Isle of Wight Council

Statement of Accounts

2015-16

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Foreword from Chief Executive

The difficulties faced by all local authorities as a result of the national austerity agenda has been well publicised in recent years, from which the Isle of Wight Council has not been immune. This council has had to make many difficult decisions in order to balance our budgets.

The additional costs of providing public services on an Island mean that we have probably cut further and deeper than many other authorities, resulting in the loss and/or reduction of many popular front-facing services. Since 2011-12, the Isle of Wight Council has made over £50 million savings, ongoing, for day-to-day spending on services, in order to maintain a legal and balanced budget.

This year, in responding to the need to make further cuts, the council has made more efficiency savings through reductions in the staffing levels within its administrative and management operations. It has been and will continue to be necessary for us, particularly in adults and children's social services, to prioritise the allocation of resources to those services which we must provide by law rather than those which we can choose to provide for the benefit of the community as a whole.

In recent years, the council has pursued different ways of working, in partnership with local stakeholders, to support continuing provision of services, such as in libraries, leisure and recreation facilities and public conveniences. We have also worked with mainland authorities to share costs around children's services, finance and the fire and rescue service. We work with the private sector too, generating savings on large contracts, such as waste, while developing income sources from property and renewable energy.

Despite all of this, the council has ended 2015-16 with a net saving, compared to budget, of £1.82 million. While within budget, the level of in-year expenditure was in excess of in-year funding and required the withdrawal from general reserves of £2.5 million. However, this is still a significant achievement for the council considering the need to achieve net savings of £12.5 million during the year, as the austerity agenda continues.

Looking to the future; the council has taken stock of its position, reinvigorating its efforts to find a different response to its financial challenges and secure a positive, more sustainable future for the Isle of Wight. It is developing a new robust and dynamic financial strategy to help mitigate the impact of continued cuts, as it seeks to take a new approach; built upon the pillars of regeneration, growth and productivity.

Key to our ambitions and future success is a positive investment in regeneration activities to deliver realistic growth and economic development, at scale; creating big, bold and ambitious plans and funding bids; building capacity and strategic drive within the organisation, while delivering a targeted inward investment strategy. It will deliver a 'step change' in the council's, and the Island's, economic position by improving its business rate and council tax base, and generating additional income.

We continue to make our case to government for the 'Island Factor' (proving that it costs more to provide services on an Island); we very much hope this will bear fruit in the coming years through the Fair Funding Review. We continue to explore the opportunities to create a Solent Deal to devolve powers and funding from government, alongside mainland partners Portsmouth and Southampton, on the basis that it will provide financial sustainability to the for the council.

To be self-sustaining in the long term, regeneration is key, and by generating more and new income for the council; we are seeking an 'investment to save' in the Island's future.

John Metcalfe
Chief Executive

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 leading to over or underspends across individual services.

The table below shows a summary across service area 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.

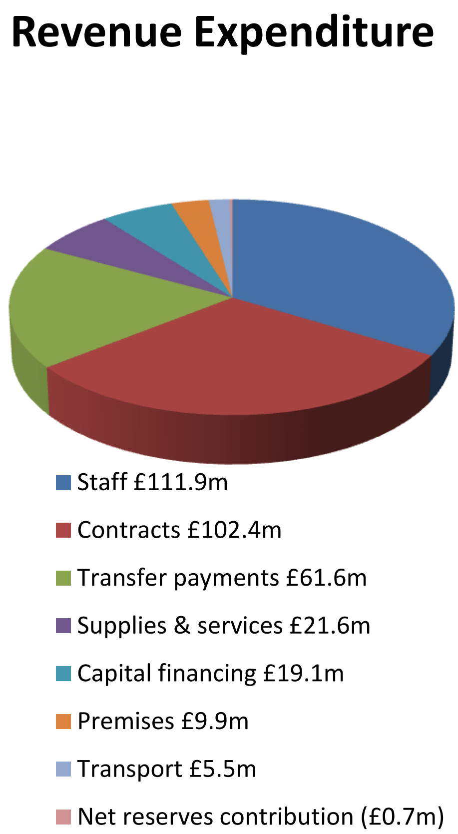
Service area	Revised net budget £000s	Net expenditure £000s	Net outturn position £000s
Adult care services	41,950	44,371	2,421
Children & families (DSG funded)	10,510	11,169	659
Education & inclusion (DSG funded)	5,811	6,450	639
Access, Performance & Resources (DSG funded)	(16,321)	(17,619)	(1,298)
Other Children's services	27,853	27,515	(338)
Contract management	15,444	16,618	1,174
Commercial services	(657)	(454)	203
Economy & tourism	1,611	1,525	(86)
Planning & Regulatory services	6,706	5,900	(806)
Fire & Rescue services	6,619	6,497	(122)
Corporate core	6,479	8,013	1,534
Business centre	2,974	2,741	(233)
Public health (ringfenced grant funded)	0	0	0
Capital financing	22,006	19,023	(2,983)
Other corporate items	(6,740)	(9,324)	(2,584)
Sub-total	**124,245**	**122,425**	**(1,820)**
Net underspend transferred to general fund			**1,820**

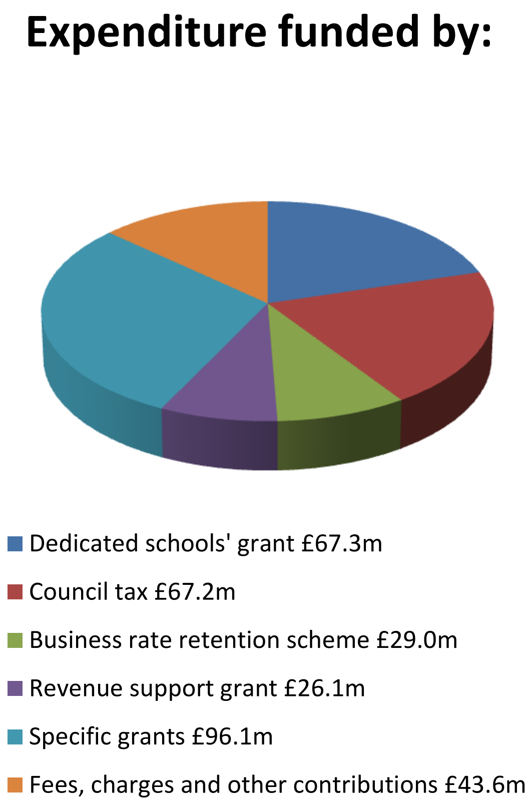
Notes:

- Staff related savings from vacancy management in service areas have been allocated against staff savings target held centrally.
- Approved carry-forward requests 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.
- Public health is funded by ringfenced grant which nets costs to £0.

General Fund Balance	£000s
Opening balance 1 April 2015	7,551
Withdrawal from General Fund per 2015-16 budget strategy	(2,073)
Net 2015-16 underspend	1,820
Closing balance 31 March 2016	**7,298**

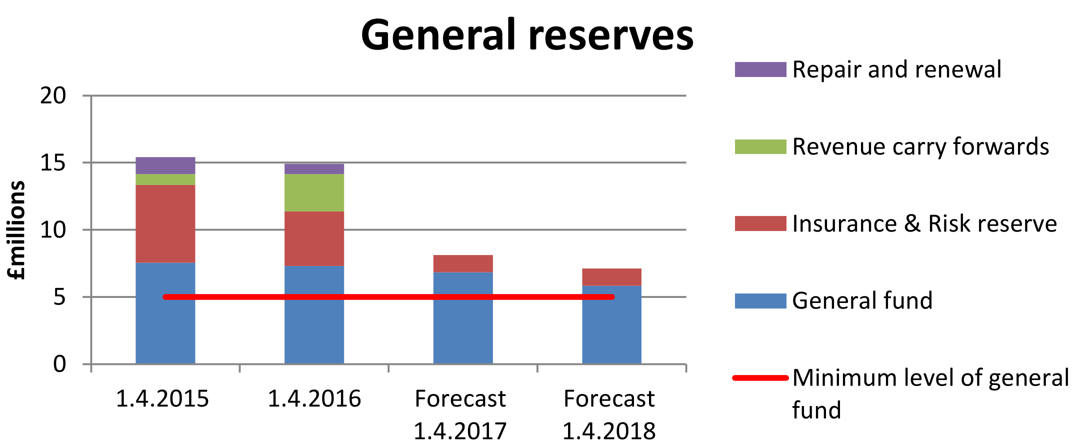
The following charts show the council's spend across expenditure category and the sources of funding:





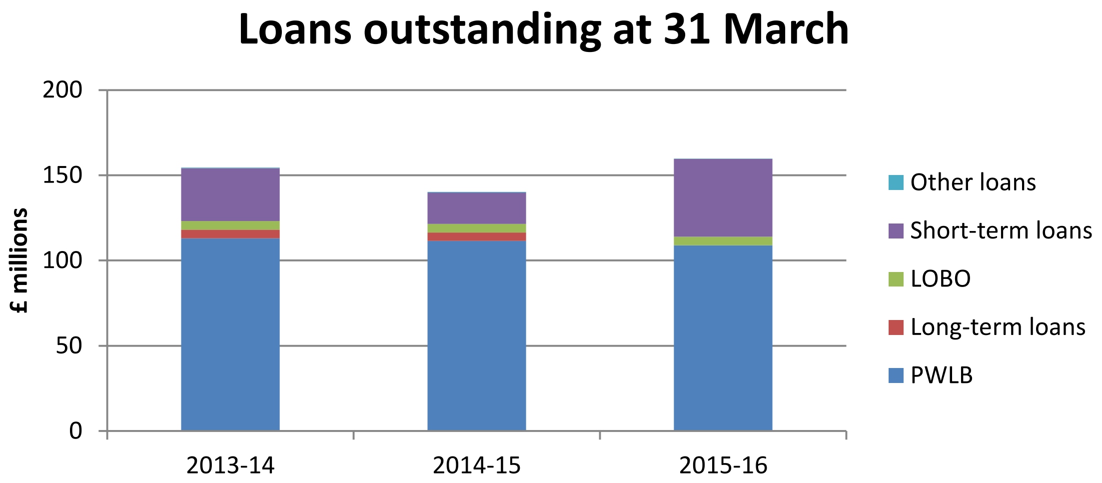
Revenue Reserves
Councils and other organisations need financial reserves to help manage unforeseen circumstances and to smooth the impact of spending requirements over time. Many reserves are earmarked which means they cannot be used for general purposes. Others are general reserves and can be used to support our overall financial position.

The overall level of useable reserves is at a relatively healthy level moving into 2016-17 but bearing in mind the scale of budget reductions required, there will be a need to use some of these to allow time to enable further savings to be fully developed and by 2017-18 this will reduce the total close to the £5 million minimum level of general fund balances considered to be prudent (shown by the red line in the next table). This means that there will be limited ability to respond to in year emergencies or overspends and we will be unable to cover further funding cuts in this way.



Borrowing
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 arrangement for borrowing and investments.

Due to continuing low interest rates it has been advantageous to undertake short-term borrowing rather than undertake longer-term borrowing at a higher interest costs.



Investments
The council holds invested funds representing income received in advance of expenditure plus reserves and balances held. Our objective when investing money is to strike a balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low income.

In 2015-16 we received a net £17.438m (after disposal costs) as a capital receipt from the sale of the land purchased by Asda. As we wished to ensure that this was invested in the way that generated the highest level of revenue income as possible whilst contributing to the corporate objectives, it was placed as a short term investment until such time as the investment opportunities could be finalised. The members working group tasked with reviewing opportunities for the funding, made a series of recommendations to the January 2016 full council which were agreed in principle subject to further more detailed business cases and due diligence being completed.

However, it should be noted that in July 2016, the council agreed to utilise the Asda capital receipt from 2015-16 to support the revenue budget by using it to repay debt in 2016-17 and 2017-18.

	Balance at 31/03/15 £000s	Balance at 31/03/16 £000s
Short-term fixed	3,029	22,530
Cash & Cash equivalents	723	2,752
Total	**3,752**	**25,282**

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

Material items of income or expense
Details of material items charged to the comprehensive income and expenditure statement in 2015-16 are contained in note 5 to the accounts. These comprise:

- Losses on the disposal of non-current assets amounting to £6.729 million
- Revaluation losses of £2.985 million
- Actuarial gain on pension assets/liabilities of £69.132 million

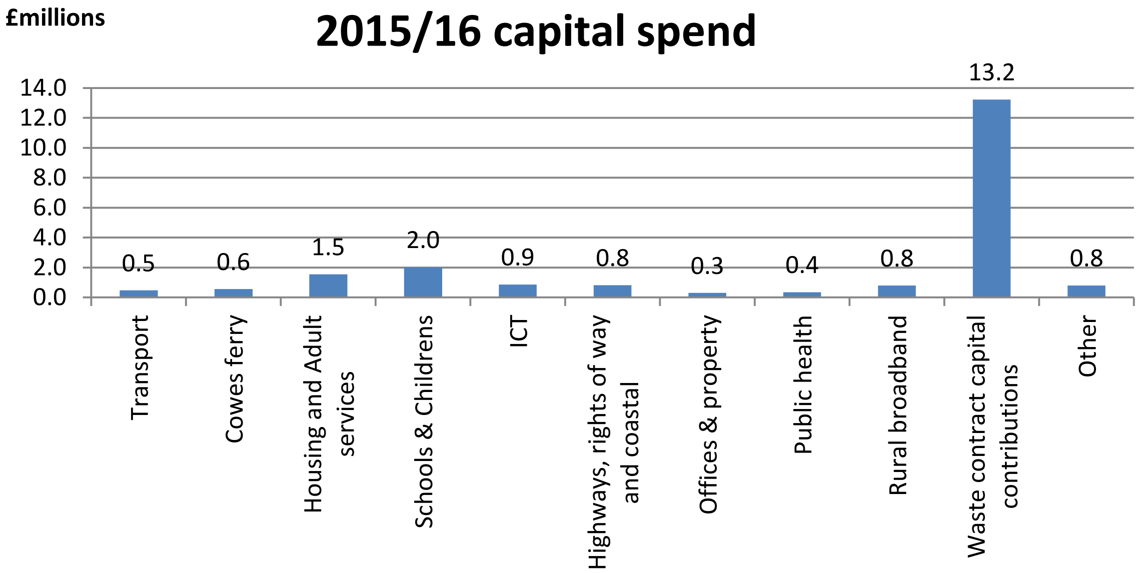
These items are charged or credited to the comprehensive income and expenditure statement and then reversed through the movement in reserves statement with the result that there is no impact on the amount to be raised through local taxation.

