	32,422	33,764	1,342
Adult Social Care- Other	19,128	19,569	441
Head of Economy & Tourism	317	313	(4)
Recreation, Leisure & Public Realm	(1,718)	(1,519)	199
Economic Development & Assets	2,370	2,116	(254)
Heritage, Libraries & Help Centres	2,007	2,009	2
Head of Corporate Governance & Monitoring officer	144	131	(13)
Legal Services	991	920	(71)
Democratic Services & Scrutiny	897	831	(66)
Registrars	(46)	(68)	(22)
Consultation & Communications	133	126	(7)
Elections & Land Charges	(23)	(39)	(16)
Coroner	370	472	102
Head of Planning & Regulatory Services	761	709	(52)
Highways PFI & Coastal Management	2,386	2,843	457
Building Control	20	13	(7)
Regulatory Services	1,007	960	(47)
Planning Policy	718	597	(121)
Safe & Secure Homes	4,996	4,677	(319)
Head of Finance & s151 officer	390	343	(47)
Audit & Performance	225	218	(7)
Financial Management	987	974	(13)
Procurement & Contract Management	14,628	15,388	760
Head of HR & Organisational Change	1,294	1,243	(51)
Shared Services	1,178	1,102	(76)
Organisational Change	316	315	(1)
ICT	3,509	3,476	(33)
Exchequer Services	1,787	1,769	(18)
Corporate items	4,369	3,134	(1,235)
Building Maintenance	645	642	(3)
Sub-total	**131,038**	**130,797**	**(241)**
Net underspend transferred to general fund			**241**

Notes:

- Staff related savings from vacancy management in service areas have been allocated against staff savings target held centrally.
- Carry-forward requests submitted to the Scrutiny Budget Task and Finish Group are included in the service positions above.
- The figures above exclude entries relating to accounting adjustments such as central support recharges, depreciation and IAS19 pension adjustments.

General Fund Balance	**£000s**
Opening balance 1 April 2014	9,017
Withdrawal from General Fund per 2014-15 budget strategy	(1,707)
Net 2014-15 underspend	241
Closing balance 31 March 2015	**7,551**

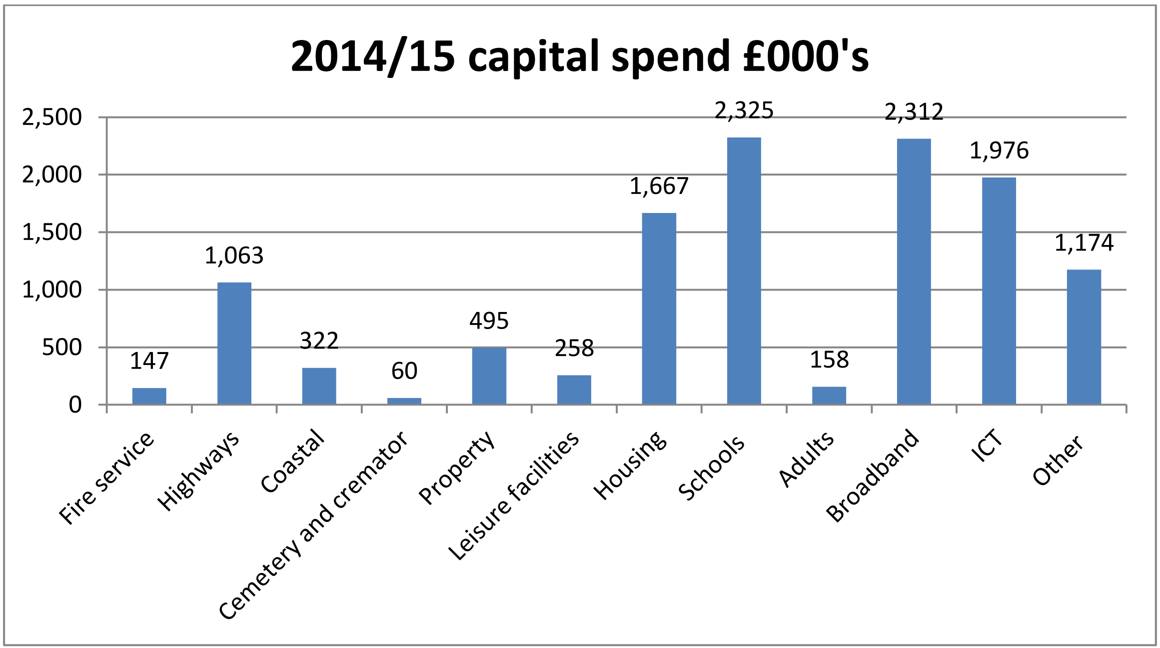
The budget was funded as shown below:



Capital expenditure and funding

Capital expenditure creates or enhances assets that have a life of more than one year, such as buildings, land and equipment. The capital projects that the council plans to deliver therefore represent significant investments to support the council's strategic priorities. Many of the projects are delivered over a period of years and budgets will be spread across years according to project delivery plans. In 2014-15, the council planned to spend £17.914 million on capital projects and actually spent £11.957 million. Some of the unspent budget will be carried forward into 2015-16 and future years to complete essential project delivery.

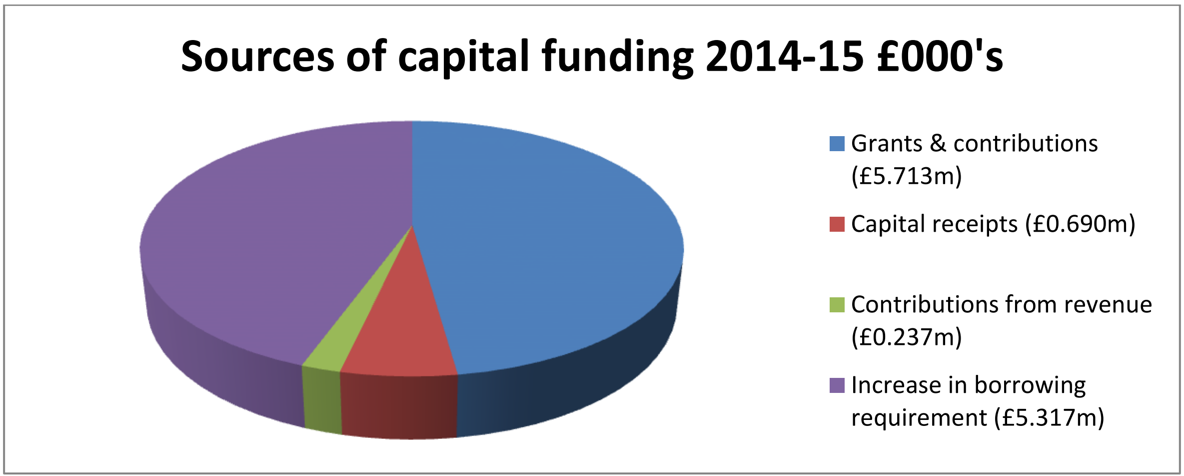
The following graph demonstrates the range of projects delivered in 2014-15 and how much was spent:



Capital investment can be paid for from:

- Capital receipts from the sale of assets such as buildings
- Capital Grants and contributions from government and other agencies
- Revenue contributions

If funding is not available from these sources, the council can choose to borrow to fund capital schemes provided the borrowing complies with the Prudential Code. The sources of capital funding from last year are shown in the chart below:



Reserves

Councils and other organisations need financial reserves to help manage unforeseen circumstances and to smooth the impact of spending requirements over time. Reserves enable councils to:

- manage variations between their planned and actual budgets that result from unpredictable spending and income; and
- plan their finances strategically to support their activities over the medium and long term.

The level of reserves that councils hold is decided locally and based on local circumstances. Reviews of reserves are undertaken regularly throughout the year and a risk assessment of the general fund balance, non-insurable risk reserve and doubtful debts is undertaken as part of the annual budget review and closure of accounts process. Other reserves have been earmarked or set aside for specific purposes. The year end position for reserves and balances is set out in the table below.

	Balance 1 April 2014 £000	Movement In Year £000	Balance 31 March 2015 £000
General Reserves			
Revenue carry-forward reserve 2013-14 to 2014-15	5,710	(5,710)	0
Revenue carry-forward reserve 2014-15 to 2015-16	0	835	835
Repairs & renewal funds	1,118	128	1,246
Insurance & risk reserve	6,379	(602)	5,777
General fund balance	9,017	(1,466)	7,551
General Fund net savings 2013-14 to 2014-15	993	(993)	0
Sub-total General Reserves	**23,217**	**(7,808)**	**15,409**
Specific Reserves & Provisions – not available to support general services			
Schools balances	3,135	371	3,506
Earmarked reserves – services	12,432	4,119	16,551
Highways PFI cashflow reserve	5,421	6,557	11,978
Section 106 reserves	891	1,175	2,066
Public Health reserve	634	387	1,021
Insurance liabilities provision	2,796	(297)	2,499
Doubtful Debts allowance	2,643	(155)	2,488
Sub-total Specific Reserves & Provisions	**27,952**	**12,157**	**40,109**
Total	**51,169**	**4,349**	**55,518**

The overall level of reserves and balances is at a relatively healthy level and, as agreed by Full Council in February 2014, £3.227 million of balances was used to support the budget strategy in 2014/15, including £1.707 million from the general fund.

Bearing in mind the scale of budget reductions required in 2015/16 and over the life of the council, there will be a need to use some more balances to allow time to enable further savings strategies to be fully developed. Use of reserves and balances in this way enables delivery of savings to be delayed however these are one off resources which do not reduce the budget gap in overall terms.

General fund balances are not linked to any specific risk or liability but are held as a contingency against overall overspends and unforeseen budget pressures. It is felt prudent to maintain at least £5m in general fund balances at the very minimum.

Borrowing and investments

The council, like any organisation or indeed household, has to manage its cash flow to ensure that money is available at key points in the month or year, when large payments are due. This is known as treasury management and part of this activity is the day to day arrangements for cash flow forecasts.

The table below compares the actual external debt at 31 March 2014 and 31 March 2015 (all figures include accrued interest at 31 March).

Analysis of loans outstanding	31 March 2014	**31 March 2015**
	£000	**£000**
PWLB	112,974	**111,445**
Long-term loans	5,038	**5,038**
LOBO	5,074	**5,075**
Short-term loans	31,053	**18,293**
Other loans	318	**312**
Total	154,457	**140,163**

Analysed between:	31 March 2014	**31 March 2015**
	£000	**£000**
Long-term borrowing	115,388	**112,888**
Short-term borrowing	39,069	**27,275**
Total	154,457	**140,163**

Increase/(reduction) from previous year	2013-14	**2014-15**
	£000	**£000**
Long-term borrowing	3,500	**(2,500)**
Short-term borrowing (incl borrowing for capital)	(248)	**(11,794)**
Increase/(reduction) from previous year	3,252	**(14,294)**

This reduction in the external debt is part of the council's strategy for funding previous years' capital programmes. With short-term interest rates having remained much lower than long-term rates, it continues to be more cost effective in the short-term to use internal resources and borrow short-term loans from the market, mainly from other local authorities. By doing so, the council has been able to reduce net borrowing costs and overall treasury risk, although investment income has been foregone. Whilst such a strategy is most likely to be beneficial over the next 1-2 years as official interest rates remain low, it is unlikely to be sustainable in the medium-term.

The lower than forecast costs of borrowing for the year contributed positively to the overall outturn.

Further information can be obtained from the treasury management report and strategy documents both of which are published on the council's website www.iwight.com

Changes to the accounting policies

In preparing these accounts the council has complied with the Code of Practice on Local Authority Accounting in the United Kingdom 2014-15 which defines proper accounting practices for all Local Authorities. There have been no significant changes to accounting policies since the 2013/14 statement of accounts.

Material items of income or expense

Details of material items charged to the comprehensive income and expenditure statement in 2014/15 are contained in note 5 to the accounts. These comprise: -

- losses on disposal of non-current assets amounting to £16.874 million
- losses on transfer of schools to academy status of £46.474 million
- Revaluation losses of £4.550 million
- Actuarial loss on pension assets/liabilities of £46.405 million.

These items are charged or credited to the comprehensive income and expenditure statement and then reversed through the movement in reserves statement with the result that there is no impact on the amount to be raised through local taxation.

3. Isle of Wight Council Pension Scheme and Fire-fighters' Pension Scheme

The council is the administering body for the Isle of Wight Council Pension Scheme. It makes up 88.9% of the scheme's total membership and 79.4% of active membership. The remainder comes from admitted bodies such as harbour commissioners and housing associations, and scheduled bodies such as the Isle of Wight College and town and parish councils.

As part of the terms and conditions of employment of its staff, the council makes contributions towards the cost of post-employment benefits (pension payments) alongside those made by the individuals themselves. The pension fund then has a commitment to pay those benefits when employees retire. For the purposes of these accounts, that commitment needs to be disclosed at the time that employees earn their future benefits.

The council, acting as a fire and rescue authority, also administers and pays fire-fighters' pensions.

The liabilities in the following table show the commitments that the pension fund has in the long run to pay post-employment (retirement) benefits.

	2009-10 £000	2010-11 £000	2011-12 £000	2012-13 £000	2013-14 £000	2014-15 £000
Present value of liabilities:						
Local Government Pension Scheme	(489,718)	(415,373)	(459,869)	(534,892)	(543,576)	(638,147)
Firefighters' Pension Scheme	(53,800)	(47,600)	(52,000)	(60,300)	(67,000)	(79,200)
Fair value of assets in the Local Government Pension Scheme	271,554	298,089	304,647	356,057	384,615	435,530
Surplus/(deficit) in the scheme:						
Local Government Pension Scheme	(218,164)	(117,284)	(155,222)	(178,835)	(158,961)	(202,617)
Firefighters' Pension Scheme	(53,800)	(47,600)	(52,000)	(60,300)	(67,000)	(79,200)
Total	(271,964)	(164,884)	(207,222)	(239,135)	(225,961)	(281,817)

As the council is the administering body for the pension scheme, the total liability of £281.817 million has a substantial impact on the net worth of the council as recorded in the balance sheet. This contributes to an overall negative balance of £159.672 million.

However, the council has statutory arrangements for funding the deficit which mean that the overall financial position of the council remains healthy:

- the deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary;
- finance is only required to be raised to cover discretionary benefits when the pensions are actually paid; and
- in-year deficits on the Fire-fighters' pension fund are reimbursed by Government grant.

The full pension fund accounts are shown from page 115 of the statement of accounts and are approved by the Pension Fund Committee along with the Pension Fund annual report. Both documents are available on the council's website www.iwight.com

The Isle of Wight Council Firefighters' Pension Fund accounts are shown on page 113 of the statement of accounts.

4. Performance

Performance against corporate plan priorities

The table below indicates the status of each corporate priority as at 31 March 2015 as reported to the Executive in May 2015 and further details are given of areas where the priority is rated as red.

Corporate Plan priority	Q4-2014-15 status	Q3-2014-15 status	Q2-2014-15 status	Q1-2014-15 status
Keeping children safe provision	Amber	Amber	Red	Red
Improving standards of education	Red	Red	Red	Red
Delivering person-centred, co-ordinated social are and health services	Green	Green	Green	Green
Growing the economy and tourism	Green	Green	Green	Green
Working in partnership to improve outcomes	Green	Green	Green	Green
Protecting the public	Amber	Amber	Amber	Amber
Delivering statutory duties and achieving value for money	Amber	Amber	Amber	Amber

Key	Status
Green	Majority of performance is on or above target, projects are meeting planned delivery dates, risk is managed appropriately and financial position stable against profiled spend
Amber	Some performance is off target but within accepted tolerance levels, project milestones are still attainable, risk levels demonstrate some concern with appropriate planned activity, financial overspends being forecast

Red	Significant underperformance or project slippage, high scoring risks without active mitigation in place and/or significant overspend impacting delivery of corporate priority
NA	Not applicable has been used where the priority in the 2014-17 corporate plan has no direct link to any of the priorities in the previous corporate plan 2011-14.

Keeping Children Safe – This priority's rating has improved from red at the end of 2013/14 to amber due to the improvements recognised by the recent Ofsted inspection.

Improving standards of education – This priority continues to be rated as red because whilst there has been some improvement in results and some gaps between the island and others have narrowed, it is still too early to judge sustained improvement.

Full details of the council's performance against the performance indicators can be found in the cabinet reports published on www.iwight.com

Personal data related incidents

In line with the council's data protection reporting procedure, between April 2014 and March 2015 the council had 13 incidents reported, and 7 have resulted in confirmed breaches. Of the confirmed breaches:

- 1 was assessed at Level 2 (potential serious breach and risk assessed as high),
- 6 were assessed at Level 1 (minor breach)

There is currently 1 ongoing investigation and the remaining investigations found no breaches.

Sickness absence data

New mechanisms have been introduced to monitor and manage sickness absence and differentiate between long periods of absence – over 28 days, and instances where staff have 4 or more short term absences. To December 2014, long term sickness absence stood at 7.4% of total staff, whilst the number of short term absences reduced from 164 in quarter 2 to 150 in quarter 3.

Employees

The council has reduced its staff numbers over the last 4 years from the full time equivalent of 4,416 in December 2010, to 3,294 in December 2014. This overall reduction is due to the restructuring of council services and changes to schools.

Members and Officers register of interests

Councillors and officers are required to declare their own or close family member's directorship and interest in companies which may conflict with their management responsibilities. Members' declarations are now published on the council's website under their individual pages. Senior officers' declarations are available on request at County Hall. A review of both takes place each year and the findings are detailed in note 40 of the statement of accounts.

Environmental matters

The council's carbon management plan shows how the council will reduce the carbon emissions from its buildings and operations.

Since the inception of the plan in 2009/10, the plan outlined how the council would achieve a 6% year on year reduction in carbon emissions up to 2015. At the end of 2014/15 the council had achieved a cumulative reduction of 49% since 2009/10, well ahead of target. The full carbon management plan can be found at Energy Management - Web Pages

Financial Performance

The year-end financial position reported in the accounts represents a very positive outcome for the council based on a net revenue budget of £131.038 million.

It is a particularly good result when considering the fact that the council had to achieve net savings of £5.9 million during the year following reductions in Government funding and whilst allowing continued investment in key priorities to deliver outcomes, and managing demographic pressures in adult services.

Strong financial management and control measures in place across all service areas, including the Authorisation Panel, Service and Budget Review Steering Group (and its replacement the Joint Executive/CMT Board) and Procurement Board have all contributed to the achievement of a net underspend of £0.241 million at the year end.

5. **Social and Community Issues**

Recent changes and introduction of legislation have enabled greater community involvement in the council's decisions and planning. During 2014/15 in particular:

- the Neighbourhood Planning Regulations 2012, empowered local communities to help make and take forward planning proposals at a local level with the intention that town or parish councils prepare neighbourhood plans. These plans must be in general conformity with the island wide local development plan but once examined and adopted by the local community, the council must adopt these plans into the island plan.

  In 2014/15, Neighbourhood plans have been 'made' (bought into force) for Bembridge, and Brading. Plans are being developed by Brighstone, Freshwater and Gurnard parish councils.

- the 2011 Localism Act introduced in September 2012 introduced a right for parish councils, community and voluntary bodies, charitable trusts and 2 or more local authority employees to submit an expression of interest in taking over the provision of a service on behalf of the authority. Where a valid expression of interest is received the council is required to undertake a procurement exercise for that service which will be open to other commercial bidders and which may lead to the council awarding a contract for the provision of that service to any one of the bidders.

  No challenges were received by the Council during 2014/15. Details of the process and supporting information can be found on www.iwight.com.

- the Localism Act also provides an opportunity for community groups to nominate privately and publically owned land and buildings to be listed as assets of community value. Once the council has determined whether the assets contribute to the wellbeing of the area, they may be listed and the owner is not able to dispose of it until it has first given a community interest group the opportunity to make a bid alongside other bids that the owner may invite for it.

  In 2014/15 the council received three bids from community groups two of which were determined to be assets of community value. None of these are currently owned by the council. Details of the process and the bids received and determined are available on www.iwight.com

- in some circumstances, the council receives requests from community groups or the voluntary sector that the council transfers an asset (usually a building) at less than market value into community ownership. In such instances, the council would consider a community asset transfer in line with the approved policy and process but the usual practice is for the council to undertake such transfers on a leasehold basis thus retaining our interest and protecting the future of such assets.

  In 2014/15 the council completed 3 community asset transfers with a further one approved but not yet completed. The policy and process is available on www.iwight.com.

- Under the Code of Recommended Practice for Local Authorities on Data Transparency, all councils are recommended to publish details of financial transactions over £500. The council has been publishing this information from 2010 and in October 2012 took the decision to publish all financial transactions regardless of value backdated to April 2012. This information along with information about the council's staffing arrangements; suppliers; democracy and governance arrangements; assets and access to information is available on Transparency.

6. Looking ahead

Impact of current economic climate on authority and services

Over the five financial years 2011/12 to 2015/16, the council will have had its central government funding reduced by £33.3m on an on-going basis, whilst at the same time its costs, through increased need in adult social care, children services and overall inflation, will have increased by some £30m. Due to council tax freezes and effective capping by central government of council tax increases, council tax income has increased by only £3m over the same period. In addition to this further grant reductions will be suffered in 2016/17 and all indications are that there will be yet more grant reductions in 2017/18.

The council has already made on going revenue budget savings of some £38m since 2011/12 and now faces making a further £12.5m in 2015/16 and another £10.5m in 2016/17.

With reducing resources the council must focus on key priority areas which will each contribute towards achieving the council's vision of making the Isle of Wight a great place to live work and visit. The council will continually review its work to ensure the best possible outcomes are being secured for the tax payer and every £1 spent by the council is maximised for the benefit of the community.

Due to the nature and scale of the savings required over the coming years it is inevitable that the council will have to change radically the way that it does things. In order to focus on the council's key priorities and where they will have the most impact, the council will have to stop carrying out some of its work and stop delivering some of the services it provides currently. The council will be working in partnership with health, Police, agencies, business, voluntary sector, town and parish councils and our community in order to ensure that all the services available to the island are used in the most effective way in achieving the Island's priorities.

Local Trends or factors

In developing our future priorities and understanding future service needs, the council will have to account for a number of key trends and factors including:

- the growing older population on the island requiring increasing levels of care
- the higher than average proportion of children and young people entitled to free school meals
- child poverty levels above the region average
- island children continuing to perform below the national average in GCSE results
- limited availability of private and affordable housing
- ongoing changes to the welfare system and council tax support
- uncertainty in the economy and levels of unemployment
- standards of health and mortality on the island

Resources, risks and uncertainties

These trends will create additional budget pressures as a result of increasing service needs. Thus far the council has been able to implement savings and efficiencies to bridge these funding gaps but there is a risk that as these gaps continue and increase, these savings may not be achieved.

The PFI contract for highways means that the council is committed to funding levels for this service in the medium to long term. Although the provision of services under this contract provides a saving to what it would cost the council by direct delivery, the commitment to this contract reduces the proportion of the council's costs which can be reduced or saved in future years.

In addition, income from fees and charges is already under pressure in some areas, such as car parking, and this and the risk of inflation being higher than expected will create additional pressures.

Whilst reserves and balances are healthy now, they are not a permanent source of funding as once spent, they are gone. Any use of reserves and balances now, adds to the gap in funding that we face in future years which is only expected to worsen.

7. Changes to Statutory Functions and future developments

There have been a number of changes to statutory functions within the council in 2014/15 and further developments are planned for the future. A brief outline is included here:

- Public health services transferred from the NHS to local authorities from April 2013. Public health responsibilities for children aged 0 to 5 will transfer to local authorities from 1 October 2015. These services are funded by a ring-fenced government grant.

- A review of the council's senior management structure deleted the post of Strategic Director of Resources and the duties of this post, together with the remit of the Head of Paid Service were combined into the Managing Director role. Other changes approved as part of the budget strategy at full council on 26 February 2014 came into effect during 2014/15. At the full council meeting on 25 February 2015, further changes were approved which will come into effect during 2015/16.

- A Strategic Partnership with Hampshire County Council was established in June 2013 as a result of the OFSTED report into Children's services in December 2012. This partnership includes the appointment of a Director of Children's Services (a statutory role) for the Isle of Wight. The partnership agreement is for a period of 5 years for all children's services for the Isle of Wight, and entails IWC staff reporting directly to Hampshire's managers and a range of input from support staff at Hampshire County Council. Regular reports on the progress of the partnership are made to the council's executive.

- The council worked with the tourism industry to develop a new private sector led tourist board (Destination Management Organisation (DMO)) to lead the development and growth of the industry. The DMO has now been formally established and constituted as Visit Isle of Wight with financial support from the council continuing for a number of years until 2016/17.

- From 1 April 2013 all local authorities had to replace the previous nationally set council tax benefit scheme with a local council tax support scheme for all working age claimants. The costs of this scheme are met by the council. Following consultation a transitional scheme for the island was introduced in 2013/14 with the full scheme implemented in April 2014. A review of the local scheme will be undertaken during 2015/16 with a revised scheme being introduced from 1 April 2016, subject to consultation.

- The small business rate relief scheme which operated during 2014/15 will be further extended for one year from April 2015 and business rate increases will again be capped at 2%.

- The council has entered into a joint venture arrangement with Perpetuus Tidal Energy Centre Ltd to develop a tidal energy testing facility off St Catherine's Point. As a shareholder in the newly established company, the council has significant influence over the strategic decision of the company and whilst the level of activity in 2014/15 is not sufficient to require group accounts, it may be necessary to produce group accounts in the future as the company grows. Further information about the council's relationship with the company and its impact on the council's accounts is included in note 41.

- The award of Assisted Area Status (AAS) for the whole Island will create an environment in which businesses can be encouraged to invest on the Isle of Wight. The work of the council has secured this status for 28 of the Island's 39 wards in the Government's draft proposals and the council will continue to promote the case for the inclusion of the remaining wards when the final decisions are taken in the early spring. The council will promote the benefits of AAS as part of its approach to securing inward investment.

- In 2015/16 there will be new arrangements for a pooled NHS and local authority Better Care Fund. This fund is to enable integration of health and care services. It is not new money however as it is resourced from existing funding streams (including capital grants received for disabled facilities grants and adult social care) and efficiencies in the acute sector of health. The NHS and the council are actively developing a model of integrated health and social care for the island and have already entered into a number of specific joint delivery arrangements with the Clinical Commissioning Group and IOW NHS Trust.

- The council has entered into a strategic partnership with Hampshire Fire and Rescue which will pool management resources, whilst retaining front line services. It is forecast to generate savings of almost £1.2m for the council over the next 3 years.

- In late 2014, Barnardo's was chosen to provide new 0-19 early help services for the council which includes children's centres, and the council has awarded funding to 12 organisations who will deliver youth provision (11-19 and up to 25) across the island across the next years.

- The council has invited expressions of interest in taking over the running of its countryside estate and service with the aim of protecting and enhancing the existing state and improving public access and voluntary sector involvement. It is hoped the new partner organisation will be in place by 1st April 2015.

- The council is considering the expansion of its shared services function into an island business centre aiming to secure further reductions in back office costs.

- Other changes include partnership working with local communities, schools and town and parish councils to take over the provision of community libraries, public toilets, school crossing patrols.

8. Other sources of information

The council publishes details of individual financial transactions on a monthly basis in line with the Governments transparency guidelines. The accounts and other publications all form part of the councils overall annual financial and performance reporting framework which is available on the council's website www.iwight.com.

9. Summary from the Managing Director

The budget setting report to Cabinet and Council in February 2015 highlighted that the council continues to face an increasing financial challenge. The projected revenue gap over the financial years 2014/15 to 2016/17 is currently forecast at £29m. In addition, the ability of the council to increase its resources either through increasing council tax or locally generated income is extremely limited. The report also highlighted a number of budgets that were overspending in 2014/15 and at the time, it was reported that the projected year end position for 2014/15 was an overall overspend of £1.9m, however it was hoped that this could be managed down by year-end.

Although the council has done well to achieve this and has ended 2014/15 with an underspend of £0.241 million, it is clear that the current level of services and activities are unaffordable and further significant reductions will need to be made to meet the on-going budget gap. The decision not to take the 1% council tax grant and to increase council tax for 2015/16 by 1.99% does improve the position and the use of reserves and balances enables further time to deliver savings, but this only buys time and only bridges a gap for one year. In addition, the council also needs to invest and allocate resources to its priorities and the objectives that underpin the corporate vision.

In considering the way forward the council will need to strike a balance between:

- the need to invest in capital infrastructure projects to improve services;
- directing revenue resources to the four priorities set out in the corporate plan;
- the level of council tax;
- the levels of fees and charges;
- investing available resources to generate an ongoing revenue stream;
- the level of savings and service reductions to deliver a balanced budget and
- the use of any available balances to support the budget strategy.

Dave Burbage
Managing Director

THE STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The authority's responsibilities

The authority is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Head of Finance and Section 151 officer;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- approve the statement of accounts.

The duties of the Chief Financial Officer are carried out by the Head of Finance and Section 151 officer.

The Head of Finance and Section 151 officer's responsibilities

The Head of Finance and Section 151 officer is responsible for the preparation of the authority's statement of accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this statement of accounts, the Head of Finance and Section 151 officer has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that are reasonable and prudent;
- complied with the local authority code.

The Head of Finance and Section 151 officer has also:

- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the statement of accounts for the year ended 31 March 2015 required by the Accounts and Audit (England) Regulations 2011 is set out on pages 17 to 142.

I further certify that the statement of accounts gives a true and fair view of the financial position of the Isle of Wight Council at the 31 March 2015 and its income and expenditure for the year then ended.

Stuart R Fraser

Head of Finance and Section 151 officer Date: 28 September 2015
(original signed)

Chair of Audit Committee Date: 29 September 2015

MOVEMENT IN RESERVES STATEMENT

This statement shows the movement in the year on the different reserves held by the council, analysed into ‘usable reserves’ (ie those that can be used to fund expenditure or reduce local taxation) and other reserves. The surplus or (deficit) on the provision of services line shows the true economic cost of providing the council’s services. More details of the cost of providing the council’s services are shown in the comprehensive income and expenditure statement, which are different from the statutory amounts required to be charged to the general fund balance for council tax setting. The net increase/decrease before transfers to earmarked reserves line shows the balance on the statutory general fund before any discretionary transfers to or from earmarked reserves undertaken by the council.

	General fund balance £000	Earmarked general fund Reserves £000	Capital receipts reserve £000	Capital grants unapplied £000	Total usable reserves £000	Unusable reserves £000	Total authority reserves £000
Balance at 31 March 2013 brought forward	**9,017**	**28,065**	**575**	**376**	**38,033**	**(84,054)**	**(46,021)**
Movement in reserves during 2013-14							
Surplus or (deficit) on the provision of services	(41,401)	0	0	0	(41,401)	0	(41,401)
Other comprehensive income & expenditure	0	0	0	0	0	36,368	36,368
Total Comprehensive Income & Expenditure	**(41,401)**	**0**	**0**	**0**	**(41,401)**	**36,368**	**(5,033)**
Adjustments between accounting basis & funding basis under regulations (Note 7)	50,048	0	414	(196)	50,266	(50,266)	0
Net increase/decrease before transfers to earmarked reserves	**8,647**	**0**	**414**	**(196)**	**8,865**	**(13,898)**	**(5,033)**
Transfers to/from earmarked reserves (Note 8)	(8,647)	8,647	0	0	0	0	0
Increase/decrease in 2013-14	**0**	**8,647**	**414**	**(196)**	**8,865**	**(13,898)**	**(5,033)**
Balance at 31 March 2014 carried forward	**9,017**	**36,712**	**989**	**180**	**46,898**	**(97,952)**	**(51,054)**

	General fund balance £000	Earmarked general fund Reserves £000	Capital receipts reserve £000	Capital grants unapplied £000	Total usable reserves £000	Unusable reserves £000	Total authority reserves £000
Balance at 31 March 2014 brought forward	**9,017**	**36,712**	**989**	**180**	**46,898**	**(97,952)**	**(51,054)**
Movement in reserves during 2014-15							
Surplus or (deficit) on the provision of services	(72,951)	0	0	0	(72,951)	0	(72,951)
Other comprehensive income & expenditure	0	0	0	0	0	(35,667)	(35,667)
Total Comprehensive Income & Expenditure	**(72,951)**	**0**	**0**	**0**	**(72,951)**	**(35,667)**	**(108,618)**
Adjustments between accounting basis & funding basis under regulations (Note 7)	77,754	0	750	400	78,904	(78,904)	0
Net increase/decrease before transfers to earmarked reserves	**4,803**	**0**	**750**	**400**	**5,953**	**(114,571)**	**(108,618)**
Transfers to/from earmarked reserves (Note 8)	(6,269)	6,269	0	0	0	0	0
Increase/decrease in 2014-15	**(1,466)**	**6,269**	**750**	**400**	**5,953**	**(114,571)**	**(108,618)**
Balance at 31 March 2015 carried forward	**7,551**	**42,981**	**1,739**	**580**	**52,851**	**(212,523)**	**(159,672)**

COMPREHENSIVE INCOME & EXPENDITURE STATEMENT

This statement summarises the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from council tax and other revenue resources. Authorities raise income to cover expenditure in accordance with regulations; this may be different from the accounting cost. The net reserves are shown in the movement in reserves statement.