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. Key priorities for capital investment in 2015-16 were:

- the rural broadband project funded by the council, government grant and BT
- Totland seawall and footpath, Shanklin Cliff Lift and the commencement of designs for a new Cowes Ferry vessel
- Continuing works to improve and develop both primary and secondary schools as well as the response to relocate the Island Learning Centre from its site in Lake following the devastating fire in summer 2015.
- The new integrated waste contract included capital investment by the council of £13.2 million in 2015-16 in respect of improvement works for waste facilities, enabling us to save £0.5m a year.
- Disabled facilities grants and housing grants

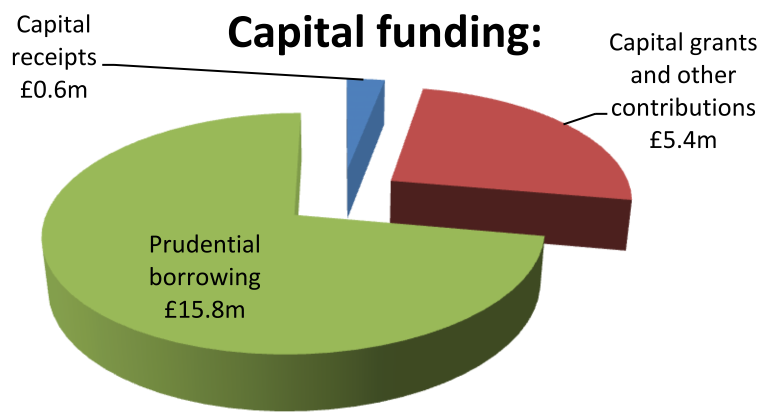
The graph below demonstrates the range of projects delivered in 2015/16 and how much was spent:



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 for 2015-16 are shown in the chart below:



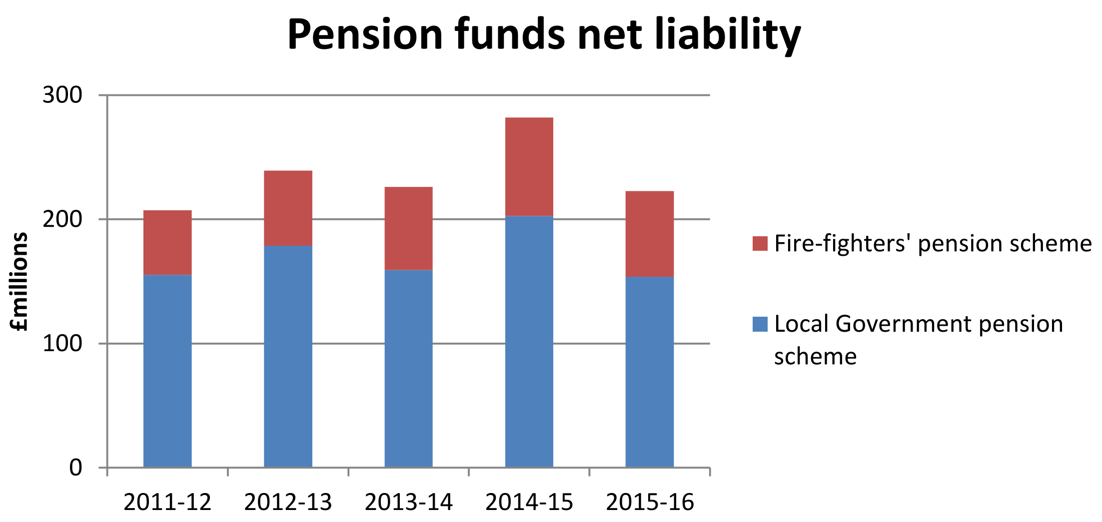
As many projects are delivered across financial years, any unspent budgets will be carried forward into 2016-17 and future years to complete essential project delivery.

Isle of Wight Council Pension Scheme and Fire-fighters' Pension Scheme
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 staff 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 chart below shows the net liability (assets less liabilities) that the pension funds have in the long run to pay retirement benefits.



As the council is the administering body for the pension schemes, the deficit of £222.553 million has to be recorded on the balance sheet. This results in an overall negative balance sheet total of £78.863 million. However, the council have statutory arrangements for funding the deficit:

- 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 Isle of Wight Council pension fund accounts are included at the end 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 Fire-fighters' Pension Fund accounts are shown on page 105 of the statement of accounts.

Performance against corporate plan priorities
The table below indicates the status of each corporate priority as at 31 March 2016 as reported to the Executive in June 2016.

Corporate Priority	Q1	Q2	Q3	Q4	Direction of travel
A1 Supporting growth in the economy, making the Island a better place and keeping it safe	Green	Green	Green	Amber	↘
A2 Keeping children safe and improving their education	Amber	Amber	Amber	Amber	↗
A3 Protecting the most vulnerable with health and social care, investing in support, prevention and continuing care	Green	Green	Amber	Amber	↗
A4 Ensuring that all the resources available to the Island are used in the most effective way in achieving the Island's priorities	Red	Red	Red	Red	↘

This indicator continues to be rated as red with direction downward because of the severe financial challenges we face.

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

Personal data related incidents
In line with the council's data protection reporting procedure, between April 2014 and March 2015 the council had **24** incidents reported, and **18** have resulted in confirmed breaches. Of the confirmed breaches 1 was assessed at Level 2 (potential serious breach and risk assessed as high), but did not need to be reported to the Information Commissioners Office.

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 2015, the average number of days lost due to sickness per permanent employee was 5.85.

Employees
The council has reduced its staff numbers over the last 4 years from the full time equivalent of 4416 in December 2010, to 3211 in December 2015. This overall reduction is due to the restructuring of council services and changes to schools.

Environmental matters
The council's carbon management plan shows how the council will reduce the carbon emissions from its buildings and operations. The full carbon management plan and progress against its targets can be found at Energy Management - Web Pages

Changes to functions and future developments
There have been a number of changes to functions and funding within the council in 2015-16 and further developments are planned for the future. A brief outline is included here:

- The council entered into a strategic fire and rescue partnership with Hampshire County Council in April 2015. By pooling management resources, front line services will be retained while generating significant financial savings for both services over the coming years. The partnership is forecast to generate savings of almost £1.2 million for the Isle of Wight Council over the next three years;
- The new integrated waste contract awarded to Amey began in the autumn of 2015 and is forecast to save £0.5m each year;
- The council transferred the running of its countryside estate and service to Island 2000 in February 2016, with the aim of protecting and enhancing the existing estate and improving public access and voluntary sector involvement;
- A strategic partnership agreement between the council and the NHS was agreed in February 2016 to develop community-based, integrated health and social care services;
- Work continues to develop the island business centre aiming to secure £300k savings in back office costs, and the new operating model for the council which aims to save £3m in 2016/17.

Recent changes and introduction of legislation have enabled greater community involvement in the council’s decisions and planning. Policies and processes for all these can be found on iwight.com.

During 2015-16 in particular:

- Neighbourhood plans have been ‘made’ (bought into force) for Bembridge, and Brading. Plans are being developed by Brighstone, Freshwater and Gurnard parish councils.
- we received 2 bids from community groups to list land or buildings as assets of community value both of which were determined to be assets of community value.
- we have also been in discussions with parish and town councils about them taking over services such as grounds maintenance and public toilets.

The outcome of the Spending Review was announced by the Chancellor in November 2015. The review was wide-ranging and raised some new issues not previously anticipated. It set out fundamental changes to Local Government and its future financial arrangement including:

- the end of revenue support grant, the main un-ringfenced grant received by councils;
- the ability for local authorities to retain 100% of business rates by 2019-20. Due to the island’s economic status is it is likely that this will leave the council with a considerable gap in funding before any equalisation takes place;
- the assignment of yet to be notified additional responsibilities;
- a new power to levy up to a 2% council tax precept ringfenced to adult social care;
- the expectation that health and social care will integrate;
- the end of local authorities’ role in running schools, with all schools becoming an academy by 2022. (subject to revision in the new Education Act).

The Government has also announced other initiatives and changes including:

- The developing local devolution agenda and its importance to the council’s long-term financial viability;
- Education services grant reduced by 60% alongside reduced statutory responsibilities and a reduced role in schools;
- Public health grants to reduce by 3.9% each year;
- Funding for disabled facilities grants to be increased;
- New powers to use capital receipts to fund revenue transformational costs;
- New homes bonus being reviewed and possibly reduced to fund additional funding for the better care fund (the better care fund is a pooled funding arrangement between the clinical commissioning group and the council and allocations have to be agreed by both parties);
- The Care Act 2014 with the eventual introduction of the cap on care costs with any excess being met by the local council.

The CIPFA 2016-17 Accounting Code of Practice will require the council to adopt a change in accounting policy relating to Highways Network Assets. This will require the network to be valued at current value being the depreciated replacement cost rather than historic cost as at present and will significantly increase the non-current asset values on the council's balance sheet. The changes for the measurement and reclassification from the existing infrastructure assets will be applied progressively from April 2016 and there is no requirement to restate the opening balance at 1 April 2015 and show 2015-16 comparative information in the 2016-17 Statement of Accounts.

Summary of the statement of accounts
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, and covers the relevant points of the Governments Financial Reporting Manual which Local Authorities are being encouraged to adopt. The latest changes to the code have been reflected in the preparation of these accounts and this narrative report. There have been no significant changes to accounting policies since the 2014-15 statement of accounts. The full statement of accounts details the financial statements as follows:

Statement of responsibilities	This sets out the respective responsibilities of the council and the Strategic Director of Resources 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 the Government (for non-domestic rates).
Firefighters' pension fund	The purpose of this statement is to provide a basis for demonstrating the balance of cash-based transactions taking place over the year and for identifying the arrangements needed to close the balance for that year.
Isle of Wight Council pension fund	This summarises the income and expenditure of the pension funds and provides information about their financial position, performance and financial adaptability.

Other sources of information
Under the Code of Recommended Practice for Local Authorities on Data Transparency, all councils are recommended to publish details of financial transactions. The council has been publishing this information from 2010. This information along with information about our staffing arrangements, our suppliers, our democracy and governance arrangements, our assets, and access to information is available on Transparency

Councillors and officers are required to declare their own or close family members' 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 39 of the statement of accounts.

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.

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 Director 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 Director of Finance and Section 151 officer's responsibilities

The Director 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 Director 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 Director 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 2016 required by the Accounts and Audit Regulations 2015 is set out on pages 14 to 134.

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 2016 and its income and expenditure for the year then ended.

Chris Ward

Director of Finance and Section 151 officer Date: 20 September 2016
(original signed)

Stuart Hutchinson

Chair of Audit Committee Date: 26 September 2016

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 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)**

	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 2015 brought forward	**7,551**	**42,981**	**1,739**	**580**	**52,851**	**(212,523)**	**(159,672)**
Movement in reserves during 2015-16							
Surplus or (deficit) on the provision of services	(6,352)	0	0	0	(6,352)	0	(6,352)
Other comprehensive income & expenditure	0	0	0	0	0	87,161	87,161
Total Comprehensive Income & Expenditure	**(6,352)**	**0**	**0**	**0**	**(6,352)**	**87,161**	**80,809**
Adjustments between accounting basis & funding basis under regulations (Note 7)	6,084	0	17,991	354	24,429	(24,429)	0
Net increase/decrease before transfers to earmarked reserves	**(268)**	**0**	**17,991**	**354**	**18,077**	**62,732**	**80,809**
Transfers to/from earmarked reserves (Note 8)	15	(15)	0	0	0	0	0
Increase/decrease in 2015-16	**(253)**	**(15)**	**17,991**	**354**	**18,077**	**62,732**	**80,809**
Balance at 31 March 2016 carried forward	**7,298**	**42,966**	**19,730**	**934**	**70,928**	**(149,791)**	**(78,863)**

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.

2014-15				**2015-16**		
Gross expenditure	Gross income	Net expenditure		**Gross Expenditure**	**Gross income**	**Net Expenditure**
£000	£000	£000		**£000**	**£000**	**£000**
123,549	(90,743)	32,806	Education & children's service	**120,069**	**(86,468)**	**33,601**
65,639	(17,480)	48,159	Adult social care	**72,847**	**(21,432)**	**51,415**
10,644	(4,291)	6,353	Cultural & related services	**9,742**	**(4,405)**	**5,337**
15,497	(2,067)	13,430	Environmental & regulatory services	**17,201**	**(2,224)**	**14,977**
6,545	(5,695)	850	Planning services	**4,549**	**(2,529)**	**2,020**
28,562	(5,675)	22,887	Highways & transport services	**28,977**	**(6,461)**	**22,516**
8,056	(190)	7,866	Fire & rescue services	**6,625**	**(186)**	**6,439**
61,041	(54,808)	6,233	Housing services (including Benefits)	**58,557**	**(54,084)**	**4,473**
5,824	(6,206)	(382)	Public Health	**7,404**	**(7,260)**	**144**
5,632	(3,930)	1,702	Central services to the public	**5,768**	**(3,493)**	**2,275**
2,225	(6)	2,219	Corporate & democratic core	**2,174**	**(5)**	**2,169**
3,031	0	3,031	Non-distributed costs	**471**	**0**	**471**
336,245	(191,091)	145,154	**Total cost services**	**334,384**	**(188,547)**	**145,837**
19,113	(367)	18,746	Other operating expenditure (note 9)	**9,170**	**0**	**9,170**
81,444	(16,810)	64,634	Financing & investment income & expenditure (note 10)	**34,197**	**(31,692)**	**2,505**
0	(155,583)	(155,583)	Taxation & non-specific grant income (note 11)	**0**	**(151,160)**	**(151,160)**
436,802	(363,851)	72,951	**(Surplus)/deficit on provision of services**	**377,751**	**(371,399)**	**6,352**
		(11,171)	Surplus on revaluation of non-current assets (note 25)			**(20,889)**
		433	Downward revaluation of assets and impairment losses on non-current assets charged to the revaluation reserve (note 25)			**2,860**
		46,405	Actuarial (gains)/losses on pension assets/liabilities (note 46)			**(69,132)**
		35,667	**Other comprehensive income & expenditure**			**(87,161)**
		108,618	**Total comprehensive income & expenditure**			**(80,809)**

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 2015			**31 March 2016**
£000		**Note**	**£000**
310,849	Property, plant & equipment	**12**	**346,383**
1,948	Heritage assets	**13**	**1,949**
2,613	Investment property	**14**	**600**
1,274	Intangible assets	**15**	**1,237**
6	Long term investments	**16**	**0**
2,094	Long term debtors	**16**	**2,114**
318,784	**Long term assets**		**352,283**
3,029	Short-term investments	**16**	**22,530**
609	Assets held for sale	**21**	**205**
164	Inventories	**18**	**110**
23,903	Short term debtors	**19**	**24,008**
2,632	Cash and cash equivalents	**20**	**5,792**
30,337	**Current assets**		**52,645**
(27,275)	Short term borrowing	**16**	**(56,932)**
(24,286)	Short term creditors	**22**	**(20,376)**
(3,985)	Short term provisions	**23**	**(3,902)**
(55,546)	**Current liabilities**		**(81,210)**
(49,932)	Long term creditors	**16**	**(67,597)**
(1,292)	Long term provisions	**23**	**(1,140)**
(112,888)	Long term borrowing	**16**	**(102,888)**
(281,313)	Other long term liabilities	**16**	**(222,553)**
(394)	Donated assets account	**13**	**(393)**
(7,428)	Capital grants receipts in advance	**38**	**(8,010)**
(453,247)	**Long term liabilities**		**(402,581)**
(159,672)	**Net assets**		**(78,863)**
52,851	Usable reserves	**24**	**70,928**
(212,523)	Unusable reserves	**25**	**(149,791)**
(159,672)	**Total reserves**		**(78,863)**

These financial statements replace the unaudited financial statements certified by the Director of Finance and Section 151 officer on 30 June 2016. *C Ward (original signed)*

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.

2014-15		**2015-16**
£000		**£000**
(72,951)	Net Surplus/(deficit) on the provision of services	**(6,352)**
92,821	Adjustments to net surplus or deficit on the provision of services for non-cash movements	**31,600**
(6,161)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	**(24,412)**
13,709	Net cash flows from operating activities (Note 26)	**836**
1,814	Investing activities (note 28)	**(12,359)**
(16,995)	Financing activities (note 29)	**14,683**
(1,472)	Net increase or decrease in cash & cash equivalents	**3,160**
4,104	Cash & cash equivalents at the beginning of the reporting period	**2,632**
2,632	**Cash & cash equivalents at the end of the reporting period (Note 20)**	**5,792**

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 2015-16 financial year and its position at the year-end of 31 March 2016. The council is required to prepare an annual statement of accounts by the Accounts and Audit Regulations 2015 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 2015-16 and the Service Reporting Code of Practice 2015-16, 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 non-current 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 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 2% 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 wholly 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 3.5% 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:

- Service cost comprising:
  - 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 3.5% 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:

- Service cost comprising:
    - 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:
    - 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 employer's 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.

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 2015-16 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 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 current 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, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. 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 operations

Joint operations are arrangements where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. The activities undertaken by the authority in conjunction with other joint operators involve the use of the assets and resources of those joint operators. In relation to its interest in a joint operation, the authority as a joint operator recognises:

- its assets, including its share of any assets held jointly.
- its liabilities, including its share of any liabilities incurred jointly
- its revenue from the sale of its share of the output arising from the joint operation
- its share of the revenue from the sale of the output by the joint operation
- its expenses, including its share of any expenses incurred jointly.

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 current value of the asset. The council has defined substantial as being where lease payments are at least 70% of the current 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 current 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 2015-16 (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 current 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 current value. The difference between current 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.
- school buildings – current value, but because of their specialist nature, are measured at depreciated replacement cost which is used as an estimate of current value
- surplus assets – the current value measurement base is fair value, estimated at the highest and best use from a market participant's perspective
- shared ownership – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).
- all other assets – current 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 current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value.

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

Assets included in the balance sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current 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 whose cost is significant in relation to the total cost of the item, 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 carrying 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 at the point of reclassification and then carried at fair value. Where there is a subsequent decrease to fair value, 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 previous valuation basis 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 non-current 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 PFI schemes 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

- 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.
- 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 – the council charges lifecycle costs as incurred and these are recognised as additions to property, plant and equipment when the relevant works are eventually carried out.

1.20 Fair value measurement

The council measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments such as equity shareholdings at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the council's financial statements are categorised within the fair value hierarchy, as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the council can access at the measurable date
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 – unobservable inputs for the asset or liability.

The fair value for surplus properties, investment properties and assets held for sale has been based on the market approach using current market conditions, recent sales prices and other relevant information for similar assets in the council's area. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant, leading to properties being categorised at level 2 in the fair value hierarchy.

1.21 Provisions, contingent liabilities and contingent assets

1.21.1 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.

1.21.2 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.

1.21.3 Contingent assets

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

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

1.22 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.

1.23 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.

1.24 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, including voluntary aided and foundation schools, 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.

1.25 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.

1.26 Carbon reduction commitment allowances

The Isle of Wight Council is not 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.

1.27 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:

<u>Non-domestic rates</u>
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.

<u>Council tax</u>
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.

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

The council does not have any transactions in 2015-16 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 2016-17 (the Code) has introduced changes in accounting policies which will need to be adopted by the council in the 2016-17 financial statements. The Code requires implementation from 1 April 2016 and there is therefore no impact on the 2015-16 statement of accounts.

2.1 IAS 1 Presentation of Financial Statements

This standard provides guidance on the form of the financial statements and will involve changes to the format of the comprehensive income and expenditure statement, the movement in reserves statement and the introduction of a new expenditure and funding analysis. While there is unlikely to be any material impact on the reported net cost of services or the surplus or deficit on the provision of services, the 2015-16 comparators in the 2016-17 statement of accounts must reflect the new formats and reporting requirement.

2.2 Other 2016-17 Code changes

There are other minor changes resulting from amendments to IAS 19 Employee Benefits, IFRS 11 Joint Arrangements, IAS16 Property, Plant and Equipment, IAS 38 Intangible Assets and due to Annual Improvements to IFRS cycles. These changes are minor and are not expected to have a material effect on the council's statement of accounts.

3. Critical judgements in applying accounting policies

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 solely 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 PFI contract (to the end of October 2015) and the 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 in line with IFRIC 12 (service concession arrangements). The new waste management contract which commenced in November 2015 has been judged as falling outside the definition of a service concession and so has not been accounted for under the accounting policy applying to PFI schemes and similar contracts.

- **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. <u>Assumptions made about the future and other major sources of estimation uncertainty</u>

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 2016 is £346.383 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 £0.132 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 2016 is a deficit of £153.642 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 £59.208 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 £17.764 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 £15.687 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 £42.730 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 2016 is a deficit of £69.200 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 0.5% decrease in the real discount rate would result in an increase of 8% to the employer liability for which the approximate monetary value would be £5.800 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 £2.100 million. A 0.5% increase in the salary increase rate would result in an increase of 1% to the employer liability for which the approximate monetary value would be £0.600 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 £5.200 million.
Allowance for non-payment of debtors (provision for bad debts)	The council has made allowances of £2.572 million for the non-collection of outstanding debts at 31 March 2016. The total allowance of £0.564 million for council tax and non-domestic rate arrears is based on an average of historic levels of write-off and represents the council's share of the allowance. The allowance for the remaining sundry debts (including housing	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 £0.068

Item	Uncertainties	Effect if actual results differ from assumptions
	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.	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 2016 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 2016 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 2016 is £2.214 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.
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 (£2.199 million) represents 50% of an estimate at the balance sheet date of the expenditure required to settle the potential obligation up to 31 March 2016. A list of outstanding appeals has been provided by the valuation office (VAO) and estimation techniques have been developed to	The collection fund statement shows how the appeals provision impacts on the non-domestic rate deficit at 31 March 2016. 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 2017. If the outcome of appeals is different than the amount estimated, then this will have an impact in a future year on both the non-domestic rates surplus or deficit in the collection fund and the business rates

Item	Uncertainties	Effect if actual results differ from assumptions
	determine potential success rates and a range of possible outcomes by analysing historical data. This information has been used to estimate the likely rateable value reductions on successful appeals and the level of backdating applicable.	income receivable by the council.
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 1.1% for year 3 of the contract and is estimated as being 1.4% for year 4 followed by 2.5% 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 £0.176 million to the total cost of the scheme over the remaining life of the contract. A 0.02% variation would result in an increase or reduction of £0.878 million. The sensitivity of the impact due to interest rate variations is caused by the cumulative effect in the later years of the contract.

5. Material items of income and expense

5.1 2015-16 Disposals

The other operating expenditure line in the comprehensive income and expenditure statement includes £6.729 million relating to losses on disposal of non-current assets. These losses primarily relate to the former Island Learning Centre (£3.070 million), the derecognition of components following replacement through the Highways PFI contract (£1.127 million), the former Bembridge Primary School (£0.974 million), the derecognition of Newport Victoria Recreation Ground following the granting of a long-term lease (£0.323 million) and land at Pan (£0.312 million).

The carrying value of property, plant and equipment in the balance sheet has been reduced by £6.729 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 2015-16, the council has recognised revaluation losses of £2.985 million in relation to land and buildings within property, plant and equipment (£2.748 million) and surplus assets (£0.237 million). These have been charged to the relevant service line in 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 council tax. The carrying value of property, plant and equipment in the balance sheet has been reduced by £2.985 million as a result of these revaluation losses.

Further details are shown in note 44.

5.3 Pension assets/liabilities

The pension reserve at 31 March 2016 includes an actuarial gain of £69.132 million for 2015-16 which has resulted in a reduction in the negative position on the pension reserve from £281.313 million at 31 March 2015 to £222.553 million at 31 March 2016. The actuarial gain 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 46 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 Director of Finance and Section 151 officer on 20 September 2016. Events taking place after this date are not reflected in the financial statements or notes.

A referendum on the United Kingdom's membership of the European Union took place on 23 June 2016. The result to leave the European Union has increased political and economic uncertainty. To date there are no facts about any changes that are likely to occur and it is too early to understand any direct impacts. The Council will continue to monitor the position and impact of the exit negotiations.

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.