2013-14				**2014-15**		
Gross expenditure	Gross income	Net expenditure		**Gross Expenditure**	**Gross income**	**Net Expenditure**
£000	£000	£000		**£000**	**£000**	**£000**
129,639	(91,532)	38,107	Education & children's service	**123,549**	**(90,743)**	**32,806**
63,976	(17,307)	46,669	Adult social care	**65,639**	**(17,480)**	**48,159**
10,862	(4,003)	6,859	Cultural & related services	**10,644**	**(4,291)**	**6,353**
15,916	(2,080)	13,836	Environmental & regulatory services	**15,497**	**(2,067)**	**13,430**
5,501	(3,211)	2,290	Planning services	**6,545**	**(5,695)**	**850**
33,744	(6,575)	27,169	Highways & transport services	**28,562**	**(5,675)**	**22,887**
8,283	(225)	8,058	Fire & rescue services	**8,056**	**(190)**	**7,866**
63,098	(55,762)	7,336	Housing services (including Benefits)	**61,041**	**(54,808)**	**6,233**
5,741	(5,937)	(196)	Public Health	**5,824**	**(6,206)**	**(382)**
5,263	(3,759)	1,504	Central services to the public	**5,632**	**(3,930)**	**1,702**
2,598	(1)	2,597	Corporate & democratic core	**2,225**	**(6)**	**2,219**
960	0	960	Non-distributed costs	**3,031**	**0**	**3,031**
345,581	(190,392)	155,189	**Total cost services**	**336,245**	**(191,091)**	**145,154**
24,421	0	24,421	Other operating expenditure (note 9)	**19,113**	**(367)**	**18,746**
38,182	(16,125)	22,057	Financing & investment income & expenditure (note 10)	**81,444**	**(16,810)**	**64,634**
0	(160,266)	(160,266)	Taxation & non-specific grant income (note 11)	**0**	**(155,583)**	**(155,583)**
408,184	(366,783)	41,401	**(Surplus)/deficit on provision of services**	**436,802**	**(363,851)**	**72,951**
		(15,222)	Surplus on revaluation of non-current assets (note 25)			**(11,171)**
		3,046	Downward revaluation of assets and impairment losses on non-current assets charged to the revaluation reserve (note 25)			**433**
		(24,192)	Actuarial (gains)/losses on pension assets/liabilities (note 47)			**46,405**
		(36,368)	**Other comprehensive income & expenditure**			**35,667**
		5,033	**Total comprehensive income & expenditure**			**108,618**

BALANCE SHEET

The balance sheet shows the value as at the balance sheet date of the assets and liabilities held by the council. The net assets of the council (assets less liabilities) are matched by the reserves held by the council. Reserves are reported in two categories. The first category of reserves are usable reserves, ie those reserves that the council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example, the capital receipts reserve may only be used to fund capital expenditure or repay debt). The second category of reserves includes reserves that hold unrealised gains and losses (for example the revaluation reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the movement in reserves statement line 'adjustments between accounting basis and funding basis under regulations'.

31 March 2014			**31 March 2015**
£000		**Note**	**£000**
351,762	Property, plant & equipment	**12**	**310,849**
1,947	Heritage assets	**13**	**1,948**
2,596	Investment property	**14**	**2,613**
719	Intangible assets	**15**	**1,274**
11	Long term investments	**16**	**6**
1,986	Long term debtors	**16**	**2,094**
359,021	**Long term assets**		**318,784**
1,380	Short-term investments	**16**	**3,029**
491	Assets held for sale	**21**	**609**
167	Inventories	**18**	**164**
24,314	Short term debtors	**19**	**23,903**
4,104	Cash and cash equivalents	**20**	**2,632**
30,456	**Current assets**		**30,337**
(39,069)	Short term borrowing	**16**	**(27,275)**
(22,063)	Short term creditors	**22**	**(24,286)**
(3,958)	Short term provisions	**23**	**(3,985)**
(65,090)	**Current liabilities**		**(55,546)**
(27,189)	Long term creditors	**16**	**(49,932)**
(1,746)	Long term provisions	**23**	**(1,292)**
(115,388)	Long term borrowing	**16**	**(112,888)**
(225,824)	Other long term liabilities	**16**	**(281,313)**
(394)	Donated assets account	**13**	**(394)**
(4,900)	Capital grants receipts in advance	**39**	**(7,428)**
(375,441)	**Long term liabilities**		**(453,247)**
(51,054)	**Net assets**		**(159,672)**
46,898	Usable reserves	**24**	**52,851**
(97,952)	Unusable reserves	**25**	**(212,523)**
(51,054)	**Total reserves**		**(159,672)**

CASH FLOW STATEMENT

The cash flow statement shows the changes in cash and cash equivalents of the council during the reporting period. The statement shows how the council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the council are funded by way of taxation and grant income or from recipients of services provided by the council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (ie borrowing) to the council.

2013-14		**2014-15**
£000		**£000**
(41,401)	Net Surplus/(deficit) on the provision of services	**(72,951)**
66,035	Adjustments to net surplus or deficit on the provision of services for non-cash movements	**92,821**
(4,093)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	**(6,161)**
20,541	Net cash flows from operating activities (Note 26)	**13,709**
(14,097)	Investing activities (note 28)	**1,814**
295	Financing activities (note 29)	**(16,995)**
6,739	Net increase or decrease in cash & cash equivalents	**(1,472)**
(2,635)	Cash & cash equivalents at the beginning of the reporting period	**4,104**
4,104	**Cash & cash equivalents at the end of the reporting period (Note 20)**	**2,632**

NOTES TO THE ACCOUNTS

1. Summary of significant accounting policies

1.1 General principles

The statement of accounts summarises the council's transactions for the 2014-15 financial year and its position at the year-end of 31 March 2015. The council is required to prepare an annual statement of accounts by the Accounts and Audit (England) Regulations 2011 which those regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2014-15 and the Service Reporting Code of Practice 2014-15, supported by International Financial Reporting Standards (IFRS). The accounting convention adopted in the statement of accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

1.2 Accruals of income and expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the council.
- Revenue from the provision of services is recognised when the council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the council.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the balance sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather that when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

1.3 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature within 24 hours from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the balance sheet and cash flow statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form part of the council's cash management.

1.4 Prior period adjustments, changes in accounting policies and estimates and errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, ie in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

1.5 Charges to revenue for non-current assets

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

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the service where there can be no accumulated gains in the revaluation reserve against which the losses can be written off
- amortisation of intangible fixed assets attributable to the service.

The council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the council in accordance with statutory guidance.

The council has adopted the following principles for the charging of the Minimum Revenue Provision (MRP):

- for all capital expenditure incurred before 1 April 2008, the MRP is calculated at 4% of the capital financing requirement
- For capital expenditure financed by council borrowing after 1 April 2008, the MRP is calculated in accordance with the expected life of each asset as estimated either at the time of acquisition or upon becoming fully operational
- For capital expenditure financed by finance leases, the MRP is calculated in accordance with the write-down of the liability
- Financial loans and assistance are financed through prudential borrowing, thus increasing the council's capital financing requirement. The council has opted to set aside the repayment as a capital receipt so does not charge MRP on these items.

Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the general fund balance by way of an adjusting transaction with the capital adjustment account in the movement in reserves statement for the difference between the two.

1.6 Employee benefits

1.6.1 Benefits payable during employment

Short-term employee benefits are those expected to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonus and non-monetary benefits (eg cars) for current employees and are recognised as an expense for services in the year in which employees render service to the council. An accrual is made for the cost of holiday entitlements (or any form of leave, eg time off in lieu) earned by employees but not taken before the end of the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rate applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to surplus or deficit on the provision of services, but then reversed out through the movement in reserves statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

1.6.2 Termination benefits

Termination benefits are amounts payable as a result of a decision by the council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy. They are charged on an accruals basis to the appropriate service or, where applicable, to the non-distributed costs line in the comprehensive income and expenditure statement at the earlier of when the council can no longer withdraw the offer of those benefits or when the council recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the general fund balance to be charged with the amount payable by the council to the pension fund or the pensioner in the year, not the amount calculated according to the relevant accounting standards. In the movement in reserves statement, appropriations are required to and from the pensions reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits paid to the pension fund and pensioners and any such amounts payable but unpaid at year-end.

1.6.3 Post-employment benefits

Employees of the council are members of four separate pension schemes:

- The Local Government Pension Scheme, administered by the Isle of Wight Council.
- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE).
- The National Health Service (NHS) pension scheme
- The Fire-fighters' Pension Scheme, which is an unfunded scheme administered by the council and there are no investment assets held against the liabilities.

The local government, teachers' and NHS schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees worked for the council.

However, the arrangements for the teachers' and NHS schemes mean that liabilities for these benefits cannot ordinarily be identified specifically to the council. These schemes are therefore accounted for as if they were defined contributions schemes and no liability for future payments of benefits is recognised in the balance sheet. The children's and education services line in the comprehensive income and expenditure statement is charged with the employer's contributions payable to Teachers' Pensions in the year. The public health services line is charged in respect of the employers' contributions to the NHS pension scheme.

1.6.4 The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Isle of Wight Council pension fund attributable to the council are included in the balance sheet on an actuarial basis using the projected unit method – ie an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates etc, and projections of projected earnings for current employees.

- Liabilities are discounted to their value at current prices, using a discount rate of 3.2% derived from a corporate bond yield curve constructed from yields on high quality bonds and recognising the weighted average term of the benefit obligation for the employer at the IAS19 valuation date. The corporate bond yield curve is constructed based on the constituents of the iBoxx £ Corporates AA index and using the UBS delta curve fitting methodology.

- The assets of the Isle of Wight Council Pension Fund attributed to the council are included in the balance sheet at their fair value:
  - quoted securities – current bid price
  - unquoted securities – professional estimate
  - unitised securities – current bid price
  - property – market value

- The change in the net pensions liability is analysed into the following components:
  - current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the comprehensive income and expenditure statement to the services for which the employees worked
  - past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the surplus or deficit on the provision of services in the comprehensive income and expenditure statement as part of non-distributed costs
  - net interest on the defined benefit liability (asset), ie net interest expense for the authority – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the financing and investment income and expenditure line of the comprehensive income and expenditure statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined liability (asset) at the beginning of the period, taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
  - Remeasurements comprising:
    - the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset). This is charged to the pensions reserve as other comprehensive income and expenditure
    - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the pensions reserve as other comprehensive income and expenditure
  - contributions paid to the Isle of Wight Council pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the general fund balance to be charged with the amount payable by the council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the movement in reserves statement, this means that there are appropriations to and from the pensions reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable to the fund but unpaid at the year-end. The negative balance on the pension reserve thereby measures the beneficial impact to the general fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

1.6.5 Discretionary benefits

The council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

1.6.6 The Fire-fighters' Pension Scheme

The Fire-fighters' Pension Scheme is administered by the council and is an unfunded defined benefit final salary scheme, meaning that there are no investment assets built up to meet the pensions liabilities, and cash has to be generated to meet actual pension payments as they eventually fall due. The authority and employees pay contributions into a fund from which pension payments are made.

- The liabilities of the Fire-fighters' pension scheme attributable to the council are included in the balance sheet on an actuarial basis using the projected unit method – ie an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates etc, and projections of projected earnings for current employees.

- Liabilities are discounted to their value at current prices, using a discount rate of 3.2% derived from a corporate bond yield curve constructed from yields on high quality bonds and recognising the weighted average term of the benefit obligation for the employer at the IAS19 valuation date. The corporate bond yield curve is constructed based on the constituents of the iBoxx £ Corporates AA index and using the UBS delta curve fitting methodology.
- The change in the net pensions liability is analysed into the following components:
  - current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the comprehensive income and expenditure statement to the services for which the employees worked
  - past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the surplus or deficit on the provision of services in the comprehensive income and expenditure statement as part of non-distributed costs
  - net interest on the defined benefit liability, ie net interest expense for the authority – the change during the period in the net defined benefit liability that arises from the passage of time charged to the financing and investment income and expenditure line of the comprehensive income and expenditure statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined liability at the beginning of the period, taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments.
  - Remeasurements comprising:
    - the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset). This is charged to the pensions reserve as other comprehensive income and expenditure
    - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the pensions reserve as other comprehensive income and expenditure
  - contributions paid by the Isle of Wight Council – cash paid as employers' contributions to the Fire-fighters' pension scheme in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the general fund balance to be charged with the amount payable by the council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the movement in reserves statement, this means that there are appropriations to and from the pensions reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable to the fund but unpaid at the year-end. The negative balance on the pension reserve thereby measures the beneficial impact to the general fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

In-year deficits on the Fire-fighters' pension scheme (ie the difference between employees' and employers' contributions and the amounts paid out as pensions) are reimbursed by Government grant.

Fire-fighters' injury pensions awarded since the introduction of the New Firefighters' Pension Scheme in 2006 are charged to the Fire and Rescue services line in the council's comprehensive income and expenditure statement rather than the Fire-fighters' pension fund. Due to an error, injury pensions were charged to the firefighters' pension fund rather than the council's general fund for the period 2006/07 to 2013/14. The required corrections to provisions (£0.467 million), debtors (£0.071 million) and the resultant entries in the financial statements have been treated as adjustments in 2014-15 rather in 2013-14 as the council views the restatements as immaterial.

1.7 Events after the reporting period

Events after the balance sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the statement of accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the statement of accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period – the statement of accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the event and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the statement of accounts.

1.8 Financial instruments

1.8.1 Financial liabilities

Financial liabilities are recognised on the balance sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. Annual charges to the financing and investment income and expenditure line in the comprehensive income and expenditure statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the council has, this means that the amount presented in the balance sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the comprehensive income and expenditure statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to financing and investment income and expenditure line in the comprehensive income and expenditure statement in the year of repurchase/settlement.

1.8.2 Financial assets

Financial assets are classified into two types:

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
- available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments

1.8.3 Loans and receivables

Loans and receivables are recognised in the balance sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the financing and investment income and expenditure line in the comprehensive income and expenditure statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the council has made, this means that the amount presented in the balance sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the comprehensive income and expenditure statement is the amount receivable for the year in the loan agreement.

The council made a number of loans to voluntary organisations and individuals in the past at less than market rates (soft loans). A review of soft loans has been undertaken and the amounts involved are not considered to be material for the purposes of the 2014-15 statement of accounts.

The council has adopted the Local Authority Mortgage Scheme (LAMS) cash backed scheme. The original advance has the substance of granting a loan and has been treated as capital expenditure. The advance has been recognised as a long-term debtor and repayment will be treated as a capital receipt. In the event that a future loss is incurred, the council will reduce the original advance and will treat such losses as a bad debt. Any bad debts incurred will be charged to financing and investment income and expenditure and will be reversed through the movement in reserves statement by an appropriation from the capital adjustment account. Income received from the advance will be credited to financing and investment income and expenditure.

1.8.4 Available-for-sale assets

The council holds stock of low value which is recognised as a long-term investment in the balance sheet and valued at fair value. Annual credits are made to the financing and investment income and expenditure line in the comprehensive income and expenditure statement for interest receivable when it becomes receivable by the council.

1.9 Government grants and contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the council when there is reasonable assurance that:-

- the council will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the council are not credited to the comprehensive income and expenditure statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset in the form of the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the balance sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or taxation and non-specific grant income (non-ringfenced revenue grants and all capital grants) in the comprehensive income and expenditure statement.

Where capital grants are credited to the comprehensive income and expenditure statement, they are reversed out of the general fund balance in the movement in reserves statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the capital grants unapplied account. Where it has been applied, it is posted to the capital adjustment account. Amounts in the capital grants unapplied reserve are transferred to the capital adjustment account once they have been applied to fund capital expenditure.

1.10. Heritage assets

The Heritage service holds historic items in perpetuity for the contribution to knowledge and culture, facilitating enjoyment and education. Many items have been donated, passed to the service to ensure their long term care and preservation. Others have been obtained using grant sources and have associated conditions governing their acquisition, care and display. The council has seven collections exhibited in museums across the Island and items not on display are preserved at the museum store together with a large number of heritage assets not held in museums such as monuments to support the primary objective of increasing the knowledge, understanding and appreciation of the council's history and local area.

Heritage assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the council's accounting policies on property, plant and equipment. Where the council does not have information on asset value, no attempt has been made to estimate the value of heritage assets. Where it is not practical, the measurement rules are relaxed in relation to heritage assets detailed below. The council's collection of heritage assets are accounted for as follows:

- **Museum social history**

The council considers that obtaining valuations for this collection exhibited within three of its museums would involve a disproportionate cost in comparison to the benefits to the users of the council's financial statements. These museums showcase a very small percentage of the council's collections and the rest are kept in the museum store. The social history collection comprises approximately 7,700 assets and will generally cover material of post-medieval date (16th century) to the present. Items recovered from an archaeological context will normally be housed within the archaeology collection and it is considered that due to the lack of any comparable market it is not possible to provide either cost or valuation information for these assets. Consequentially the council does not recognise the assets on the balance sheet.

- **Local government collection**

The collection of civic regalia was valued by Christies in 1993 and is deemed to be on a historic cost basis and is exhibited within three of the council's museums. These museums showcase a very small percentage of the council's collections and the rest are kept in the museum store. The collection currently comrpises approximately 1,000 assets including objects and photographs. Civic regalia within the local government collection are deemed to have indeterminate lives and a high residual value; hence the council does not consider it appropriate to charge depreciation.

Acquisitions are made by purchase or donation. Acquisitions and donations are recognised at cost with reference to appropriate commercial markets using information from auction houses or other professionals valuers.

- **Art**

The art collection includes paintings, prints and watercolours, including the late 18th century Rowlandson Collection of sketches, and fine mid-19th century watercolours of local views exhibited within three of the council's museums. These museums showcase a very small percentage of the authority's collections and the rest are kept in the museum store. The collection currently comprises approximately 400 assets including the Rowlandson Collection. The Rowlandson paintings are valued using current insurance valuation with other paintings valued on historic cost basis using auction house valuations. The assets within the art collection are deemed to have indeterminate lives and a high residual value; hence the council does not consider it appropriate to charge depreciation.

Acquisitions are made by purchase or donation. Aquisitions are recognised at cost and revalued where there is sufficient evidence of market value such as insurance values. Donations are recognised at cost with reference to appropriate commercial markets for the paintings using information from auction houses or other professionals valuers.

- **Archaeology**

The archaeology collection comprises two major groups of material: collections on deposit or loan by various organisations, and collections largely acquired after 1981 from excavations and by other means. The collection of treasures comprises 60 items and has been valued by British Museum Treasure Committee and is deemed to be on a historic cost basis, these assets are exhibited within three of the council's museums. These museums showcase a very small percentage of the council's collections and the rest are kept in the museum store. The collection currently comprises circa 48,000 items in total which are not valued as the council considers that obtaining valuations for the collection would involve a disproportionate cost in comparison to the benefits to the users of the council's financial statements.

Acquisitions are made by purchase or donations. Acquisitions and donations for treasures are recognised at cost with reference to appropriate commercial markets using information from auction houses or other professionals valuers.

- **Geology**

The council considers that obtaining valuations for the collection exhibited within the Dinosaur Isle museum and also stored at the museum store would involve a disproportionate cost in comparison to the benefits to the users of the council's financial statements. These museums showcase a very small percentage of the council's collections and the rest are kept in the museum store. The collection currently comprises approximately 30,000 geological specimens and the collection contains over 220 type, figured and cited specimens, notably the specimens of three dinosaurs, Neovenator, Eotyrannus and Yaverlandia. The council considers that, due to the lack of any comparable market, it is not possible to provide either cost or valuation information for these assets. Consequentially the council does not recognise the assets on the balance sheet.

- **Record Office collection**

This collection is exhibited within the Isle of Wight Records Office. The council does have local authority records and some items that have been gifted to the council, but a significant percentage of the most valuable and most used material is not in the council's ownership. This material is not being valued on the same basis as other collections, to do so would be disproportionate for the cost and time taken. Consequentially the council does not recognise the assets on the balance sheet.

- **Local collection books**

The council considers that obtaining valuations for this collection exhibited within Record Office and Library Headquarters would involve a disproportionate cost in comparison to the benefits to the users of the council's financial statements. These locations showcase a very small percentage of the council's collections and the rest are kept in the museum store. Due to lack of any comparable market it is not possible to provide either cost or valuation information for these assets. Consequentially the council does not recognise the assets on the balance sheet.

- **Heritage assets - general**

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, eg where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the council's general policies on impairments. The council will dispose of heritage assets in line with approved heritage service policies. The proceeds of such items are accounted for in accordance with the council's general provisions relating to the disposal of property, plant and equipment. Disposal proceeds are disclosed seperately in the notes of financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts.

The Isle of Wight Heritage Centre maintains acquisition and disposal policies and procedures for museum collections. These documents are available from the Isle of Wight Heritage Service.

1.11. Intangible fixed assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the council as a result of past events (eg software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the council.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the council's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the authority can be determined by reference to an active market. In practice, no intangible asset held by the council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line in the comprehensive income and expenditure statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line in the comprehensive income and expenditure statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the other operating expenditure line in the comprehensive income and expenditure statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the general fund balance. The gains and losses are therefore reversed out of the general fund balance in the movement in reserves statement and posted to the capital adjustment account and (for any sale proceeds greater than £10,000) the capital receipts reserve.

1.12 Inventories

Inventories are included in the balance sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the first in first out costing formula.

1.13 Investment property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arms-length. Properties are not depreciated but are revalued annually according to market conditions at year-end. Gains and losses on revaluation are posted to the financing and investment income and expenditure line in the comprehensive income and expenditure statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the financing and investment income line and result in a gain for the general fund balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the general fund balance. The gains and losses are therefore reversed out of the general fund balance in the movement in reserves statement and posted to the capital adjustment account and (for any sale proceeds greater than £10,000) the capital receipts reserve.

1.14 Interests in companies and other entities

An assessment of the council's interests has been carried out during the year in accordance with the Code of Practice to determine the group relationships that exist. Inclusion in the group is dependent upon the extent of the council's control over the entity demonstrated through ownership, such as a shareholding in an entity or representation on an entity's board of directors. The council has no material interests in companies and other entities that have the nature of subsidiaries, associates and joint ventures and that would require it to prepare group accounts.

1.15 Joint arrangements

Joint arrangements are arrangements by which two or more parties have joint control where the parties are bound by a contractual arrangement and the contractual arrangement gives two or more of those parties joint control of the arrangement. A joint arrangement can be classified as either:

- a joint venture
- a joint operation

Joint venture
A joint venture is an arrangement under which two or more parties have contractually agreed to share control, such that the decisions about the activities of the arrangement are given unanimous consent from all parties. The council has entered into one joint venture which was not material during 2014-15 and therefore group accounts have not been produced.

Joint operation
A joint operation is an arrangement by which the parties of the arrangement have the rights to the asset and obligations for the liabilities relating to the arrangement. All parties have joint control with decisions of the activities of the arrangement requiring unanimous consent from all parties. The council recognises on its balance sheet the assets that it controls and the liabilities that it incurs and debits or credits the comprehensive income and expenditure statement with the expenditure it incurs and the share of income it earns from the activity of the operation.

The pooled budget arrangements between the Isle of Wight Council and the Isle of Wight NHS Trust or the Isle of Wight Clinical Commissioning Group (CCG) are joint operations and all relevant income and expenditure is included in the relevant division of service in the comprehensive income and expenditure statement and year-end balances are shared pro-rata on an agreed basis.

1.16 Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee.

One of the key tests for classification of finance leases is that lease payments are substantially all of the fair value of the asset. The council has defined substantial as being where lease payments are at least 70% of the fair value of the asset. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey the right to use an asset in return for payment are accounted for under this policy where the fulfilment of the arrangement is dependent on the use of specific assets.

1.16.1 The council as lessee

Finance leases

Property, plant and equipment held under finance leases is recognised on the balance sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- a finance charge (debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement).

Property, plant and equipment recognised under finance leases is accounted for by using the policies applied generally such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the council at the end of the lease period).

The council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the general fund balance, by way of an adjusting transaction with the capital adjustment account in the movement in reserves statement for the difference between the two.

Operating leases

Rentals paid under operating leases are charged to the comprehensive income and expenditure statement as an expense of the services benefiting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (eg there is a rent-free period at the commencement of the lease).

1.16.2 The council as lessor

Finance leases

The council has reviewed current lease arrangements and has concluded that currently there are no finance leases as lessor to be recognised in the accounts.

Operating leases

Where the council grants an operating lease over a property or item of plant or equipment, the asset is retained in the balance sheet. Rental income is credited to the other operating expenditure line in the comprehensive income and expenditure statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (eg there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are charged to the comprehensive income and expenditure statement.

1.17 Overheads and support services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2014-15 (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and democratic core – costs relating to the council's status as a multi-functional, democratic organisation
- Non distributed costs – the cost of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on assets held for sale.

These two cost categories are defined in SeRCOP and accounted for as separate headings in the comprehensive income and expenditure statement, as part of cost of services.

1.18 Property, plant and equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as property, plant and equipment.

1.18.1 Recognition:- Expenditure on the acquisition, creation or enhancement of property, plant or equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (ie repairs and maintenance) is charged as an expense when it is incurred. A de-minimus threshold applies where expenditure meets the capital criteria, but the amount does not exceed £10,000. The council can decide to set aside this threshold, if appropriate, for such items as the purchase of land required to be identified as an asset to the council or where the item of expenditure is part of a capital project where the total amount exceeds the de-minimus.

1.18.2 Measurement:- Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located

The council does not capitalise borrowing costs incurred whilst the assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have a commercial substance (ie will not lead to a variation in the cash flows of the council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the council.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Assets are then carried in the balance sheet using the following measurement bases:

- infrastructure, community assets and assets under construction – depreciated historical cost
- vehicles, plant and equipment - depreciated historical cost.
- shared ownership – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

- all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

Where non-property assets have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the balance sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. A valuation is completed where capital expenditure exceeds £50,000 in year for land and building assets. Increases in valuations are matched by credits to the revaluation reserve to recognise unrealised gains. Exceptionally, gains might be credited to the comprehensive income and expenditure statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the revaluation reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the revaluation reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line in the comprehensive income and expenditure statement.

The revaluation reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the capital adjustment account.

1.18.3 Impairment

Assets are assessed each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the revaluation reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the revaluation reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line in the comprehensive income and expenditure statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line in the comprehensive income and expenditure statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

1.18.4 Depreciation

Depreciation is provided for on all property, plant and equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (ie freehold land, community assets and heritage assets) together with shared ownership properties and assets that are not yet available for use (ie assets under construction).

Depreciation is calculated on the following bases:

- Buildings – straight-line allocation over the remainder useful life of the property as estimated by the valuer. Depreciation is calculated on the opening book value as additions over £50,000 are subject to revaluation in year. Additions in year and valuations in year depreciate from the start of the subsequent financial year.

- Vehicles, plant and equipment – opening cost value and additions in year over straight line allocation as advised by a suitably qualified officer
- Infrastructure – opening cost value and additions in year over straight line allocation as advised by a suitably qualified officer

Where an item of property, plant and equipment asset has major components, the components are depreciated separately and this is determined at the point of valuation and is estimated by the valuer.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the revaluation reserve to the capital adjustment account.

Depreciation is not charged on property, plant and equipment in the year of disposal.

1.18.5 Disposals and non-current assets held for sale

When it becomes probable that the net book value amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an asset held for sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell (net disposal proceeds). Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the other operating expenditure line in the comprehensive income and expenditure statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the surplus or deficit on provision of services. Depreciation is not charged to assets held for sale.

If assets no longer meet the criteria to be classified as assets held for sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as held for sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as assets held for sale.

When an asset is disposed of or decommissioned, the net book value of the asset in the balance sheet (whether property, plant, equipment or assets held for sale) is written off to the other operating expenditure line in the comprehensive income and expenditure statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the comprehensive income and expenditure statement also as part of the gain or loss on disposal (ie netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated in the revaluation reserve are transferred to the capital adjustment account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. Receipts are required to be credited to the capital receipts reserve, and can then only be used for new capital investment or set aside to reduce the council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the reserve from the general fund balance in the movement in reserves statement.

The written-off value of disposals is not a charge to council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the capital adjustment account from the general fund balance in the movement in reserves statement.

1.19 Private finance initiative (PFI) and similar contracts

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the service passes to the PFI contractor. As the council is deemed to control the services that are provided under its integrated waste management PFI scheme and as ownership of the property, plant and equipment will pass to the council at the end of the contract for no additional charge, the council carries the assets used under the contracts on the balance sheet as part of property, plant and equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

Non-current assets recognised on the balance sheet are revalued and depreciated in the same way as property, plant and equipment owned by the council.

The amounts payable to the PFI operators each year (unitary charge) are analysed into six elements:-

- fair value of the services received during the year – debited to the relevant service in the comprehensive income and expenditure statement
- finance cost – an interest charge on the outstanding balance sheet liability, debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement
- payment towards liability – applied to write down the balance sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease)
- payment towards the excess of capital investment over planned capital investment specified in the contract. Excess of capital investment is credited to deferred income on the balance sheet and credited to the relevant service in the comprehensive income and expenditure statement
- lifecycle replacement costs – proportion of the amounts payable is posted to the balance sheet as a prepayment and then recognised as additions to property, plant and equipment when the relevant works are eventually carried out.
- contingent rentals – increases in the amount to be paid for the property arising during the contract, debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement.

1.20 Provisions, contingent liabilities and contingent assets

1.20.1 Provisions

Provisions are made where an event has taken place that gives the council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the comprehensive income and expenditure statement in the year that the council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the balance sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (eg from an insurance claim), this is only recognised as income in the relevant service if it is virtually certain that reimbursement will be received if the council settles the obligation.

Provisions are analysed between short and long-term for the purpose of balance sheet categorisation.

1.20.2 Contingent liabilities

A contingent liability arises where an event has taken place that gives the council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the balance sheet but are disclosed in a note to the accounts.

1.21 Reserves

The council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the general fund balance in the movement in reserves statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the surplus or deficit on the provision of services in the comprehensive income and expenditure statement. The reserve is then appropriated back into the general fund balance in the movement in reserves statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, retirement and employee benefits and which do not represent usable resources for the council. These reserves are explained in the relevant policies.

1.22 Revenue expenditure funded from capital under statute

Expenditure incurred during the year that may be capitalised under statutory provisions, but that does not result in the creation of a non-current asset, has been charged as expenditure to the relevant service in the comprehensive income and expenditure statement in the year. Where the council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the movement in reserves statement from the general fund balance to the capital adjustment account then reverses out the amounts charged so there is no impact on the level of council tax.

1.23 Accounting for Schools

There are currently five types of schools within the council's area:

- Community schools
- Voluntary Controlled schools
- Voluntary Aided schools
- Foundation/Trust schools
- Academy schools

The council's expenditure on schools is funded by grant monies provided by the Department for Education through the Dedicated Schools Grant (DSG). The schools budget includes elements for a range of educational services provided on an authority-wide basis and for the individual schools budget, which is divided into a budget share for each maintained school. A deduction is made from the council's DSG by central government as a recoupment in respect of the conversion of maintained schools into academies. DSG is paid specifically to finance the schools budget and is consequently credited to the children's and education services line in the comprehensive income and expenditure statement. With the exception of academy schools therefore, school's income and expenditure is recognised in the council's comprehensive income and expenditure statement.

With regard to non-current assets, the council recognises property, plant and equipment relating to voluntary controlled schools on the balance sheet as control of the school is held by the council. Property, plant and equipment in voluntary aided schools are recognised on the balance sheet where legal ownership rests with the council and this is currently limited to playing field land where relevant. Property, plant and equipment in foundation, trust and academy schools are not recognised on the balance sheet where control has been transferred to the relevant governing body.

1.24 VAT

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

1.25 Carbon reduction commitment allowances

The Isle of Wight Council is not be required to participate in Phase 2 of the CRC as a result of reduced electricity consumption through qualifying electricity meters and a change in legislation which saw the removal of schools from the council's carbon footprint. Phase 2 of the CRC commenced on 1 April 2014 and runs until 31 March 2019.

1.26 Collection fund

Billing authorities in England are required by statute to maintain a separate fund for the collection and distribution of amounts due in respect of council tax and non-domestic rates. The key features of the fund relevant to collection fund accounting in the financial statements are as follows:

Non-domestic rates
Billing authorities act as agents, collecting non-domestic rates on behalf of central government and, as principals, collecting rates for themselves. Non-domestic rates transactions and balances therefore need to be allocated between the billing authority and central government, applying agent and principal treatments as appropriate.

For non-domestic rates, top-up grant is made directly to the general fund and does not impact upon the collection fund.

Under the legislative framework for the collection fund, billing authorities and central government share proportionally the risks and rewards that the amount of non-domestic rates collected could be less or more than predicted. The effect of any bad debts written off, the movement in impairment allowance and year-end debtor or creditor balances are also shared proportionally. For these reasons, billing authorities act as agents of central government in collecting their attributable share of non-domestic rates.

Council tax
In its capacity as a billing authority, the council acts as an agent in that it collects and distributes council tax income on behalf of the major preceptor (Police & Crime Commissioner for Hampshire) and itself.

While the council tax income for the year credited to the collection fund is the accrued income for the year, regulations determine when it should be released from the collection funds and transferred to the general fund of the billing authority or paid out of the collection fund to a major preceptor.

Under the legislative framework for the collection fund, billing authorities and the Police & Crime Commissioner for Hampshire share proportionally the risks and rewards that the amount of council tax collected could be less or more than predicted. The effect of any bad debts written off, the movement in impairment allowance and year-end debtor or creditor balances are also shared proportionally. For these reasons, billing authorities act as agents of the Hampshire Police & Crime Commissioner in collecting their attributable share of council tax.

While there remains a single collection fund, billing authorities are required to be able to separate the elements relating to council tax and non-domestic rates and calculate separate surplus and deficits on each.

Accrued non-domestic rate income, top-up grant and council tax income are recognised in the comprehensive income and expenditure statement on the taxation and non-specific grant income line. As a billing authority, the difference between the non-domestic rate and council tax income included in the comprehensive income and expenditure statement and the amount required by regulation to be credited to the general fund is taken to the collection fund adjustment account and reported in the movement on reserves statement.

1.27 Reclassifiable transactions under IAS 1 (Presentation of Financial Statements)

The council does not have any transactions in 2014-15 that are reclassifiable to the surplus or deficit on the provision of services under the requirements of IAS 1. All of the amounts in other comprehensive income and expenditure are not reclassifiable in the surplus or deficit on the provision of services.

2. Accounting standards that have been issued but have not yet been adopted

The Code of Practice on Local Authority Accounting in the United Kingdom 2015-16 (the Code) has introduced changes in accounting policies which will need to be adopted by the council in the 2015-16 financial statements.