2015-16 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	**(12,967)**	-	-	**12,967**
Revaluation losses on Property, Plant & Equipment	**(2,985)**	-	-	**2,985**
Movements in the market value of investment properties	**17,650**	-	-	**(17,650)**
Amortisation of intangible assets	**(662)**	-	-	**662**
Capital grants and contributions applied	**5,087**	-	**-**	**(5,087)**
Revenue expenditure funded from capital under statute	**(3,730)**	-	-	**3,730**
Waste PFI deferred income	**12**	-	-	**(12)**
Capitalised interest	**24**	-	-	**(24)**
Capital loan adjustment	**(41)**		-	**41**
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	**(6,729)**	**(18,642)**	**-**	**25,371**
Insertion of items not debited or credited to the comprehensive income & expenditure statement:				
Provision for the financing of capital investment (minimum revenue provision:- MRP)	**8,175**	**-**	**-**	**(8,175)**
Other adjustment	**(1)**	**-**	**-**	**1**
Adjustments primarily involving the capital grants unapplied account:				
Capital grants and contributions unapplied credited to the comprehensive income & expenditure statement	**684**	-	**(684)**	-
Application of grants to capital financing transferred to the capital adjustment account	-	-	**330**	**(330)**

2015-16 Adjustments	General fund balance £000	Capital receipts reserve £000	Capital grants unapplied £000	Movement in unusable reserves £000
Adjustments primarily involving the capital receipts reserve				
Use of the capital receipts reserves to finance new capital expenditure	-	**653**	-	**(653)**
Transfer from deferred capital receipts reserve upon receipt of cash	-	**(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 46)	**(23,987)**	-	-	**23,987**
Employers' pension contributions and direct payments to pensioners in the year	**13,830**	-	-	**(13,830)**
Capitalised pension costs	**(25)**	-	-	**25**
Firefighters' pension scheme – movement on top-up grant repayable (to)/from Government	**(215)**	-	-	**215**
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	**270**	-	-	**(270)**
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	**(1,090)**	-	-	**1,090**
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	**616**	-	-	**(616)**
Total adjustments	**(6,084)**	**(17,991)**	**(354)**	**24,429**

Comparative year: 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)

Comparative year: **2014-15 Adjustments**	**General fund balance £000**	**Capital receipts reserve £000**	**Capital grants unapplied £000**	**Movement in unusable reserves £000**
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 46)	(22,391)	-	-	22,391
Employers' pension contributions and direct payments to pensioners in the year	12,940	-	-	(12,940)
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

Comparative year: 2014-15 Adjustments	General fund balance £000	Capital receipts reserve £000	Capital grants unapplied £000	Movement in unusable reserves £000
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

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 2015-16.

General Fund:	Balance at 1 April 2014 £000	Transfer out 2014/15 £000	Transfer in 2014/15 £000	Balance at 1 April 2015 £000	Transfer out 2015/16 £000	Transfer in 2015/16 £000	Balance at 31 March 2016 £000
Revenue carry-forward reserve	**5,710**	(5,710)	835	**835**	(835)	2,791	**2,791**
Balances held by schools under scheme of delegation	**3,135**	0	371	**3,506**	(1,624)	0	**1,882**
Repairs & renewal funds	**1,117**	(204)	333	**1,246**	(488)	6	**764**
Earmarked reserves – services	**13,425**	(5,671)	8,797	**16,551**	(9,712)	5,087	**11,926**
Insurance & risk funds	**6,379**	(727)	125	**5,777**	(2,294)	579	**4,062**
Highways PFI contract cashflow reserve	**5,421**	0	6,557	**11,978**	0	6,522	**18,500**
Section 106 contributions reserve	**891**	(514)	1,689	**2,066**	(65)	235	**2,236**
Public Health earmarked reserve	**634**	(491)	879	**1,022**	(518)	301	**805**
Total	**36,712**	**(13,317)**	**19,586**	**42,981**	**(15,536)**	**15,521**	**42,966**

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; a reserve to mitigate the impact of the volatility of business rate income and reserves which support the delivery of corporate priorities, such as 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 2015-16 and will provide funding for on-going projects.

9. Other operating expenditure

2014-15 £000		**2015-16 £000**
2,100	Parish & Town Council precepts	**2,399**
139	Levies	**139**
(367)	Fire-fighters' Pension Scheme – movement in top-up grant repayable to/(from) Government	**215**
16,874	(Gains)/losses on the disposal of non-current assets and current assets held for sale	**6,417**
18,746	**Total**	**9,170**

In addition to the precepts shown above, Parish and Town Councils were also paid grants totalling £0.206 million (£0.235 million in 2014-15) in respect of the Localised Council Tax Support scheme.

A levy of £0.105 million (£0.105 million in 2014-15) was paid to the Southern Inshore Fisheries and Conservation Authority and £0.035 million (£0.034 million in 2014-15) was paid as a flood defence levy to the Environment Agency.

10. Financing and investment income & expenditure

2014-15 £000		**2015-16 £000**
8,869	Interest payable	**10,941**
9,629	Pension interest cost and expected return on pension assets	**9,020**
(138)	Interest receivable	**(159)**
(200)	Income & expenditure in relation to investment properties and changes in fair value	**(17,338)**
0	Impairment of long-term capital loans	**41**
46,474	Loss on transfer of academy schools	**0**
64,634	**Total**	**2,505**

11. Taxation and non-specific grant incomes

2014-15 £000		2015-16 £000	
67,003	Council tax income (notes 2 & 4 to the collection fund)		**69,882**
16,338	Non-domestic rates retained income (note 5a to the collection fund)		**15,602**
69,900	Non-ringfenced government grants	**62,765**	
2,342	Capital grants & contributions	**2,911**	
72,242	Total grant income (see note 38)		**65,676**
155,583	**Total**		**151,160**

12. Property, plant & equipment

Movements on balances in 2015-16	**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 2015	3,323	197,549	44,099	126,390	609	14,501	1,982	**388,453**	111,004
Asset classification adjustment (see note below)	0	11,610	0	0	2	(9,699)	0	**1,913**	0
1 April 2015 (adjusted)	3,323	209,159	44,099	126,390	611	4,802	1,982	**390,366**	111,004
Additions	0	956	1,513	21,546	1	0	15,093	**39,109**	20,982
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	56	7,684	0	0	(15)	(267)	0	**7,458**	0
Revaluation increases/ (decreases) recognised in the Surplus/deficit on the Provision of Services	0	(2,748)	0	0	0	(237)	0	**(2,985)**	0
Derecognition	0	(823)	(11,670)	(1,802)	0	(3,467)	0	**(17,762)**	(12,107)
Assets reclassified (to)/from held for sale	(53)	(145)	0	0	0	(1,199)	0	**(1,397)**	0

Other movements	0	(2)	0	0	0	0	0	**(2)**	0
Reclassification	0	(1,126)	251	(384)	0	2,000	(1,028)	**(287)**	(564)
At 31 March 2016	**3,326**	**212,955**	**34,193**	**145,750**	**597**	**1,632**	**16,047**	**414,500**	**119,315**

Accumulated depreciation & impairment **2015-16**	**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 2015	0	(15,229)	(28,660)	(31,990)	(554)	(1,171)	0	(77,604)	(34,807)
Asset classification adjustment (see note below)	0	(703)	0	0	0	703	0	0	0
1 April 2015 (adjusted)	0	(15,932)	(28,660)	(31,990)	(554)	(468)	0	(77,604)	(34,807)
Depreciation charge	0	(3,853)	(4,060)	(7,583)	0	(22)	0	**(15,518)**	(6,853)
Depreciation written out to the revaluation reserve	0	4,762	0	0	17	10	0	**4,789**	0
Depreciation written out to the Surplus/deficit on the provision of services	0	310	0	0	0	12	0	**322**	0
Impairment losses or reversals written out to the revaluation reserve	0	5,225	0	0	0	100	0	**5,325**	0
Impairment losses or reversals recognised in the surplus/deficit on the provision of services	0	2,230	0	0	0	0	0	**2,230**	0
Derecognition	0	144	11,329	675	0	84	0	**12,232**	9,000
Assets reclassified (to)/from held for sale	0	0	0	0	0	107	0	**107**	0
Reclassification	0	(291)	0	114	0	177	0	**0**	114
At 31 March 2016	**0**	**(7,405)**	**(21,391)**	**(38,784)**	**(537)**	**0**	**0**	**(68,117)**	**(32,546)**

Net book value at 31 March 2016	**3,326**	**205,550**	**12,802**	**106,966**	**60**	**1,632**	**16,047**	**346,383**	**86,769**
Net book value at 31 March 2015	3,323	182,320	15,439	94,400	55	13,330	1,982	310,849	76,197

The categorisation of land and buildings, surplus assets and investment properties has been reviewed and this has resulted in certain properties being reclassified. The principal change is between surplus assets and land and buildings. The adjustments would result in the net book value of land and buildings at 31 March 2015 increasing from £182.320 million to £193.227 million, surplus assets reducing from £13.330 million to £4.334 million and community assets increasing from £0.055 million to £0.057 million. The net increase in net book value of property, plant and equipment is matched by a reduction in the carrying value of investment properties. The change to the balance sheet at 31 March 2015 would be an increase the carrying value in property, plant and equipment of £1.913 million and a reduction in the carrying value of investment properties of £1.913 million. This is not considered by the council to be material and so the comparative year figures in the balance sheet and the statement below have not been restated.

Comparative 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**

Comparative 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

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, 81.28% 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 2016, the council's principal commitments relate to:

- Waste contract £70.366 million (over remaining life of 25 year contract)
- Replacement Cowes floating bridge £2.854 million
- Broadband project £1.974 million
- Refurbishment of former Downside Middle school £1.371 million
- Medina Leisure Centre Extension £0.607 million
- Shanklin Cliff Lift £0.302 million

Similar commitments at 31 March 2015 were £2.763 million.

Effects of changes in estimates

In 2015-16, 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 current 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.

The significant assumptions applied in estimating the values are:

- Where there is no active market for land and buildings assets are valued on a depreciated replacement cost basis
- Investment properties, assets held for sale and surplus assets are valued at highest and best use to determine fair value
- 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 existing use value basis.

Fair value for investment properties, surplus properties and assets held for sale have been measured using significant observable inputs, being level 2 on the fair value hierarchy.

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	12,802	106,966	60	0	16,047	**135,875**
Valued at current as at:								
31 March 2016	3,326	106,598	0	0	0	1,632	0	**111,556**
31 March 2015	0	60,900	0	0	0	0	0	**60,900**
31 March 2014	0	24,566	0	0	0	0	0	**24,566**
31 March 2013	0	2,720	0	0	0	0	0	**2,720**
31 March 2012	0	10,766	0	0	0	0	0	**10,766**
Total	**3,326**	**205,550**	**12,802**	**106,966**	**60**	**1,632**	**16,047**	**346,383**

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
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**
1 April 2015	136	1,763	49	**1,948**
Revaluations	0	0	1	**1**
31 March 2016	**136**	**1,763**	**50**	**1,949**

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	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**

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	1	1,502
31 March 2016	**136**	**1,763**	**50**	**1,949**

Acquired	0	1,507	49	1,556
Donated	136	256	1	393
31 March 2016	**136**	**1,763**	**50**	**1,949**

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>

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:

	2014-15 £000s	**2015-16 £000s**
Balance at 1 April	2,596	**2,613**
Asset classification adjustment (see note 12)	0	**(1,913)**
1 April 2015 (adjusted)	2,596	**700**
Disposals	0	**(17,750)**
Net gains/losses from fair value adjustments	80	**17,650**
Transfer to property, plant & equipment	(63)	**0**
Balance at 31 March	2,613	**600**

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**
5 years	Isle of Wight Council website	-
7 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 £0.662 million was charged to the comprehensive income and expenditure statement in 2015-16. The majority of this was charged to support services (£0.384 million), adult social care (£0.129 million) and environmental and regulatory services (£0.128 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 support service amortisation is attributable to each service heading.

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

	2014-15			**2015-16**		
	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	680	3,172	3,852	**1,331**	**3,551**	**4,882**
Accumulated amortisation	(393)	(2,740)	(3,133)	**(575)**	**(3,033)**	**(3,608)**
Net carrying amount at 1 April	287	432	719	**756**	**518**	**1,274**

Additions:						
Internal development	206	0	206	**156**	**0**	**156**
Purchases	0	129	129	**0**	**182**	**182**
Assets reclassified from property, plant & equipment	431	352	783	**0**	**287**	**287**
Amortisation for the period	(182)	(381)	(563)	**(256)**	**(406)**	**(662)**
Disposals gross value	0	(88)	(88)	**0**	**(54)**	**(54)**
Disposals amortisation	0	88	88	**0**	**54**	**54**
Adjustment	14	(14)	0	**0**	**0**	**0**
Net carrying amount at 31 March	756	518	1,274	**656**	**581**	**1,237**
Comprising:						
Gross carrying amounts	1,331	3,551	4,882	**1,487**	**3,966**	**5,453**
Accumulated amortisation	(575)	(3,033)	(3,608)	**(831)**	**(3,385)**	**(4,216)**
Balance at 31 March	756	518	1,274	**656**	**581**	**1,237**

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 2016 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 (PWLB)
- a lender Option/borrower option (LOBO) loan
- short -term loans from other local authorities
- overdraft facilities with National Westminster Bank plc
- finance 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

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

	Long-term		Current	
	31 March 2015	**31 March 2016**	31 March 2015	**31 March 2016**
	£000	**£000**	£000	**£000**
Investments				
Short-term Investments	-	**-**	3,029	**22,530**
Cash equivalents	-	**-**	723	**2,752**
Available-for-sale financial assets	6	**0**	-	**-**
Total investments	6	**0**	3,752	**25,282**
Debtors				
Loans and receivables	2,094	**2,114**	-	**-**
Financial assets carried at contract amounts	-	**-**	14,190	**15,004**
Total debtors	2,094	**2,114**	14,190	**15,004**
Borrowings				
Financial liabilities at amortised cost	(112,888)	**(102,888)**	(27,275)	**(56,932)**
Total borrowings	(112,888)	**(102,888)**	(27,275)	**(56,932)**
Other long-term liabilities & creditors				
PFI and finance lease liabilities	(49,811)	**(67,459)**	(1,141)	**(1,774)**
Other financial liabilities at amortised cost	(121)	**(138)**	-	**-**
Financial liabilities carried at contract amount	-	**-**	(16,990)	**(12,272)**
Total other long-term liabilities & creditors	(49,932)	**(67,597)**	(18,131)	**(14,046)**

Income, expense, gains and losses

	2014-15 £000	**2015-16 £000**
Interest expense from financial liabilities measures at amortised cost	(8,869)	**(10,941)**
Total expense in surplus or deficit on the provision of services	(8,869)	**(10,941)**
Interest income from financial assets: loans and receivables	138	**159**
Total expense in surplus or deficit on the provision of services	138	**159**
Net loss for the year	(8,731)	**(10,782)**

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 2016 of 1.33% to 3.17% 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 2015		**31 March 2016**	
	Carrying amount	Fair value	**Carrying amount**	**Fair value**
	£000	£000	**£000**	**£000**
Financial liabilities	158,294	195,655	**173,865**	**200,338**
Long-term creditors	49,932	72,334	**67,597**	**95,294**

- the carrying value of the council's portfolio of loans is £107.888 million. The fair value has been calculated as £132.599 million and this measures the economic effect of the terms agreed with the PWLB compared with the terms that would be offered for market transactions undertaken at the balance sheet date. The difference between the carrying value and the fair value measures the additional interest that the council will pay over the remaining terms of the loans under the agreements with the PWLB, against what would be paid if the loans were at prevailing market rates. However, the council has a continuing ability to borrow at concessionary rates from the PWLB rather than from the markets. If the council were to seek to avoid the projected loss by repaying the loans to the PWLB, the PWLB would raise a penalty charge for early redemption and charge a premium for the additional interest that would not be paid. The fair value of PWLB loans has been calculated by discounting the contractual cash flows at the market rate for local authority loans of the same remaining term. This represents level 2 on the valuation hierarchy being inputs other than quoted prices that are observable for the liability eg interest rates or yields for similar instruments.

- a Lender Option Borrower Option (LOBO) loan amounting to £5.000 million. 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 at £6.762 million by discounting the contractual cash flows at the market rate for local authority loans of the same remaining term and adding the value of the lender's option from a market option pricing model. This represents level 2 on the valuation hierarchy being inputs other than quoted prices that are observable for the liability eg interest rates or yields for similar instruments.

- The fair value of long-term creditors is more than the carrying amount due to fair value being calculated on discounted contractual cash flows at the AA bond yield of the same remaining term. This represents level 2 on the valuation hierarchy being inputs other than quoted prices that are observable for the liability eg interest rates or yields for similar instruments.

Assets	31 March 2015		**31 March 2016**	
	Carrying amount	Carrying amount	**Carrying amount**	**Fair value**
	£000	£000	**£000**	**£000**
Loans and receivables	17,948	17,948	**40,286**	**40,286**
Long-term debtors	2,094	2,094	**2,114**	**2,114**

- The fair value of short-term loans and receivables is equal to their carrying value.
- The fair value of long-term debtors is equal to the carrying value as the difference is not

material.

Other long-term liabilities
The liability relating to the defined benefit pension schemes (Local Government Pension Scheme and the Fire-fighters' Pension Fund) is £222.553 million (£281.313 million in 2014-15). These figures include the balance due from central government in respect of the 2015-16 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 £2.752 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 2016 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 2016	**Historical experience of default**	**Historical experience adjusted for market conditions at 31 March 2016**	**Estimated maximum exposure to default & uncollectability at 31 March 2016**	Estimated maximum exposure at 31 March 2016
	A	**B**	**C**	**(A x C)**	
	£000	**%**	**%**	**£000**	£000
Deposits with banks and financial institutions	25,282	0.00	0.00	**0**	0
Customers	4,382	12.47	13.45	**589**	648
Other debtors	8,550	0.00	0.00	**0**	0
			Total	**589**	648

The other debtors figure includes £1.800 million of deferred payments made in respect of care fees for clients in residential or nursing homes. 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 2015-16 was approved by the council in February 2015. 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 2015-16 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 section 151 officer 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 25 February 2015 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 £3.029 million is due for payment at 31 March 2016 from invoices raised through the council's accounts receivable system. This amount due can be analysed by age as follows:

	31 March 2015	**31 March 2016**
	£000	**£000**
Less than two months	1,750	**1,726**
Two to four months	125	**134**
Four months to one year	486	**566**
More than one year	557	**603**
Total	2,918	**3,029**

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 £45.500 million in temporary loans with other local authorities 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 2015	**31 March 2016**
	£000	**£000**
Less than one year	27,237	**56,932**
Between one and two years	10,038	**8,000**
Between two and five years	17,000	**15,000**
Between five and ten years	29,700	**29,288**
Between ten and fifteen years	33,188	**32,600**
Between fifteen and twenty years	22,000	**17,000**
Between twenty and twenty five years	0	**0**
More than twenty five years	1,000	**1,000**
Total external borrowing	140,163	**159,820**
Of which, Public Works Loan Board (PWLB)	110,388	**107,888**

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 long-term liabilities arising from the highways PFI scheme and the acquisition of vehicles under finance leases.

The most significant long-term liability relates to the highways PFI scheme (£68.376 million) at 31 March 2016. 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 2015	**31 March 2016**
	£000	**£000**
Less than one year	1,141	**1,774**
Between one and two years	1,263	**1,986**
Between two and five years	13,492	**17,350**
Between five and ten years	6,487	**11,274**
More than ten years	28,612	**36,890**
Total	50,995	**69,274**

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 2016, 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 £0.196 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 2015-16, the impact would have been limited to the actual amount of investment income received (£0.113 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 £0.149 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 2015-16, the impact would have been limited to the actual amount of temporary loan interest paid (£0.111 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 £0.030 million (£0.058 million at 31 March 2015) and stocks held for resale with a value of £0.080 million (£0.106 million at 31 March 2015).

19. Debtors

	31 March 2015 £000	**31 March 2016 £000**
Central Government bodies	4,803	**4,086**
Other local authorities	320	**330**
NHS bodies	1,047	**3,237**
Public Corporations	1	**1**
Other entities and individuals (see below)	17,732	**16,354**
Total	23,903	**24,008**

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 2015 £000	**31 March 2016 £000**
Sundry debtors	7,863	**7,046**
Less: allowance for non-collection	(527)	**(562)**
Sundry debtors (net of allowance for non-collection)	7,336	**6,484**
Local taxpayers	4,964	**4,704**
Less: allowance for non-collection	(742)	**(564)**
Local taxpayers (net of allowance for non-collection)	4,222	**4,140**
Housing benefit overpayments	2,778	**3,209**
Less: allowance for non-collection	(1,218)	**(1,446)**
Housing benefit overpayments (net of allowance for non-collection)	1,560	**1,763**
Academy schools	0	**1**
Prepayments	4,614	**3,966**
Total Other entities and individuals	17,732	**16,354**

20. Cash and cash equivalents

	31 March 2015 £000	**31 March 2016 £000**
Cash held by the council	4,732	**4,186**
Short-term deposits with banks	723	**2,752**
Bank current accounts overdrawn	(2,823)	**(1,146)**
Total	2,632	**5,792**

21. Assets held for sale

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 2014-15 and 2015-16.

	Current	
	2014-15 £000	**2015-16 £000**
Balance at 1 April	491	**609**
Assets newly classified as held for sale:		
Property, plant & equipment	4,052	**1,290**
Revaluation losses	(2,519)	**0**
Revaluation gains	48	**456**
Assets sold	(1,463)	**(2,150)**
Balance at 31 March	609	**205**

22. Creditors

	31 March 2015 £000	**31 March 2016 £000**
Central government bodies	3,803	**2,304**
Other local authorities	217	**242**
NHS bodies	1,050	**1,529**
Other entities and individuals (see below)	19,216	**16,301**
Total	24,286	**20,376**

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

	31 March 2015 £000	**31 March 2016 £000**
Sundry creditors	13,825	**10,887**
Local taxpayers	1,983	**2,178**
Academy schools	0	**24**
Receipts in advance	3,408	**3,212**
Total	19,216	**16,301**

23. Provisions

	Outstanding Insurance Claims £000	**Employment related & other costs £000**	**Non-domestic Rate appeals £000**	**Care related costs £000**	**Total £000**
Balance at 1 April 2015	2,499	508	2,046	224	**5,277**
Additional provision made in 2015-16	0	106	1,460	0	**1,566**
Amounts used in 2015-16	(342)	0	(1,307)	(117)	**(1,766)**
Unused amounts reversed in 2015-16	0	(35)	0	0	**(35)**
Balance at 31 March 2016	**2,157**	**579**	**2,199**	**107**	**5,042**

Analysis of provisions between short and long term:

	2014-15 £000	**2015-16 £000**
Short-term provisions	3,985	**3,902**
Long-term provisions	1,292	**1,140**
Balance at 31 March	5,277	**5,042**

Outstanding insurance claims

The Insurance Provision at 31 March 2016 is based on an estimate of potential liabilities arising from outstanding claims. Of the total at 31 March 2016, £0.865 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 £2.157 million, £1.292 million relates to the potential MMI clawback. Of this amount, £0.152 million is due as a levy payment during 2015-16 and has been included as a short-term liability and the balance of £1.140 million has been categorised 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.

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 a rateable value. It includes amounts which may be backdated to periods prior to 1 April 2014.

Care related costs
This provision is an estimate of the uplift in fees due for high cost residential placements in previous financial years which are under review.

It is expected that the costs relating to short-term liabilities will be incurred in 2016-17.

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 2015 £000	**31 March 2016 £000**
General fund balance	7,551	**7,298**
Capital receipts reserve	1,739	**19,730**
Capital grants unapplied	580	**934**
Earmarked reserves (see note 8)	42,981	**42,966**
Total usable reserves	52,851	**70,928**

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

25. Unusable reserves

	31 March 2015 £000	**31 March 2016 £000**
Revaluation reserve	64,452	**79,526**
Capital adjustment account	8,034	**(2,795)**
Pensions reserve	(281,313)	**(222,579)**
Deferred capital receipts reserve	45	**2**
Collection fund adjustment account	(911)	**(1,731)**
Accumulated absences account	(2,830)	**(2,214)**
Total unusable reserves	(212,523)	**(149,791)**

The movements on the council's unusable reserves are detailed below. The adjustments arising from the reclassifications between land and buildings, surplus assets and investment properties in the revaluation reserve and capital adjustment account have been treated as 2015-16 entries as the amounts are not considered by the council to be material and so the comparative year figures have not been restated.

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.

2014-15 £000		Revaluation reserve	2015-16 £000	
	60,364	Balance at 1 April		**64,452**
	0	Asset classification adjustment (see note 12)		**51**
	60,364	1 April 2015 (adjusted)		**64,503**
11,171		Upward revaluation of assets	**20,889**	
(433)		Downward revaluation of assets and impairment losses not charged to the surplus/ deficit on the provision of services	**(2,860)**	
	10,738	Surplus or deficit on revaluation of non-current assets not posted to the surplus or deficit on the provision of services		**18,029**
(895)		Difference between current depreciation and historical cost depreciation	**(1,127)**	
(5,755)		Accumulated gains on assets sold or scrapped	**(1,879)**	
	(6,650)	Amount written off to the capital adjustment account		**(3,006)**
	64,452	**Balance at 31 March**		**79,526**

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 current 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.

2014-15 £000		Capital adjustment account	2015-16 £000	
	71,519	Balance at 1 April		**8,034**
		Asset classification adjustment (see note 12)		**(51)**
		1 April 2015 (adjusted)		**7,983**
		Reversal of items relating to capital expenditure debited or credited to the comprehensive income and expenditure statement:		
(13,490)		• Charges for depreciation and impairment of non-current assets	**(12,967)**	
(4,550)		• Revaluation losses on property, plant & equipment	**(2,985)**	
(564)		• Amortisation of intangible assets	**(662)**	
(5,735)		• Revenue expenditure funded from capital under statute	**(3,730)**	
146		• Write-down of PFI deferred income	**12**	
202		• Capitalised interest	**24**	
(6)		• Capital loan write-down	**0**	
(64,781)		• 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	**(25,371)**	
	(88,778)			**(45,679)**
	6,650	Adjusting amounts written out of the revaluation reserve		**3,006**
	(10,609)	Net written out amount of the cost of non-current assets consumed in the year		**(34,690)**
		Capital financing applied in the year:		
690		• Use of capital receipts reserve to finance new capital expenditure	**653**	
5,660		• Capital grants and contributions credited to the comprehensive income and expenditure statement that have been applied to capital financing	**5,087**	
53		• Application of grants to capital financing from the capital grants unapplied account	**330**	
11,923		• Statutory provision for the financing of capital investment charged against the general fund	**8,175**	
237		• Capital expenditure charged against the general fund	**0**	
	18,563			**14,245**
	80	Movements in the market value of investment properties debited or credited to the comprehensive income and expenditure statement		**17,650**
	8,034	**Balance at 31 March**		**(2,795)**

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.