2.1 IFRS 13 Fair Value Measurement

This standard provides a consistent definition of fair value and enhanced disclosure requirements. It is intended to apply to assets and liabilities covered by those IFRS standards that currently permit or require measurement at fair value (with some exceptions). The adoption of this standard will require surplus assets (assets that are not being used to deliver services, but which do not meet the criteria to be classified as either investment properties or non-current assets held for sale), to be revalued to market value rather than value in existing use as at present. This will also apply to investment properties. Operational property, plant and equipment assets are outside the scope of IFRS 13. Overall this standard is not expected to have a material impact on the financial statements due to the low value of surplus assets held by the council.

2.2 IFRIC 21 Levies

This standard provides guidance on levies imposed by the government in the financial statements of the entity paying the levy. The IFRIC specifies the obliging event as the activity that triggers the timing of the payment of the levy. The amount payable may be based on information relating to a period prior to the obligation to pay arises or the levy is payable only if a threshold is reached, or both. This standard will not have a material impact on the financial statements.

2.3 Annual improvements to IFRSs (2011 – 2013 Cycle)

These improvements are minor, principally provide clarification and will not have a material impact on the financial statements.

3. <u>Critical judgements in applying accounting policies</u>

In applying the accounting policies set out in Note 1, the council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the statement of accounts are:

- **Future funding of the council**.

There is a high degree of uncertainty about future levels of funding for local government. However, the council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the council might be impaired as a result of the need to close facilities and reduce levels of service provision.

- **Asset classifications**

The council has made judgements on whether assets are classified as investment property or property, plant and equipment. These judgements are based on the principal reason for the council holding the asset. If the asset is used in the delivery of services by the council or to fulfil a corporate objective then they are deemed to be property, plant and equipment assets. If assets are held principally for rental income or capital appreciation then this would indicate that the asset is an investment property. The classification determines the valuation method to be used.

- **Lease classifications**

The council has made judgements on whether its lease arrangements are operating leases or finance leases. These judgements are based on a series of tests designed to assess whether the risks and rewards of ownership have been transferred from the lessor to the lessee. The results of the tests are taken as a whole and a decision has been made on classification. The accounting treatment for operating and finance leases is significantly different (see accounting policy on leases) and could have a significant effect on the accounts.

- **Contractual arrangements**

The council has made judgements on whether its contractual arrangements contain embedded leases (i.e. arrangements that are not legally leases but take the form of payments in return for the use of specific assets). The judgement made for these concerns the amount of use considered to be significant and recognised as a lease arrangement. For arrangements with more than 50% use of assets in contractual arrangements the council has considered this to be significant and recognised as assets to the council and a related liability to repay these over the contract period.

- **PFI schemes**

The council has made judgements relating to the control of services provided under the Waste Management and Highways PFI contracts. It has determined that the council controls these services and also to control the residual value of the assets at the end of the contracts. The accounting policies for PFI schemes and similar contracts have been applied to the arrangements and the assets are recognised as property, plant and equipment on the council's balance sheet.

- **School Land and Buildings**

The council has made judgements on whether the control of school land and buildings not owned by the council remain as property, plant and equipment. The council has decided that voluntary controlled schools will remain as property, plant and equipment as control of a school is held by the council. Voluntary aided schools will be recognised as property, plant and equipment where legal ownership rests with the council and currently this is limited to playing field land where relevant. Foundation, Trust and Academy schools are not recognised as property, plant and equipment where control has been transferred to the relevant governing body.

4. Assumptions made about the future and other major sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for the revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The key judgements and estimation uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Property, plant and equipment	Assets are depreciated over useful lives that are dependent on assumptions about level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets. The carrying value of property, plant and equipment at 31 March 2015 is £310.849 million.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the asset falls. It is estimated that the annual depreciation charge for buildings would increase by £0.119 million for every year that useful lives had to be reduced.
Local Government Pension Scheme – Pensions Liability	The estimation of the net liability to pay retirement benefits depends on a number of complex judgements. In particular these judgements relate to the discount rate used, the rate at which salaries are projected to increase, changes to the age at which retirement benefits can be taken, mortality rates and the expected returns on pension fund assets. The council engages an actuary to provide expert advice about the assumptions to be applied and the sensitivity of the results. The carrying value of the Local Government Pension Scheme at 31 March 2015 is a deficit of £202.617 million.	The impact on the net pensions liability of changes in individual assumptions can be measured in approximate terms. For example, a 0.5% decrease in the real discount rate would result in an increase of 10% to the employer liability for which the approximate monetary value would be £62.979 million. A one year increase in member life expectancy would result in an increase of 3% to the employer liability for which the approximate monetary value would be £19.144 million. A 0.5% increase in the salary increase rate would result in an increase of 3% to the employer liability for which the approximate monetary value would be £18.338 million. A 0.5% increase in the pension increase rate would result in an increase of 7% to the employer liability for which the approximate monetary value would be £43.370 million.
Fire-fighters' Pension Scheme – Pensions Liability	As with the Local Government Pension Scheme, the estimation of the net liability to pay retirement benefits depends on a number of complex judgements. The carrying value of the Fire-fighters' Pension Scheme at 31 March 2015 is a deficit of £79.200 million (excluding the top-up grant receivable).	The impact on the net pension liability of changes in individual assumptions can be measured in approximate terms. For example, a 0.1% decrease in the real discount rate would result in an increase of 2% to the employer liability for which the approximate monetary value would be £1.500 million. A one year increase in member life expectancy would result in an increase of 3% to the employer liability for which the approximate monetary value

Item	Uncertainties	Effect if actual results differ from assumptions
		would be £2.300 million. A 0.5% increase in the salary increase rate would result in an increase of 2% to the employer liability for which the approximate monetary value would be £1.300 million. A 0.5% increase in the pension increase rate would result in an increase of 8% to the employer liability for which the approximate monetary value would be £6.400 million.
Allowance for non-payment of debtors (provision for bad debts)	The council has made allowances of £2.487 million for the non-collection of outstanding debts at 31 March 2015. The total allowance of £0.614 million for council tax and non-domestic rate arrears is based on an average of historic levels of write-off. The allowance for the remaining sundry debts (including housing benefit overpayments) is calculated on a sliding scale of percentages applied to the outstanding amounts based on an age profile, historical levels and the nature of the debts.	For collection fund arrears, variances between estimated and actual write-offs will have an impact on the surplus or deficit on the collection fund. For the remaining sundry debts (including housing benefit overpayments) a 5% increase in the percentage applied would require an adjustment to the allowance of £0.062 million which would be attributable to the general fund.
Insurance provision	The services of a claims handling company is used to process claims made against the council. As significant claims can often take many years to be settled, outcomes cannot always be predicted with any great level of certainty. A provision for outstanding insurance liabilities at 31 March 2015 has been based on information contained within the council's in-house claims recording database and also an estimate of the amount liable to 'clawback' in respect of claims against policies taken out with the Municipal Mutual Insurance (MMI) prior to 1 April 1993. MMI went into 'run-off' in September 1992 and subsequently established a scheme of arrangement whereby claims paid since January 1994 will be subject to a total or partial 'clawback' in the event of insolvency. In November 2012, the directors of MMI triggered the company's scheme of arrangement following a Supreme Court judgement in March 2012 relating to mesothelioma claims. Under this scheme, Ernst & Young have taken over management of MMI's business, with the power to levy on scheme creditors in order to achieve a solvent run-off.	The insurance provision is being maintained at a level considered to be prudent in view of the information currently available. The impact of a significant claim paid from the provision would require a reassessment of the adequacy of the Provision and additional contributions may need to be made from the general fund if the provision was found to be insufficient to absorb such a claim. With regard to the MMI scheme, in future only 85% of claim amounts will be paid out and so the 15% shortfall will need to be self-funded by the council. In addition, it is possible that there will be further costs resulting from 'incurred but not reported' claims, although it is not possible to quantify the potential amounts. The potential liability relating to the MMI solvency position is based on a current assessment of the impact of industrial disease type claims. Should the solvency position deteriorate further, the council could face further calls on the amount in the provision.
Accumulated absences account	An accrual in respect of non-schools staff annual leave entitlement carried forward at 31 March 2015 has been based on 100% of staff. The accrual in respect of schools staff is calculated by using a formula which is based on the school holiday year. Differences between years can arise as a result of the dates of the Easter holidays. The carrying value at 31 March 2015 is £2.830 million.	Both current assets and unusable reserves on the balance sheet would be under or over stated if the estimate was proved not to be robust. The net worth on the balance sheet would therefore be under or over stated. The comprehensive income & expenditure statement is charged or credited with the movement between the prior and current year balance sheet figures. However, the entries in the comprehensive income & expenditure statement are reversed out through the movement in reserves statement, so that there is no impact on the general fund balance.

Item	Uncertainties	Effect if actual results differ from assumptions
Non-domestic rate appeals	Since the introduction of the business rates retention scheme on 1 April 2013, local authorities are required to make a provision for refunding ratepayers who have successfully appealed against the rateable value of their properties on the rating list. This will include amounts relating to non-domestic rates prior to 1 April 2013. The amount recognised as a provision in the council's balance sheet (£2.046 million) is 50% of an estimate at the balance sheet date of the expenditure required to settle the potential obligation up to 31 March 2015. A list of outstanding appeals has been obtained from the valuation office (VAO) and estimation techniques have been developed to determine potential success rates and a range of possible outcomes which could arise by analysing historical data. Further historical data has been used to estimate the likely rateable value reductions on successful appeals and the level of backdating applicable.	The collection fund statement shows how the appeals provision impacts on the non-domestic rate deficit at 31 March 2015. The council is required to separately disclose its respective share (50%) of this provision in the balance sheet. The provision has been recognised as a short-term liability as there is insufficient information to enable the estimation of the level of appeals likely to be awaiting settlement at 31 March 2016. If the outcome of appeals is different than the amount estimated, then this will have an impact on the non-domestic rates surplus or deficit in the collection fund in a future year.
Highways PFI contract	PFI and similar arrangements have been considered to have an implied finance lease within the agreement. In assessing the lease applicable to the Highways PFI scheme, the council has estimated the implied interest rate within the leases to calculate the interest and principal payments. In addition, the future RPI increases within the contract have been estimated as remaining constant throughout the period of the contract. The inflation rate used in the calculation is based on RPIx and is 2.8% for year 2 of the contract and is estimated as being 1.2% for year 3 followed by 2.50% per year for the remainder of the contract.	The impact of a 0.01% variation in the assumed interest rates used in calculating future service charges and lifecycle replacement costs would result in an increase or reduction of £0.585 million to the total cost of the scheme over the remaining life of the contract.

5. Material items of income and expense

5.1 2014-15 Disposals

The other operating expenditure line in the comprehensive income and expenditure statement includes £16.874 million relating to losses on disposal of non-current assets. These losses primarily relate to the derecognition of components following replacement through the Highways PFI contract (£11.446 million); the derecognition of a school's building assets following a review (£2.064 million) and the derecognition of the Riverside Centre, Newport, following the granting of a 125 year lease which has been treated as a disposal (£1.638 million).

The financing and investment income and expenditure line in the comprehensive income and expenditure statement includes £46.474 million relating to school land, building and equipment which have transferred to academy status during 2014-15.

The carrying value of property, plant and equipment in the balance sheet has been reduced by £63.348 million as a result of these disposals or transfers.

Losses on disposal or transfers are charged to the comprehensive income and expenditure statement and then reversed through the movement in reserves statement with the result that there is no impact on the amount to be raised through local taxation.

5.2. Revaluation losses

During 2014-15, the council has recognised revaluation losses of £4.550 million in relation to land and buildings within property, plant and equipment (£2.031 million) and assets held for sale (£2.519

million). These have been charged to the relevant service line in the comprehensive income & expenditure statement and then reversed through the movement in reserves statement with the result that there is no impact on the council tax. The carrying value of property, plant and equipment in the balance sheet has been reduced by £4.550 million as a result of these revaluation losses.

Further details are shown in note 45.

5.3 Pension assets/liabilities

The pension reserve at 31 March 2015 includes an actuarial loss of £46.405 million for 2014-15 which has resulted in a reduction in the negative position on the pension reserve from £225.824 million at 31 March 2014 to £281.313 million at 31 March 2015. The actuarial loss is included with other comprehensive income and expenditure in the comprehensive income and expenditure statement.

Gains or losses on actuarial valuations are credited or charged to the comprehensive income and expenditure statement and then reversed through the movement in reserves statement with the result that there is no impact on the amount to be raised through local taxation.

The notes to the Pension Reserve in note 25 and note 47 defined benefit pensions schemes give further details of the impact on the council's finances.

6. Events after the reporting period

The statement of accounts was authorised for issue by the Head of Finance and Section 151 officer on 28 September 2015. Events taking place after this date are not reflected in the financial statements or notes.

In May 2015, the Pensions Ombudsman (Ombudsman) published their Final Determination in the case of Milne v Government Actuaries Department (GAD). This case centred on whether GAD had a proactive responsibility to review the commutation factors used in the calculation of the lump sum payments made to pensioners when they opt to take an increased amount of their pension benefit in that form.

The Ombudsman found in favour of the plaintiff, which meant that for all Firefighters Pension Scheme 1992 cases where pension entitlements were drawn between 1 December 2001 and 22 August 2006 recalculation of lump sum payments should take place based upon revised commutation factors to be issued by GAD. Payment of any additional amounts identified as due should be made with simple interest calculations as well.

The revised calculations are currently being worked on and it is expected that the necessary payments will be made by 31 March 2016. There has therefore been no impact on the financial statements for 2014-15.

On 16 July 2015, the Island Learning Centre at Lake was destroyed by fire. This will result in an impairment being recognised in the 2015-16 statement of accounts. The carrying value of the building of £3.105 million is included in the property, plant and equipment total in note 12.

7. Adjustments between accounting basis and funding basis under regulations

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the council to meet future capital and revenue expenditure.

2014-15 Adjustments	**General fund balance £000**	**Capital receipts reserve £000**	**Capital grants unapplied £000**	**Movement in unusable reserves £000**
Adjustments primarily involving the capital adjustment account:				
Reversal of items debited or credited to the comprehensive income & expenditure statement:				
Charges for depreciation and impairment of non-current assets and current assets held for sale	**(13,490)**	-	-	**13,490**
Revaluation losses on Property, Plant & Equipment	**(4,550)**	-	-	**4,550**
Movements in the market value of investment properties	**80**	-	-	**(80)**
Amortisation of intangible assets	**(564)**	-	-	**564**
Capital grants and contributions applied	**5,660**	-	**-**	**(5,660)**
Revenue expenditure funded from capital under statute	**(5,735)**	-	-	**5,735**
Waste PFI deferred income	**146**	-	-	**(146)**
Ryde Gateway liability	**202**	-	-	**(202)**
Capital loan repayment	**0**	**(6)**	-	**6**
Amounts of non-current assets and current assets held for sale written off on disposal or sale as part of the gain/loss on disposal to the comprehensive income & expenditure statement	**(16,874)**	**(1,433)**	**-**	**18,307**
Amounts of academy schools non-current assets and current assets written off on transfer as part of the gain/loss on disposal to the comprehensive income & expenditure statement	**(46,474)**	**-**	**-**	**46,474**
Insertion of items not debited or credited to the comprehensive income & expenditure statement:				
Provision for the financing of capital investment (minimum revenue provision:- MRP)	**11,923**	**-**	**-**	**(11,923)**
Capital expenditure charged against the general fund	**237**	**-**	**-**	**(237)**
Other adjustment	**(1)**	**-**	**-**	**1**
Adjustments primarily involving the capital grants unapplied account:				
Capital grants and contributions unapplied credited to the comprehensive income & expenditure statement	**453**	-	**(453)**	**-**
Application of grants to capital financing transferred to the capital adjustment account	-	-	**53**	**(53)**
Adjustments primarily involving the capital receipts reserve				
Use of the capital receipts reserves to finance new capital expenditure	-	**690**	-	**(690)**
Transfer from deferred capital receipts reserve upon receipt of cash	-	**(1)**	-	**1**
Adjustments primarily involving the pensions reserve:				
Reversal of items relating to retirement benefits debited or credited to the comprehensive income & expenditure statement (see Note 47)	**(22,391)**	-	-	**22,391**
Employers' pension contributions and direct payments to pensioners in the year	**12,940**	-	-	**(12,940)**

2014-15 Adjustments	**General fund balance £000**	**Capital receipts reserve £000**	**Capital grants unapplied £000**	**Movement in unusable reserves £000**
Firefighters' pension scheme – movement on top-up grant repayable (to)/from Government	**367**	**-**	**-**	**(367)**
Adjustments primarily involving the collection fund adjustment account:				
Amount by which council tax income credited to the comprehensive income & expenditure statement is different from council tax income calculated for the year in accordance with statutory requirements	**(926)**	**-**	**-**	**926**
Amount by which non-domestic rate income credited to the comprehensive income & expenditure statement is different from non-domestic rate income calculated for the year in accordance with statutory requirements	**1,128**	**-**	**-**	**(1,128)**
Adjustments primarily involving the accumulated absences account:				
Amount by which officer remuneration charged to the comprehensive income & expenditure statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	**115**	**-**	**-**	**(115)**
Total adjustments	**(77,754)**	**(750)**	**(400)**	**78,904**

Comparative year: 2013-14 Adjustments	**General fund balance £000**	**Capital receipts reserve £000**	**Capital grants unapplied £000**	**Movement in unusable reserves £000**
Adjustments primarily involving the capital adjustment account:				
Reversal of items debited or credited to the comprehensive income & expenditure statement:				
Charges for depreciation and impairment of non-current assets and current assets held for sale	(12,461)	-	-	12,461
Revaluation losses on Property, Plant & Equipment	(14,892)	-	-	14,892
Movements in the market value of investment properties	(3,736)	-	-	3,736
Amortisation of intangible assets	(349)	-	-	349
Capital grants and contributions applied	7,446	-	-	(7,446)
Revenue expenditure funded from capital under statute	(4,642)	-	-	4,642
Waste PFI deferred income	298	-	-	(298)
Ryde Gateway liability	201	-	-	(201)
Capital loans adjustment	22	-	-	(22)
Other adjustments	(71)	(7)	-	78
Amounts of non-current assets and current assets held for sale written off on disposal or sale as part of the gain/loss on disposal to the comprehensive income & expenditure statement	(22,500)	(2,175)	-	24,675

Comparative year: 2013-14 Adjustments	**General fund balance £000**	**Capital receipts reserve £000**	**Capital grants unapplied £000**	**Movement in unusable reserves £000**
Insertion of items not debited or credited to the comprehensive income & expenditure statement:				
Provision for the financing of capital investment (minimum revenue provision:- MRP)	12,561	-	-	(12,561)
Capital expenditure charged against the general fund	367	-	-	(367)
Adjustments primarily involving the capital grants unapplied account:				
Capital grants and contributions unapplied credited to the comprehensive income & expenditure statement	92	-	(92)	-
Application of grants to capital financing transferred to the capital adjustment account	-	-	288	(288)
Adjustments primarily involving the capital receipts reserve				
Use of the capital receipts reserves to finance new capital expenditure	-	1,771	-	(1,771)
Transfer from deferred capital receipts reserve upon receipt of cash	-	(1)	-	1
Reinstatement of aborted capital expenditure	-	(2)	-	2
Adjustments primarily involving the pensions reserve:				
Reversal of items relating to retirement benefits debited or credited to the comprehensive income & expenditure statement (see Note 47)	(23,810)	-	-	23,810
Employers' pension contributions and direct payments to pensioners in the year	12,791	-	-	(12,791)
Firefighters' pension scheme – movement on top-up grant repayable (to)/from Government	(182)	-	-	182
Adjustments primarily involving the collection fund adjustment account:				
Amount by which council tax income credited to the comprehensive income & expenditure statement is different from council tax income calculated for the year in accordance with statutory requirements	1,788	-	-	(1,788)
Amount by which non-domestic rate income credited to the comprehensive income & expenditure statement is different from non-domestic rate income calculated for the year in accordance with statutory requirements	(2,807)	-	-	2,807
Adjustments primarily involving the accumulated absences account:				
Amount by which officer remuneration charged to the comprehensive income & expenditure statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(164)	-	-	164
Total adjustments	(50,048)	(414)	196	50,266

8. Transfers to/from earmarked reserves

This note sets out the amounts set aside from the general fund balance in earmarked reserves to provide financing for future expenditure plans and the amounts transferred from earmarked reserves to meet general fund expenditure in 2014-15.

General Fund:	Balance at 1 April 2013 £000	Transfer out 2013/14 £000	Transfer in 2013/14 £000	Balance at 1 April 2014 £000	Transfer out 2014/15 £000	Transfer in 2014/15 £000	Balance at 31 March 2015 £000
Revenue carry-forward reserve	**5,949**	(5,949)	5,710	**5,710**	(5,710)	835	**835**
Balances held by schools under scheme of delegation	**3,687**	(552)	0	**3,135**	0	371	**3,506**
Repairs & renewal funds	**1,130**	(76)	63	**1,117**	(204)	333	**1,246**
Earmarked reserves – services	**11,660**	(4,081)	5,846	**13,425**	(5,671)	8,797	**16,551**
Insurance & risk funds	**6,103**	(138)	414	**6,379**	(727)	125	**5,777**
Highways PFI contract cashflow reserve	**0**	0	5,421	**5,421**	0	6,557	**11,978**
DSG budget deficit	**(1,236)**	(65)	1,301	**0**	0	0	**0**
Section 106 contributions reserve	**772**	(40)	159	**891**	(514)	1,689	**2,066**
Public Health earmarked reserve	**0**	0	634	**634**	(491)	879	**1,022**
Total	**28,065**	**(10,901)**	**19,548**	**36,712**	**(13,317)**	**19,586**	**42,981**

The revenue carry-forward reserve provides the finance for slipped expenditure to be carried forward into the next financial year.

School balances represent cumulative underspendings set aside by delegated budget holders under schemes for financing schools. The law requires that these underspendings are carried forward for future use by the school concerned.

The repairs and renewals funds comprise contingencies to meet significant items of unforeseen expenditure, together with service specific funds for equipment renewal.

The earmarked reserves - services includes reserves the council is required to maintain, such as the licensing account and the elections account; reserves to support specific projects, such as the job evaluation project; and reserves which support the delivery of corporate priorities, such as the waste project procurement project, NHS support for social care and strengthening families. Specific sums have also been set aside to meet future requirements including redundancy costs.

Insurance and risk funds provide the means to take categories of insurance risk in-house in the future and to meet various contingencies. These funds also recognise that the council faces a number of non-insurable risks that fall outside the scope of normal insurance cover including litigation, contract disputes and natural disasters. Rather than provide for these individually, with subsequent volatility within the revenue budget, the non-insurable risk element within these reserves currently provides for these potential liabilities.

The Highways PFI contract cashflow reserve results from an excess of funding over the unitary charge in the early years of the contract period. This excess is being earmarked in a specific reserve and the sums invested to provide funding for costs in future years of the contract when the costs will exceed the funding in line with the agreed scheme profile.

The Section 106 contributions are held as reserves where there are no conditions requiring repayment in the event of stipulations not being met. Section 106 contributions are also held as creditors where such conditions exist.

The Public Health earmarked reserve has been created from underspent Public Health budgets in 2014-15 and will provide funding for on-going projects.

9. Other operating expenditure

2013-14 £000		**2014-15 £000**
1,601	Parish & Town Council precepts	**2,100**
138	Levies	**139**
182	Fire-fighters' Pension Scheme – movement in top-up grant repayable to/(from) Government	**(367)**
22,500	(Gains)/losses on the disposal of non-current assets and current assets held for sale	**16,874**
24,421	**Total**	**18,746**

The 2013-14 figure for (gains)/losses on the disposal of non-current assets and current assets held for sale of £22.5 million included £3.113 million relating to the loss on transfer of academies (see note 10).

In addition to the 2014-15 precepts shown above, Parish and Town Councils were also paid grants totalling £0.235 million (£0.270 million in 2013-14) in respect of the Localised Council Tax Support scheme.

A levy of £0.105 million (£0.105 million in 2013-14) was paid to the Southern Inshore Fisheries and Conservation Authority and £0.034 million (£0.033 million in 2013-14) was paid as a flood defence levy to the Environment Agency.

10. Financing and investment income & expenditure

2013-14 £000		**2014-15 £000**
7,743	Interest payable	**8,869**
10,746	Pension interest cost and expected return on pension assets	**9,629**
(45)	Interest receivable	**(138)**
3,613	Income & expenditure in relation to investment properties and changes in fair value	**(200)**
-	Loss on transfer of academy schools	**46,474**
22,057	**Total**	**64,634**

Following the transfer of a school to academy status, the net assets need to be derecognised in the council's accounts by being written-off to the Comprehensive Income and Expenditure Statement (CIES). Guidance issued by CIPFA during 2014-15 clarified that the resulting loss on transfer is recognised within the Financing and Investment Income and Expenditure line in the CIES. This loss on transfer has previously been recognised in the Other Operating Expenditure line in the CIES (see note 9). The impact of this change on the 2013-14 CIES would be a reduction of £3.113 million in Other operating expenditure and a corresponding increase in Financing and investment income and expenditure. The total Deficit on the provision of services for 2013-14 is unchanged. The CIES statement and the corresponding entries in Note 30 (Amounts reported for resource allocation decisions) for 2013-14 have not been adjusted for these changes as the council views the restatements as immaterial.

11. Taxation and non-specific grant incomes

2013-14 £000		2014-15 £000	
63,979	Council tax income (notes 2 & 4 to the collection fund)		**67,003**
15,329	Non-domestic rates retained income (note 5a to the collection fund)		**16,338**
75,786	Non-ringfenced government grants	**69,900**	
5,172	Capital grants & contributions	**2,342**	
80,958	Total grant income (see note 39)		**72,242**
160,266	**Total**		**155,583**

12. Property, plant & equipment

Movements on balances in 2014-15	**Shared ownership £000**	**Other land & buildings £000**	**Vehicles, plant, furniture & equipment £000**	**Infrastructure assets £000**	**Community assets £000**	**Surplus assets £000**	**Assets under construction £000**	**Total property, plant & equipment £000**	**PFI assets included in property, plant & equipment £000**
Cost or valuation									
At 1 April 2014	3,343	263,342	46,999	118,646	609	14,054	4,888	451,881	113,940
Additions	0	1,218	2,511	27,296	10	10	964	**32,009**	26,309
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	13	(4,249)	0	0	0	(20)	0	**(4,256)**	(3,496)
Revaluation increases/ (decreases) recognised in the Surplus/deficit on the Provision of Services	0	(1,953)	0	0	0	(78)	0	**(2,031)**	0
Derecognition	0	(57,144)	(7,082)	(19,569)	(10)	(447)	0	**(84,252)**	(25,749)
Assets reclassified (to)/from held for sale	(34)	0	0	0	0	(4,138)	0	**(4,172)**	0
Other movements	1	0	1	(2)	0	0	(2)	**(2)**	0
Reclassification	0	(3,665)	1,670	19	0	5,120	(3,868)	**(724)**	0
At 31 March 2015	**3,323**	**197,549**	**44,099**	**126,390**	**609**	**14,501**	**1,982**	**388,453**	**111,004**

Accumulated depreciation & impairment **2014-15**	**Shared ownership £000**	**other land & buildings £000**	**Vehicles, plant, furniture & equipment £000**	**Infrastructure assets £000**	**Community assets £000**	**Surplus assets £000**	**Assets under construction £000**	**Total property, plant & equipment £000**	**PFI assets included in property, plant & equipment £000**
Cost or valuation									
At 1 April 2014	0	(35,209)	(29,413)	(33,542)	(527)	(1,428)	0	**(100,119)**	(46,719)
Depreciation charge	0	(3,541)	(3,850)	(6,571)	0	(236)	0	**(14,198)**	(6,065)
Depreciation written out to the revaluation reserve	0	5,262	0	0	0	82	0	**5,344**	1,674
Depreciation written out to the Surplus/deficit on the provision of services	0	536	0	0	0	0	0	**536**	0
Impairment losses or (reversals) written out to the revaluation reserve	0	9,263	0	0	0	338	0	**9,601**	1,994
Impairment losses or (reversals) recognised in the surplus/deficit on the provision of services	0	200	0	0	(27)	0	0	**173**	0
Derecognition	0	8,144	4,603	8,123	0	65	0	**20,935**	14,309
Assets reclassified (to)/from held for sale	0	0	0	0	0	120	0	**120**	0
Reclassification	0	116	0	0	0	(112)	0	**4**	0
At 31 March 2015	**0**	**(15,229)**	**(28,660)**	**(31,990)**	**(554)**	**(1,171)**	**0**	**(77,604)**	**(34,807)**

Net book value at 31 March 2015	**3,323**	**182,320**	**15,439**	**94,400**	**55**	**13,330**	**1,982**	**310,849**	**76,197**
Net book value at 31 March 2014	3,343	228,133	17,586	85,104	82	12,626	4,888	351,762	67,221

Comparative Movements on balances in 2013-14	Shared ownership £000	Other land & buildings £000	Vehicles, plant, furniture & equipment £000	Infrastructure assets £000	Community assets £000	Surplus assets £000	Assets under construction £000	Total property, plant & equipment £000	PFI assets included in property, plant & equipment £000
Cost or valuation									
At 1 April 2013	2,964	248,309	40,537	111,944	583	7,030	49,413	**460,780**	20,226
Highways PFI assets	-	-	-	-	-	-	-	**-**	87,240
At 1 April 2013 including Highways PFI assets	2,964	248,309	40,537	111,944	583	7,030	49,413	**460,780**	107,466
Additions	0	13,092	2,922	26,139	25	16	2,590	**44,784**	30,748
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	368	(2,522)	0	0	0	(795)	0	**(2,949)**	3
Revaluation increases/ (decreases) recognised in the Surplus/deficit on the Provision of Services	0	(14,555)	0	0	0	(277)	0	**(14,832)**	(4,433)
Derecognition	0	(13,492)	(1,015)	(20,257)	0	(128)	0	**(34,892)**	(20,418)
Assets reclassified (to)/from held for sale	11	(365)	(555)	0	0	509	0	**(400)**	0
Other movements	0	0	0	0	1	0	(189)	**(188)**	0
Reclassification	0	32,875	5,110	820	0	7,699	(46,926)	**(422)**	574
At 31 March 2014	**3,343**	**263,342**	**46,999**	**118,646**	**609**	**14,054**	**4,888**	**451,881**	**113,940**

The adjustments for Highways PFI assets are those assets which were incorporated into the Highways PFI contract at 1 April 2013.

Comparative Accumulated depreciation & impairment 2013-14	Shared ownership £000	other land & buildings £000	Vehicles, plant, furniture & equipment £000	Infrastructure assets £000	Community assets £000	Surplus assets £000	Assets under construction £000	Total property, plant & equipment £000	PFI assets included in property, plant & equipment £000
Cost or valuation									
At 1 April 2013	0	(49,715)	(27,090)	(36,464)	(527)	(1,255)	0	**(115,051)**	(17,991)
Highways PFI assets	-	-	-	-	-	-	-	**-**	(32,785)
At 1 April 2013 including Highways PFI assets	0	(49,715)	(27,090)	(36,464)	(527)	(1,255)	0	**(115,051)**	(50,776)
Depreciation charge	0	(3,798)	(3,876)	(6,379)	0	(262)	0	**(14,315)**	(5,709)
Depreciation written out to the revaluation reserve	0	6,848	0	0	0	631	0	**7,479**	0
Depreciation written out to the Surplus/deficit on the provision of services	0	1,837	0	0	0	0	0	**1,837**	21
Impairment losses or (reversals) written out to the revaluation reserve	0	7,327	0	0	0	46	0	**7,373**	0
Impairment losses or (reversals) recognised in the surplus/deficit on the provision of services	0	907	0	(954)	0	0	0	**(47)**	(671)
Derecognition	0	1,007	1,008	10,255	0	0	0	**12,270**	10,416
Assets reclassified (to)/from held for sale	0	29	545	0	0	(241)	0	**333**	0
Reclassification	0	349	0	0	0	(347)	0	**2**	0
At 31 March 2014	**0**	**(35,209)**	**(29,413)**	**(33,542)**	**(527)**	**(1,428)**	**0**	**(100,119)**	**(46,719)**

Net book value at 31 March 2014	**3,343**	**228,133**	**17,586**	**85,104**	**82**	**12,626**	**4,888**	**351,762**	**67,221**
Net book value at 31 March 2013	2,964	198,594	13,447	75,480	56	5,775	49,413	345,729	2,235

Depreciation

The following useful lives and depreciation rates have been used in the calculation of depreciation:

- Other land and buildings – straight-line allocation over the life of the property as estimated by the valuer (between 5 and 999 years. Based on depreciated value, 81.66% of properties fall within the 50 to 65 years range).
- Vehicles, plant, furniture and equipment - straight-line allocation over the life of each class of assets in the balance sheet, as advised by a suitably qualified officer (between 3 and 60 years)
- Infrastructure - straight-line allocation over estimated life of the asset (between 5 and 120 years).

Capital commitments

At 31 March 2015, the council's principal commitment relates to the Broadband project which is budgeted to cost £2.515 million in 2015-16, with £2.242 million funded by the council and the remainder funded by BDUK. Further expenditure relating to the project amounting to £0.248 million funded by the council is budgeted for in 2016-17.

Similar commitments at 31 March 2014 were £5.780 million.

Effects of changes in estimates

In 2014-15, there have been no material changes to the council's accounting estimates for property, plant and equipment.

Revaluations

The council carries out a rolling programme that ensures that all property, plant and equipment required to be measured at fair value is revalued at least every five years. The effective date of these valuations is 31 March as valuations are based on inspection of assets at year end.

The valuations of properties were undertaken by John E Prince FRICS, IRRV (Hons) of Principal Chartered Surveyors. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations of vehicles, plant, furniture and equipment are based on historic cost.

The significant assumptions applied in estimating the fair values are:

- Where there is no active market for land and buildings assets are valued on a depreciated replacement cost basis.
- Investment properties are valued annually on a fair value market value basis.
- Assets held for sale are valued at the lower of carrying value or net sale proceeds at reclassification
- Vehicles, plant and equipment, community assets, infrastructure assets and assets under construction are valued on acquisition value referred to as historic cost
- All other assets are valued on fair value existing use value basis.

Valuation profile	Shared ownership £000	other land & buildings £000	Vehicles, plant, furniture & equipment £000	Infrastructure assets £000	Community assets £000	Surplus assets £000	Assets under construction £000	Total property, plant & equipment £000
Carried at historical cost	0	0	15,439	94,400	55	0	1,982	**111,876**
Valued at fair value as at:								
31 March 2015	3,323	71,987	0	0	0	1,023	0	**76,333**
31 March 2014	0	62,187	0	0	0	8,649	0	**70,836**
31 March 2013	0	10,998	0	0	0	606	0	**11,604**
31 March 2012	0	18,359	0	0	0	1,108	0	**19,467**
31 March 2011	0	18,789	0	0	0	1,944	0	**20,733**
Total	**3,323**	**182,320**	**15,439**	**94,400**	**55**	**13,330**	**1,982**	**310,849**

13. Heritage assets

Reconciliation of the carrying value of heritage assets held by the council:

Cost or valuation	Local government collection £000s	Art collection £000s	Archaeology treasure £000s	Total assets £000s
1 April 2010	136	1,262	48	1,446
31 March 2011	**136**	**1,262**	**48**	**1,446**
1 April 2011	136	1,262	48	1,446
31 March 2012	**136**	**1,262**	**48**	**1,446**
1 April 2012	136	1,262	48	1,446
Revaluations	0	250	0	250
31 March 2013	**136**	**1,512**	**48**	**1,696**
1 April 2013	136	1,512	48	1,696
Revaluations	0	251	0	**251**
31 March 2014	**136**	**1,763**	**48**	**1,947**
1 April 2014	136	1,763	48	1,947
Additions	0	0	1	**1**
31 March 2015	**136**	**1,763**	**49**	**1,948**

Analysed between cost/valuation and acquired/donated for each year:-

Cost or valuation	Local government collection £000s	Art collection £000s	Archaeology treasure £000s	Total assets £000s
Cost	136	262	48	446
Valuation	0	1,000	0	1,000
31 March 2011	**136**	**1,262**	**48**	**1,446**

Acquired	0	1,006	46	1,052
Donated	136	256	2	394
31 March 2011	**136**	**1,262**	**48**	**1,446**

Cost or valuation	Local government collection £000s	Art collection £000s	Archaeology treasure £000s	Total assets £000s
Cost	136	262	48	446
Valuation	0	1,000	0	1,000
31 March 2012	**136**	**1,262**	**48**	**1,446**

Acquired	0	1,006	46	1,052
Donated	136	256	2	394
31 March 2012	**136**	**1,262**	**48**	**1,446**

Cost or valuation	Local government collection £000s	Art collection £000s	Archaeology treasure £000s	Total assets £000s
Cost	136	262	48	446
Valuation	0	1,250	0	1,250
31 March 2013	**136**	**1,512**	**48**	**1,696**

Acquired	0	1,256	46	1,302
Donated	136	256	2	394
31 March 2013	**136**	**1,512**	**48**	**1,696**

Cost or valuation	Local government collection £000s	Art collection £000s	Archaeology treasure £000s	Total assets £000s
Cost	136	262	48	446
Valuation	0	1,501	0	1,501
31 March 2014	**136**	**1,763**	**48**	**1,947**

Acquired	0	1,507	46	1,553
Donated	136	256	2	394
31 March 2014	**136**	**1,763**	**48**	**1,947**

Cost or valuation	**Local government collection £000s**	**Art collection £000s**	**Archaeology treasure £000s**	**Total assets £000s**
Cost	136	262	49	447
Valuation	0	1,501	0	1,501
31 March 2015	**136**	**1,763**	**49**	**1,948**

Acquired	0	1,507	47	1,554
Donated	136	256	2	394
31 March 2015	**136**	**1,763**	**49**	**1,948**

Local government collection
The collection of civic regalia was last valued in 1993 by Christies. The council has decided that this is a good indication of historic cost. Where it is not practicable to obtain a current valuation of heritage assets and cost information is available, the CIPFA Code of Practice on Local Authority Accounting permits the asset to be carried at historical cost.

The most significant pieces in this collection are the John Cutts mace made in 1696/97; the Holmes mace made in 1766; and the mace of the Borough of Ryde made in 1888.

The use of historic cost does provide a limitation when determining the current value of these assets. If the current value of these assets were available, the balance sheet values are likely to be substantially different.

Art collection
The collection includes a collection of Rowlandsons paintings which are valued at £1.501 million based on an insurance valuation made at 31 March 2014. The collection was purchased for £0.825 million.

The remainder of the collection has been donated and part of the collection was valued by Shanklin Auction House in 2006 at £0.008 million. Another part of the collection was valued by Christies in 1991 at £0.254 million. The council has decided that these valuations by auction houses is a good indication of historic cost and where it is not practicable to obtain a current valuation of heritage assets and cost information is available, the CIPFA Code of Practice on Local Authority Accounting permits the asset to be carried at historical cost.

The use of historic cost does provide a limitation when determining the current value of these assets. If the current value of these assets were available, the balance sheet values are likely to be substantially different.

Archaeology treasure
The collection of treasures was valued by British Museum Treasure Committee prior to purchase or donation. The council has decided that this is a good indication of historic cost and where it is not practicable to obtain a current valuation of heritage assets and cost information is available, the CIPFA Code of Practice on Local Authority Accounting permits the asset to be carried at historical cost.

The most significant pieces in this collection have been acquired through grant funding, £0.046 million, with the most significant being an Anglo-Saxon gold pyramidal sword fitting.

The use of historic cost does provide a limitation when determining the current value of these assets. If the current value of these assets were available, the balance sheet values are likely to be substantially different.

14. <u>Investment property</u>

The following items of income and expense have been accounted for in the financing and investment income and expenditure line in the comprehensive income and expenditure statement:

	2013-14 £000s	**2014-15 £000s**
Rental income from investment property	140	**146**
Direct operating expenses arising from investment property	(17)	**(27)**
Net gain	123	**119**

There are no restrictions on the council's ability to realise the value inherent in its investment property or on the council's right to the remittance of income and the proceeds of disposal. The council has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

The following table summarises the movement in the fair value of investment properties over the year:

	2013-14 £000s	**2014-15 £000s**
Balance at 1 April	6,401	**2,596**
Additions: Subsequent expenditure	9	**0**
Disposals	(125)	**0**
Net gains/losses from fair value adjustments	(3,736)	**80**
Transfer to property, plant & equipment	47	**(63)**
Balance at 31 March	2,596	**2,613**

15. Intangible assets

The council accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular information and communications technology system and accounted for as part of the hardware item of property, plant and equipment. Software development costs are recognised as part of the hardware item of property, plant and equipment. The intangible assets include both purchased licenses and internally generated software.

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the council. The useful lives assigned to the major software suites used by the council are:

	Internally generated assets	**Other assets**
4 years	Isle of Wight Council website	-
5 years	-	Integrated children's system
10 years	-	SAP (Payroll/Human Resources/Accounts Payable/Accounts Receivable/Financial ledger)

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £0.563 million was charged to the comprehensive income and expenditure statement in 2014-15. The majority of this was charged to support services (£0.429 million) and Adult social care (£0.129 million). The support services charge is absorbed as an overhead across all the service headings in the cost of services. It is not possible to quantify exactly how much of the amortisation is attributable to each service heading.

The movement on intangible asset balances during the year is as follows:

	2013-14			2014-15		
	Internally generated assets £000s	Other assets £000s	Total £000s	**Internally generated assets £000s**	**Other assets £000s**	**Total £000s**
Balance at 1 April						
Gross carrying amounts	307	3,250	3,557	**680**	**3,172**	**3,852**
Accumulated amortisation	(187)	(2,688)	(2,875)	**(393)**	**(2,740)**	**(3,133)**
Net carrying amount at 1 April	120	562	682	**287**	**432**	**719**
Additions:						
Internal development	0	0	0	**206**	**0**	**206**
Purchases	0	14	14	**0**	**129**	**129**
Assets reclassified from property, plant & equipment	373	0	373	**431**	**352**	**783**
Amortisation for the period	(206)	(144)	(350)	**(182)**	**(381)**	**(563)**
Disposals gross value	0	(92)	(92)	**0**	**(88)**	**(88)**
Disposals amortisation	0	92	92	**0**	**88**	**88**
Adjustment	0	0	0	**14**	**(14)**	**0**
Net carrying amount at 31 March	287	432	719	**756**	**518**	**1,274**
Comprising:						
Gross carrying amounts	680	3,172	3,852	**1,331**	**3,551**	**4,882**
Accumulated amortisation	(393)	(2,740)	(3,133)	**(575)**	**(3,033)**	**(3,608)**
Balance at 31 March	287	432	719	**756**	**518**	**1,274**

There is one item of capitalised software that is individually material to the financial statements:

	Carrying amount		
	31 March 2014 £000	31 March 2015 £000	Remaining amortisation period at 31 March 2015
SAP system	289	231	4 years

The council does not revalue its software assets and holds these at historic cost less accumulated amortisation with annual reviews for impairment. With the exception of SAP, software licenses are not transferable so obtaining a current value is not possible. Obtaining a comparable cost for SAP has not been possible as the cost is negotiated at time of acquisition.

At 31 March 2015 there are no contractual commitments for the acquisition of intangible assets.

16. Financial instruments

Classifications

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Non-exchange transactions, such as those relating to taxes and government grants, do not give rise to financial instruments.

Financial liabilities

A financial liability is an obligation to transfer economic benefits controlled by the council and can be represented by a contractual obligation to deliver cash or financial assets or an obligation to exchange financial assets and liabilities with another entity that are potentially unfavourable to the council.

The council's financial liabilities held during the year are measured at amortised cost and comprised:

- long-term loans from the Public Works Loan Board (PWLC)
- a lender Option/borrower option (LOBO) loan
- short and long-term loans from other local authorities
- overdraft facilities with National Westminster Bank plc
- financial leases
- private finance initiative (PFI) contracts
- trade payables for goods and services received.

Financial assets

A financial asset is a right to future economic benefits controlled by the council that is represented by cash or other instruments of a contractual right to receive cash or another financial asset. The financial assets held by the council during the year are held under the following two classifications:

Loans and receivables (financial assets that have fixed or determinable payments and are not quoted in an active market) comprising:

- cash in hand
- bank current and deposit accounts
- fixed term deposits with banks and building societies
- loans to other local authorities
- loans made to the Isle of Wight Council Pension Fund for cash flow purposes
- loans made for service purposes
- loan made in accordance with government scheme (Local Authority Mortgage Scheme)
- trade receivables for goods and services delivered

Available for sale financial assets (those that are quoted in an active market) comprising:

- a small number of stock investments

The following categories of financial instrument are carried in the balance sheet:

	Long-term		Current	
	31 March 2014	**31 March 2015**	31 March 2014	**31 March 2015**
	£000	**£000**	£000	**£000**
Investments				
Short-term Investments	-	**-**	1,380	**3,029**
Cash equivalents	-	**-**	1,352	**723**
Available-for-sale financial assets	11	**6**	.-	**-**
Total investments	11	**6**	2,732	**3,752**
Debtors				
Loans and receivables	1,986	**2,094**	-	
Financial assets carried at contract amounts	-	**-**	16,292	**14,190**
Total debtors	1,986	**2,094**	16,292	**14,190**
Borrowings				

Financial liabilities at amortised cost	(115,388)	**(112,888)**	(39,069)	**(27,275)**
Total borrowings	(115,388)	**(112,888)**	(39,069)	**(27,275)**
Creditors				
PFI and finance lease liabilities	(27,035)	**(49,811)**	(1,846)	**(1,141)**
Other financial liabilities at amortised cost	(154)	**(121)**	-	**-**
Financial liabilities carried at contract amount	-	**-**	(14,880)	**(16,990)**
Total creditors	(27,189)	**(49,932)**	(16,726)	**(18,131)**

Income, expense, gains and losses

	2013-14 £000	**2014-15 £000**
Interest expense from financial liabilities measures at amortised cost	(7,743)	**(8,869)**
Total expense in surplus or deficit on the provision of services	(7,743)	**(8,869)**
Interest income from financial assets: loans and receivables	45	**138**
Total expense in surplus or deficit on the provision of services	45	**138**
Net loss for the year	(7,698)	**(8,731)**

Financial liabilities, financial assets represented by loans and receivables and long-term debtors and creditors are carried in the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- estimated ranges of interest rates at 31 March 2015 of 1.31% to 3.28% for loans from the PWLB, based on new lending rates for equivalent loans at that date
- no early repayment or impairment is recognised
- where an instrument will mature in the next 12 months, carrying amount is assumed to approximate fair value
- the fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

Liabilities	31 March 2014		**31 March 2015**	
	Carrying amount	Fair value	**Carrying amount**	**Fair value**
	£000	£000	**£000**	**£000**
Financial liabilities	171,183	196,051	**158,294**	**195,655**
Long-term creditors	27,189	27,189	**49,932**	**49,932**

The fair value of the liabilities is more than the carrying amount because the council's PWLB portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the prevailing rates at the balance sheet date. This shows a notional future loss (based on economic conditions at 31 March 2015) arising from a commitment to pay interest to lenders above current market rates.

There is a Lender Option Borrower Option (LOBO) loan amounting to £5.000 million included in the financial liabilities figures. The lender has the option to request a change in the interest rate which could lead the council to make an early repayment. The lender has not exercised their option to change the interest rate.The fair value of the LOBO loan has been calculated by discounting the contractual cash flows over the whole life of the instrument at the appropriate interest swap rate at 31 March 2015, plus a margin for local authority credit risk and adding the value of embedded options.

Assets	31 March 2014		31 March 2015	
	Carrying amount	Carrying amount	**Carrying amount**	**Fair value**
	£000	£000	**£000**	**£000**
Loans and receivables	19,035	19,035	**17,948**	**17,948**
Long-term debtors	1,986	1,986	**2,094**	**2,094**

Available for sale assets and assets and liabilities at fair value through profit and loss are carried in the balance sheet at their fair value. These fair values are based on public price quotations where there is an active market for the instrument.

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

Other long-term liabilities
The liability relating to the defined benefit pension schemes (Local Government Pension Scheme and the Fire-fighters' Pension Fund) is £281.313 million (£225.824 million in 2013-14). These figures include the balance due from central government in respect of the 2014-15 element of the top-up grant.

17. Nature and extent of risks arising from financial instruments

The council's activities expose it to a variety of risks:

- credit risk – the possibility that other parties might fail to pay amounts due to the council
- liquidity risk – the possibility that the council might not have the funds available to meet its commitments to make payments
- market risk – the possibility that financial loss might arise for the council as a result of changes in such measures as interest rates and stock market movements.

The council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. The procedures for risk management are set out in the Local Government Act 2003 and the associated regulations. These require the council to comply with the CIPFA Prudential Code, the CIPFA Treasury Management in the Public Services Code of Practice and the Investment Guidance issued through the Act. Overall these procedures require the council to manage risk in the following ways:

- by formally adopting the requirements of the Code of Practice;
- by approving annually in advance prudential indicators for the following three years limiting;
    - the council's overall borrowing
    - its maximum and minimum exposures to fixed and variable rates
    - the maturity structure of its debt
    - its maximum annual exposures to investments maturing beyond one year.
- by approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with the government guidance.

These are required to be reported and approved at or before the council's annual council tax setting budget meeting. These items are reported with the annual treasury management strategy which outlines the detailed approach to managing risk in relation to the council's financial instrument exposure.

These policies are implemented by a central treasury team. The council maintains written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk and the investment of surplus cash through treasury management practices (TMPs). These TMPs are a requirement of the Code of Practice and are reviewed regularly.

Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the council's customers. The risk is minimised through the annual investment strategy, which requires that deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above. The annual investment strategy also imposes a maximum sum to be invested with a financial institution located within each category.

The credit criteria in respect of financial assets held by the council are as detailed below:
- rating of A2 or better
- stable credit rating outlook

Customers for goods and services are assessed, taking into account their financial position, past experience and other factors, with individual credit limits being set in accordance with internal ratings in accordance with parameters set by the council.

The council's maximum exposure to credit risk in relation to its investments in the bank of £0.723 million cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the council's deposits, but there was no evidence as at the 31 March 2015 that this was likely to crystalise.

The following analysis summarises the council's potential maximum exposure to credit risk on other financial assets, based on experience of default and uncollectability over the last five financial years, adjusted to reflect current market conditions.

	Amount at 31 March 2015	**Historical experience of default**	**Historical experience adjusted for market conditions at 31 March 2015**	**Estimated maximum exposure to default & uncollectability at 31 March 2015**	Estimated maximum exposure at 31 March 2015
	A	**B**	**C**	**(A x C)**	
	£000	**%**	**%**	**£000**	£000
Deposits with banks and financial institutions	3,752	0.00	0.00	**0**	0
Customers	3,694	11.65	17.55	**648**	1,427
Other debtors	7,787	0.00	0.00	**0**	0
			Total	**648**	1,427

The other debtors figure includes £2.579 million of deferred payments made in respect of care fees for clients in residential or nursing homes under the terms of both Section 22 of the Health and Social Services and Social Security Adjudications Act 2003 and Section 55 of the Health and Social Care Act 2001. The legislation allows the council to place a legal charge or to register an interest on the client's property and consequently the debt is covered by the value of the property.

The council's exposure to credit risk is managed in accordance with its annual treasury management strategy which for 2014-15 was approved by the council in February 2014. Amongst other controls, the strategy sets out the arrangements for managing credit risk (ie the risks of borrowers defaulting). The main controls used are:

- Using credit ratings to assess the credit standing of borrowers
- Defining a list of borrowers to which the council considers it secure to lend (the lending list)
- Defining limits to its exposure to any one institution or group of institutions
- Defining time limits as to how long the council will lend to particular institutions
- Considering advice from external treasury management advisors

In ordinary circumstances, these controls once set are sufficient to manage any credit risk. However due to the ongoing global economic situation, it has been necessary to monitor these controls more closely, including the following:

Credit ratings and outlook for each borrower are continuously monitored and reviewed on a monthly basis

- The lending list is reviewed as a result of credit ratings analysis and other intelligence information, including external treasury management advisor's information
- Borrowers' limits are changed in accordance with those reviews (in 2014-15 lending limits were revised throughout the year, depending on interest rates, security and external treasury management advisors recommendations)
- During the year, the council placed most of its surplus funds in instant access/call accounts with banks, to take advantage of higher interest rates.
- The strategy for treasury management activity is reviewed by the Head of Finance and other senior finance officers on a monthly basis. Appropriate actions have been taken as a result of those reviews

The council's treasury management strategy approved on 26 February 2014 is located on the council's website:- www.iwight.com

No credit limits were exceeded during the reporting period and the council does not expect any losses from any of its counterparties in relation to deposits. The amount shown as the exposure due to default and uncollectability is covered by the allowance for bad debts.

The authority does not generally allow credit for customers, such that £2.918 million is due for payment at 31 March 2015 from invoices raised through the council's accounts receivable system. This amount due can be analysed by age as follows:

	31 March 2014	**31 March 2015**
	£000	**£000**
Less than two months	2,162	**1,750**
Two to four months	153	**125**
Four months to one year	547	**486**
More than one year	592	**557**
Total	3,454	**2,918**

Liquidity risk

The council has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements occur, the council has ready access to borrowings from the money market and the Public Works Loan Board (PWLB). There is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the council will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The council sets limits on the proportion of its fixed rate borrowing during specified periods. The strategy is to ensure the careful planning of new loans taken out and (where it is economic to do so) making early repayments.

The council has a lender option/borrower option (LOBO) loan for a total of £5.000 million. Under the arrangement for this LOBO loan, the lenders have the option to increase the interest rate each year. If the lenders were to increase the interest rate, the authority has the right to repay the loan without penalty. In this case, it is possible that the council would have to pay higher interest if it chose to replace the loan. The lender has not exercised their option to change the interest rate.

With the exception of £18.275 million in temporary loans with other local authorities, a £5.000 million loan with a local authority which matures in July 2016 and money held on behalf of various Trust, Amenity and Safekeeping Funds, the remainder of the council's borrowing consists of fixed rate PWLB debt. The PWLB allows debt to be rescheduled prior to maturity, although this may necessitate paying a premium to PWLB. The maturity analysis of financial liabilities for external borrowing is as follows:

	31 March 2014	**31 March 2015**
	£000	**£000**
Less than one year	39,069	**27,237**
Between one and two years	2,500	**10,038**
Between two and five years	22,000	**17,000**
Between five and ten years	30,200	**29,700**
Between ten and fifteen years	37,688	**33,188**
Between fifteen and twenty years	17,000	**22,000**
Between twenty and twenty five years	5,000	**0**
More than twenty five years	1,000	**1,000**
Total external borrowing	154,457	**140,163**
Of which, Public Works Loan Board (PWLB)	112,974	**110,388**

The maturity analysis of the LOBO loan is shown below. This loan is included in the 'Less than one year' category above, together with accrued interest at 31 March and some other temporary loans held for internal cash management purposes.

Amount (£000)	**Interest rate (%)**	**Final maturity date**
5,000	4.27	25/11/2041

The council has deferred liabilities arising from a capital grant repayment, the integrated waste PFI scheme, the highways PFI scheme and the acquisition of vehicles under finance leases.

The most significant deferred liability relates to the highways PFI scheme (£50.450 million) at 31 March 2015. As the additional costs of this scheme, over and above the council's existing budgetary provision for highways management, is met through government funding (PFI credits), there is no significant risk that the authority will be unable to raise finance to meet its commitments to the PFI contractor.

The maturity analysis of financial liabilities for deferred liabilities is as follows:

	31 March 2014	**31 March 2015**
	£000	**£000**
Less than one year	2,198	**1,141**
Between one and two years	685	**1,263**
Between two and five years	3,463	**13,492**
Between five and ten years	6,903	**6,487**
More than ten years	16,057	**28,612**
Total	29,306	**50,995**

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

Market risk

Interest rate risk – the council is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the council. For instance, a rise in interest rates would have the following effects:

- borrowings at variable rates – the interest expense charged to the surplus or deficit on the provision of services will rise.

- borrowings at fixed rates – the fair value of the liability borrowing will fall
- investments at variable rates – the interest income credited to the surplus or deficit on the provision of services will rise
- investments at fixed rates – the fair value of the assets will fall.

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the surplus or deficit on the provision of services or other comprehensive income and expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the surplus or deficit on the provision of services and affect the general fund balance. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in other comprehensive income and expenditure.

The council has a number of strategies for managing interest rate risk. The annual treasury management strategy draws together the council's prudential indicators and its expected treasury operations, including an expectation of interest rate movements. From this strategy, a prudential indicator is set which provides minimum and maximum limits for fixed and variable rate exposure. There is an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and market and forecast interest rates are monitored within the year to allow any adverse changes to be accommodated by adjusting exposures appropriately. The analysis will also advise whether new borrowing taken out is fixed or variable. During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses. The risk of loss is ameliorated by the fact that a proportion of government grants payable on financing costs will normally move with prevailing interest rates or the council's cost of borrowing and provide compensation for a proportion of any higher costs.

According to this assessment strategy, at 31 March 2015, if interest rates had been 1% higher with all other variables held constant, the financial effect would have been an increase in investment income of £0.192 million. The impact of a 1% fall in interest rates would be as above, but with the movements being reversed. However, as investment interest rates remained below 1% for the duration of 2014-15, the impact would have been limited to the actual amount of investment income received (£0.097 million). The majority of external borrowing is at fixed rates through the PWLB or LOBO loans, but the impact of a 1% increase in temporary borrowing rates would have been an increase in interest payable of £0.253 million. The impact of a 1% fall in interest rates would be as above, but with the movements being reversed. However, as temporary loan interest rates remained below 1% for the duration of 2014-15, the impact would have been limited to the actual amount of temporary loan interest paid (£0.182 million). Therefore, an increase or decrease in general interest rates would have had a minimal impact on the surplus or deficit on the provision of services in the comprehensive income and expenditure statement. However, such a change would increase or decrease the fair value of fixed rate borrowing liabilities.

Price risk - The council has no equity shares or shareholdings. It therefore has no exposure to loss arising from movements in share prices.

Foreign exchange risk - The council has no financial assets or liabilities denominated in foreign currencies and therefore has no exposure to loss arising from movements in exchange rates.

18. Inventories

Inventories comprise consumable stores with a value of £0.058 million (£0.054 million at 31 March 2014) and stocks held for resale with a value of £0.106 million (£0.113 million at 31 March 2014).

19. Debtors

	31 March 2014 £000	**31 March 2015 £000**
Central Government bodies	3,684	**4,803**
Other local authorities	170	**320**
NHS bodies	160	**1,047**
Public Corporations	25	**1**
Other entities and individuals (see below)	20,275	**17,732**
Total	24,314	**23,903**

The other entities and individuals total is shown net of the impairment of debtors (provision for bad debts). Impairment is not anticipated on Central Government, other local authority, NHS bodies or Public Corporations debts. Impairment is reviewed annually and is a cumulative figure to cover all outstanding debtors. The other entities and individuals balances are further analysed as follows:

	31 March 2014 £000	**31 March 2015 £000**
Sundry debtors	11,170	**7,863**
Less: allowance for non-collection	(855)	**(527)**
Sundry debtors (net of allowance for non-collection)	10,315	**7,336**
Local taxpayers	4,807	**4,964**
Less: allowance for non-collection	(611)	**(742)**
Local taxpayers (net of allowance for non-collection)	4,196	**4,222**
Housing benefit overpayments	2,754	**2,778**
Less: allowance for non-collection	(1,177)	**(1,218)**
Housing benefit overpayments (net of allowance for non-collection)	1,577	**1,560**
Prepayments	4,187	**4,614**
Total Other entities and individuals	20,275	**17,732**

20. Cash and cash equivalents

	31 March 2014 £000	**31 March 2015 £000**
Cash held by the council	4,623	**4,732**
Short-term deposits with banks	1,352	**723**
Bank current accounts overdrawn	(1,871)	**(2,823)**
Total	4,104	**2,632**

21. Assets held for sale

	Current	
	2013-14 £000	**2014-15 £000**
Balance at 1 April	2,281	**491**
Assets newly classified as held for sale:		
Property, plant & equipment	570	**4,052**
Revaluation losses	(59)	**(2,519)**
Revaluation gains	22	**48**
Impairment (losses)/reversals	64	**0**
Additions	45	**0**
Assets declassified as held for sale:		
Property, plant & equipment	(503)	**0**
Assets sold	(1,929)	**(1,463)**
Balance at 31 March	491	**609**

Assets are reclassified from property, plant and equipment as assets held for sale where a sale is highly probable, the asset is being actively marketed, the sale is likely to be completed within one year from classification and the decision to sell is unlikely to be withdrawn.

Valuation of assets in this class are the lower of carrying value prior to reclassification and net proceeds. The CIPFA Code of Practice requires impairments to be charged to the comprehensive income and expenditure statement even if there is a retained balance on the revaluation reserve relating to the asset. Revaluation reserve balances are written-out upon disposal of the asset.

All of the assets held for sale meet the criteria for classification as current assets in both 2013-14 and 2014-15.

22. Creditors

	31 March 2014 £000	**31 March 2015 £000**
Central government bodies	2,189	**3,803**
Other local authorities	190	**217**
NHS bodies	1,512	**1,050**
Other entities and individuals (see below)	18,172	**19,216**
Total	22,063	**24,286**

The other entities and individuals creditor balances are further analysed as follows:

	31 March 2014 £000	**31 March 2015 £000**
Sundry creditors	12,553	**13,825**
Local taxpayers	1,864	**1,983**
Receipts in advance	3,755	**3,408**
Total	18,172	**19,216**

23. Provisions

	Outstanding Insurance Claims £000	Employment related & other costs £000	Carbon Reduction Commitment £000	Non-domestic Rate appeals £000	Care related costs £000	Total £000
Balance at 1 April 2014	2,797	49	160	1,578	1,120	**5,704**
Additional provision made in 2014-15	102	467	0	1,243	148	**1,960**
Amounts used in 2014-15	0	(8)	0	(775)	(673)	**(1,456)**
Unused amounts reversed in 2014-15	(400)	0	(160)	0	(371)	**(931)**
Balance at 31 March 2015	**2,499**	**508**	**0**	**2,046**	**224**	**5,277**

Analysis of provisions between short and long term:

	2013-14 £000	**2014-15 £000**
Short-term provisions	3,958	**(3,985)**
Long-term provisions	1,746	**(1,292)**
Balance at 31 March	5,704	**(5,277)**

Outstanding insurance claims
The Insurance Provision at 31 March 2015 is based on an estimate of potential liabilities arising from outstanding claims. Of the total at 31 March 2015, £1.207 million relates to public and employers' liability following an assessment of the council's claims register to establish the likely exposure. The provision also includes an estimate of the liability arising from the scheme of arrangement established by Municipal Mutual Insurance (MMI) (who were the council's insurers until 1992) in respect of the potential total or partial 'clawback' of claims paid since January 1994. In November 2012 the directors of MMI triggered the company's scheme of arrangement following a Supreme Court judgement relating to mesothelioma claims. Of the total insurance provision of £2.499 million, £1.292 million relates to the potential MMI clawback and has been treated as a long-term liability.

Employment related and other costs
This principally relates to the costs in respect of eleven retained firefighters who were not members of the fire-fighters' pension scheme (FFPS), but who were eligible for a pension payment as a result of ill-health retirement that have been charged to the FFPS rather than the revenue account. A provision of £0.467 million has made as an estimate of the potential repayment to central government for the period from 2006-07 to 2012-13. This is a national issue and negotiations between fire-fighters' employing authorities and central government are ongoing.

Carbon reduction commitment
The Isle of Wight Council is not be required to participate in Phase 2 of the CRC as a result of reduced electricity consumption through qualifying electricity meters and a change in legislation which saw the removal of schools from the council's carbon footprint. Phase 2 of the CRC commenced on 1 April 2014 and runs until 31 March 2019 and during this time the council will not have to purchase allowances for carbon emissions as required under phase 1 of the scheme (1 April 2011 to 31 March 2014) as a result of being below the qualification threshold for that phase. Qualification for phase 3 of the CRC takes place during 2017-18 financial year and this will determine whether the council will be required to participate in phase 3 of the scheme, having financial implications from 1 April 2019 to 31 March 2024. The provision brought forward from 2013-14 has therefore been transferred to the revenue account.

Non-domestic rates appeals
This provision relates to the council's share of an estimate of the potential value of refunds which will be due to ratepayers following a successful appeal against rateable values. It includes amounts which may be backdated to periods prior to 1 April 2014.

Care related costs
This provision includes an estimate of the uplift in fees due for high cost residential placements for the 2013-14 and 2014-15 financial years and also an amount estimated for any further claims for reimbursement relating to section 117 of the Mental Health Act.

It is expected that the costs relating to short-term liabilities will be incurred in 2014-15.

24. Usable reserves

Usable reserves are those which the council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use.

	31 March 2014 £000	**31 March 2015 £000**
General fund balance	9,017	**7,551**
Capital receipts reserve	989	**1,739**
Capital grants unapplied	180	**580**
Earmarked reserves (see note 8)	36,712	**42,981**
Total usable reserves	46,898	**52,851**

The movements on the council's usable reserves are detailed in the movement in the reserves statement.

25. Unusable reserves

	31 March 2014 £000	**31 March 2015 £000**
Revaluation reserve	60,364	**64,452**
Capital adjustment account	71,519	**8,034**
Pensions reserve	(225,824)	**(281,313)**
Deferred capital receipts reserve	47	**45**
Collection fund adjustment account	(1,113)	**(911)**
Accumulated absences account	(2,945)	**(2,830)**
Total unusable reserves	(97,952)	**(212,523)**

The movements on the council's unusable reserves are detailed below.

Revaluation reserve

The revaluation reserve contains the gains made by the council arising from increases in the value of property, plant and equipment and intangible assets. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation or
- disposed of and the gains are realised.

The reserve contains only revaluation gains accumulated since 1 April 2007, the date that the reserve was created. Accumulated gains arising before that date are consolidated into the balance on the capital adjustment account.

2013-14 £000		Revaluation reserve	2014-15 £000	
	52,801	Balance at 1 April		**60,364**
15,222		Upward revaluation of assets	**11,171**	
(3,046)		Downward revaluation of assets and impairment losses not charged to the surplus/ deficit on the provision of services	**(433)**	
	12,176	Surplus or deficit on revaluation of non-current assets not posted to the surplus or deficit on the provision of services		**10,738**
(880)		Difference between fair value depreciation and historical cost depreciation	**(895)**	
(3,733)		Accumulated gains on assets sold or scrapped	**(5,755)**	
	(4,613)	Amount written off to the capital adjustment account		**(6,650)**
	60,364	**Balance at 31 March**		**64,452**

Capital adjustment account

The capital adjustment account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the comprehensive income and expenditure statement (with reconciling postings from the revaluation reserve to convert fair value figures to a historical cost basis). The account is credited with the amounts set aside by the council as finance for the costs of acquisition, construction and enhancement.

The account contains accumulated gains and losses on investment properties and gains recognised on donated assets that have yet to be consumed by the council.

The account also contains revaluation gains accumulated on property, plant and equipment before 1 April 2007, the date that the revaluation reserve was created to hold such gains.

Note 7 provides details of the source of all the transactions posted to the account, apart from those involving the revaluation reserve.