2014-15	**Pension reserve**	**2015-16**
£000		**£000**
225,824	Balance at 1 April	**281,313**
46,405	Actuarial (gains) and losses on pensions assets and liabilities	**(69,132)**
22,391	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	**23,987**
(12,940)	Employer's pensions contributions and direct payments to pensioners payable in the year	**(13,830)**
(367)	Fire-fighters' Pension Scheme – movement on top-up grant repayable from Government	**215**
0	Capitalised pension	**26**
281,313	**Balance at 31 March**	**222,579**

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 2016 is £0.002 million (£0.045 million at 31 March 2015).

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.

2014-15	**Collection fund adjustment account**	**2015-16**
£000		**£000**
1,113	Balance at 1 April	**911**
926	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)	**(270)**
(1,128)	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)	**1,090**
911	**Balance at 31 March**	**1,731**

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 2016 is £2.214 million (£2.830 million at 31 March 2015).

26. Cash flow statement – operating activities

The cash flow for operating activities includes the following items:

2014-15		**2015-16**	
£000		**£000**	**£000**
(72,951)	Net surplus or (deficit) on the provision of services		**(6,352)**
	Adjustment of net surplus or deficit on the provision of services for non-cash items:-		
13,490	Depreciation	**12,967**	
4,550	Impairment and downward valuations	**2,985**	
564	Amortisation	**662**	
(62)	Increase/decrease in interest creditors	**(8)**	
(635)	Increase/decrease in creditors	**(913)**	
1,553	Increase/decrease in debtors	**(2,006)**	
3	Increase/decrease in inventories	**54**	
9,084	Movement in pension liability	**10,372**	
(427)	Contributions to/(from) provisions	**(234)**	
64,781	Carrying amount for non-current assets sold/academy transfers	**25,371**	
(80)	Movement in investment property values	**(17,650)**	
92,821			**31,600**
	Adjustment for items in the net surplus or deficit on the provision of services that are investing or financing activities:-		
(6,113)	Capital grants credited to surplus or deficit on the provision of services	**(5,770)**	
1,385	Net adjustment from the sale of short & long term investments	**0**	
(1,433)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	**(18,642)**	
(6,161)			**(24,412)**
13,709	**Net cash flows from operating activities**		**836**

27. Cash flow statement – operating activities (interest)

The cash flows for operating activities include the following items:

2014-15		**2015-16**
£000's		**£000's**
16,805	Interest received	**14,022**
(35,033)	Interest paid	**(33,893)**

28. Cash flow statement – investing activities

2014-15		**2015-16**
£000		**£000**
(3,816)	Purchase of property, plant & equipment, investment property and intangible assets	**(19,933)**
(3,025)	Purchase of short-term and long-term investments	**(22,505)**
(120)	Other payments for investing activities	**(73)**
1,435	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	**18,685**
0	Proceeds from short-term and long-term investments	**3,035**
7,340	Other receipts from investing activities	**8,432**
1,814	**Net cash flows from investing activities**	**(12,359)**

29. Cash flow statement – financing activities

2014-15		**2015-16**
£000's		**£000's**
18,305	Cash receipts of short and long-term borrowing	**40,512**
1,588	Council tax and NDR adjustment	**(1,836)**
(32,537)	Repayments of short and long-term borrowing	**(20,847)**
17	Other receipts for financing activities	**(103)**
(4,368)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	**(3,043)**
(16,995)	**Net cash flows from financing activities**	**14,683**

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 2015-16 in February 2015, cash limited budgets were allocated to services. Performance of spend against budget was monitored throughout the year with monthly reports being presented to budget managers, service boards and the senior management team of the council. 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 Full Council outlining the council's financial position. In addition, the Executive/Corporate Management Team Joint Board monitored and critically examined the revenue and capital budget position and 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 shown below. The children's services segment includes the income and expenditure of all of the authority's maintained schools including voluntary aided and foundation schools.

Service income & expenditure 2015-16	**Children's Services £000**	**Adult Services £000**	**Place £000**	**Public health £000**	**Central & Resource Services £000**	**Total £000**
Fees, charges & other service income	(6,202)	(19,597)	(15,623)	(19)	(2,729)	**(44,170)**
Government grants	(79,297)	(1,812)	(1,745)	(6,886)	(51,778)	**(141,518)**
Total income	**(85,499)**	**(21,409)**	**(17,368)**	**(6,905)**	**(54,507)**	**(185,688)**
Employee costs	69,182	12,770	16,930	1,032	11,940	**111,854**
Other service costs	43,719	55,136	42,522	5,991	54,284	**201,652**
Movement on reserves	(1,201)	(2,905)	6,497	(118)	(2,288)	**(15)**
Total expenditure	**111,700**	**65,001**	**65,949**	**6,905**	**63,936**	**313,491**
Net expenditure	**26,201**	**43,592**	**48,581**	**0**	**9,429**	**127,803**

The council's directorate management arrangements were restructured with effect from April 2015. In order to match the revised structure, the comparative analysis for 2014-15 has been restated from that presented in the 2014-15 statement of accounts:

Service income & expenditure 2014-15 (comparative year) restated	**Children's Services £000**	**Adult Services £000**	**Place £000**	**Public health £000**	**Central & Resource Services £000**	**Total £000**
Fees, charges & other service income	(7,630)	(13,523)	(16,076)	(119)	(5,923)	**(43,271)**
Government grants	(82,397)	(383)	(1,218)	(6,088)	(53,964)	**(144,050)**
Total income	**(90,027)**	**(13,906)**	**(17,294)**	**(6,207)**	**(59,887)**	**(187,321)**
Employee costs	71,123	12,155	18,371	858	12,639	**115,146**
Other service costs	44,729	49,520	42,422	4,962	55,768	**197,401**
Movement on reserves	(847)	4,971	7,575	387	(5,817)	**6,269**
Total expenditure	**115,005**	**66,646**	**68,368**	**6,207**	**62,590**	**318,816**
Net expenditure	**24,978**	**52,740**	**51,074**	**0**	**2,703**	**131,495**

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.

	2014-15 £000	**2015-16 £000**
Net expenditure in the service analysis	131,495	**127,803**
Amounts in the comprehensive income and expenditure statement not reported to management in the analysis	46,309	**45,640**
Amounts included in the analysis not included in the comprehensive income and expenditure statement	(19,209)	**(13,815)**
Allocation of recharges	(13,441)	**(13,791)**
Cost of Services in comprehensive income and expenditure statement	145,154	**145,837**

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.

2015-16	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	(44,170)	(21)	0	0	(44,191)	0	(44,191)
Interest and investment income	0	0	0	0	0	(31,692)	(31,692)
Income from council tax	0	0	0	0	0	(69,882)	(69,882)
Income from Business Rates retention	0	0	0	0	0	(15,602)	(15,602)
Government grants and contributions	(141,518)	(2,838)	0	0	(144,356)	(65,676)	(210,032)
Total income	**(185,688)**	**(2,859)**	**0**	**0**	**(188,547)**	**(182,852)**	**(371,399)**
Employee costs	111,854	14,376	(13,830)	0	112,400	0	112,400
Other service costs	201,652	3,718	0	0	205,370	215	205,585
Movement on reserves	(15)	0	15	0	0	0	0
Support service recharges	0	13,791	0	(13,791)	0	0	0
Depreciation, amortisation and impairment	0	16,614	0	0	16,614	0	16,614
Financing and investment income & expenditure	0	0	0	0	0	34,197	34,197
Precepts & levies	0	0	0	0	0	2,538	2,538
Gain or loss on disposal of non-current assets	0	0	0	0	0	6,417	6,417
Total expenditure	**313,491**	**48,499**	**(13,815)**	**(13,791)**	**334,384**	**43,367**	**377,751**
(Surplus) or deficit on the provision of services	**127,803**	**45,640**	**(13,815)**	**(13,791)**	**145,837**	**(139,485)**	**6,352**

2014-15 (comparative year)	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**

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 2016, 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	142
		Expenditure	89
		Agreed contribution to/(from) general fund:	
		2015-16	**53**
		2014-15	111
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 and also foot passengers as from July 2015.	Turnover	709
		Expenditure	682
		Agreed contribution to/(from) general fund:	
		2015-16	**27**
		2014-15	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 2015-16 such investment included concessionary fares, subsidised bus services, community bus services and rights of way.	Parking income:	
		Ticket machine income	3,082
		Permit income	483
		Penalty charge notice income	613
		Other sources of income	27
		Turnover	4,205
		Expenditure	1,272
		2015-16 Parking account surplus	**2,933**
		2014-15 surplus	2,363
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	1,233
		Expenditure	1,118
		Agreed contribution to/(from) general fund:	
		2015-16	**115**
		2014-15	119
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	95
		Expenditure	227
		Agreed contribution to/(from) general fund:	
		2015-16	**(132)**
		2014-15	(138)
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	2,363
		Expenditure	3,625
		Agreed contribution to/(from) general fund:	
		2015-16	**(1,262)**
		2014-15	(1,171)

Operation	Description		£000
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 2015-16 figures include a loss of £0.066 million which resulted from a revaluation of non-current assets.	Turnover	205
		Expenditure	369
		Agreed contribution to/(from) general fund:	
		2015-16	**(164)**
		2014-15	(71)

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 £0.254 million in 2015-16 (£0.252 million in 2014-15). There was no other significant agency work carried out during 2015-16.

33. Members' allowances

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

	2014-15 £000	**2015-16 £000**
Basic allowance & special responsibility allowances	433	**419**
Employers' national insurance & pension contributions paid on behalf of members	45	**43**
Travelling & subsistence allowance and reimbursements	19	**21**
Co-opted members	2	**2**
Total	499	**485**

34. 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)	2015-16 2014-15	56,191 100,104	0 0	0 0	56,191 100,104	0 0	56,191 100,104
Chief Executive (ii)	2015-16 2014-15	41,667 -	0 -	0 -	41,667 -	9,583 -	51,250 -
Head of Corporate Governance & Monitoring Officer (iii)	2015-16 2014-15	907 72,824	0 1,209	26,465 0	27,372 74,033	271 15,327	27,643 89,360
Head of Legal Services & Monitoring Officer (iv)	2015-16 2014-15	49,861 -	0 -	0 -	49,861 -	11,468 -	61,329 -

Head of Financial Management & Section 151 officer (v)	2015-16 2014-15	23,471 46,273	0 0	0 0	23,471 46,273	5,360 10,175	28,831 56,448
Chief Financial Officer & Section 151 officer (vi)	2015-16 2014-15	18,968 -	0 -	0 -	18,968 -	0 -	18,968 -
Head of Resources (vii)	2015-16 2014-15	79,210 78,643	0 1	0 0	79,210 78,644	18,218 17,113	97,428 95,757
Head of Contract Management (viii)	2015-16 2014-15	79,210 77,936	0 6	0 0	79,210 77,942	18,218 17,113	97,428 95,055
Head of Commercial Services (ix)	2015-16 2014-15	61,496 -	0 -	0 -	61,496 -	14,144 -	75,640 -
Head of Planning & Housing (x)	2015-16 2014-15	65,569 -	0 -	0 -	65,569 -	15,081 -	80,650 -
Strategic Manager Economic Development & Assets (xi)	2015-16 2014-15	61,496 -	0 -	0 -	61,496 -	14,144 -	75,640 -
Deputy Managing Director (xii)	2015-16 2014-15	62,422 87,781	0 0	0 0	62,422 87,781	14,357 19,159	76,779 106,940
Director of Public Health (xiii)	2015-16 2014-15	73,983 -	0 -	0 -	73,983 -	6,643 -	80,626 -

Notes to officers' remuneration

Note (i)	The postholder filled this role until 30 November 2015. From 1 October 2015 the postholder also acted as the Section 151 officer until 30 November 2015 on a reduced working week pattern. The wholetime equivalent salary was £102,638. (see also note (vi) below).
Note (ii)	The postholder commenced this role on 1 December 2015 having previously been employed in the post of Deputy Managing Director.
Note (iii)	The Head of Corporate Governance and Monitoring Officer left the employment of the council on 6 April 2015. The postholder had a 4 day per week working pattern. The wholetime equivalent salary was £88,385.
Note (iv)	The Head of Legal Services and Monitoring Officer commenced in this role on 1 April 2015.
Note (v)	The Head of Financial Management and Section 151 officer left the employment of the council on 30 September 2015. The postholder had a 3 day per week working pattern. The wholetime equivalent salary was £77,826.
Note (vi)	The previous Managing Director acted in this capacity from 1 December 2015 on a reduced working week pattern when the Chief Executive post was filled. The wholetime equivalent salary was £98,962.
Note (vii)	The Head of Resources commenced in the post on 1 April 2015. The figures shown for the previous year relate to the postholder's previous role as Head of Human Resources and Organisational Development
Note (viii)	The Head of Contract Management commenced in the post on 1 April 2015. The figures shown for the previous year relate to the postholder's previous role as Head of Planning & Regulatory Services.
Note (ix)	The Head of Commercial Services commenced in this role on 1 April 2015.
Note (x)	The Head of Planning & Housing commenced in this role on 1 April 2015.