2013-14 £000		Capital adjustment account	2014-15 £000	
	104,787	Balance at 1 April		**71,519**
		Reversal of items relating to capital expenditure debited or credited to the comprehensive income and expenditure statement:		
(12,461)		• Charges for depreciation and impairment of non-current assets	**(13,490)**	
(14,892)		• Revaluation losses on property, plant & equipment	**(4,550)**	
(349)		• Amortisation of intangible assets	**(564)**	
(4,642)		• Revenue expenditure funded from capital under statute	**(5,735)**	
298		• Write-down of PFI deferred income	**146**	
201		• Write-down of Ryde Gateway liability	**202**	
15		• Capital loan write-down	**(6)**	
(24,675)		• Amounts of non-current assets written-off on disposal or sale as part of the gain/loss on disposal to the comprehensive income and expenditure statement	**(64,781)**	
	(56,505)			**(88,778)**
	4,613	Adjusting amounts written out of the revaluation reserve		**6,650**
	52,895	Net written out amount of the cost of non-current assets consumed in the year		**(10,609)**
		Capital financing applied in the year:		
1,771		• Use of capital receipts reserve to finance new capital expenditure	**690**	
7,446		• Capital grants and contributions credited to the comprehensive income and expenditure statement that have been applied to capital financing	**5,660**	
288		• Application of grants to capital financing from the capital grants unapplied account	**53**	
12,561		• Statutory provision for the financing of capital investment charged against the general fund	**11,923**	
367		• Capital expenditure charged against the general fund	**237**	
	22,433			**18,563**
	(3,736)	Movements in the market value of investment properties debited or credited to the comprehensive income and expenditure statement		**80**
	(73)	Other movements		**0**
	71,519	**Balance at 31 March**		**8,034**

Pension reserve

The pensions reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The council accounts for post-employment benefits in the comprehensive income and expenditure statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits to be financed as the council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the pensions reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

The details relating to the top-up grant repayable to or from the Government in respect of the Fire-fighters' Pension Scheme are included in the Fire-fighters' Pension Fund Account Note.

2013-14	**Pension reserve**	**2014-15**
£000		**£000**
238,814	Balance at 1 April	**225,824**
(24,192)	Actuarial (gains) and losses on pensions assets and liabilities	**46,405**
23,810	Reversal of items relating to retirement benefits debited or credited to the surplus or deficit on the provision of services in the comprehensive income and expenditure statement	**22,391**
(12,791)	Employer's pensions contributions and direct payments to pensioners payable in the year	**(12,940)**
182	Fire-fighters' Pension Scheme – movement on top-up grant repayable from Government	**(367)**
1	Other adjustment	**0**
225,824	**Balance at 31 March**	**281,313**

Deferred capital receipts reserve

The deferred capital receipts reserve holds gains recognised on the disposal of non-current assets but for which the cash settlement has yet to take place. Under statutory arrangements, the council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the capital receipts reserve. The balance at 31 March 2015 is £0.045 million (£0.047 million at 31 March 2014).

Collection fund adjustment account

The collection fund adjustment account manages the differences arising from the recognition of council tax and non-domestic rate income in the comprehensive income and expenditure statement as it falls due from local tax payers compared with the statutory arrangements for paying across amounts to the general fund from the collection fund.

2013-14	**Collection fund adjustment account**	**2014-15**
£000		**£000**
95	Balance at 1 April	**1,113**
(1,788)	Amount by which council tax income credited to the comprehensive income and expenditure statement is different from council tax income calculated for the year in accordance with statutory requirements (note 4 to the collection fund)	**926**
2,806	Amount by which non-domestic rate income credited to the comprehensive income and expenditure statement is different from non-domestic rate income calculated for the year in accordance with statutory requirements (note 5b to the collection fund)	**(1,128)**
1,113	**Balance at 31 March**	**911**

Accumulated absences account

The accumulated absences account absorbs the difference that would otherwise arise on the general fund balance from accruing for compensated absences earned but not taken in the year, eg annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the general fund is neutralised by transfers to or from the account. The balance at 31 March 2015 is £2.830 million (£2.945 million at 31 March 2014).

26. Cash flow statement – operating activities

The cash flow for operating activities includes the following items:

2013-14		2014-15	
£000		**£000**	**£000**
(41,401)	Net surplus or (deficit) on the provision of services		**(72,951)**
	Adjustment of net surplus or deficit on the provision of services for non-cash items:-		
12,461	Depreciation	**13,490**	
14,892	Impairment and downward valuations	**4,550**	
349	Amortisation	**564**	
(13)	Increase/decrease in interest creditors	**(62)**	
(1,277)	Increase/decrease in creditors	**(635)**	
(2,311)	Increase/decrease in debtors	**1,553**	
96	Increase/decrease in inventories	**3**	
11,201	Movement in pension liability	**9,084**	
2,226	Contributions to/(from) provisions	**(427)**	
24,675	Carrying amount for non-current assets sold/academy transfers	**64,781**	
3,736	Movement in investment property values	**(80)**	
66,035			**92,821**
	Adjustment for items in the net surplus or deficit on the provision of services that are investing or financing activities:-		
(7,538)	Capital grants credited to surplus or deficit on the provision of services	**(6,113)**	
5,620	Net adjustment from the sale of short & long term investments	**1,385**	
(2,175)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	**(1,433)**	
(4,093)			**(6,161)**
20,541	**Net cash flows from operating activities**		**13,709**

27. Cash flow statement – operating activities (interest)

The cash flows for operating activities include the following items:

2013-14		**2014-15**
£000's		**£000's**
16,125	Interest received	**16,805**
(38,195)	Interest paid	**(35,033)**

28. Cash flow statement – investing activities

2013-14		**2014-15**
£000		**£000**
(19,027)	Purchase of property, plant & equipment, investment property and intangible assets	**(3,816)**
(1,380)	Purchase of short-term and long-term investments	**(3,025)**
(1,889)	Other payments for investing activities	**(120)**
2,176	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	**1,435**
6,023	Other receipts from investing activities	**7,340**
(14,097)	**Net cash flows from investing activities**	**1,814**

29. Cash flow statement – financing activities

2013-14		**2014-15**
£000's		**£000's**
36,075	Cash receipts of short and long-term borrowing	**18,305**
(1,569)	Council tax and NDR adjustment	**1,588**
(32,810)	Repayments of short and long-term borrowing	**(32,537)**
145	Other receipts for financing activities	**17**
(1,546)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	**(4,368)**
295	**Net cash flows from financing activities**	**(16,995)**

30. Amounts reported for resource allocation decisions

The analysis of income and expenditure by service on the face of the comprehensive income and expenditure statement is that specified by the *Service Reporting Code of Practice*. However, decisions about resource allocation are taken by the council's executive on the basis of budget reports analysed across the operational management structure. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- no charges are made in relation to capital expenditure, whereas depreciation, revaluation and impairment losses in excess of the balance on the revaluation reserve and amortisations are charged to services in the comprehensive income and expenditure statement

- the cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year

- expenditure on support services are budgeted for centrally and not charged to directorates

Following the council's budget setting meeting for 2014-15 in February 2014, services were allocated cash limited budgets. Performance of spend against budget was monitored throughout the year with monthly reports being presented to budget managers and service boards. Quarterly summary finance and performance reports were presented to the executive and reviewed by the overview and scrutiny committee. There was also a mid-year budget review report to the executive outlining the council's financial position. In addition, the Service and Budget Review Steering Group, later replaced by an Executive/Corporate Management Team Board monitored and critically examined the progress of savings targets during a series of regular meetings. Action plans were implemented to relieve in-year pressures and these were the subject of regular detailed scrutiny.

The income and expenditure of the council's principal directorates recorded in the budget reports for the year are as follows:

Service income & expenditure 2014-15	**Children's Services £000**	**Community Wellbeing & Social Care £000**	**Economy & Environment Services £000**	**Central & Resource Services £000**	**Total £000**
Fees, charges & other service income	(7,578)	(13,694)	(15,457)	(6,542)	**(43,271)**
Government grants	(81,934)	(6,934)	(1,195)	(53,987)	**(144,050)**
Total income	**(89,512)**	**(20,628)**	**(16,652)**	**(60,529)**	**(187,321)**
Employee costs	70,844	13,407	17,810	13,085	**115,146**
Other service costs	44,596	54,625	26,824	71,356	**197,401**
Movement on reserves	(715)	5,223	7,924	(6,163)	**6,269**
Total expenditure	**114,725**	**73,255**	**52,558**	**78,278**	**318,816**
Net expenditure	**25,213**	**52,627**	**35,906**	**17,749**	**131,495**

Service income & expenditure Comparative year: 2013-14	Children's Services £000	Community Wellbeing & Social Care £000	Economy & Environment Services £000	Central & Resource Services £000	Total £000
Fees, charges & other service income	(7,252)	(15,563)	(12,668)	(5,469)	**(40,952)**
Government grants	(83,683)	(6,511)	(1,851)	(55,029)	**(147,074)**
Total income	(90,935)	(22,074)	(14,519)	(60,498)	**(188,026)**
Employee costs	74,800	15,000	16,459	11,984	**118,243**
Other service costs	42,756	58,638	35,818	57,795	**195,007**
Movement on reserves	739	4,811	6,034	(2,937)	**8,647**
Total expenditure	118,295	78,449	58,311	66,842	**321,897**
Net expenditure	27,360	56,375	43,792	6,344	**133,871**

Reconciliation of service income and expenditure to cost of services in the comprehensive income and expenditure statement

This reconciliation shows how the figures in the analysis of service income and expenditure relate to the amounts included in the comprehensive income and expenditure statement.

	2013-14 £000	**2014-15 £000**
Net expenditure in the service analysis	133,871	**131,495**
Amounts in the comprehensive income and expenditure statement not reported to management in the analysis	56,242	**46,309**
Amounts included in the analysis not included in the comprehensive income and expenditure statement	(21,438)	**(19,209)**
Allocation of recharges	(13,486)	**(13,441)**
Cost of Services in comprehensive income and expenditure statement	155,189	**145,154**

Reconciliation to subjective analysis

This reconciliation shows how the figures in the analysis of service income and expenditure relate to a subjective analysis of the surplus or deficit on the provision of services included in the comprehensive income and expenditure statement.

2014-15	Service analysis £000	Amounts not reported to management for decision making £000	Amounts not included in comprehensive I&E statement £000	Allocation of recharges £000	Cost of services £000	Corporate amounts £000	Total £000
Fees, charges & other service income	(43,271)	(228)	0	0	(43,499)	(367)	(43,866)
Interest and investment income	0	0	0	0	0	(16,810)	(16,810)
Income from council tax	0	0	0	0	0	(67,003)	(67,003)
Income from Business Rates retention	0	0	0	0	0	(16,338)	(16,338)
Government grants and contributions	(144,050)	(3,542)	0	0	(147,592)	(72,242)	(219,834)
Total income	**(187,321)**	**(3,770)**	**0**	**0**	**(191,091)**	**(172,760)**	**(363,851)**
Employee costs	115,146	12,647	(12,940)	0	114,853	0	114,853
Other service costs	197,401	5,387	0	0	202,788	0	202,788
Movement on reserves	6,269	0	(6,269)	0	0	0	0
Support service recharges	0	13,441	0	(13,441)	0	0	0
Depreciation, amortisation and impairment	0	18,604	0	0	18,604	0	18,604
Financing and investment income & expenditure	0	0	0	0	0	81,444	81,444
Precepts & levies	0	0	0	0	0	2,238	2,238
Gain or loss on disposal of non-current assets	0	0	0	0	0	16,875	16,875
Total expenditure	**318,816**	**50,079**	**(19,209)**	**(13,441)**	**336,245**	**100,557**	**436,802**
(Surplus) or deficit on the provision of services	**131,495**	**46,309**	**(19,209)**	**(13,441)**	**145,154**	**(72,203)**	**72,951**

Comparative year: 2013-14	**Service analysis £000**	**Amounts not reported to management for decision making £000**	**Amounts not included in comprehensive I&E statement £000**	**Allocation of recharges £000**	**Cost of services £000**	**Corporate amounts £000**	**Total £000**
Fees, charges & other service income	(40,952)	(407)	0	0	(41,359)	0	(41,359)
Interest and investment income	0	0	0	0	0	(16,125)	(16,125)
Income from council tax	0	0	0	0	0	(63,979)	(63,979)
Income from Business Rates retention	0	0	0	0	0	(15,329)	(15,329)
Government grants and contributions	(147,074)	(1,959)	0	0	(149,033)	(80,958)	(229,991)
Total income	**(188,026)**	**(2,366)**	**0**	**0**	**(190,392)**	**(176,391)**	**(366,783)**
Employee costs	118,243	13,228	(12,791)	0	118,680	0	118,680
Other service costs	195,007	4,192	0	0	199,199	182	199,381
Movement on reserves	8,647	0	(8,647)	0	0	0	0
Support service recharges	0	13,486	0	(13,486)	0	0	0
Depreciation, amortisation and impairment	0	27,702	0	0	27,702	0	27,702
Financing and investment income & expenditure	0	0	0	0	0	38,182	38,182
Precepts & levies	0	0	0	0	0	1,739	1,739
Gain or loss on disposal of non-current assets	0	0	0	0	0	22,500	22,500
Total expenditure	**321,897**	**58,608**	**(21,438)**	**(13,486)**	**345,581**	**62,603**	**408,184**
(Surplus) or deficit on the provision of services	**133,871**	**56,242**	**(21,438)**	**(13,486)**	**155,189**	**(113,788)**	**41,401**

Guidance issued by CIPFA during 2014-15 clarified that the loss on transfer of academy schools is recognised within the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement rather than in Other Operating Expenditure as had been the previous practice. As the council views this adjustment as immaterial, the 2013-14 figures have not been restated. Notes 9 and 10 outline the changes that this restatement would have if it were carried out.

31. Trading operations

The *Service Reporting Code of Practice* sets out categories of trading operations which authorities should consider disclosing and detailing in a note to the accounts. For the financial year ending 31 March 2015, all such activities are included in the total cost of the relevant services and are therefore consolidated into the cost of services in the comprehensive income & expenditure statement. The amounts include depreciation, impairment and IAS 19 retirement benefit charges attributable to the particular service where applicable (unless otherwise stated). In certain instances, the council may subsidise a service in order to achieve specific service objectives.

Operation	Description		£000
Industrial units	The council let industrial units in a variety of locations.	Turnover	146
		Expenditure	35
		Agreed contribution to/(from) general fund:	
		2014-15	**111**
		2013-14	108
Cowes ferry	Cowes Floating Bridge contains the costs of providing the ferry link between East and West Cowes. Income is generated by charges for vehicles only with an estimated 1.5 million passengers carried annually.	Turnover	656
		Expenditure	646
		Agreed contribution to/(from) general fund:	
		2014-15	**10**
		2013-14	10
Parking services	This service covers the enforcement of all on-street waiting restrictions and the management of council controlled off-street parking areas. Income is derived from charges levied on users, in particular from ticket and permit sales together with penalty charge notices issued for contraventions. In accordance with the requirements of the Road Traffic Regulation Act 1984, as amended by the Traffic Management Act 2004, the parking account surplus is invested in highways and public transport infrastructure and environmental improvements in the local area. During 2014-15 such investment included concessionary fares, subsidised bus services, community bus services, rights of way and environmental initiatives.	Parking income:	
		Ticket machine income	2,874
		Permit income	324
		Penalty charge notice income	641
		Other sources of income	18
		Turnover	3,857
		Expenditure	1,494
		2014-15 Parking account surplus	**2,363**
		2013-14 surplus	2,141
Bereavement services	Burial service and maintenance of twelve cemeteries and eleven closed churchyards, together with provision for a Crematorium service including maintenance of site and buildings. Income derived from cremation fees, charges and sales and cemetery burial fees and charges.	Turnover	1,166
		Expenditure	1,047
		Agreed contribution to/(from) general fund:	
		2014-15	**119**
		2013-14	149
Harbours and coastal	This includes Ryde Harbour, Ventnor Haven, and Whitegates Pontoon. Further details of income, expenditure, assets and liabilities relating to Ventnor Haven are shown within a separate statement of accounts which the council is required to prepare as the statutory harbour authority.	Turnover	115
		Expenditure	253
		Agreed contribution to/(from) general fund:	
		2014-15	**(138)**
		2013-14	(117)

Operation	Description		£000
Leisure facilities	The running of Leisure facilities at Medina Leisure Centre, The Heights, Westridge Leisure Centre, Fairway and Ryde Sports Centres and Rew Valley in Ventnor. These are subsidised facilities, as is the case with many similar local authorities.	Turnover	2,219
		Expenditure	3,390
		Agreed contribution to/(from) general fund:	
		2014-15	**(1,171)**
		2013-14	(1,457)
Newport Harbour (including Folly Moorings)	This includes the Newport Harbour Estate and Folly Moorings. Further details of income, expenditure, assets and liabilities are shown within a separate annual report and accounts which the council is required to prepare as the statutory harbour authority for Newport Harbour. The 2013-14 figure excludes a loss of £0.168 million which resulted from a revaluation of non-current assets.	Turnover	199
		Expenditure	270
		Agreed contribution to/(from) general fund:	
		2014-15	**(71)**
		2013-14	2

32. Agency services

Under various statutory powers an authority may agree with other local authorities, water companies and government departments to do work on their behalf. The council, as billing authority, acts as an agent for the government in collecting non-domestic rates. The council received an allowance from the government for the cost of collection of £0.252 million in 2014-15 (£0.250 million in 2013-14). There was no other significant agency work carried out during 2014-15.

33. Pooled budgets - National Health Service Act 2006 Section 75 Pooled Funds

Section 75 of the National Health Service Act 2006 enables the establishment of joint working arrangements between NHS bodies and local authorities. Pooled funds enable health bodies and local authorities to work collaboratively to address specific local health issues. These arrangements have been accounted for as joint operations and memorandum accounts have been prepared relating to pooled budget agreements between the Isle of Wight Council, the Isle of Wight NHS Trust or the Isle of Wight Clinical Commissioning Group (CCG). All relevant income and expenditure has been included in the adult social care division of service in the comprehensive income and expenditure statement, excluding the element relating to the Isle of Wight NHS Trust or the Isle of Wight CCG.

Free nursing care - registered nursing care contribution (RNCC)
This agreement enables a single payment incorporating both the nursing and social care cost to be made to the Nursing Homes. The pooled budget arrangement is hosted by the Isle of Wight Council.

The following shows the pool income, expenditure and balance as at 31 March.

	2013-14	**2014-15**	
Amounts received from partners	£000	**%**	**£000**
Contribution from IW Council	4,417	**73.0**	**4,776**
Contribution from IW CCG	1,592	**27.0**	**1,763**
Total income	6,009	**100.0**	**6,539**
Amount spent from pool		**£000**	
IWC funded island clients	5,318	**6,321**	
IWC funded mainland clients	157	**275**	
RNCC island placed self-funders	766	**729**	
RNCC island self-funders placed by mainland authorities	31	**73**	
Other items	28	**51**	
Total expenditure	6,300		**7,449**
Amount remaining in pool	(291)		**(910)**
To be shared between partners based on agreed split (based on actual spend attributable to each partner)		**%**	
I W Council	(184)	**91.8**	**(835)**
I W CCG	(107)	**8.2**	**(75)**
Total	(291)	**100.0**	**(910)**

Occupational therapy pooled budget
This agreement provides a seamless occupational therapy service to simplify access to services for client groups and carers and further enhance delivery of safe, sound and supportive services. This pooled budget is hosted by the Isle of Wight NHS Trust. The following shows the pool income, expenditure and balance as at 31 March.

	2013-14	**2014-15**	
Amounts received from partners	£000	**%**	**£000**
Contribution from IW Council	610	**33.8**	**579**
Contribution from IW NHS Trust	1,090	**66.2**	**1,131**
Total income	1,700	**100.0**	**1,710**
Amount spent from pool		**£000**	
Actual expenditure incurred	1,655	**1,670**	
Total expenditure	1,655		**1,670**
Amount remaining in pool	45		**40**
To be shared between partners pro rata to contributions made		**%**	**£000**
I W Council	16	**33.8**	**14**
I W NHS Trust	29	**66.2**	**26**
Total	45	**100.0**	**40**

Integrated community equipment store pooled budget
This agreement has been entered into to provide a single integrated community equipment service. The pooled budget arrangement is hosted by the Isle of Wight Council. The following shows the pool income, expenditure and balance as at 31 March.

	2013-14	**2014-15**	
Amounts received from partners	£000	**%**	**£000**
Contribution from IW Council	113	**63.9**	**686**
Contribution from IW CCG	571	**36.1**	**387**
Total income	684	**100.0**	**1,073**
Amount spent from pool			
Actual expenditure incurred	684	**1,073**	
Total expenditure	684		**1,073**
Amount remaining in pool	0		**0**
To be shared between partners pro rata to contributions made			
I W Council	0		**0**
I W CCG	0		**0**
Total	0		**0**

34. Members' allowances

The council paid the following amounts to members of the council during the year:

	2013-14 £000	**2014-15 £000**
Basic allowance & special responsibility allowances	444	**433**
Employers' national insurance & pension contributions paid on behalf of members	46	**45**
Travelling & subsistence allowance and reimbursements	24	**19**
Co-opted members	1	**2**
Total	515	**499**

35. Officers' remuneration

The remuneration paid to the council's senior employees is as follows:

Post	Year	Salary	Expense Allowance	Compensation of loss of office	Remuneration excluding pension contributions	Pension contributions	Remuneration including pension contributions
		£	£	£	£	£	£
Managing Director & Head of Paid Services (i)	2014-15 2013-14	100,104 77,950	0 0	0 0	100,104 77,950	0 0	100,104 77,950
Head of Corporate Governance & Monitoring Officer (ii)	2014-15 2013-14	72,824 79,616	1,209 2,141	0 0	74,033 81,757	15,327 17,341	89,360 99,098
Chief Fire Officer (iii)	2014-15 2013-14	98,543 97,640	2,489 2,507	0 0	101,032 100,147	20,938 20,782	121,970 120,929
Head of Financial Management & Section 151 officer (iv)	2014-15 2013-14	46,273 73,721	0 0	0 0	46,273 73,721	10,175 16,205	56,448 89,926
Head of Human Resources & Organisational Development	2014-15 2013-14	78,643 67,627	1 0	0 0	78,644 67,627	17,113 14,806	95,757 82,433
Head of Commissioning for Adult Social Care (v)	2014-15 2013-14	50,768 86,652	(47) 0	0 0	50,721 86,652	11,120 19,063	61,841 105,715
Head of Planning & Regulatory Services	2014-15 2013-14	77,936 77,444	6 6	0 0	77,942 77,450	17,113 17,028	95,055 94,478
Head of Economy & Tourism	2014-15 2013-14	87,781 90,461	0 0	0 0	87,781 90,461	19,159 19,809	106,940 110,270

Notes to officers' remuneration

Note (i)	The postholder became an employee of the council on 1 July 2013 and the 2013-14 costs are therefore for part of the year. For the period 1 April to 30 June 2013, the postholder was the Strategic Director of Resources and paid under a contract for services agreement which was inclusive of all employment related costs including employers' national insurance, pension contributions and sickness. The contract value was £35,100 and was paid in addition to the above costs in 2013-14. No employers' pension contributions are paid in respect of the postholder under the current contract of employment since engagement on 1 July 2013.
Note (ii)	The Head of Corporate Governance & Monitoring Officer works 4 days per week. The whole time equivalent salary is £88,385 The expense allowances are taxable benefits paid to the postholder relating to election returning officer fees.
Note (iii)	The Chief Fire Officer was a direct employee of the council until 31 March 2015. With effect from 1 April 2015, the postholder was transferred to Hampshire Fire and Rescue Service under the strategic partnership arrangement commencing on that date.
Note (iv)	With effect from 1 April 2014, the postholder has reduced to a 3 days a week working pattern. The

	wholetime equivalent salary is £78,948.
Note (v)	The Head of Commissioning for Adult Social Care left the employment of the council on 31 October 2014.

Other notes relating to senior employees:

Note (vi)	The post of Associate Director of Public Health is filled on a contract for services agreement which is inclusive of all employment related costs including employers' national insurance, pension contributions, sickness and agency fees. There were two contract periods during 2014-15; 10 February to 10 August 2014 and 11 August 2014 to 31 March 2015, both on a three day per week basis at a daily rate of £990. The actual amount payable in 2014-15 is £141,075 (£20,790 in 2013-14 part year).
Note (vii)	The Director of Children's Services at Hampshire County Council (HCC) holds the role of Director of Children's Services under a strategic partnership arrangement which commenced on 1 July 2013. The remuneration details are disclosed in full by HCC and a recharge equivalent to 20% of costs are paid by the Isle of Wight Council. The amount recharged to IWC relating to this post in 2014-15 is £48,480 (£24,614 in 2013-14 part year).
Note (viii)	The post of Director of Adult Social Care is filled on a contract for services agreement which is inclusive of all employment related costs including employers' national insurance, pension contributions, sickness and agency fees. The contract period in 2014-15 relating to the director post is from 1 November 2014. The daily rate is £667. The amount payable in 2014-15 from 1 November 2014 is £66,033.

The council's other employees (including teachers) receiving more than £50,000 remuneration for the year (excluding employer's pension contributions but including termination payments where applicable) were paid the following amounts:

Remuneration band	2013-14			**2014-15**		
	Schools based employees	Other employees	Total number of employees	**Schools based employees**	**Other employees**	**Total number of employees**
£50,000 to £54,999	30	13	43	**28**	**13**	**41**
£55,000 to £59,999	10	6	16	**11**	**10**	**21**
£60,000 to £64,999	14	2	16	**10**	**5**	**15**
£65,000 to £69,999	4	1	5	**5**	**0**	**5**
£70,000 to £74,999	1	1	2	**4**	**1**	**5**
£75,000 to £79,999	3	1	4	**2**	**2**	**4**
£80,000 to £84,999	1	1	2	**0**	**0**	**0**
£85,000 to £89,999	1	1	2	**1**	**0**	**1**
£90,000 to £94,999	0	0	0	**1**	**0**	**1**
£95,000 to £99,999	1	0	1	**1**	**0**	**1**
Totals	65	26	91	**63**	**31**	**94**

36. Termination benefits

The council terminated the contracts of a number of employees in 2014-15, incurring liabilities of £1.240 million. (£0.605 million in 2013-14).

The total costs in the table below represents exit packages that have been agreed, accrued for and charged to the council's comprehensive income and expenditure statement in the respective years. The cost of exit packages includes redundancy pay, the accrued costs of added years (pension strain) and other departure costs. The numbers and costs include schools based teaching staff.

The numbers of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below:

Exit package cost band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2013-14	**2014-15**	2013-14	**2014-15**	2013-14	**2014-15**	2013-14 £	**2014-15 £**
£0 to £20,000	31	**123**	12	**19**	43	**142**	315,057	**828,539**
£20,001 to £40,000	2	**10**	1	**0**	3	**10**	75,001	**270,582**
£40,001 to £60,000	0	**1**	0	**2**	0	**3**	0	**140,415**
£60,001 to £80,000	2	**0**	1	**0**	3	**0**	187,540	**0**
£80,001 to £100,000	1	**0**	0	**0**	1	**0**	99,606	**0**
£100,001 to £105,000	1	**0**	0	**0**	1	**0**	101,164	**0**
Total	37	**134**	14	**21**	51	**155**	778,368	**1,239,536**

The total of termination payments made during 2014-15 has been charged to the Comprehensive Income and Expenditure Statement. The 2013-14 comparative figure above included £0.174 million in payments made in respect of staff who left the employment of the council in a previous year.

37. External audit costs

The council incurred the following costs in relation to the audit of the statement of accounts, certification of grant claims and statutory inspections by the council's external auditors.

	2013-14 £000	**2014-15 £000**	
Fees payable with regard to external audit services carried out by the appointed auditor for the year	169	**170**	
Fees payable to the appointed auditor for certification of grant claims and returns for the year	24	**23**	
Total of fees payable to the appointed auditor	193		**193**
Fees payable in respect of other services provided by the appointed auditor during the year	2		**0**
Rebate of fees previously paid to the Audit Commission	(23)		**(17)**
Total	172		**176**

The council's external auditor is Ernst and Young LLP.

38. Dedicated schools grant

The council's expenditure on schools is funded by grant monies provided by the Department for Education, the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2011. The Schools budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable are as follows:

Deployment of dedicated schools grant 2014-15	**Central expenditure £000**	**Individual schools budget £000**	**Total £000**
Final DSG for 2014-15 before Academy recoupment			**87,655**
Academy figure recouped for 2014-15			**(18,121)**
Total DSG after Academy recoupment for 2014-15			**69,534**
Brought forward from 2013-14			**0**
Carry-forward to 2015-16 agreed in advance			**0**
Agreed initial budget distribution in 2014-15	**15,182**	**54,352**	**69,534**
In-year adjustments	**187**	**0**	**187**
Final budget distribution for 2014-15	**15,369**	**54,352**	**69,721**
Less: Actual central expenditure	**14,825**		**14,825**
Less: Actual ISB deployed to schools		**54,352**	**54,352**
Plus: Local authority contribution for 2014-15	**0**	**0**	**0**
Carry forward to 2015-16	**544**	**0**	**544**

Deployment of dedicated schools grant 2013-14 (comparative year)	**Central expenditure £000**	**Individual schools budget £000**	**Total £000**
Final DSG for 2013-14 before Academy recoupment			86,841
Academy figure recouped for 2013-14			(14,154)
Total DSG after Academy recoupment for 2013-14			72,687
Brought forward from 2012-13			(1,301)
Carry-forward to 2014-15 agreed in advance			0
Agreed initial budget distribution in 2013-14	9,731	61,655	71,386
In-year adjustments	0	0	0
Final budget distribution for 2013-14	9,731	61,655	71,386
Less: Actual central expenditure	9,683		9,683
Less: Actual ISB deployed to schools		61,703	61,703
Plus: Local authority contribution for 2013-14	0	0	0
Carry forward to 2014-15	48	(48)	0

39. Grant income

The council credited the following grants and contributions to the comprehensive income and expenditure statement:

Credited to taxation and non-specific grant income	2013-14 £000	**2014-15 £000**
Revenue grants:		
Revenue Support grant	(43,031)	**(35,956)**
Business rates retention – top-up grant	(11,982)	**(12,216)**
Local services support grant	(297)	**(291)**
Waste PFI grant	(949)	**0**
Highways PFI grant	(14,989)	**(16,796)**
Council tax freeze grant	(725)	**0**
New homes bonus	(1,971)	**(2,593)**
Community Right to Challenge	(9)	**(9)**
Community Right to Bid	(7)	**(8)**
NDR small business rate relief scheme s31 grant	(1,078)	**(1,175)**
Other NDR relief schemes s31 grant	0	**(672)**
Transparency code grant	0	**(10)**
Flood resilience grant	0	**(174)**
Local Authorities Central Spend Equivalent Grant	(240)	**0**
Capitalisation provision redistribution grant	(227)	**0**
Localised Council tax support transition grant	(281)	**0**
Capital grants:		
Department for Education grants	(2,989)	**(539)**
Local transport plan & local sustainable transport grant	(523)	**(616)**
Fire service grant	(392)	**(299)**
Other capital grants	(1,268)	**(888)**
Total	(80,958)	**(72,242)**

Credited to services	2013-14 £000	**2014-15 £000**
Dedicated schools grant	(72,687)	**(69,742)**
Education services grant	(1,967)	**(1,835)**
Sixth form funding grant	(4,068)	**(3,558)**
Rent allowance & rent rebates subsidy	(52,957)	**(52,000)**

Housing benefit & council tax support administration grant	(1,218)	**(1,071)**
Public health grant	(5,922)	**(6,088)**
Pupil premium grant	(3,607)	**(4,541)**
Other revenue grants	(4,649)	**(5,215)**
Revenue expenditure funded by capital under statute (REFCUS):		
Disabled facilities grant	(741)	**(451)**
Department for Education REFCUS grants	(164)	**(500)**
Superfast Broadband grant	0	**(2,267)**
Other REFCUS grants	(1,053)	**(324)**
Total	(149,033)	**(147,592)**

The council has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the money or property to be returned to the giver. The balances at year-end are included within current or long-term liabilities in the balance sheet and are as follows:

Capital grants & contributions receipts in advance	2013-14 £000	**2014-15 £000**
Department for Education grants	(2,913)	**(3,753)**
Other grants	(1,000)	**(2,284)**
Contributions	(987)	**(1,391)**
Total	(4,900)	**(7,428)**

Revenue grants & contributions receipts in advance	2013-14 £000	**2014-15 £000**
Housing benefit subsidy	(518)	**(693)**
Other schools grants	(38)	**0**
Other grants	(137)	**(430)**
Section 106 contributions	(1,129)	**(1,112)**
Total	(1,822)	**(2,235)**

40. Related parties transactions

The council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the council or to be controlled or influenced by the council. Disclosure of these transactions allows readers to assess the extent to which the council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the council.

Central Government
Central government has significant influence over the general operations of the council – it is responsible for providing the statutory framework within which the council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the council has with other parties (eg council tax bills, housing benefits). Grants received from government departments are set out in the segmental analysis in note 30 on reporting resources allocation decisions. Grant income is detailed in note 39.

Members and their family
Members of the council have direct control over the council's financial and operating policies. The total of members' allowances paid in 2014-15 is shown in note 34. During 2014-15, payments to the value of £32 million were made to organisations where members had declared an interest including £22.3 million to educational facilities where members or close family were employed, £1.9 million to parish and town councils (including precepts) and £5.4 million to the NHS with whom the council transacts as part of its day to day business. The remaining £2.4 million included payments of:

- £0.871 million to Wight Home Care Ltd which is owned by the partner of a member. The contract covering these payments was let in 2011 before the member was elected to the council in May 2013.
- £0.147 million to the West Wight Sports Centre relating to agreed grant payments, including income from the adjacent car park and swimming activities.
- £0.637 million to Visit Isle of Wight relating to the grant agreed in the memorandum of understanding, annual membership fees and marketing for the sustainable transport access to tourism project.
- £0.146 million to Community action Isle of Wight relating to agreed grant funding and payments forming part of the 2014-15 youth offer.
- £0.243 million to the Chamber of Commerce relating to a public health stop smoking campaign in the workplace.

Full details of elected members' declarations of interests can be found on the council's website: www.iwight.com

Officers
The Director of Children's Services is provided by Hampshire County Council as part of the strategic partnership arrangement that was approved in July 2013.

The posts of Associate Director of Public Health and Director of Adult Social care are filled on an agency contract basis. Further details are shown in note 35.

Other Public Bodies (subject to common control by central government)
The council has a pooled budget arrangement with the Isle of Wight NHS Trust and the Isle of Wight Clinical Commissioning Group (CCG) for the provision of occupational therapy services, adaptations and equipment stores and free nursing care. The council hosts the budgets for adaptations and equipment stores and free nursing care. Transactions and balances outstanding in respect of the pooled budget arrangements are shown in note 33.

The council also has a strategic partnership agreement in place with Hampshire County Council for the provision of children's services. The council remains accountable for the provision of these services and the associated budgets. Payments of £1.862 million were made to Hampshire County Council in 2014-15 under this strategic partnership agreement.

The Isle of Wight Council administers the Isle of Wight Council Pension fund which includes admitted bodies as detailed in the Isle of Wight Council Pension Fund accounts. The council charged the fund £0.286 million for expenses incurred in administering the fund.

Entities controlled or significantly influenced by the council
Payments of £0.147 million were made to the West Wight Sports Centre in 2014-15 relating mainly to an agreed subsidy and additional public health funding. The charity recognises that they are substantially reliant on the council's subsidy to cover their operating deficit and are working to develop a more sustainable operating model with an understanding that the subsidy is likely to be withdrawn. Although a council member does hold a place on the centre's management committee as a trustee, this does not give the council significant influence over the strategic or operational decisions of the trust.

The council holds a 2% shareholding in Cowes Yacht Haven which is the trading subsidiary of the Cowes Town Waterfront Trust Ltd. This does not give the council significant control or influence over the financial or operating decisions of the charity.

The council also holds shares in Perpetuus Tidal Energy Centre Ltd under a legal shareholding agreement which does give the council a significant level of control over strategic decisions and thus the council is deemed to be a party to a Joint venture entity. A council officer has been appointed as a board member in line with the shareholder agreement. This is the subject of a more detailed disclosure in the group accounts note 41.

41. Group accounts

The council has invested in a joint venture company known as Perpetuus Tidal Energy Centre Ltd, with partners Perpetuus Energy Ltd and TB Partners LLP. This is to undertake the design and construction of a 20 megawatt grid connect and managed tidal energy facility for the test and demonstration for deployment of single devices and arrays of tidal stream technologies including on-shore facilities and infrastructure for the testing and proving of solutions for the generation of electricity. The council is investing £1 million over 2 years and holds 15% of the ordinary shares in the company. The shareholder legal agreement states that no major decisions shall be undertaken without the prior written consent of the Council and Perpetuus and as such the council is deemed to have control over the decisions of the company. Under accounting regulations this is categorised as a joint venture for which the council would need to prepare group accounts. This has not been necessary on materiality grounds in 2014-15 whilst the company is being established, but once it begins trading the council will consider the materiality of any transactions and, if appropriate, consolidate them into the council's statement of accounts.

There are no other entities where the council's interest is such that it would give rise to the requirement to prepare group accounts. This position is reviewed and updated on an annual basis.

42. Capital expenditure and capital financing

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PFI contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the council, the expenditure results in an increase in the capital financing requirement (CFR), a measure of the capital expenditure incurred historically by the council that has yet to be financed. The CFR is analysed in the second part of this note.

	2013-14 £000	**2014-15 £000**
Balance carried forward	199,172	**227,470**
Adjustment to opening balance	30	**0**
Opening capital financing requirement	199,202	**227,470**
Capital investment:		
Property, plant and equipment	14,040	**5,734**
Heritage assets	0	**1**
Investment properties	9	**0**
Intangible assets	14	**335**
Assets held for sale	45	**0**
Revenue expenditure funded from capital under statute	4,642	**5,735**
Loans and financial assistance	1,702	**154**
Waste PFI assets brought onto balance sheet	73	**0**
Highways PFI assets brought onto balance sheet	30,675	**26,275**
Sources of finance:		
Capital receipts	(1,771)	**(690)**

Government grants and other contributions	(7,734)	**(5,713)**
Sums set-aside from revenue:		
Revenue contributions to capital	(367)	**(237)**
Ryde Gateway	(201)	**(202)**
Waste PFI deferred income	(298)	**(146)**
Statutory charge to revenue	(12,561)	**(11,923)**
Closing capital financing requirement	227,470	**246,793**
Explanation of movements in year		
Increase in underlying need to borrow (supported by government financial assistance)	0	**0**
Increase/(reduction) in underlying need to borrow (unsupported by government financial assistance)	(2,446)	**(6,952)**
Assets acquired under PFI contracts	30,744	**26,275**
Increase/decrease in capital financing requirement	28,298	**19,323**

43. Leases

Council as lessee

The council has acquired vehicles, plant, furniture and equipment assets under finance leases. The rentals payable under these arrangements in 2014-15 were £0.326 million (£0.347 million in 2013-14), charged to the comprehensive income and expenditure account as £0.049 million finance costs (charged to interest payable) and £0.276 million relating to the write-down of obligations to the lessor (charged as part of the appropriation to the capital adjustment account in the movement in reserves statement). Finance lease rentals extending beyond the primary lease period are treated as contingent rent, as the future use of the asset at the inception of the lease agreement is unknown. There was no such expense charged in 2014-15 (£0.001 million in 2013-14). Financial resources for contingent rentals are provided through a budget based upon estimated demand and approved as part of the council's annual budget process.

Carrying amount of assets	31 March 2014 £000	**31 March 2015 £000**
Balance at 1 April	832	**582**
Additions	0	**0**
Depreciation	(250)	**(168)**
Revaluation	0	**27**
Disposal	0	**(63)**
Balance at 31 March	582	**378**

Liability	**Minimum lease payments**		**Present value of minimum lease payments**	
	31 March 2014 £000	**31 March 2015 £000**	31 March 2014 £000	**31 March 2015 £000**
Not later than one year	273	**203**	224	**173**
Later than one year and not later than five years	459	**255**	373	**210**
Later than five years	737	**436**	164	**101**
	1,469	**894**	761	**484**
Less: future finance charges	(708)	**(410)**	-	**-**
Total	761	**484**	761	**484**

Included in:	31 March 2014 £000	**31 March 2015 £000**
Current borrowings	224	**173**
non-current borrowings	537	**311**
Total	761	**484**

Operating leases

The council has the right to use vehicles, plant, furniture and equipment assets financed under the terms of operating leases. The rentals payable under these arrangements in 2014-15 were £1.983 million (£1.935 million in 2013-14), charged to the comprehensive income and expenditure statement. In addition to vehicles, plant, furniture and equipment, these leases also include properties for homelessness accommodation which are leased for durations of between three and five years from private landlords. The council receives income towards the costs of these operating leases from housing benefits and other contributions. Such contributions credited to the comprehensive income and expenditure statement in 2014-15 amounted to £0.697 million (£0.724 million in 2013-14).

The future minimum lease payments due under non-cancellable leases in future years are:

Leases expiring	31 March 2014 £000	**31 March 2015 £000**
Not later than one year	1,092	**1,217**
Later than one year and not later than five years	2,364	**2,175**
Later than five years	518	**450**
Total	3,974	**3,842**

The expenditure charged to the comprehensive income and expenditure statement during the year in relation to these leases was:

	2013-14 £000	**2014-15 £000**
Minimum lease payments	1,917	**1,956**
Contingent rents	18	**28**
Total	1,935	**1,984**
Sub-lease income receivable	(724)	**(697)**
Total	1,211	**1,287**

Council as lessor

The council has leased out property to third parties under the terms of operating leases. The rentals received under the arrangements in 2014-15 was £0.784 million (£0.839 million in 2013-14), credited to the comprehensive income and expenditure statement. Lease agreements on a weekly, monthly and annual basis are excluded from minimum lease payments.

The council leases out property and equipment under operating leases for the following purposes:-

- For the provision of community services, such as sports facilities, tourism services and community centres
- For economic development purposes to provide suitable affordable accommodation for local businesses
- For housing purposes through a shared ownership scheme.

The future minimum lease payments receivable under non-cancellable leases in future years are:

	Minimum lease payments	
	31 March 2014 £000	**31 March 2015 £000**
Not later than one year	603	**500**
Later than one year and not later than five years	1,869	**1,628**
Later than five years	16,646	**16,284**
Total	19,118	**18,412**

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2014-15 £0.009 million in contingent rents were received by the council (2013-14 £0.034 million).

44. Private finance initiatives and similar contracts

Waste PFI contract

The council entered into a long-term contract with Island Waste Services Ltd under the government's Private Finance Initiative (PFI) scheme in 1997. The contract, which was for a fully integrated waste collection, waste disposal and recycling service commenced on 27 October 1997 and was intended to be for a 12 year period to end in October 2009; subsequently the contract was extended by 6 years and is now due to end on 26 October 2015. The value of the contract is in excess of £95 million over the 18 year period. The additional costs of this integrated waste management project, over and above the council's existing budgetary provision for waste management, is met though government funding (PFI credits).

Within the waste PFI contract, the council has acquired fixed assets under a finance lease arrangement. The rentals payable under these arrangements in 2014-15 were £1.174 million (£1.174 million in 2013-14), charged to the comprehensive income and expenditure statement as £0.068 million finance cost (charged to interest payable) and £1.106 million relating to the write-down of obligations to the lessor which has been charged as part of the appropriation to the capital adjustment account in the movement in reserves statement. The fair value of services is calculated as £5.491 million (£5.276 million in 2013-14) and is charged to the environmental and regulatory services line in the comprehensive income and expenditure statement. Government grant previously received in support of the Waste PFI scheme ceased during 2013-14 (£0.949 million was received in 2013-14).

The following values of assets are held under finance leases by the council, accounted for as part of property, plant and equipment:-

	2013-14 £000	**2014-15 £000**
Value at 1 April	2,235	**2,115**
Additions	74	**0**
Revaluations	0	**63**
Depreciation	(194)	**(156)**
Disposals	0	**(100)**
Total assets at 31 March	2,115	**1,922**

Since 2009-10, Island Waste has invested £1.181 million in excess of the planned capital investment within the PFI contract. This is accounted for as deferred income and amortised over the remainder of the contract. The balance of the deferred income at 31 March 2015 is £0.012 million (£0.158 million in 2013-14) and this is treated as an asset, with the corresponding entry credited to deferred income and written-down to the comprehensive income and expenditure statement over the remainder of the contract. The profile of this deferred income accounted for as short or long-term liabilities is as follows:-

	2013-14 £000	**2014-15 £000**
Not later than one year	146	**12**
Later than one year and not later than five years	12	**0**
Total	158	**12**

The movement in the finance rental at 31 March accounted for as short and long-term liabilities are as follows:-

	2013-14 £000	**2014-15 £000**
Value at 1 April	2,149	**1,106**
Finance charge	132	**68**
Finance lease rental	(1,175)	**(1,174)**
Finance lease outstanding at 31 March	1,106	**0**

Outstanding obligations to make payments under the Waste PFI scheme at 31 March 2015, separated into repayments of liability, interest, service and operating lease charges are as follows:-

	Repayment of liability £000	Interest £000	Service Charges £000	Operating lease £000	**Total £000**
Payable in 2015-16	0	0	3,744	194	**3,938**
Payable within 2 to 5 years	0	0	0	0	**0**
Total	**0**	**0**	**3,744**	**194**	**3,938**

The waste PFI contract ends in October 2015. Work on the procurement of a new waste contract from November 2015 has been in progress for over two years and the final stages will see the preferred bidder being selected by the Executive on 23 June 2015 and the letting of the contract by the end of July 2015. The new contract will not be a PFI arrangement. The three sites currently leased to the service provider will return to the council at the termination of the current contract. It is intended that these sites will be offered to the potential new service provider as part of the new contract. There are also a number of plant, equipment and vehicle assets that may be returned to the council at the end of the contract, although the majority of these assets are at ‘end of life’ or will be by 2015.

Highways PFI

The Highways PFI contract commenced on 1 April 2013 and is a 25 year project. This project involves the comprehensive upgrade of the Island's road, footway and cycleway network, together with associated assets, over a 7 year Core Investment Period and then maintaining them over the remaining life of the contract. The PFI is financed through a government grant and the council also makes an annual contribution. The contract is with Island Roads Services Ltd, comprised of VINCI Concessions and Meridiam Investments, and the sub-contract is with Ringway Island Roads Ltd.

Within the highways PFI contract, the council has acquired fixed assets under a finance lease agreement. The rentals payable under these arrangements in 2014-15 were £6.172 million (£4.642 million in 2013-14) charged to the comprehensive income and expenditure statement as £3.315 million finance costs (charged to interest payable) and £2.857 million relating to the write-down of obligations to the lessor which has been charged as part of the appropriation to the capital adjustment account in the movement in reserve statement. The fair value of services is calculated as £12.080 million (£12.003 million in 2013-14) and is charged to the highways and transport services line in the comprehensive income and expenditure statement. Government grant of £16.796 million (£14.989 million in 2013-14) has been credited to taxation and non-specific grant income in the comprehensive income and expenditure statement.

The following values of assets are held under finance leases by the council, accounted for as part of property, plant and equipment:-

	2013-14 £000	**2014-15 £000**
Value at 1 April	54,455	**65,106**
Additions	30,674	**26,309**
Reclassifications	574	**0**
Revaluation gains	3	**109**
Revaluations losses	(4,412)	**0**
Depreciation	(5,515)	**(5,909)**
Impairment	(671)	**0**
Disposals	(10,002)	**(11,340)**
Total assets at 31 March	65,106	**74,275**

The movement in the finance rental at 31 March accounted for as short and long-term liabilities are as follows:-

	2013-14 £000	**2014-15 £000**
Value at 1 April	0	**27,014**
Finance lease adjustment	0	**17**
Finance additions	30,671	**26,275**
Finance charge	985	**3,315**
Finance lease rental	(4,642)	**(6,172)**
Finance lease outstanding at 31 March	27,014	**50,449**

The finance lease outstanding of £50.449 million has been apportioned into short and long-term liabilities on the basis of the age profile of the repayment of liability shown below.

Outstanding obligations to make payments under the Highways PFI scheme at 31 March 2015, separated into repayments of liability, interest, service charges, operating lease charges lifecycle replacement costs and contingent rental are as follows:-

	Repayment of liability £000	Interest £000	Service charges £000	Lifecycle replacement costs £000	Contingent rental £000	Total £000
Payable in 2015-16	2,733	5,256	11,971	0	(350)	**19,610**
Payable within 2 to 5 years	41,795	34,129	50,465	0	769	**127,158**
Payable within 6 to 10 years	18,590	42,190	56,259	13,370	4,408	**134,817**
Payable within 11 to 15 years	29,569	30,653	63,033	16,951	6,313	**146,519**
Payable within 16 to 20 years	26,739	17,913	69,326	46,638	(856)	**159,760**
Payable within 20 to 25 years	25,618	4,112	41,354	29,903	1,940	**102,927**
Total	**145,044**	**134,253**	**292,408**	**106,862**	**12,224**	**690,791**

45. Revaluation losses

During 2014-15, the council has recognised revaluation losses of £2.031 million in relation to land and buildings within property, plant and equipment. The most significant losses relate to building assets at the Newport East Children's services (£0.553 million), The Bay Sandown Primary School (£0.302 million) and Fort Victoria, Yarmouth (£0.286 million).

In addition, the council recognised revaluation losses of £2.519 million relating to assets held for sale. The most significant losses relate to building assets at the former Children's Centre at Atkinson Drive, Newport (£0.820 million), the Treeside/Medina training centre site in Newport (£0.817 million) and the former Gatten and Lake school site (£0.767 million).

Asset valuations are based upon a number of factors such as the condition of buildings, likely useful life and income generation estimates from the use of land based assets. The recoverable amount of these assets has been reduced to their current value as estimated by a professional valuer. This is based on fair value in existing use to the council where there is an active market. Where there is no active market for assets, such as schools, the valuation is based on depreciated replacement cost. As there were no balances of revaluation gains in the revaluation reserve for assets values reduced when revalued, the resultant revaluation losses have been charged to the appropriate service line in the comprehensive income and expenditure statement and reversed out through the movement in reserves statement.

46. Pension schemes accounted for as defined contribution schemes

Teachers employed by the authority are members of the Teachers' Pension Scheme, administered by the Department for Education. The scheme provides teachers with specified benefits upon their retirement, and the authority contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The scheme is technically a defined benefit scheme. However, the scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The council is not able to identify its share of underlying financial position and performance of the scheme with sufficient reliability for accounting purposes. For the purposes of this statement of accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2014-15, the council paid £3.926 million to teachers' pensions in respect of teachers' retirement benefits, representing 14.1% of pensionable pay. (2013-14 £4.205 million and 14.1%). There were no contributions remaining payable at year-end.

The council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These benefits are accounted for on a defined benefit basis and detailed in note 47.

Public health staff who had access to the NHS Pension Scheme at the point of transfer to the council from the primary care trusts (PCTs) on 1 April 2013 retained access to that scheme. The NHS pension scheme is an unfunded, defined benefit scheme that covers NHS employers and is a multi-employer defined benefit scheme. In the NHS, the scheme is accounted for as if it were a defined contribution scheme. The council is not able to identify its share of underlying financial position and performance of the scheme with sufficient reliability for accounting purposes. For the purposes of this statement of accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2014-15, the council paid £0.025 million (2013-14 £0.054 million) to NHS pensions in respect of retirement benefits, representing 14% of pensionable pay.

47. Defined benefit pension schemes

Participation in pension schemes

As part of the terms and conditions of employment of its officers, the council makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the council has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement.

The authority participates in two post-employment schemes:

- The Local Government Pension Scheme is administered by the council and is a funded defined benefit scheme, meaning that the council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.
- the Fire-fighters' Pension Scheme is administered by the council and is an unfunded defined benefit final salary scheme, meaning that there are no investment assets built up to meet the pensions liabilities, and cash has to be generated to meet actual pension payments as they eventually fall due. The authority and employees pay contributions into a fund from which pension payments are made. Under the Fire-fighters' Pension Scheme (Amendment)(England) Order 2006, the fund is topped up by Government grant if the contributions are insufficient to meet the cost of pension payment, while any surplus in the fund is repayable to Central Government. Regular fire-fighters employed before 6 April 2006 were eligible for membership of the Firefighters' Pension Scheme (FPS). This scheme is now closed. A New Fire-fighters' Pension Scheme (NFPS) was introduced for regular and retained firefighters employed since 6 April 2006. These two schemes have been combined for the purpose of the disclosures shown on the following pages.

Transactions relating to post-employment benefits

The cost of retirement benefits are recognised in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge made against the council tax is based on the cash payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the general fund via the movement in reserves statement. The transactions below have been made in the comprehensive income and expenditure statement and the general fund balance via the movement in reserves statement during the year.

	Local Government Pension Scheme £000		Fire-fighters' Pension Scheme £000		Total £000	
	2013-14	**2014-15**	2013-14	**2014-15**	2013-14	**2014-15**
Comprehensive Income & Expenditure Statement						
Cost of services:						
Current service cost	(11,419)	**(11,340)**	(1,500)	**(1,500)**	(12,919)	**(12,840)**
Past service costs (including curtailments)	(445)	**(222)**	0	**0**	(445)	**(222)**
Fire Service injury pensions	-	**-**	300	**300**	300	**300**
Financing and investment income and expenditure						
Interest cost on defined benefit liability	(23,986)	**(23,274)**	(2,700)	**(2,800)**	(26,686)	**(26,074)**
Interest income on plan assets	15,940	**16,445**	-	**-**	15,940	**16,445**
Movement on top-up grant repayable (to)/from Government	-	**-**	182	**367**	182	**367**
Total post-employment benefit charged to the surplus or deficit on the provision of services	(19,910)	**(18,391)**	(3,718)	**(3,633)**	(23,628)	**(22,024)**
Other post-employment benefit charged to the comprehensive income and expenditure statement						
Re-measurement of the net defined benefit liability comprising:						
Return on plan assets (excluding the amount included in the net interest expense)	15,820	**38,309**	-	**-**	15,820	**38,309**
Actuarial gains and losses arising on changes in demographic assumptions	897	**0**	(1,600)	**0**	(703)	**0**
Actuarial gains and losses arising on changes in financial assumptions	(13,436)	**(79,632)**	(2,500)	**(9,400)**	(15,936)	**(89,032)**
Other experience gains and losses	24,811	**4,418**	200	**(100)**	25,011	**4,318**
Total post-employment benefit charged to the comprehensive income and expenditure statement	8,182	**(55,296)**	(7,618)	**(13,133)**	564	**(68,429)**
Movement in reserves statement:						
Reversal of net charges made to the surplus or deficit for the provision of services for post-employment benefits in accordance with the Code	8,219	**6,751**	2,800	**2,700**	11,019	**9,451**
Movement on top-up grant repayable to/(from) Government	-	**-**	(182)	**(367)**	(182)	**(367)**
Actual amount charged against the general fund balance for pensions in the year:						
Employers' contributions payable to the scheme (including unfunded benefits)	11,691	**11,640**	-	**-**	11,691	**11,640**
Retirement benefits payable to pensioners (net of member contributions)	-	**-**	1,100	**1,300**	1,100	**1,300**

Pension Assets and Liabilities Recognised in the Balance Sheet

The amount included in the balance sheet arising from the council's obligation in respect of its defined benefit plan is as follows:

	Local Government Pension Scheme £000		Fire-fighters' Pension Scheme £000		Total £000	
	2013-14	**2014-15**	2013-14	**2014-15**	2013-14	**2014-15**
Present value of the defined benefit obligation	(543,576)	**(638,147)**	(67,000)	**(79,200)**	(610,576)	**(717,347)**
Fair value of plan assets	384,615	**435,530**	0	**0**	384,615	**435,530**
Net liability arising from defined benefit obligation	(158,961)	**(202,617)**	(67,000)	**(79,200)**	(225,961)	**(281,817)**

The above totals exclude the Fire-fighters' Scheme top-up grant repayable by central government. At 31 March 2015 £0.506 million has been included within the balance sheet as a debtor relating to 2014-15 transactions less £0.071 million as an adjustment to 2013-14 (2013-14 debtor of £0.139 million).

Reconciliation of fair value of the scheme assets:-

	Local Government Pension Scheme		Fire-fighters' Pension Scheme		Total	
	£000		£000		£000	
	2013-14	**2014-15**	2013-14	**2014-15**	2013-14	**2014-15**
Opening fair value of scheme assets	356,058	**384,615**	0	**0**	356,058	**384,615**
Interest income	15,940	**16,445**	-	**-**	15,940	**16,445**
Re-measurement gains/loss:						
Return on plan assets excluding the amount included in the net interest expense	15,820	**38,309**	-	**-**	15,820	**38,309**
Contributions by employer	10,303	**10,222**	1,100	**1,300**	11,403	**11,522**
Contributions from scheme participants	2,746	**2,782**	400	**400**	3,146	**3,182**
Contributions in respect of unfunded benefits paid	1,389	**1,418**	-	**-**	1,389	**1,418**
Benefits paid	(16,252)	**(16,843)**	(1,500)	**(1,700)**	(17,752)	**(18,543)**
Unfunded benefits paid	(1,389)	**(1,418)**	-	**-**	(1,389)	**(1,418)**
Transfers in from other schemes	-	**-**	0	**-**	0	**0**
Contributions towards injury pensions	-	**-**	300	**300**	300	**300**
Injury award expenditure	-	**-**	(300)	**(300)**	(300)	**(300)**
Closing fair value of scheme assets	384,615	**435,530**	0	**0**	384,615	**435,530**
Top-up grant debtor	-	**-**	139	**506**	139	**506**
Top-up grant debtor (2013-14 adjustment)	-	**-**	-	**(71)**	-	**(71)**
Closing balance at 31 March	384,615	**435,530**	139	**435**	384,754	**435,965**

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

	Funded liabilities: Local Government Pension Scheme		Unfunded liabilities: Fire-fighters' Pension Scheme		Total	
	£000		£000		£000	
	2013-14	**2014-15**	2013-14	**2014-15**	2013-14	**2014-15**
Opening balance at 1 April	(534,893)	**(543,576)**	(60,300)	**(67,000)**	(595,193)	**(610,576)**
Current service cost	(11,419)	**(11,340)**	(1,500)	**(1,500)**	(12,919)	**(12,840)**
Interest cost	(23,986)	**(23,274)**	(2,700)	**(2,800)**	(26,686)	**(26,074)**
Contributions by scheme participants	(2,746)	**(2,782)**	(400)	**(400)**	(3,146)	**(3,182)**
Re-measurement gains/loss:						
Actuarial gains/losses arising from changes in demographic assumptions	897	**0**	(1,600)	**0**	(703)	**0**
Actuarial gains/losses arising from changes in financial assumptions	(13,436)	**(79,632)**	(2,500)	**(9,400)**	(15,936)	**(89,032)**
Other experience gains/loss	24,811	**4,418**	200	**(100)**	25,011	**4,318**
Past service costs (including curtailments)	(445)	**(222)**	0	**0**	(445)	**(222)**
Benefits paid	16,252	**16,843**	1,500	**1,700**	17,752	**18,543**
Unfunded benefits paid	1,389	**1,418**	-	**-**	1,389	**1,418**
Transfers in from other schemes	-	**-**	0	**0**	0	**0**
Injury award expenditure	-	**-**	300	**300**	300	**300**
Closing balance at 31 March	(543,576)	**(638,147)**	(67,000)	**(79,200)**	(610,576)	**(717,347)**

Local Government Pension Scheme assets comprised:

	Fair value of scheme assets			
	2013-14		**2014-15**	
	Quoted prices in active markets	Percentage of total assets	**Quoted prices in active markets**	**Percentage of total assets**
	£000	%	**£000**	**%**
Cash and cash equivalents	5,426.9	1.4%	**2,125.3**	**0.5%**
Equity securities:				
Consumer	17,428.5	4.5%	**19,455.2**	**4.5%**
Energy & Utilities	5,828.6	1.5%	**5,312.3**	**1.2%**
Financial Institutions	12,289.3	3.2%	**20,869.7**	**4.8%**
Health & Care	8,736.2	2.3%	**10,179.3**	**2.3%**
Information Technology	2,282.9	0.6%	**1,134.2**	**0.3%**
Other	40,728.0	10.6%	**37,053.1**	**8.5%**
Real Estate	18,174.1	4.7%	**24,359.7**	**5.6%**
Investment Funds & Unit Trusts:				
Equities	138,004.7	35.9%	**159,121.6**	**36.5%**
Bonds	75,333.4	19.6%	**89,599.4**	**20.6%**
Other	60,381.8	15.7%	**66,319.2**	**15.2%**
Total assets	384,614.4	100.0%	**435,529.0**	**100.0%**

Basis for estimating assets and liabilities

Liabilities have been assessed on the 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. Both fund liabilities have been assessed by Hymans Robertson, an independent firm of actuaries, estimates for the Local Government Scheme being based on the latest full valuation of the scheme as at 31 March 2013.

The significant assumptions used the actuary have been:

	Local Government Pension Scheme		Fire-fighters' Pension Scheme	
	2013-14	**2014-15**	2013-14	**2014-15**
Mortality assumptions: (at age 65 for Local Government Scheme and at age 60 for Fire-fighters' scheme):				
Longevity for current pensioners (years):				
Men	22.4	**22.4**	29.3	**29.5**
Women	24.5	**24.5**	31.5	**31.7**
Longevity for future pensioners (years):				
Men	23.8	**23.8**	30.9	**31.1**
Women	26.7	**26.7**	33.0	**33.2**
Pension increase rate (CPI)	2.8%	**2.4%**	2.8%	**2.4%**
Market derived RPI	3.6%	**3.3%**	3.6%	**3.3%**
Rate of increase in salaries	4.6%	**4.3%**	3.8%	**3.4%**
Rate for discounting scheme liabilities	4.3%	**3.2%**	4.3%	**3.2%**
Commutation assumptions:-				
Take-up of option to convert annual pension into retirement lump sum – pre April 2008 service	25%	**25%**	-	
Take-up of option to convert annual pension into retirement lump sum – post April 2008 service	63%	**63%**	-	
Take-up of option to convert annual pension into retirement lump sum	-	**-**	90%	**90%**

The Fire-fighters' Pension Scheme has no assets to cover its liabilities.

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analysis below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and woman. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, ie on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

Local Government Pension Scheme	**Impact on the defined benefit obligation in the scheme**	
Change in assumptions at 31 March 2015	**Approximate % increase to employer liability**	**Approximate monetary amount**
	%	**£000**
0.5% decrease in real discount rate	10%	62,979
1 year increase in member life expectancy	3%	19,144
0.5% increase in the salary increase rate	3%	18,338
0.5% increase in the pension increase rate	7%	43,370

Fire-fighters' Pension Scheme	Impact on the defined benefit obligation in the scheme	
Change in assumptions at 31 March 2015	Approximate % increase to employer liability	Approximate monetary amount
	%	£000
0.1% decrease in real discount rate	2%	1,500
1 year increase in member life expectancy	3%	2,300
0.5% increase in the salary increase rate	2%	1,300
0.5% increase in the pension increase rate	8%	6,400

Impact on the council's cash flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% of the next 20 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed on 31 March 2016.

The scheme will need to take account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the Act, the Local Government Pension Scheme in England and Wales and the other main existing public service schemes may not provide benefits in relation to service after 31 March 2014. The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits to certain public servants.

The total contributions expected to be made to the Local Government Pension Scheme by the council in the year to 31 March 2016 is £10.155 million. Due to the unfunded nature of the Fire-fighters' Pension Scheme, the contributions in the year to 31 March 2016 made by the council will be dependent on the benefits paid in the year, the employee contributions and transfers-in received.

The weighted average duration of the defined benefit obligation for scheme members is shown below:

	Local Government Pension Scheme		Fire-fighters' Pension Scheme	
	Liability split %	Weighted average duration (years)	Liability split %	Weighted average duration (years)
Active members	41.3%	25.4	51.4%	25.5
Deferred members	18.6%	23.6	0.0%	0.0
Pensioner members	40.1%	12.0	48.6%	12.7
Total	**100.0%**	**18.3**	**100.0%**	**19.3**
Injury pensions				
Contingent liabilities	-	-	29.4%	25.5
Injury pension liabilities	-	-	70.6%	14.3
Total	**-**	**-**	**100.0%**	**17.6**

Further details relating to the Isle of Wight Council Pension Fund are contained within the Pension Fund section of these accounts.

48. Contingent liabilities

The council has indemnified the South Wight Housing Association in respect of the cost of any defects that would have led to a reduction in the transfer valuation of the former South Wight Borough council housing stock, had a full survey been made on an individual property basis. The potential liability has not been quantified, but since the time elapsed since the transfer is nearly twenty five years, there is a diminishing probability of a claim against the council.

There are a number of potential claims resulting from landslides following adverse weather conditions in recent years. The potential liability has not been quantified although the council's responsibility for carrying out remedial work and bearing the cost is disputed.

49. Trust funds and other balances

The council administers a number of trust funds and balances on behalf of others which are not included in the balance sheet. These include cash held in safekeeping for children in care and amenity funds set up to provide facilities at particular establishments from the proceeds of fund raising and bequests. The main trust funds are as follows:-

- The Brenda James Trust Fund, which was established with the object of the advancement of music education on the Isle of Wight for the benefit of pupils and young musicians, has a balance of £0.086 million at 31 March 2015 (£0.087 million on 31 March 2014).

- The charity of Tom Woolgar, which was established in 1929 to give relief to the poor and aged in the Borough of Newport, has a balance of £0.047 million at 31 March 2015 (£0.045 million on 31 March 2014). This fund is administered by Newport Parish Council on behalf of the Isle of Wight Council.

	31 March 2014	**31 March 2015**
	£000s	**£000s**
Trust Funds etc	139	**139**
Cash in Safekeeping	120	**114**
Amenity Funds	104	**106**
Total	363	**359**

50. Authorisation of accounts for issue

The Head of Finance and Section 151 officer authorised the draft financial statements for issue on 30 June 2015 and re-authorised them following completion of the audit on 28 September 2015.

THE COLLECTION FUND

The Collection fund is an agent's statement that reflects the statutory obligation of billing authorities to maintain a separate Collection fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers of council tax and non-domestic rates and the distribution to the precepting bodies and central government.

The council has a statutory requirement to operate a collection fund as a separate account to the general fund. The purpose of the collection fund is to separately identify the income and expenditure relating to council tax and non-domestic rates. The administrative costs associated with the collection process are charged to the general fund.

Collection fund surpluses or deficits declared by the billing authority in relation to council tax are apportioned to the relevant precepting bodies in the subsequent financial year in their respective proportions. For the Isle of Wight Council, the council tax precepting body is the Police and Crime Commissioner for Hampshire.

In 2013-14, the local government finance regime was revised with the introduction of the retained business rate scheme. The main aim of the scheme is to give councils a greater incentive to grow businesses in their area. However, it also increases the financial risk due to non-collection and the volatility of the non-domestic rates tax base.

The scheme allows the council to retain a proportion of the total non-domestic rates received. The Isle of Wight Council share is 50% with the remaining 50% being paid to Central Government.

Collection fund surpluses or deficits declared by the billing authority in relation to council tax and non-domestic rates are apportioned to the relevant precepting bodies in the subsequent financial year in their respective proportions.

The CIPFA code of practice stipulates that a collection fund income and expenditure account is included in the council's accounts. The collection fund balance sheet is incorporated into the council's consolidated balance sheet.