Note (xi)	The Strategic Manager – Economic Development & Assets commenced in this role on 1 July 2015. The figures shown are for the full year and include a period when the postholder was filling a similar position.
Note (xii)	The Deputy Managing Director left this post on 30 November 2015 to take up the post of Chief Executive. The figures shown for the previous year relate to the postholder's previous role as Head of Economy & Tourism.
Note (xiii)	The Director of Public Health commenced in this post on 1 July 2015. For 2014-15 and for the period 1 April to 30 June 2015, the post of Associate Director of Public Health was filled on a contract for services agreement which was inclusive of all employment related costs including employers' national insurance, pension contributions, sickness and agency fees. The actual amount payable under this agreement in 2015-16 for the period to 30 June 2015 was £43,560 and £141,075 for 2014-15.

Other notes relating to senior employees:

Note (xiv)	The Director of Children's Services at Hampshire County Council (HCC) holds the role of Director of Children's Services under a strategic partnership agreement which commenced on 1 July 2013. The remuneration details are disclosed in full by HCC and a recharge equivalent to 25% of costs are paid by the Isle of Wight Council. The amount recharged to IWC relating to this post in 2015-16 is £62,185. (£48,480 in 2014-15).
Note (xv)	The post of Director of Adult Social Care and Community Wellbeing 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 amount payable in 2015-16 is £157,776 and the daily rate is £667. The contract period in 2014-15 related to the director post from 1 November 2014. The daily rate was £667. The amount payable in 2014-15 from 1 November 2014 was £66,033.
Note (xvi)	With effect from 1 April 2015 the post of Chief Fire Officer and other senior management posts have been filled under a Fire & Rescue strategic partnership with Hampshire Fire and Rescue Service. The remuneration details are disclosed by the Hampshire Fire and Rescue Service. The amount recharged to the Isle of Wight Council for 2015-16 is £134,450, which represents the relevant proportions of four senior management posts.
Note (xvii)	Two senior employees who were included in this table in the 2014-15 statement of accounts were not employed by the council during 2015-16. Their remuneration relating to 2014-15 has been added to the relevant band shown below under all other council employees. The 2014-15 totals therefore differ from those previously published in the 2014-15 statement of accounts.

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	2014-15				**2015-16**			
	School based employees				**School based employees**			
	Voluntary Aided & Foundation schools	Other schools	All other council employees (see note xvii above)	Total number of employees	**Voluntary Aided & Foundation schools**	**Other schools**	**All other council employees**	**Total number of employees**
£50,000 to £54,999	15	13	14	42	**18**	**9**	**14**	**41**
£55,000 to £59,999	4	7	10	21	**6**	**7**	**3**	**16**
£60,000 to £64,999	7	3	5	15	**6**	**8**	**5**	**19**
£65,000 to £69,999	2	3	0	5	**2**	**3**	**0**	**5**
£70,000 to £74,999	2	2	1	5	**1**	**0**	**0**	**1**
£75,000 to £79,999	0	2	2	4	**1**	**0**	**0**	**1**
£80,000 to £84,999	0	0	0	0	**0**	**1**	**0**	**1**
£85,000 to £89,999	0	1	0	1	**0**	**0**	**0**	**0**
£90,000 to £94,999	1	0	0	1	**1**	**1**	**0**	**2**
£95,000 to £99,999	1	0	0	1	**1**	**0**	**0**	**1**
£100,000 to £104,999	0	0	1	1	**0**	**0**	**0**	**0**
£120,000 to £124,999	0	0	0	0	**1**	**0**	**0**	**1**
Totals	32	31	33	96	**37**	**29**	**22**	**88**

35. Termination benefits

The council terminated the contracts of a number of employees in 2015-16, incurring liabilities of £1.076 million. (£1.240 million in 2014-15).

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	
	2014-15	**2015-16**	2014-15	**2015-16**	2014-15	**2015-16**	2014-15 £	**2015-16 £**
£0 to £20,000	123	**47**	19	**62**	142	**109**	828,539	**735,453**
£20,001 to £40,000	10	**0**	0	**9**	10	**9**	270,582	**275,268**
£40,001 to £60,000	1	**0**	2	**0**	3	**0**	140,415	**0**
£60,001 to £80,000	0	**0**	0	**1**	0	**1**	0	**64,872**
Total	134	**47**	21	**72**	155	**119**	1,239,536	**1,075,593**

The total of termination payments made during 2015-16 has been charged to the Comprehensive Income and Expenditure Statement. The total cost of exit packages include £0.037 million relating to two former members of staff who left the council in a previous year and £0.033 million relating to two members of staff who have taken flexible retirement, but who remain employees of the council. The total number of exit packages does not include these four members of staff.

36. 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.

	2014-15 £000	**2015-16 £000**
Fees payable with regard to external audit services carried out by the appointed auditor for the year	170	**135**
Fees payable to the appointed auditor for certification of grant claims and returns for the year	23	**15**
Total of fees payable to the appointed auditor	193	**150**
Rebate of fees previously paid to the Audit Commission	(17)	**-**
Total	176	**150**

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

37. 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 2015-16	Central expenditure £000	Individual schools budget £000	Total £000
Final DSG for 2015-16 before Academy recoupment			**87,921**
Academy figure recouped for 2015-16			**(20,581)**
Total DSG after Academy recoupment for 2015-16			**67,340**
Brought forward from 2014-15			**544**
Carry-forward to 2016-17 agreed in advance			**0**
Agreed initial budget distribution in 2015-16	**10,087**	**57,797**	**67,884**
In-year adjustments	**0**	**0**	**0**
Final budget distribution for 2015-16	**10,087**	**57,797**	**67,884**
Less: Actual central expenditure	**10,423**		**10,423**
Less: Actual ISB deployed to schools		**57,967**	**57,967**
Plus: Local authority contribution for 2015-16	**336**	**170**	**506**
Carry forward to 2016-17	**0**	**0**	**0**

Deployment of dedicated schools grant 2014-15 (comparative year)	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

38. 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	2014-15 £000	**2015-16 £000**
Revenue grants:		
Revenue Support grant	(35,956)	**(26,103)**
Business rates retention – top-up grant	(12,216)	**(12,449)**
Local services support grant	(291)	**(224)**
Highways PFI grant	(16,796)	**(18,615)**
New homes bonus	(2,593)	**(3,153)**
Community Right to Challenge	(9)	**0**
Community Right to Bid	(8)	**0**
NDR small business rate relief scheme s31 grant	(1,175)	**(1,327)**
Other NDR relief schemes s31 grant	(672)	**(868)**
Council tax flood relief grant	0	**(6)**
Council tax annexe discount grant	0	**(7)**
Transparency code grant	(10)	**(13)**
Flood resilience grant	(174)	**0**
Capital grants:		
Department for Education grants	(539)	**(702)**
Local transport plan & local sustainable transport grant	(616)	**(1,087)**
Fire service grant	(299)	**(2)**
Better care fund (Social care capital grant)	0	**(427)**
Other capital grants	(888)	**(693)**
Total	(72,242)	**(65,676)**

Credited to services	2014-15 £000	**2015-16 £000**
Dedicated schools grant	(69,742)	**(67,340)**
Education services grant	(1,835)	**(1,425)**
Sixth form funding grant	(3,558)	**(3,431)**
Rent allowance & rent rebates subsidy	(52,000)	**(50,440)**
Housing benefit & council tax support administration grant	(1,071)	**(943)**
Public health grant	(6,088)	**(6,886)**
Pupil premium grant	(4,541)	**(4,252)**
Free school meal grant	-	**(1,103)**
Care Act grant	-	**(1,126)**
Other revenue grants	(5,215)	**(4,572)**
Revenue expenditure funded by capital under statute (REFCUS):		

Disabled facilities grant	(451)	**(1,260)**
Department for Education REFCUS grants	(500)	**(925)**
Superfast Broadband grant	(2,267)	**0**
Other REFCUS grants	(324)	**(653)**
Total	(147,592)	**(144,356)**

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	2014-15 £000	**2015-16 £000**
Department for Education grants	(3,753)	**(4,535)**
Other grants	(2,284)	**(2,636)**
Contributions	(1,391)	**(839)**
Total	(7,428)	**(8,010)**

Revenue grants & contributions receipts in advance	2014-15 £000	**2015-16 £000**
Housing benefit subsidy	(693)	**(856)**
Other grants	(430)	**(511)**
Section 106 contributions	(1,112)	**(1,471)**
Total	(2,235)	**(2,838)**

39. 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 38.

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 2015-16 is shown in note 33. During 2015-16, payments to the value of £34.3 million were made to organisations where members had declared an interest including £22.4 million to educational facilities where members or close family were employed, £2.4 million to parish and town councils (including precepts) and £7 million to the NHS with whom the council transacts as part of its day to day business. The remaining £2.3 million included payments of:

- £0.7 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.

- £0.3 million to the Real World Trust which relates partly to a grant payment towards the development of supported accommodation and recovery workshop facilities and housing benefit payments.
- £0.4 million to the Chamber of Commerce which relates to LSTF, workplace engagement and two other projects.
- £0.2 million to the Friends of Northwood cemetery which relates to grant payments and cash flow support.
- £0.3 million to Community Action Isle of Wight which relates to core grant funding and LSTF funding.

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 Chief Fire Officer is provided by Hampshire Fire and Rescue Service as part of a partnership agreement from April 2015.

For 2015-16, the Director of Adult Social Care was filled on an agency contract basis and the post of Associate Director of Public Health was filled for part of the year on the same basis.

Further details of these arrangements are shown in note 34.

The Chief Executive is a council appointed Director for Perpetuus Tidal Energy Centre.

Other Public Bodies (subject to common control by central government)

The council has a pooled budget arrangement under section 75 of the National Health Service Act 2006 with the Isle of Wight Clinical Commissioning Group (CCG) for the Better Care Fund (BCF) and free nursing care. The council is the host for the pooled budget and although the intention is to support better integration, the current arrangement does not provide for the sharing of any financial risk. There is no joint decision making body and the decisions do not need to be taken with the unanimous consent of the partners. Consequently, this arrangement has not been accounted for as a joint operation under IFRS11 and the receipt of income by the council from the CCG and the subsequent reimbursement of cash by the council to the CCG has been netted out of the 2015-16 financial statements.

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 £1.976 million were made to Hampshire County Council in 2015-16 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 £0.305 million for expenses incurred in administering the fund.

Entities controlled or significantly influenced by the council

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 holds a £1 share in Pan Management Company which is a limited liability community interest company. The council has one director's position on the board, but has no significant control or influence over the financial or operating decisions of the company.

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 40.

The council has entered into a limited liability partnership with Public Sector PLC Facilitating Ltd to maximise opportunities from the council's land and property portfolio. No disposals or developments took place during 2015-16. This is subject to a more detailed disclosure in the group accounts note 40.

40. 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. This includes on-shore facilities and infrastructure for the testing and proving of solutions for the generation of electricity. The council has invested £1 million over 2 years under a loan agreement repayable after 9 years and holds 15% of the ordinary shares in the company with rights to dividends. 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 2015-16 whilst the company is in phase 1 of the delivery, but once phase 2 commences the council will consider the materiality of any transactions and, if appropriate, consolidate them into the council's statement of accounts.

The council has also formed a limited liability partnership (LLP) with Public Sector PLC Facilitating (PSPF) to maximise opportunities from the council's land and property portfolio on the island, and generate capital receipts or revenue income. The council holds 50% shares in the partnership and has a right to 50% of the profits. 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 2015-16 as the partnership was formed in 2015-16 and as at 31 March 2016 no disposals or developments have taken place. There are likely to be disposals or developments in 2016-17 and the council will consider the materiality of these 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.

41. 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.

	2014-15 £000	**2015-16** **£000**
Balance carried forward	227,470	**246,793**
Adjustment to opening balance	0	**(354)**
Opening capital financing requirement	227,470	**246,439**
Capital investment:		
Property, plant and equipment	5,734	**17,782**
Heritage assets	1	**0**
Intangible assets	335	**338**
Revenue expenditure funded from capital under statute	5,735	**3,730**

Loans and financial assistance	154	**0**
Highways PFI assets brought onto balance sheet	26,275	**20,722**
Finance lease assets brought onto balance sheet	0	**605**
Sources of finance:		
Capital receipts	(690)	**(653)**
Government grants and other contributions	(5,713)	**(5,417)**
Sums set-aside from revenue:		
Revenue contributions to capital	(237)	**0**
Finance lease disposal	0	**(59)**
Ryde Gateway	(202)	**0**
Waste PFI deferred income	(146)	**(12)**
Statutory charge to revenue	(11,923)	**(8,175)**
Closing capital financing requirement	246,793	**275,300**
Explanation of movements in year		
Increase/(reduction) in underlying need to borrow (unsupported by government financial assistance)	(6,952)	**7,180**
Assets acquired under PFI contracts	26,275	**20,722**
Assets acquired under finance leases	0	**605**
Increase/decrease in capital financing requirement	19,323	**28,507**

42. Leases

Council as lessee

The council has acquired vehicles, plant, furniture and equipment assets under finance leases. The rentals payable under these arrangements in 2015-16 were £0.266 million (£0.326 million in 2014-15), charged to the comprehensive income and expenditure account as £0.030 million finance costs (charged to interest payable) and £0.236 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 either 2015-16 or 2014-15.