Collection Fund 2014-15	Non-domestic Rates	Council Tax	Total
	£000	£000	£000
Income			
Council Tax receivable (note 3)		(74,986)	(74,986)
Non-domestic rates receivable (note 1)	(33,873)		(33,873)
Deferred non-domestic rates receivable	(178)		(178)
Total income	(34,051)	(74,986)	(109,037)
Expenditure			
Apportionment of Previous Year Surplus/(Deficit):			
Central Government	(1,770)		(1,770)
Isle of Wight Council	(1,770)	1,750	(20)
Police & Crime Commissioner		200	200
	(3,540)	1,950	(1,590)
Precepts, Demands and Shares:			
Central Government (note 1)	17,151		17,151
Isle of Wight Council (notes 1 & 3)	17,151	66,179	83,330
Police & Crime Commissioner (note 3)		7,514	7,514
	34,302	73,693	107,995
Charges to the Collection Fund:			
Write-offs of uncollectable amounts	275	270	545
Net increase in Bad Debt Provision	54	104	158
Net increase in Provision for appeals (note 6)	935		935
Cost of Collection	252		252
Renewable energy projects	141		141
	1,657	374	2,031
(Surplus)/Deficit arising during the year	(1,632)	1,031	(601)
(Surplus)/Deficit brought forward at 1 April	3,266	(1,886)	1,380
(Surplus)/Deficit carried forward at 31 March (notes 4 & 5a)	1,634	(855)	779
Allocated to:			
Isle of Wight Council	817	(768)	49
Central Government	817		817
Police and Crime Commissioner		(87)	(87)
Total	1,634	(855)	779

Collection Fund 2013-14: (Comparative year)	**Non-domestic Rates**	**Council Tax**	**Total**
	£000	**£000**	**£000**
Income			
Council Tax receivable (note 3)		(71,494)	(71,494)
Non-domestic rates receivable (note 1)	(34,016)		(34,016)
Transitional Protection Payments receivable	(57)		(57)
Total income	(34,073)	(71,494)	(105,567)
Expenditure			
Apportionment of Previous Year Surplus/(Deficit):			
Central Government	0		0
Isle of Wight Council	0	(108)	(108)
Police & Crime Commissioner		(12)	(12)
	0	(120)	(120)
Precepts, Demands and Shares:			
Central Government (note 1)	16,883		16,883
Isle of Wight Council (notes 1 & 3)	16,883	62,299	79,182
Police & Crime Commissioner (note 3)		7,118	7,118
	33,766	69,417	103,183
Charges to the Collection Fund:			
Write-offs of uncollectable amounts	153	156	309
Net increase in Bad Debt Provision	14	49	63
Net increase in Provision for appeals (note 6)	3,156		3,156
Cost of Collection	250		250
	3,573	205	3,778
(Surplus)/Deficit arising during the year	3,266	(1,992)	1,274
(Surplus)/Deficit brought forward at 1 April	0	106	106
(Surplus)/Deficit carried forward at 31 March (notes 4 & 5a)	3,266	(1,886)	1,380
Allocated to:			
Isle of Wight Council	1,633	(1,693)	(60)
Central Government	1,633		1,633
Police and Crime Commissioner		(193)	(193)
Total	3,266	(1,886)	1,380

Notes to the collection fund

1. Non-Domestic Rates (Business Rates)

The council collects non-domestic rates for its area based on rateable values provided by the Valuation Office Agency (VOA) multiplied by a uniform business rate set nationally by central government.

In 2013-14, the administration of business rates changed following the introduction of the business rates retention scheme which aims to give councils a greater incentive to grow businesses but also increases the financial risk due to volatility and non-collection. Instead of paying non-domestic rates to the central pool, local authorities retain a proportion of the total collectable rate due. For the Isle of Wight Council, the share is 50%, with the other 50% paid to central government as preceptor.

The non-domestic rates payable for 2014-15 were estimated before the start of the financial year as £34.302 million, to be divided equally between the Isle of Wight Council and central government. These sums have been charged to the collection fund in year.

When the scheme was introduced, central government set a baseline level for each authority identifying the expected level of retained non-domestic rates and a top-up or tariff amount to ensure that all authorities receive their baseline amounts. Tariffs due from authorities payable to central government are used to finance the top-ups to those authorities who did not achieve their targeted baseline funding. The Isle of Wight Council received a top-up grant of £12.216 million in 2014-15 (see note 39) which is credited to the general fund.

In addition to the management of non-domestic rates, authorities are required to finance appeals made in respect of rateable values as defined by the VOA. As such, authorities are required to make a provision in respect of outstanding appeals at 31 March 2015. In many cases, a successful appeal will be on the rateable value arising from the 2010 revaluation and so there will need to be a backdated adjustment for any overpayment due. The total provision charged to the collection fund is £4.091 million and council's proportion of 50% is included in short-term provisions in the balance sheet. (note 6).

The total non-domestic rateable value at 31 March 2015 was £92.719 million (£91.527 million at 31 March 2014) and the non-domestic rate multiplier for the year was 48.2p (47.1p in 2013-14). A reduced multiplier of 47.1p (46.2p in 2013-14) was applicable where there was eligibility for small business rate relief. The gross yield for the year was £43.448 million (£42.263 million in 2013-14) and the net yield was £33.873 million (£34.210 million in 2013-14). Several nationally defined adjustments and reliefs contribute towards this reduction as shown below:-

	2013-14		**2014-15**	
	£000	£000	**£000**	**£000**
Gross Non-domestic rate yield at 31 March		42,263		**43,448**
Less:-				
Mandatory/discretionary relief granted	(2,480)		**(3,753)**	
Empty rate relief	(979)		**(816)**	
Small Business Rate relief	(4,649)		**(5,006)**	
Transitional relief	57		**0**	
Interest on refunds	(2)		**0**	
		(8,053)		**(9,575)**
Net Non-domestic rate yield at 31 March		34,210		**33,873**

2. Council tax

Council tax derives from charges raised according to the value of residential properties, which have been classified into nine valuations bands (A to H). Individual charges are calculated by estimating the amount of income required to be taken from the collection fund by the council for the forthcoming year and dividing this by the council tax base, which is the equivalent number of Band D properties.

The council tax base for 2014-15 was 48,712 (47,060 in 2013-14).

The following details the number of properties in each valuation band of the tax base:

Band	Chargeable dwellings (net of council tax support scheme)	Relevant Proportion	Band D equivalents	Chargeable dwellings (net of council tax support scheme)	Relevant Proportion	Band D equivalents
	2013-14			**2014-15**		
Band A (disabled)	13	5/9	7	**9**	**5/9**	**5**
Band A	4,734	6/9	3,156	**5,458**	**6/9**	**3,639**
Band B	10,831	7/9	8,424	**11,787**	**7/9**	**9,167**
Band C	12,965	8/9	11,525	**12,917**	**8/9**	**11,482**
Band D	10,728	9/9	10,728	**10,911**	**9/9**	**10,911**
Band E	6,013	11/9	7,350	**6,122**	**11/9**	**7,482**
Band F	2,778	13/9	4,013	**2,851**	**13/9**	**4,118**
Band G	1,321	15/9	2,202	**1,370**	**15/9**	**2,283**
Band H	111	18/9	223	**100**	**18/9**	**200**
Total	49,494		47,628	**51,525**		**49,287**
Less reduction for bad debts & valuation changes			(568)			**(575)**
Council tax base			47,060			**48,712**
Council tax per Band D property (£)			1,289.80			**1,315.47**
Isle of Wight Council: Council tax precept (£000)			60,698			**64,079**

3. Precepts made on the fund (Council tax)

	2013-14		**2014-15**	
	£000	£000	**£000**	**£000**
Isle of Wight Council: Council tax requirement (note 2)	60,698		**64,079**	
Parish & Town Council precepts	1,601		**2,100**	
Isle of Wight Council precept (including Parish & Town Councils)		62,299		**66,179**
Share of estimated collection fund deficit at 31 March in previous year		(108)		**1,750**
Isle of Wight Council: budget requirement		62,191		**67,929**
Police & Crime Commissioner: Council tax requirement	7,118		**7,514**	
Share of estimated collection fund deficit at 31 March in previous year	(12)		**200**	
Police & Crime Commissioner: budget requirement		7,106		**7,714**
Total precepts		69,297		**75,643**

Council Tax income analysis

	2013-14	**2014-15**
	£000	**£000**
Council Tax gross debit	94,134	**97,022**
Discounts	(8,654)	**(8,827)**
Exemptions	(1,517)	**(1,435)**
Council Tax Support	(12,469)	**(11,774)**
Council Tax income	71,494	**74,986**

Council Tax surplus/(deficit) analysis

	2013-14		**2014-15**	
	£000	£000	**£000**	**£000**
Net debit (actual)	71,494		**74,986**	
Less: Net debit (estimated)	69,297		**75,643**	
Increase/(reduction) in net debit		2,197		**(657)**
Contribution to allowance for bad debts		(205)		**(374)**
Collection Fund deficit brought forward		(106)		**1,886**
Council Tax surplus carried forward		1,886		855

4. <u>Reconciliation with Isle of Wight Council's note 11 to the comprehensive income and expenditure statement and note 25 Collection Fund adjustment account (Council tax)</u>

2013-14: comparative year	**Isle of Wight Council £000**	**Police & Crime Commissioner £000**	**Total £000**
Demand/Precept	62,191	7,106	69,297
Share of 2013-14 in-year surplus (note 25)	1,788	204	1,992
Total (note 11)	**63,979**	**7,310**	**71,289**

Share of surplus carried forward at 31 March 2014	1,693	193	1,886

2014-15	**Isle of Wight Council £000**	**Police & Crime Commissioner £000**	**Total £000**
Demand/Precept	67,929	7,714	75,643
Share of 2014-15 in-year deficit (note 25)	(926)	(106)	(1,032)
Total (note 11)	**67,003**	**7,608**	**74,611**

Share of surplus carried forward at 31 March 2015	**768**	**87**	**855**

5a. Reconciliation with Isle of Wight Council's note 11 to the comprehensive income and expenditure statement (Non-Domestic Rates)

2013-14: comparative year	Isle of Wight Council £000	Central Government £000	Total £000
Estimate of retained income at 31 January 2013	16,883	16,883	33,766
Share of 2013-14 deficit	(1,633)	(1,633)	(3,266)
Renewable energy rates retained	79	-	79
Total (note 11)	15,329	15,250	30,579
Share of deficit carried forward at 31 March 2014	(1,633)	(1,633)	(3,266)

2014-15	Isle of Wight Council £000	Central Government £000	Total £000
Estimate of retained income at 31 January 2014	17,151	17,151	34,302
Less: share of estimated deficit at 31 March 2014	(1,770)	(1,770)	(3,540)
Share of 2014-15 in-year surplus	816	816	1,632
Renewable energy rates retained	141	-	141
Total (note 11)	**16,338**	**16,197**	**32,535**
Share of deficit carried forward at 31 March 2015	**(817)**	**(817)**	**(1,634)**

5b. Reconciliation with Isle of Wight Council's note 25 Collection Fund adjustment account (Non-Domestic Rates)

The figure shown in note 25 Collection fund adjustment account is the amount by which non-domestic rate income credited to the comprehensive income and expenditure statement is different from non-domestic rate income calculated for the year in accordance with statutory requirements. This figure includes an allowance for the spreading of the estimated cost of appeals made prior to the introduction of the retained non-domestic rate scheme (1 April 2013) over five years, as permitted by regulations. The non-domestic rates income from specified renewable energy projects is retained by the council, as permitted by regulations.

	2013-14 £000	2014-15 £000
Share of deficit at 31/03/14 reversed in 2014-15	-	**1,633**
Renewable energy rates retained at 31/03/14 reversed in 2014-15	-	**(79)**
Share of deficit at 31 March	(1,633)	**(817)**
Renewable energy rates retained at 31 March	79	**78**
Allowance for spreading the estimated cost of backdated appeals included in provision	(1,252)	**313**
Total (note 25)	**(2,806)**	**1,128**

6. Appeals provision (non-domestic rates)

	2013-14				**2014-15**			
	Collection fund		Isle of Wight Council share		**Collection fund**		**Isle of Wight Council share**	
	£000	£000	£000	£000	**£000**	**£000**	**£000**	**£000**
Balance brought forward		0		0		**(3,156)**		**(1,578)**
Charged to provision	0		0		**1,550**		**775**	
Contribution to provision	(3,156)		(1,578)		**(2,485)**		**(1,243)**	
Net increase in provision		(3,156)		(1,578)		**(935)**		**(468)**
Balance carried forward		(3,156)		(1,578)		**(4,091)**		**(2,046)**

ISLE OF WIGHT COUNCIL FIREFIGHTERS' PENSION FUND

The council, acting as a fire and rescue authority, administers and pays fire-fighters' pensions. Employee and employer contributions are paid into the pension fund from which benefit payments are made. The scheme is an unfunded scheme, consequently the fund has no investment assets and is balanced to nil each year by the receipt of a top-up grant from the Department of Communities and Local Government (DCLG), or by paying over the surplus to the DCLG. The benefits payable from the fund are firefighters' pensions.

The fund was established for authorities in England under the Firefighters' Pension Scheme (Amendment) (England) Order 2006 (SI 2006 No 1810). Employees' and employers' contribution levels are based on percentages of pensionable pay set nationally by the DCLG and are subject to triennial revaluation by the Government Actuary's Department.

Regular firefighters employed before 6 April 2006 were eligible for membership of the Firefighters' Pension Scheme (FPS). This scheme is now closed. A New Firefighters' Pension Scheme (NFPS) was introduced for regular and retained firefighters employed since 6 April 2006. These two schemes have been combined for the purpose of the firefighters' pension fund account and the net assets statement.

<u>Accounting Policies</u>

1. As the pension fund has no investment assets and does not account for benefits payable in the future, there are no accounting policies that diverge from those set out in the main statement of accounting policies.
2. The net assets statement does not include liabilities to pay pensions and other benefits after the balance sheet date. The council's liability calculated under IAS 19 is disclosed in note 47 to the financial statements.

2013-14		FIREFIGHTERS' PENSION FUND ACCOUNT	2014-15	
£000	£000		£000	£000
Originally stated	Restated (see note below)			
		Contributions receivable:		
		Fire authority:		
(510)	(510)	Employers' contributions in relation to pensionable pay	**(481)**	
(344)	(344)	Firefighters' contributions	**(374)**	
(854)	(854)	**Total contributions receivable**		**(855)**
		Benefits payable:		
1,457	1,386	Pensions	**1,456**	
0	0	Commutations and lump sum retirement benefits	**614**	
1,457	1,386	**Total benefits payable**		**2,070**
603	532	**Net amount payable for the year**		**1,215**
(603)	(532)	**Top-up grant payable by the Government**		**(1,215)**
0	0			**0**

2013-14		NET ASSETS STATEMENT	2014-15
£000	£000		£000
Originally stated	Restated (see note below)		
		Current assets	
139	68	Debtors - top-up receivable from the Government	**506**
		Current liabilities	
0	(467)	Provision for top-up grant repayable to Government relating to 2006-07 to 2012-13	**0**
(139)	399	Amount owing (to)/from general fund	**(506)**
0	0		**0**

Restatement note:
A number of injury pensions were found to have being charged to the fire-fighters' pension fund account in error since 2006. These should have been charged to the council's general fund. The 2013-14 statements above have been restated to show the adjusted position. The relevant amounts have been charged correctly in 2014-15. The adjustment reduces the 2013-14 pension benefits payable in the fund account by £0.071 million and reduces the government debtor in the net assets statement by the same amount. The net position with the amount owing to or from the council's general fund has changed by £0.538 million comprising the £0.071 million adjustment above and the £0.467 million provision for potential repayment of top-up grant to central government for the period 2006-07 to 2012-13.

This is a national issue and negotiations between the fire-fighters' employing authorities and central government relating to repayment are on-going. A corresponding provision has been made in the council's balance sheet to recognise the liability relating to the potential repayment.

ISLE OF WIGHT COUNCIL PENSION FUND

2013-14 £000	FUND ACCOUNT	Notes	2014-15 £000
	Dealings with members, employers and others directly involved in the fund		
16,948	Contributions	7	17,108
717	Transfers in from other pension funds	8	455
13	Other income	9	21
17,678			17,584
(18,578)	Benefits	10	(19,550)
(364)	Payments to and on account of leavers	11	(377)
(18,942)			(19,927)
(1,264)			**(2,343)**
(2,513)	Management expenses	12	**(2,868)**
	Returns on investments		
9,621	Investment income	13	8,601
(523)	Taxes on income	14	(377)
32,820	Profit and losses on disposal of investments and changes in the market value of investments	17	50,513
(13)	Interest payable	16	(7)
41,905	Net returns on investments		**58,730**
38,128	**Net increase in the net assets available for benefits during the year**		**53,519**

ISLE OF WIGHT COUNCIL PENSION FUND

2014 £000	NET ASSETS STATEMENT AS AT 31 MARCH	Notes	2015 £000
422,920	Investment assets	17	481,403
5,703	Cash deposits	17	1,279
428,623			482,682
(1,097)	Investment liabilities	17	(13)
(1,380)	Borrowings	18	(3,025)
10	Long term assets	22	16
693	Current assets	23	796
(891)	Current liabilities	24	(979)
425,958	**Net assets of the fund available to fund benefits at the period end**		**479,477**

The fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed at note 21.

ISLE OF WIGHT COUNCIL PENSION FUND

NOTES TO THE ACCOUNTS

1. DESCRIPTION OF THE FUND

The Isle of Wight Council Pension Fund (“the fund”) is part of the Local Government Pension Scheme (LGPS) and is administered by Isle of Wight Council (“the council”). The council is the reporting entity for this pension fund.

The following description of the fund is a summary. For more detail, reference should be made to the Isle of Wight Council Pension Fund Annual Report 2014-15 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme Regulations.

a) General

The fund is governed by the Public Service Pensions Act 2013. The fund is administered in accordance with the following secondary legislation:

- the Local Government Pension Scheme Regulations 2013 (as amended)
- the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

It is a contributory defined benefit pension scheme administered by Isle of Wight Council to provide pensions and other benefits for the majority of local government employees throughout the Isle of Wight, and a range of other scheduled and admitted bodies on the Isle of Wight. Teachers and fire-fighters are not included as they come within other national pension schemes.

The fund is overseen by the Isle of Wight Pension Fund Committee (“the committee”), which is a committee of Isle of Wight Council.

b) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

Organisations participating in the Isle of Wight Council Pension Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the fund.
- Admitted bodies, which are other organisations that participate in the fund under an admission agreement between the fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

The scheduled bodies of the fund with active members at 31 March 2015 are:

Cowes Enterprise College, an Ormiston Academy (NEW)	Northwood Primary Academy
Gurnard Town Council (NEW)	Ryde Academy
Isle of Wight College	Ryde Town Council
Isle of Wight Free School (NEW)	Sandown Bay Academy
Isle of Wight Studio School (NEW)	St Blasius Primary Academy
Lanesend Primary Academy (NEW)	Weston Primary Academy
Newport Parish Council	Wootton Bridge Parish Council
Northwood Parish Council	

The admitted bodies of the fund with active members at 31 March 2015 are:

- The Childrens Society
- Cowes Harbour Commissioners
- Island Roads Limited
- Island Youth Water Activities Centre
- Planet Ice (IOW) Ltd
- Riverside Centre Ltd
- Southern Housing Limited
- Southern Vectis
- Spectrum Housing Limited
- Spurgeons
- St Catherine's School Ltd
- Trustees of Carisbrooke Castle Museum
- Ventnor Botanic Gardens
- Visit IOW Limited
- Yarmouth (IW) Harbour Commissioners

The membership of the scheme is shown below:

Year ended 31 March 2015

	Administering Authority	Scheduled Bodies	Admitted Bodies	Total
Number of employers with active members	1	15	15	**31**
Number of contributors (Active members)	3,153	658	162	**3,973**
Number of frozen refunds [1]	602	10	4	**616**
Number of deferred pensioners [2]	4,610	248	100	**4,958**
Number of pensioners	3,100	145	126	**3,371**
Number of widows/dependant pensioners	464	22	16	**502**
	11,929	1,083	408	**13,420**

Year ended 31 March 2014

	Administering Authority	Scheduled Bodies	Admitted Bodies	Total
Number of employers with active members	1	13	16	**30**
Number of contributors (Active members)	3,338	550	179	**4,067**
Number of frozen refunds [1]	604	10	4	**618**
Number of deferred pensioners [2]	4,514	235	94	**4,843**
Number of pensioners	2,961	126	115	**3,202**
Number of widows/dependant pensioners	450	19	16	**485**
	11,867	940	408	**13,215**

[1] Frozen refunds are former employees who do not have any pension entitlement apart from a return of the contributions paid into the Scheme during their employment but have not yet claimed the refund

[2] A deferred pensioner is a former employee who has accrued pension rights within the Scheme but has not yet reached retirement age to enable them to access their benefits or transferred their accrued rights to another Scheme/provider

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS Regulations 2013.

The pay bands and rates applicable for the year ended 31 March 2015 are detailed below.

Range (Actual pensionable pay)	Contribution rate
Up to £13,500	5.5%
More than £13,501 and up to £21,000	5.8%
More than £21,001 and up to £34,000	6.5%
More than £34,001 and up to £43,000	6.8%
More than £43,001 and up to £60,000	8.5%
More than £60,001 and up to £85,000	9.9%
More than £85,001 and up to £100,000	10.5%
More than £100,001 and up to £150,000	11.4%
More than £150,000	12.5%

Employee contributions are matched by employers' contributions which are set based on triennial actuarial valuations. The last such valuation was at 31 March 2013. The current and future employer contribution rates as determined by that valuation are detailed in note 20.

d) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, summarised below.

	Service pre 1 April 2008	Service post 31 March 2008
Pension	Each year worked is worth 1/80 x final pensionable salary	Each year worked is worth 1/60 x final pensionable salary
Lump Sum	Automatic lump sum of 3 x salary. In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with the Consumer Prices Index.

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits. For more details, please refer to the Pensions Office website: http://www.iwight.com/council/OtherServices/Pensions-IWC

2. BASIS OF PREPARATION

The Statement of Accounts summarises the fund's transactions for the 2014-15 financial year and its position at year-end as at 31 March 2015. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2014/15* which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed at note 21 of these accounts.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund account – revenue recognition

a) Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the actuary in the payroll period to which they relate.

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule for contributions set by the scheme actuary or on receipt if earlier than the due date.

Employers' augmentation contributions and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with the LGPS Regulations (see notes 8 and 11).

Individual transfers in/out are accounted for when paid/received, which is normally when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions (see below) to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In (see note 8).

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

c) Investment income

i) Interest income

Interest income is recognised in the fund accounts as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs (where material) or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

ii) Dividend income

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

iii) Distributions from pooled funds

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

iv) Movement in the net market value of investments

Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

Fund account – expense items

d) Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

e) Taxation

The fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers from withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

f) Management expenses
The code does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency, the council discloses its pension fund management expenses in accordance with the CIPFA guidance *Accounting for Local Government Pension Scheme Management Costs*

Administrative expenses
All administrative expenses are accounted for on an accruals basis. All staff costs of the pensions administration team are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to the fund in accordance with council policy.

Oversight and governance costs
All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund.

Investment management expenses
All investment management expenses are accounted for on an accruals basis.

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly these are based on the market values of the investments under their management and therefore increase or reduce as the value of these investments change.

In addition the fund has negotiated with the following managers that an element of their fee be performance related:

- Majedie Asset Management Limited – UK Equities
- Newton Investment Management Limited – Global Equities

Where an investment manager's fee note has not been received by the balance sheet date, an estimate based on the market value of their mandate as at the end of the year is used for inclusion in the fund account. In 2014-15 no fees are based on such estimates (2013-14: nil)

The cost of obtaining investment advice from external consultants is included in investment management charges.

A proportion of the council's costs representing management time spent by officers on investment management is also charged to the fund.

g) VAT
VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs (HMRC). VAT receivable is excluded from income.

Net assets statement
h) Financial assets
Financial assets are included in the net assets statement on a fair value basis at the reporting date. A financial asset is recognised in the net assets statement on the date the fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of the asset are recognised by the fund.

The values of investments as shown in the net assets statement have been determined as follows:

i) Market-quoted investments
The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.

ii) Pooled investment vehicles
Pooled investment vehicles are valued at closing bid price, if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of applicable withholding tax.

i) Foreign currency transactions
Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

j) Cash and cash equivalents
Cash comprises cash in hand and demand deposits and includes amounts held by the fund's external managers.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

k) Financial liabilities
The fund recognises financial liabilities at fair values at the reporting date. A financial liability is recognised in the net assets statement on the date the fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the fund.

l) Actuarial present value of promised retirement benefits
The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards.

As permitted under the Code, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (note 21).

m) Additional Voluntary Contributions
Isle of Wight Council Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the pension fund. The fund has appointed Prudential Life and Pensions as its AVC provider. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors.
Each AVC contributor receives an annual statement showing the amount held in their accounts and the movements in the year.

AVCs are not included in the accounts in accordance with section 4(2)(b) of the Local Government Pension Scheme (Management and Investment Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (note 25).

n) Events After the Balance Sheet Date
Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period) and
- those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period)

Events taking place after the date of authorisation for issue are not reflected in the financial statements.

o) Provisions, Contingent Liabilities and Contingent Assets
i) Provisions
Provisions are made where an event has taken place that gives the fund a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and where a reliable estimate can be made of the amount of the obligation. For instance, the fund may be involved in a court case that could result eventually in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the fund account in the year that the fund becomes aware of the obligation, and are measured at the best estimate, at the balance sheet date, of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made they are charged to the provision carried in the net assets statement. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the authority settles the obligation.

ii) Contingent Liabilities

A contingent liability arises where an event has taken place that gives the fund a possible obligation, whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the fund. Contingent liabilities also arise in circumstances where a provision would otherwise be made, but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the net assets statement but disclosed in note 27 to the accounts.

iii) Contingent Assets

A contingent asset arises where an event has taken place that gives the authority a possible asset, whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the fund.

Contingent assets are not recognised in the net assets statement but disclosed in note 27 to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Pension fund liability

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and summarised in note 20. This estimate is subject to significant variances based on changes to the underlying assumptions.

5. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that actual outcomes could differ from those estimates.

The items in the net assets statement at 31 March 2015 for which there is a significant risk of material adjustment within the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be provided.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance: A 0.5% increase in the discount rate assumption would result in a decrease in the pension fund deficit of £43m. A 0.5% increase in assumed earnings inflation would increase the deficit by approximately £12m. A 0.5% increase in assumed price inflation/pension increases would increase

the deficit by approximately £34m.
A one-year increase in assumed life expectancy would increase the deficit by approximately £15m

6. EVENTS AFTER THE BALANCE SHEET DATE

There are no post balance sheet events recorded prior to the authorised for issue date and any events that occurred after this date have not been recognised in the statement of accounts.

7. CONTRIBUTIONS RECEIVABLE

By category:

2013-14 £000		2014-15 £000
13,551	Employers	13,617
3,397	Members	3,491
16,948		**17,108**

By authority:

2013-14 £000		2014-15 £000
13,148	Administering authority	13,111
1,715	Scheduled bodies	2,096
2,085	Admitted bodies	1,901
16,948		**17,108**

By type:

2013-14 £000		2014-15 £000
3,378	Employees' normal contributions	3,470
19	Employees' additional contributions	21
12,073	Employers' normal contributions	12,401
745	Employers' deficit recovery contributions	823
733	Employers' augmentation contributions	393
16,948		**17,108**

8. TRANSFERS IN FROM OTHER PENSION FUNDS

2013-14 £000		2014-15 £000
-	Group transfers	-
717	Individual transfers	455
717		**455**

9. OTHER INCOME

2013-14 £000		2014-15 £000
13	Miscellaneous income	19
-	Contribution Equivalent Premiums	2
13		**21**

Contribution Equivalent Premiums (CEPs) are sums relating to National Insurance Contributions payable when an employee leaves the pension fund without entitlement to benefits. Sums are held as a contingent asset and/or liability and these amounts remain so until the relevant employee requests a refund of contributions payable, a transfer is made to another pension fund or the employee returns to the employ of the Isle of Wight Council (see note 27).

10. BENEFITS PAYABLE

By category:

2013-14 £000		2014-15 £000
15,323	Pensions	16,099
2,960	Commutation and lump sum retirement benefits	2,879
295	Lump sum death benefits	572
18,578		**19,550**

By authority:

2013-14 £000		2014-15 £000
16,880	Administering authority	17,490
600	Scheduled bodies	838
1,098	Admitted bodies	1,222
18,578		**19,550**

11. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2013-14 £000		2014-15 £000
2	Refund of contributions	14
-	Group transfers	-
362	Individual transfers	363
364		**377**

12. MANAGEMENT EXPENSES

2013-14 £000		2014-15 £000
346	Administrative costs	375
1,984	Investment management expenses	2,303
183	Oversight and governance costs	190
2,513		**2,868**

The analysis of the costs of managing the Isle of Wight Council Pension Fund during the period has been prepared in accordance with CIPFA guidance.

The investment management expenses above include £1,405.4 thousand (2014-15: £903.5 thousand) in respect of performance-related fees paid/payable to the fund's investment managers.

In addition to these costs, indirect costs are incurred through the bid-offer spread on investments sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sales of investments (see note 17a).

13. INVESTMENT INCOME

2013-14 £000		2014-15 £000
5,259	Equity dividends	4,020
	Income from pooled investment vehicles:	
856	- Property	945
3,476	- Bonds	3,615
29	- Unit Trusts	-
1	Interest on cash deposits	4
-	Other	17
9,621		**8,601**

14. TAXATION

2013-14 £000		2014-15 £000
523	Withholding tax - equities	377
523		**377**

15. INVESTMENT MANAGEMENT

2013-14 £000		2014-15 £000
1,965	Management fees	2,274
19	Custodian fees	29
1,984		**2,303**

The management fees disclosed above include all investment management fees directly incurred by the fund including those charges on pooled fund investments.

16. INTEREST PAYABLE

2013-14 £000		2014-15 £000
13	Interest on short term borrowing	7
13		**7**

17. INVESTMENTS

Market value 31 March 2014 £000		Market value 31 March 2015 £000
	Investment assets	
98,153	Equities	105,258
324,354	Pooled Investment Vehicles	375,758
5,703	Cash deposits	1,279
280	Investment income due	317
99	Amounts receivable for sales	34
34	Recoverable withholding tax	36
428,623	**Total investment assets**	**482,682**
	Investment liabilities	
(1,097)	Amounts payable for purchases	(13)
(1,097)	**Total investment liabilities**	**(13)**
427,526	**Net investment assets**	**482,669**

17A) RECONCILIATION OF MOVEMENTS IN INVESTMENTS

	Market value 1 April 2014	Purchases during the year	Sales during the year	Change in market value during the year	**Market value 31 March 2015**
	£000	£000	£000	£000	**£000**
Equities	98,153	47,056	(45,076)	5,125	**105,258**
Pooled Investment Vehicles					
Global Equities	141,792	-	-	30,150	**171,942**
Property	20,546	2,545	-	2,681	**25,772**
Bonds	84,983	3,616	-	8,048	**96,647**
Diversified Growth Fund	66,655	57	-	5,292	**72,004**
Unit Trusts	10,378	-	(200)	(785)	**9,393**
	422,507	53,274	(45,276)	50,511	**481,016**
Cash deposits	5,703			(7)	**1,279**
Amounts receivable for sales of investments	99				**34**
Investment income due	280			9	**317**
Recoverable withholding tax	34				**36**
Amounts payable for purchases of investments	(1,097)				**(13)**
Net investment assets	427,526			50,513	**482,669**

	Market value 1 April 2013	Purchases during the year	Sales during the year	Change in market value during the year	**Market value 31 March 2014**
	£000	£000	£000	£000	**£000**
Equities	140,671	57,889	(122,048)	21,641	**98,153**
Pooled Investment Vehicles					
Global Equities	132,584	-	-	9,208	**141,792**
Property	18,876	-	-	1,670	**20,546**
Bonds	83,929	3,476	-	(2,422)	**84,983**
Diversified Growth Fund	-	66,066	-	589	**66,655**
Unit Trusts	9,793	600	(2,165)	2,150	**10,378**
	385,853	128,031	(124,213)	32,836	**422,507**
Cash deposits	4,364			(16)	**5,703**
Amounts receivable for sales of investments	72				**99**
Investment income due	668				**280**
Recoverable withholding tax	76				**34**
Amounts payable for purchases of investments	(15)				**(1,097)**
Net investment assets	391,018			32,820	**427,526**

17B) ANALYSIS OF INVESTMENTS

31 March 2014 £000		31 March 2015 £000
	Equities	
	UK	
81,007	Quoted	85,812
	Overseas	
17,146	Quoted	19,446
98,153		**105,258**
	Pooled funds – additional analysis	
	UK	
324,354	Quoted	375,758
324,354		**375,758**
422,507		**481,016**

Investments analysed by fund manager

Market value 31 March 2014			Market value 31 March 2015	
£000	%		£000	%
84,984	19.9	Schroder Investment Management – Bonds	96,647	20.0
22,165	5.2	Schroder Investment Management – Property	25,775	5.3
141,792	33.2	Newton Investment Management – Overseas Equities	171,942	35.6
111,895	26.1	Majedie Asset Management – UK Equities	116,265	24.1
66,655	15.6	Baillie Gifford – Diversified Growth Fund	72,004	15.0
427,491			**482,633**	
34	0.0	Recoverable withholding tax	36	0.0
427,526			**482,669**	

All the above companies are registered in the United Kingdom.

The following investments represent more than 5% of the total net assets of the fund

Market value 31 March 2014			Market value 31 March 2015	
£000	% of total fund		£000	% of total fund
141,792	33.29	Newton International Growth X Account	171,942	35.86
84,983	19.95	Schroder Institutional Sterling Broad Market X Account	96,647	20.16
66,655	15.65	Baillie Gifford Diversified Growth Pension Fund	72,004	15.02
20,546	4.82	Schroder UK Property Fund	25,772	5.38

The following investments represent more than 5% of their asset class

Market value 31 March 2014			Market value 31 March 2015	
£000	% of asset class		£000	% of asset class
		Equities		
4,532	4.62	Vodafone Group	6,443	6.12
8,419	8.58	BP plc	5,976	5.68
2,377	2.42	HSBC	5,626	5.35

6,426	6.55	GlaxoSmithKline plc	5,233	4.97
9,925	10.11	Royal Dutch Shell	3,543	3.37

Market value 31 March 2014			Market value 31 March 2015	
£000	% of asset class		£000	% of asset class
		Pooled Investment Vehicles		
		Global Equities		
141,792	100.00	Newton International Growth X Account	171,942	100.00
		Bonds		
84,983	100.00	Schroder Institutional Sterling Broad Market X Account	96,647	100.00
		Property		
20,546	100.00	Schroder UK Property Fund	25,772	100.00
		Diversified Growth Funds		
66,655	100.00	Baillie Gifford Diversified Growth Pension Fund	72,004	100.00
		Unit Trusts		
10,378	100.00	Majedie Asset Management Special Situations Investment Fund	9,393	100.00

18. FINANCIAL INSTRUMENTS

18A) CLASSIFICATION OF FINANCIAL INSTRUMENTS

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities (excluding cash) by category and net assets heading. No financial assets were reclassified during the period.

31 March 2014				31 March 2015		
Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost		Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost
£000	£000	£000		£000	£000	£000
			Financial assets			
98,153			Equities	105,258		
324,354			Pooled investment vehicles	375,758		
	5,718		Cash		1,369	
413			Other investment balances	387		
	11		Debtors		83	
422,920	**5,729**	**-**		**481,403**	**1,452**	**-**
			Financial liabilities			
(1,097)			Other investment balances	(13)		
		(629)	Creditors			(710)
		(1,380)	Borrowings			(3,025)
(1,097)	**-**	**(2,009)**		**(13)**	**-**	**(3,735)**
421,823	**5,729**	**(2,009)**		**481,390**	**1,452**	**(3,735)**

18B) NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

31 March 2014 £000		31 March 2015 £000
	Financial assets	
32,836	Fair value through profit and loss	50,520
(16)	Loans and receivables	(7)
	Financial liabilities	
-	Fair value through profit and loss	-
-	Financial liabilities measured at amortised cost	-
32,820	**Total**	**50,513**

18C) FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table summarises the carrying values of the financial assets and financial liabilities by class of instrument compared to their fair values.

31 March 2014			31 March 2015	
Carrying value	Fair value		Carrying value	Fair value
£000	£000		£000	£000
		Financial assets		
422,920	422,920	Fair value through profit and loss	481,403	481,403
5,729	5,729	Loans and receivables	1,452	1,452
428,649	**428,649**	**Total financial assets**	**482,855**	**482,855**
		Financial liabilities		
(1,097)	(1,097)	Fair value through profit and loss	(13)	(13)
(2,009)	(2,009)	Financial liabilities measured at amortised cost	(3,735)	(3,735)
(3,106)	**(3,106)**	**Total financial liabilities**	**(3,748)**	**(3,748)**

The carrying value of financial instruments and liabilities is the market value prevailing at the balance sheet dates.

The fund has not entered into any financial guarantees that are required to be accounted for as financial instruments.

18D) VALUATION OF FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information available to determine fair values.

Level 1

Financial instruments quoted at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant impact on the instrument’s valuation is not based on observable market data.

Such instruments would include unquoted equity investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

At 31 March 2015, the fund does not have any investments which should be classified as Level 3.

The following table provides an analysis of the fund's financial assets and liabilities (by class) grouped into Levels 1 to 3, based on the level at which the fair value is observable:

At 31 March 2015			
Type of Asset	Level 1	Level 2	Level 3
	£000	£000	£000
Equities	105,258	-	-
Pooled Investment Vehicles:			
Global Equities	171,942	-	-
Property	-	25,772	-
Bonds	96,647	-	-
Diversified Growth Fund	-	72,004	-
Unit Trusts	9,393	-	-
Cash and Cash Equivalents	1,279	-	-
TOTAL	**384,519**	**97,776**	**-**

At 31 March 2014			
Type of Asset	Level 1	Level 2	Level 3
	£000	£000	£000
Equities	98,153	-	-
Pooled Investment Vehicles:			
Global Equities	141,792	-	-
Property	-	20,546	-
Bonds	84,984	-	-
Diversified Growth Fund	-	66,655	-
Unit Trusts	10,377	-	-
Cash and Cash Equivalents	5,703	-	-
TOTAL	**341,009**	**87,201**	**-**

19. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Risk and risk management

The fund's objective is to generate positive investment returns for a given level of risk. Therefore the fund holds financial instruments such as securities (equities, bonds), collective investment schemes (or pooled funds) and cash and cash equivalents. In addition debtors and creditors arise as a result of its operations. The value of these financial instruments in the financial statements approximates to their fair value.

The main risks from the fund's holding of financial instruments are market risk, credit risk and liquidity risk. Market risk includes price risk, interest rate risk and foreign currency risk.

Responsibility for the fund's risk management strategy rests with the pension fund committee. Risk management policies are established to identify and analyse the risks faced by the council's pensions operations. Policies are reviewed regularly to reflect changes in activity and market conditions.

Since 2 February 2015, the fund's investments are held by BNP Paribas Securities Services, who act as custodian on behalf of the fund. Before that date, the custodian was J P Morgan Chase Bank NA.

Because the fund adopts a long term investment strategy, the high level risks described below will not alter significantly during the year unless there are significant strategic or tactical changes in the portfolio.

a) Market risk

Market risk represents the risk that the fair value of a financial instrument will fluctuate because of changes in market prices, interest rates or currencies. The fund is exposed through its investments in equities, bonds and investment funds, to all these market risks. The aim of the investment strategy is to manage and control market risk within acceptable parameters, while optimising the return from the investment portfolio.

In general, excessive volatility in market risk is managed through the diversification of the investments held by asset class, investment mandate guidelines and investment managers. The risk arising from exposure to specific markets is limited by the strategic asset allocation, which is regularly monitored by the committee.

The fund's investments are managed on behalf of the fund by the appointed investment managers. Each investment manager is required to invest the assets managed by them in accordance with the terms of their investment guidelines or pooled fund prospectus. The committee has determined that the investment management structure is appropriate and is in accordance with its investment strategy. The committee regularly monitors each investment manager and considers and takes advice on the nature of the investments made and associated risks.

Other price risk
Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of factors other than interest rate or foreign currency movements, whether those changes are caused by factors specific to the individual instrument, its issuer or factors affecting the market in general.

Other price risk arises from uncertainty about the future value of the financial instruments that the fund holds. All investments present a risk of loss of capital, the maximum risk being determined by the fair value of the financial instruments. The investment managers mitigate this risk through diversification in line with their own investment strategies and mandate guidelines.

Other price risk - sensitivity analysis
The sensitivity of the fund's investments to changes in market prices has been analysed using the volatility of return experienced by each investment portfolio during the reporting period. The volatility data is broadly consistent with a one-standard deviation movement in the value of the assets. The analysis assumes that all other variables remain constant.

Movements in market prices would have increased or decreased the net assets, as held by the fund's custodian, by the amounts shown below.

	Value as at 31 March 2015	Volatility of return	Value on increase	Value on decrease
	£000	%	£000	£000
Cash & cash equivalents	1,279	0.0	1,279	1,279
Investment portfolio assets				
Equities – UK	85,812	2.6	88,069	83,556
Equities – overseas	19,446	6.0	20,619	18,273
Pooled investment vehicles:				
Global equities	171,942	5.5	181,359	162,526
Property	25,772	7.5	27,713	23,832
Bonds	96,647	4.4	100,929	92,365
Diversified Growth Fund	72,004	2.2	73,623	70,385
Unit Trusts	9,393	3.3	9,700	9,086
Amounts receivable for sales	34	0.0	34	34
Investment income due	317	0.0	317	317
Recoverable withholding tax	36	0.0	36	36
Amounts payable for purchases	(13)	0.0	(13)	(13)
Total	482,669		503,665	461,676

	Value as at 31 March 2014	Volatility of return	Value on increase	Value on decrease
	£000	%	£000	£000
Cash & cash equivalents	5,703	0.0	5,703	5,703
Investment portfolio assets				
Equities – UK	81,007	4.5	84,654	77,359
Equities – overseas	17,146	10.0	18,858	15,434
Pooled investment vehicles:				
Global equities	141,792	2.2	144,954	138,630
Property	20,546	2.7	21,097	19,995

Bonds	84,985	1.5	86,298	83,670
Diversified Growth Fund	66,655	4.9	69,931	63,378
Unit Trusts	10,378	10.1	11,426	9,328
Amounts receivable for sales	99	0.0	99	99
Investment income due	280	0.0	280	280
Recoverable withholding tax	34	0.0	34	34
Amounts payable for purchases	(1,097)	0.0	(1,097)	(1,097)
Total	427,526		442,237	412,813

b) Interest rate risk

Interest rate risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market interest rates which will affect the value of fixed interest and index linked securities. The amount of income receivable from cash balances will be affected by fluctuations in interest rates.

Interest rate risk - sensitivity analysis

The fund does not directly hold any fixed interest securities; hence a change in interest rates will not impact on the fair value of assets.

Changes in interest rates do not impact on the fair value of cash balances, but they will impact on the interest income earned.

c) Currency risk

Currency risk represents the risk that the fair value of financial instruments when expressed in sterling, the fund's base currency, will fluctuate because of changes in foreign exchange rates. The fund is exposed to currency risk on investments denominated in a currency other than sterling. For a sterling based investor, when sterling weakens, the sterling value of foreign currency denominated investments rises. As sterling strengthens, the sterling value of foreign currency denominated investment falls.

The following table summarises the fund's currency exposure as at 31 March 2015, and as at the previous period end:

	Asset value as at 31 March 2015	Asset value as at 31 March 2014
	£'000	£'000
Equities	19,102	17,079
Investment income due	134	52
	19,236	**17,131**

Currency risk – sensitivity analysis

Following analysis of historical data, the council considers the likely volatility associated with foreign exchange movements to be 4.24% (2013-14: 3.61%) (as measured by one standard deviation), based on historical movements on the month-end exchange rates over a rolling 36-month period.

This analysis assumes that all other variables, in particular interest rates, remain constant.

Movements in the relative strength of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows:

	Value as at 31 March 2015	Value on increase +4.24%	Value on decrease -4.24%
	£'000	£'000	£'000
Equities	19,102	19,911	18,292
Investment income due	134	140	128
	19,236	**20,051**	**18,420**

	Value as at 31 March 2014	Value on increase +3.61%	Value on decrease -3.61%
	£'000	£'000	£'000
Equities	17,079	17,696	16,463
Investment income due	52	54	51
	17,131	**17,750**	**16,514**

d) Credit Risk
Credit risk represents the risk that the counterparty to a transaction or financial instrument will fail to meet an obligation and cause the fund to incur a financial loss. This is often referred to as counterparty risk.

The fund is exposed to credit risk through its underlying investments (including cash balances) and the transactions it undertakes to manage its investments. The careful selection and monitoring of counterparties including brokers, custodian and investment managers minimises credit risk that may occur though the failure to settle transactions in a timely manner.

Contractual credit risk is represented by the net payment or receipt that remains outstanding, and the cost of replacing the position in the event of a counterparty default. Bankruptcy or insolvency of the custodian may affect the fund's access to its assets. However, all assets held by the custodian are ring-fenced as "client assets" and therefore cannot be claimed by creditors of the custodian. The fund manages its risk by monitoring the credit quality and financial position of the custodian.

The fund does not hold any fixed interest securities directly, hence has limited credit risk through its underlying investments in bonds.

Another source of credit risk is the cash balances held to meet operational requirements or by the managers at their discretion. Internally held cash is managed on the fund's behalf by the council's treasury management team in line with the council's Treasury Management Strategy which sets out the permitted counterparties and limits. The fund invests surplus cash held with the custodian in diversified money market funds.

The fund does not engage in securities lending activities, hence is not exposed to the counterparty risk of the collateral provided by borrowers against the securities lent.

The fund does not have any foreign exchange contracts, hence is not subject to credit risk in relation to the counterparties of the contracts.

The council believes it has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits over the past five financial years.

e) Liquidity Risk
Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as they fall due.

A substantial portion of the fund's investments consist of readily realisable securities, in particular equities and fixed income investments, even though a significant proportion is held in pooled funds. However, the main liability of the fund is the benefits payable which fall due over a long period and the investment strategy reflects the long term nature of these liabilities. Therefore the fund is able to manage the liquidity risk that arises from its investments in less liquid asset classes such as property which are subject to longer redemption periods and cannot be considered as liquid as the other investments.

The fund maintains a cash balance to meet working requirements, which is supported by an available credit line from the Isle of Wight Council. Note 26 includes details of borrowing from the council for this purpose.

Management prepares periodic cash flow forecasts to understand and manage the timing of the fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the fund investment strategy.

All financial liabilities at 31 March 2015 are due within one year.

Refinancing risk
The key risk is that the council will be bound to replenish a significant proportion of its pension fund financial instruments at a time of unfavourable interest rates. The council does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategies.

20. FUNDING ARRANGEMENTS

This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme Regulations 2013, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2014/15. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

Description of Funding Policy
The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), dated May 2014. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- not to restrain unnecessarily the Investment Strategy of the Pension Fund so that the Administering Authority can seek to maximise investment returns (and hence meet the costs of benefits) for an appropriate level of risk;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (NB this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable.

For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised below the theoretical rate required to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still a better than 75% chance that the Fund will return to full funding over 20 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31 March 2013. This valuation revealed that the Fund's assets, which at 31 March 2013 were valued at £388 million, were sufficient to meet 78% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2013 valuation was £111 million.

Individual employers' contributions for the period 1 April 2014 to 31 March 2017 were set in accordance with the Fund's funding policy as set out in its FSS.

Minimum Total Contribution Rates expressed as a percentage of pensionable pay are as set out below:-

Employer Name		Minimum Contributions for the Year Ending 31 March		
		2015	2016	2017
		% of pay	% of pay	% of pay
Isle of Wight Council		22.0	23.0	23.5
St Catherine's School Ltd		20.3	20.3	20.3
IOW Society for the Blind		45.1	45.1	45.1
Riverside Centre Ltd		26.5	26.5	26.5
Planet Ice (IOW) Ltd		21.1	21.1	21.1
Yarmouth Harbour Commissioners		21.6	21.6	21.6
Cowes Harbour Commissioners		21.0	21.0	21.0
Trustees of Carisbrooke Castle Museum		22.3	22.3	22.3
Southern Housing Group		25.7	25.7	25.7
Spectrum Housing Group		20.5	20.5	20.5
Isle of Wight College (from 1 August)		23.8	23.8	23.8
Spurgeons		17.5	17.5	17.5
Children's Society		21.4	21.4	21.4
Ryde Academy	*	22.0	23.0	23.5
Sandown Bay Academy	*	22.0	23.0	23.5
Southern Vectis (Wightbus)		27.7	27.7	27.7
Weston Academy		17.4	17.4	17.4
Ventnor Botanical Gardens		18.9	18.9	18.9
Visit Isle of Wight		23.5	23.5	23.5

In addition, certain employers make a lump sum contribution:

Employer Name		Minimum Contributions for the Year Ending 31 March		
		2015	2016	2017
		Lump sum £000	Lump sum £000	Lump sum £000
St Catherine's School Ltd		44	44	44
IOW Society for the Blind		41	41	41
Yarmouth Harbour Commissioners		53	56	59
Cowes Harbour Commissioners		20	20	20
Southern Housing Group		122	122	122
Spectrum Housing Group		109	109	109
Ryde Academy	*	-	-	-
Sandown Bay Academy	*	-	-	-
Southern Vectis (Wightbus)		1	1	1
Weston Academy		4	4	4

* During 2014-15, academies within the fund were asked whether they wished to pool with the administering authority for contribution rate purposes only. Two of the academies in operation at the time of the last valuation opted to pool, and the pooled rates are shown above.

A revised Rates and Adjustments Certificate reflecting the changes noted above was issued by the funds actuary on 11 May 2015. This revised certificate included contribution rates payable by employers who joined the fund after 1 April 2013, as shown below:

Employer Name		Minimum Contributions for the Year Ending 31 March		
		2015	2016	2017
		% of pay	% of pay	% of pay
Island Roads		22.0	23.0	23.5
Island Youth Water Activities Centre		22.0	23.0	23.5
Northwood Academy		22.0	23.0	23.5
St Blasius Academy		22.0	23.0	23.5
Lanesend Academy		22.0	23.0	23.5
Cowes Enterprise College, an Ormiston Academy		22.0	23.0	23.5
The Island Free School	**	20.7	20.7	20.7
Isle of Wight Studio School	**	20.7	20.7	20.7

** The Island Free School and Isle of Wight Studio School are to pay a contribution rate of 20.7% of payroll (equal to the future service rate of the Isle of Wight Council). The contribution rate for each employer is to be reassessed on an annual basis and may therefore be subject to change for the years ending 31 March 2016 and 31 March 2017.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the valuation report dated 26 March 2014.

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2013 valuation were as follows:

Financial Assumptions	31 March 2013	
	% p.a. Nominal	% p.a. Real
Discount rate	4.60%	2.10%
Salary Increases	4.30%	1.80%
Price inflation/Pension Increases	2.50%	-

(Explanatory note: The pay increases shown above are for the purposes of the actuarial valuation only and not a reflection of what actual pay rises will be in the short-term. The assumptions are consistent with other assumptions used in the actuarial valuation and reflect longer term trends.)

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2010 model, assuming the current rate of improvements has reached a peak and will converge to a long term rate of 1.25% p.a.

Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	22.4 years	24.5 years
Future Pensioners *	23.8 years	26.7 years

* based on members aged 45 at the valuation date.

Copies of the 2013 valuation report and the Funding Strategy Statement are available on request from the Finance Department of the Isle of Wight Council, administering authority to the fund.

Experience over the period since April 2014

Experience has been worse than expected over the year to 31 March 2015 (excluding the effect of any membership movements). Real bond yields have fallen dramatically and the effect of this has been only partially offset by the effect of strong asset returns, meaning that funding levels are likely to have worsened and deficits increased over this period.

The next actuarial valuation will be carried out as at 31 March 2016. The Funding Strategy Statement will also be reviewed at that time.

21. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

CIPFA's Code of Practice on Local Authority Accounting 2014/15 requires Administering Authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits.

The actuarial present value of promised retirement benefits is to be calculated similarly to the defined benefit obligation under IAS19. There are three options for its disclosure in pension fund accounts:

- showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;
- as a note to the accounts; or
- by reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS26 requires the most recent valuation to be used as a base and the date of the valuation disclosed. The valuation should be carried out using assumptions in line with IAS19 and not the Pension Fund's funding assumptions.

Balance sheet

Year ended	31 March 2015 £ m	31 March 2014 £ m
Present value of Promised Retirement Benefits	689	599

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2013. The actuary estimates this liability at 31 March 2015 comprises £295m in respect of employee members (2014: £219 million), £125m in respect of deferred pensioners (2014: £105 million) and £268m in respect of pensioners (2014: £275 million). The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member may not be reliable. However, the actuary is satisfied the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises. The actuary has not made any allowance for unfunded benefits.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the accounts of the Pension Fund. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report as required by the Code of Practice. These are given below. The actuary estimates that the impact of the change of assumptions to 31 March 2015 is to increase the actuarial present value by £92m.

Financial assumptions

Year ended	31 March 2015 % p.a.	31 March 2014 % p.a.
Inflation/Pension Increase Rate	2.40%	2.80%
Salary Increase Rate	4.30%	4.60%
Discount Rate	3.20%	4.30%

(Explanatory note: The pay increases shown above are for the purposes of the actuarial valuation only and not a reflection of what actual pay rises will be in the short-term. The assumptions are consistent with other assumptions used in the actuarial valuation and reflect longer term trends.)

Longevity assumption
The life expectancy assumption is based on the Fund's VitaCurves with improvements in line with the CMI 2010 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current Pensioners	22.4 years	24.5 years
Future Pensioners *	23.8 years	26.7 years

* Future pensioners are assumed to be currently aged 45

Please note that the assumptions are identical to those used for the previous IAS26 disclosure for the Fund.

Commutation assumption
An allowance is included for future retirements to elect to take 25% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 63% of the maximum tax-free cash for post-April 2008 service.

22. LONG TERM ASSETS

31 March 2014 £000		31 March 2015 £000
	Debtors	
10	• Contributions due - employers	16
10		**16**

Analysis of debtors

31 March 2014 £000		31 March 2015 £000
10	Local authorities	4
-	Other entities and individuals	12
10		**16**

23. CURRENT ASSETS

31 March 2014 £000		31 March 2015 £000
	Debtors	
120	• Contributions due - employees	121
508	• Contributions due - employers	468
39	• Taxation	34
11	• Sundry debtors	9
-	• Payments in advance	74
15	Cash balances	90
693		**796**

Analysis of debtors

31 March 2014 £000		31 March 2015 £000
39	Central government bodies	34
10	Local authorities	9
629	Other entities and individuals	663
678		**706**

24. CURRENT LIABILITIES

31 March 2014 £000		31 March 2015 £000
	Creditors	
193	• Taxation	204
612	• Accruals	689
86	• Sundry creditors	86
891		**979**

Analysis of creditors

31 March 2014 £000		31 March 2015 £000
193	Central government bodies	204
78	Local authorities	81
620	Other entities and individuals	694
891		**979**

25. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCS)

Market value 31 March 2014 £000		Market value 31 March 2015 £000
995	Prudential Life and Pensions	914

AVCs of £70.9 thousand were separately invested with Prudential Life and Pensions (2013-14: £90.5 thousand).

26. RELATED PARTY TRANSACTIONS

Isle of Wight Council
The Isle of Wight Council Pension Fund is administered by Isle of Wight Council. Consequently there is a strong relationship between the council and the pension fund.

The council incurred costs of £286 thousand (2013-14: £286 thousand) in relation to the administration of the fund and was subsequently reimbursed by the fund for these expenses. The council is also the single largest employer of members of the pension fund and contributed £10.3 million (2013-14: £10.4 million) to the fund in 2014-15. All monies owing to the fund, with the exception of deferred balances in respect of pension strain costs totalling £9 thousand (2014: £9 thousand), were paid during the year.

During the year, the pension fund borrowed funds from the council to support its working cash flow requirements; interest was charged on these borrowings at the broker local authority interest rate relevant to the amount and duration of the borrowing at the time it was made. The maximum amount borrowed during 2014-15 was £3.0 million (2013-14: £2.7 million). The balance due to the council at 31 March 2015 is £3.03 million (2014: £1.38 million), of which £1.63 million is repayable within 1 month, and £1.4 million is repayable within 7 months. Interest of £6.7 thousand (2013-14: £3.4 thousand) was paid on these borrowings.

Governance
There are four members of the pension fund committee who are in receipt of pension benefits from the Isle of Wight Council Pension Fund (Cllrs Barry, Blezzard, Kendall and Warlow). In addition committee members Cllrs Barry, Kendall and Warlow are active members of the pension fund.

Each member of the pension fund committee is required to declare their interests at each meeting.

Council members named in note 29 form the Pension Fund Committee as trustees.

Key Management Personnel
Paragraph 3.9.4.3 of the Code exempts local authorities from the key management personnel

disclosure requirements of IAS 24, on the basis that the disclosure requirements for officer remuneration and members allowances detailed in section 3.4 of the Code (which are derived from the requirements of Regulation 7(2)-(4) of the Accounts and Audit (England) Regulations 2011) satisfy the key management personnel disclosure requirements of paragraph 16 of IAS24. This applies in equal measure to the accounts of the Isle of Wight Council Pension Fund.

The disclosures required by Regulation 7(2)-(4) of the Accounts and Audit (England) Regulations 2011 can be found in the main accounts of Isle of Wight Council.

IAS 24 defines key management personnel as those persons having authority and responsibility for planning, directing, and controlling the activities of the entity, directly or indirectly, including any directors (whether executive or otherwise) of the entity.

The fund is advised by the Managing Director. As he is not a member of the Isle of Wight Council Pension Fund, no separate disclosures are made in the fund accounts.

27. CONTINGENT ASSETS AND LIABILITIES

At 31 March 2015 there were contingencies relating to Contribution Equivalent Premiums (CEPs) amounting to a net sum of £140 thousand (2014: £142 thousand) due to the Pension Fund. Assets amounted to £186 thousand and liabilities totalled £46 thousand (2014: £186 thousand and £44 thousand respectively). The sums do not form part of the net assets of the fund. Refunds and payments will only be made on application by the employee.

In 2006 a decision was taken by the Investment Panel to join in a Class Action against the HMRC to recover tax credits on overseas dividends. A sum of £880 thousand has been estimated as the possible benefit to the pension fund. This case is on-going. The sums do not form part of the net assets of the fund.

28. CAPITAL COMMITMENTS

There were no capital commitments as at 31 March 2015 (2014: nil)

29. TRUSTEES REPORT 2014-15

The trustees of the pension fund are the members for the time being of the Pension Fund Committee, who at 31 March 2015 were Councillors Blezzard (chair), Barry, Eccles, Hutchinson, Kendall, Pitcher and Warlow.

The committee is advised by the Managing Director, the Technical Finance Officer, Mercer Limited (the fund's investment consultants), and Hymans Robertson LLP (the fund's actuaries). In addition, non-voting representatives from the admitted bodies and the staff union attend the committee.

Investment Performance

The net assets of the fund at 31 March 2015 were £479.5 million, a rise of 12.6% on the 31 March 2014 valuation of £426.0 million. The fund's total investments out-performed the agreed benchmarks by 1.2% during the year.

The fund has benefitted from a strong annual performance in the global equities market, which generated a return of 18.5%; the funds global equities manager, Newton Investment Management Limited outperformed this benchmark by 2.5%.

As well as another strong annual performance, the fund has also outperformed annualised benchmark returns for three years (3.4% outperformance) and five years (1.9% outperformance).

Funding Level

The Fund's last triennial actuarial valuation was undertaken at 31 March 2013, showing a funding level of 77.7%, compared to 75.3% at the previous valuation at 31 March 2010. The results of this latest valuation, in terms of revised contribution rates, were implemented with effect from April 2014.

The actuary's interim funding projection report at 31 March 2015 showed that the notional funding level had decreased to 81.5% (2014: 86.7%), but was still higher than that at the last triennial valuation at 31 March 2013. Lower bond yields have placed a higher value on the liabilities, but greater than assumed asset performance in the year has resulted in an improved funding position at 31 March 2015.

Governance

The Committee continues to keep its governance arrangements under review. It regularly reviews its risk register to identify, monitor and control, as far as possible, the risks to the fund. It also carried out a recruitment exercise for a new employer representative to the committee.

In accordance with the training plan developed in the previous year, training sessions were held before each committee meeting, including an asset allocations quiz from one of the fund managers, governance changes as a result of the Public Sector Pensions Act 2013, , and current investment and actuarial issues.

Following the enactment of the Public Service Pensions Act 2013 in April 2013, the committee reviewed the requirements for the establishment of a Local Pensions Board. In November 2014, the committee agreed to recommend to full council that a Local Pension Board be constituted, including proposed terms of reference. This was duly approved by the council at its meeting on 21 January 2015.

In 2014-15, the committee implemented the previous year's decision to undertake a procurement exercise for global custodian services, appointing BNP Paribas Securities Services with effect from 1 February 2015, following a procurement exercise undertaken using the National LGPS framework for custodian services. Also during the year the committee participated in the procurement process for new administration software.

It received reports on, and agreed, the Statement of Investment Principles, the Funding Strategy Statement and the Governance Compliance Statement; and received regular updates on governance changes, new and ceasing employers, membership numbers and contribution payments.

In addition, the Committee continues to receive presentations from its fund managers on the fund's investment performance as well as performance benchmarking and advice from its independent adviser, Mercer Limited.

Glossary of terms

Accounting policies
The principles, bases, conventions, rules and practices that specify how the effect of transactions and other events are to be reflected in the financial statements.

Accruals concept
Income and expenditure are recognised as they are earned or incurred, not as money is paid or received.

Amortisation
An accounting technique of recognising a cost or item of income in the comprehensive income and expenditure statement over a period of years rather than when the initial payment is made. Its purpose is to charge/credit the cost/income over the accounting periods that gain benefit for the respective item.

Capital charge
A charge to service revenue accounts to reflect the cost of fixed assets used in the provision of services (eg depreciation).

Capital expenditure
Expenditure that is incurred to create or add value to a fixed asset.

Capitalised pension cost
An additional amount payable by a service to the pension fund where an employee who is below pensionable age has taken early retirement following redundancy without any actuarial reduction being made to their pension. Minimum age limits apply and granting is at the discretion of the employer. Under statute and local arrangement, the amounts payable to the pension fund can be spread over a period not exceeding five years.

Capital receipt
The proceeds from the sale of capital asset which, subject to various limitations, can be used to finance capital expenditure, be invested, or repay outstanding debt on assets originally financed through borrowing.

Cash and cash equivalents
Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature within 24 hours from the date of acquisition.

Collection fund
A fund administered by the council which records receipts from council tax and non-domestic rates, and payments to the precepting bodies (Isle of Wight Council, the Police and Crime Commissioner for Hampshire and Central Government).

Community assets
Assets that the council intends to hold indefinitely and which may have some restrictions on their disposal. Eg parks and historic buildings.

Consistency concept
This concept requires that there should be a consistent method of accounting treatment of like items within each accounting period and from one accounting period to the next.

Council tax
A banded property tax that is levied on domestic properties. The banding is based on property values at as 1991.

Credit risk
The possibility that one party to a financial instrument will fail to meet their contractual obligation, causing a loss to the other party.

Creditor
An amount owed by the council for work done, goods received or services rendered, but for which no payment has been made.

Current assets
Asset expected to be realised within twelve months after the reporting period (including cash or cash equivalents).

Debtors
An amount owed to the council for work done, goods supplied or services rendered, but for which no payment has been received.

Defined benefit scheme
A pension or other retirement benefit scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded).

Defined contribution scheme
A pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Depreciation
The measure of the deterioration, consumption or other reduction in a fixed asset either as a result of its use, ageing or obsolescence.

Depreciated replacement cost
A valuation measure where insufficient market-based evidence of fair value is available because an asset is specialised and/or rarely sold.

Earmarked Reserves
The council holds a number of reserves earmarked to be used to meet specific, known or predicted future expenditure.

External Audit
The independent examination of the activities and accounts of local authorities to ensure the accounts have been prepared in accordance with legislative requirements and proper practices and to ensure that the authority has made proper arrangements to secure value for money for its use of resources.

Fair value
The amount that would be paid for an asset in its existing use. This is defined as the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arms-length transaction, after proper marketing.

Finance lease
An agreement that transfers all the risks and rewards of ownership of an asset. The payments usually cover the full cost of the asset together with a return for the cost of finance. Property, plant and equipment held under finance leases are recognised on the balance sheet at the commencement of the lease and are matched by a liability for the obligation.

Financial instrument
A contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. The term covers both financial assets and financial liabilities and includes both the most straightforward financial assets such as trade receivables (debtors) and trade payables (creditors) and the most complex ones such as derivatives.

Financial Regulations
These are the written code of procedures approved by the council, intended to provide a framework for proper financial management. Financial regulations usually set out rules on accounting, audit, administrative and budgeting procedures.

General fund
The total services of the council except for the Collection Fund, the Isle of Wight Council Pension Fund and the Fire-fighters' Pension Fund.

Heritage Asset
A tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

Impairment
A reduction in the value of a non-current asset below its carrying amount on the balance sheet.

Infrastructure Asset
A category of property, plant and equipment which generally cannot be sold and from which benefit can be obtained only be continued use of the asset created. Examples are highways, footpaths, bridges and coast protection facilities.

Intangible Asset
Assets that do not have a physical substance but are identified and controlled by the entity through custody or legal rights. Examples of intangible assets are patents and software licences.

International Financial Reporting Standards (IFRS)
These are defined accounting standards that must be applied by all reporting entities to all financial statements in order to provide a true and fair view of the entity's financial position. The standards provide a method of comparison with financial statements of other entities.

Investment property
Property (land or a building, or part of a building, or both) held solely to earn rentals or for capital appreciation or both.

Materiality
An item is material if its omission, non-disclosure or misstatement in the financial statements could be expected to lead to a distorted view given by the financial statements.

Minimum Revenue Provision (MRP)
The MRP is the minimum amount which must be charged to an authority's revenue account each year and set aside as provision for credit liabilities, as required by the Local Government and Housing act 1989.

Net book value
The amount at which assets are included in the balance sheet ie their historical cost or current value less the cumulative amount provided for depreciation and impairment.

Non-domestic rates (business rates)
A levy on business properties based on a Government determined rate in the pound (multiplier) which is applied to a rateable value of the property. Local authorities collect the sums due and retain a proportion of the sums received, with the remaining proportions shared between precepting bodies.

Non-current assets
An asset held by the authority for a period greater than one year and is not expected to be disposed of within one year.

Operating lease
An agreement in which the council derives the use of an asset in exchange for rental payments, although the risks and rewards of ownership of the asset are not substantially transferred to the council.

Precepts
The amount levied by another body, such as the Police and Crime Commissioner for Hampshire and Central Government that is collected by the council on their behalf.

Private finance initiative (PFI)
A contract in which the private sector is responsible for supplying services that are linked to the provision of a major asset which previously had been provided by the council. The council will pay for

the provision of this service, which is linked to availability, performance and levels of usage.

Property, plant and equipment
Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used for more than one financial year.

Provisions
Amounts charged to revenue during the year for costs with uncertain timing, although a reliable estimate of the cost involved can be made.

Prudence concept
This concept requires that revenue is not anticipated until realisation can be assessed. Provision is made for all known liabilities whether the amount is certain or can only be estimated in the light of the information available.

Prudential Code
The Prudential Code for Capital Finance in Local Authorities (the Code) is a professional code that sets out a framework for self-regulation of capital spending. In effect, this allows councils to invest in capital projects which best meet their service delivery objectives as long as they are affordable, prudent and sustainable, subject to government reserve powers to restrict borrowing for national economic reasons.

Public Works Loan Board (PWLB)
A government agency which provides loans to authorities at favourable rates.

Reserves
Specific amounts can be set-aside as earmarked reserves for future policy purposes or to over contingencies. Certain reserves are maintained to manage the accounting process for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources.

Remuneration
All sums paid to or receivable by an employee and sums due by way of expenses allowances (as far as those sums are chargeable to UK income tax) and the money value of any other benefits received other than cash. Pension contributions payable by either the employer or employee are excluded.

Revenue expenditure
The cost of running local authority services within the financial year, for example staffing costs, supplies and transport.

Revenue support grant (RSG)
This a Government grant paid to the council to finance general expenditure. It is based on the Government’s assessment of how much an authority needs to spend in order to provide a standard level of service.

Specific government grants
These are designed to aid particular services and may be revenue or capital in nature. They may have specified conditions attached to them which determine that they can only be used to fund expenditure which is incurred in pursuit of defined objectives (known as ring-fenced grants).