Carrying amount of assets	31 March 2015 £000	**31 March 2016 £000**
Balance at 1 April	582	**378**
Additions	0	**605**
Depreciation	(168)	**(198)**
Revaluation	27	**0**
Disposal	(63)	**0**
Reclassification	0	**(96)**
Balance at 31 March	378	**689**

Liability	**Minimum lease payments**		**Present value of minimum lease payments**	
	31 March 2015 £000	**31 March 2016 £000**	31 March 2015 £000	**31 March 2016 £000**
Not later than one year	203	**302**	173	**222**
Later than one year and not later than five years	255	**706**	210	**541**
Later than five years	436	**418**	101	**91**
	894	**1,426**	484	**854**
Less: future finance charges	(410)	**(572)**	-	**-**
Total	484	**854**	484	**854**

Included in:	31 March 2015 £000	**31 March 2016 £000**
Current borrowings	173	**222**
non-current borrowings	311	**632**
Total	484	**854**

The fair value for the present value of minimum lease payments has been measured using significant observable inputs, being level 2 on the fair value hierarchy. The fair value at 31 March 2016 is £0.206 million based on discount contractual cash flows at the AA bond yield of the same remaining term.

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 2015-16 were £1.741 million (£1.983 million in 2014-15), 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 2015-16 amounted to £0.790 million (£0.697 million in 2014-15).

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

Leases expiring	31 March 2015 £000	**31 March 2016 £000**
Not later than one year	1,217	**991**
Later than one year and not later than five years	2,175	**1,373**
Later than five years	450	**224**
Total	3,842	**2,588**

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

	2014-15 £000	**2015-16 £000**
Minimum lease payments	1,956	**1,724**
Contingent rents	28	**17**
Total	1,984	**1,741**

Sub-lease income receivable	(697)	**(790)**
Total	1,287	**951**

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 2015-16 was £0.788 million (£0.784 million in 2014-15), 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 2015 £000	**31 March 2016 £000**
Not later than one year	500	**609**
Later than one year and not later than five years	1,628	**1,937**
Later than five years	16,284	**17,090**
Total	18,412	**19,636**

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 2015-16 £0.036 million in contingent rents were received by the council (2014-15 £0.009 million).

43. 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 ended on 31 October 2015. The value of the contract was 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, was met though government funding (PFI credits).

Within the waste PFI contract, the council has acquired non-current assets under a finance lease arrangement. There were no rentals payable under these arrangements in 2015-16 (£1.174 million in 2014-15). The fair value of services in 2015-16 is calculated as £3.844 million (£5.491 million in 2014-15) and is charged to the environmental and regulatory services line in the comprehensive income and expenditure statement.

At the termination of the contract on 31 October 2015, the remaining assets were returned to the council.

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

	2014-15 £000	**2015-16 £000**
Value at 1 April	2,115	**1,922**
Revaluations	63	**0**
Depreciation	(156)	**(18)**
Disposals	(100)	**(1,904)**
Total assets at 31 March	1,922	**0**

There is a nil balance of deferred income at 31 March 2016 (£0.012 million in 2014-15).

	2014-15 £000	**2015-16 £000**
Not later than one year	**12**	**0**
Total	**12**	**0**

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

	2014-15 £000	**2015-16 £000**
Value at 1 April	1,106	**0**
Finance charge	68	**0**
Finance lease rental	(1,174)	**0**
Finance lease outstanding at 31 March	0	**0**

There are no outstanding obligations to make payments under the Waste PFI scheme at 31 March 2016.

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 non-current assets under a finance lease agreement. The rentals payable under these arrangements in 2015-16 were £7.993 million (£6.172 million in 2014-15) charged to the comprehensive income and expenditure statement as £5.256 million finance costs (charged to interest payable) and £2.737 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 £11.962 million (£12.080 million in 2014-15) and is charged to the highways and transport services line in the comprehensive income and expenditure statement. Government grant of £18.615 million (£16.796 million in 2014-15) 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:-

	2014-15 £000	**2015-16 £000**
Value at 1 April	65,106	**74,275**
Additions	26,309	**20,982**
Reclassifications	0	**(449)**
Revaluation gains	109	**0**
Depreciation	(5,909)	**(6,836)**
Disposals	(11,340)	**(1,203)**
Total assets at 31 March	74,275	**86,769**

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

	2014-15 £000	**2015-16 £000**
Value at 1 April	27,014	**50,449**
Finance lease adjustment	17	**0**
Finance additions	26,275	**20,723**
Disposals	0	**(59)**
Finance charge	3,315	**5,256**
Finance lease rental	(6,172)	**(7,993)**
Finance lease outstanding at 31 March	50,449	**68,376**

The finance lease outstanding of £68.376 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 2016, separated into repayments of liability, interest, service charges, lifecycle replacement costs and contingent rental using the current rate of RPI assumed in the contract 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	3,225	6,747	12,079	0	(196)	**21,855**
Payable within 2 to 5 years	39,094	36,370	48,185	5,880	987	**130,516**
Payable within 6 to 10 years	23,437	40,352	57,580	9,314	5,341	**136,024**
Payable within 11 to 15 years	29,913	27,983	63,026	21,546	5,446	**147,914**
Payable within 16 to 20 years	28,038	15,470	70,252	49,038	(1,459)	**161,339**
Payable within 20 to 25 years	18,573	2,043	26,224	19,917	1,923	**68,680**
Total	**142,280**	**128,965**	**277,346**	**105,695**	**12,042**	**666,328**

The fair value for the repayment of liability has been measured using significant observable inputs, being level 2 on the fair value hierarchy. The fair value at 31 March 2016 is £206.169 million based on discount contractual cash flows at the AA bond yield of the same remaining term.

44. Revaluation losses

During 2015-16, the council has recognised revaluation losses of £2.748 million in relation to land and buildings within property, plant and equipment. The most significant losses relate to building assets at Ryde Westridge centre (£1.495 million), Newport Lynnbotton Waste Transfer (£0.386 million) and Newport Forest Park (£0.364 million).

In addition, the council recognised revaluation losses of £0.237 million principally relating to surplus assets relating to the former Ryde Youth Club.

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 current 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.

45. 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 2015-16, the council paid £4.128 million to teachers' pensions in respect of teachers' retirement benefits, representing 14.1% of pensionable pay. (2014-15 £3.926 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 46.

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 2015-16, the council paid £0.020 million (2014-15 £0.025 million) to NHS pensions in respect of retirement benefits, representing 14.3% of pensionable pay.

46. 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 firefighters employed before April 2006 were eligible for membership of the '1992 scheme' and employees starting between April 2006 and March 2015 were eligible to the '2006 scheme'. These schemes are now closed. Whole-time fire-fighters' starting since April 2015 are eligible for the new 'CARE' scheme and retained firefighters are eligible to the 'modified scheme'. These four 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**	
	2014-15	**2015-16**	2014-15	**2015-16**	2014-15	**2015-16**
Comprehensive Income & Expenditure Statement						
Cost of services:						
Current service cost	(11,340)	**(13,922)**	(1,500)	**(1,200)**	(12,840)	**(15,122)**
Past service costs (including curtailments)	(222)	**(245)**	0	**0**	(222)	**(245)**
Fire Service injury pensions	-	**-**	300	**400**	300	**400**
Financing and investment income and expenditure						
Interest cost on defined benefit liability	(23,274)	**(20,403)**	(2,800)	**(2,500)**	(26,074)	**(22,903)**
Interest income on plan assets	16,445	**13,883**	-	**-**	16,445	**13,883**
Movement on top-up grant repayable (to)/from Government	-	**-**	367	**(215)**	367	**(215)**
Total post-employment benefit charged to the surplus or deficit on the provision of services	(18,391)	**(20,687)**	(3,633)	**(3,515)**	(22,024)	**(24,202)**
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)	38,309	**(7,556)**	-	**-**	38,309	**(7,556)**
Actuarial gains and losses arising on changes in demographic assumptions	0	**0**	0	**200**	0	**200**
Actuarial gains and losses arising on changes in financial assumptions	(79,632)	**56,120**	(9,400)	**7,200**	(89,032)	**63,320**
Other experience gains and losses	4,418	**9,168**	(100)	**4,000**	4,318	**13,168**
Total post-employment benefit charged to the comprehensive income and expenditure statement	(55,296)	**37,045**	(13,133)	**7,885**	(68,429)	**44,930**
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	6,751	**8,757**	2,700	**1,400**	9,451	**10,157**
Movement on top-up grant repayable to/(from) Government	-	**-**	(367)	**215**	(367)	**215**
Actual amount charged against the general fund balance for pensions in the year:						
Employers' contributions payable to the scheme (including unfunded benefits)	11,640	**11,930**	-	**-**	11,640	**11,930**
Retirement benefits payable to pensioners (net of member contributions)	-	**-**	1,300	**1,900**	1,300	**1,900**

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**	
	2014-15	**2015-16**	2014-15	**2015-16**	2014-15	**2015-16**
Present value of the defined benefit obligation	(638,147)	**(592,121)**	(79,200)	**(69,200)**	(717,347)	**(661,321)**
Fair value of plan assets	435,530	**438,479**	0	**0**	435,530	**438,479**
Net liability arising from defined benefit obligation	(202,617)	**(153,642)**	(79,200)	**(69,200)**	(281,817)	**(222,842)**

The above totals exclude the Fire-fighters' Scheme top-up grant repayable by central government.

Reconciliation of fair value of the scheme assets:-

	Local Government Pension Scheme		**Fire-fighters' Pension Scheme**		**Total**	
	£000		**£000**		**£000**	
	2014-15	**2015-16**	2014-15	**2015-16**	2014-15	**2015-16**
Opening fair value of scheme assets	384,615	**435,530**	0	**0**	384,615	**435,530**
Interest income	16,445	**13,883**	-	**-**	16,445	**13,883**
Re-measurement gains/loss:						

Return on plan assets excluding the amount included in the net interest expense	38,309	**(7,556)**	-	**-**	38,309	**(7,556)**
Contributions by employer	10,222	**10,517**	1,300	**1,900**	11,522	**12,417**
Contributions from plan participants	2,782	**2,729**	400	**300**	3,182	**3,029**
Contributions in respect of unfunded benefits paid	1,418	**1,413**	-	**-**	1,418	**1,413**
Benefits paid	(16,843)	**(16,624)**	(1,700)	**(1,900)**	(18,543)	**(18,524)**
Unfunded benefits paid	(1,418)	**(1,413)**	-	**-**	(1,418)	**(1,413)**
Backdated commutation payments	-	**-**	-	**(300)**	0	**(300)**
Contributions towards injury pensions	-	**-**	300	**400**	300	**400**
Injury award expenditure	-	**-**	(300)	**(400)**	(300)	**(400)**
Closing fair value of scheme assets	435,530	**438,479**	0	**0**	435,530	**438,479**
Top-up grant debtor	-	**-**	506	**291**	506	**291**
Top-up grant debtor (2013-14 adjustment)	-	**-**	(71)	**-**	(71)	**-**
Closing balance at 31 March	435,530	**438,479**	435	**291**	435,965	**438,770**

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**	
	2014-15	**2015-16**	2014-15	**2015-16**	2014-15	**2015-16**
Opening balance at 1 April	(543,576)	**(638,147)**	(67,000)	**(79,200)**	(610,576)	**(717,347)**
Current service cost	(11,340)	**(13,922)**	(1,500)	**(1,200)**	(12,840)	**(15,122)**
Interest cost	(23,274)	**(20,403)**	(2,800)	**(2,500)**	(26,074)	**(22,903)**
Contributions by scheme participants	(2,782)	**(2,729)**	(400)	**(300)**	(3,182)	**(3,029)**
Re-measurement gains/loss:						
Actuarial gains/losses arising from changes in demographic assumptions	0	**0**	0	**200**	0	**200**
Actuarial gains/losses arising from changes in financial assumptions	(79,632)	**56,120**	(9,400)	**7,200**	(89,032)	**63,320**
Other experience gains/loss	4,418	**9,168**	(100)	**4,000**	4,318	**13,168**
Past service costs (including curtailments)	(222)	**(245)**	0	**0**	(222)	**(245)**
Benefits paid	16,843	**16,624**	1,700	**1,900**	18,543	**18,524**
Unfunded benefits paid	1,418	**1,413**	-	**-**	1,418	**1,413**

Backdated commutation payments	-	**-**	0	**300**	0	**300**
Injury award expenditure	-	**-**	300	**400**	300	**400**
Closing balance at 31 March	(638,147)	**(592,121)**	(79,200)	**(69,200)**	(717,347)	**(661,321)**

Local Government Pension Scheme assets comprised:

	Fair value of scheme assets			
	2014-15		**2015-16**	
	Quoted prices in active markets	Percentage of total assets	**Quoted prices in active markets**	**Percentage of total assets**
	£000	%	**£000**	**%**
Cash and cash equivalents	2,125.3	0.5%	**1,877.6**	**0.4%**
Equity securities:				
Consumer	19,455.2	4.5%	**15,801.3**	**3.6%**
Energy & Utilities	5,312.3	1.2%	**12,332.8**	**2.8%**
Financial Institutions	20,869.7	4.8%	**20,896.7**	**4.8%**
Health & Care	10,179.3	2.3%	**6,164.6**	**1.4%**
Information Technology	1,134.2	0.3%	**1,208.4**	**0.3%**
Other	37,053.1	8.5%	**30,992.4**	**7.1%**
Real Estate	24,359.7	5.6%	**26,923.9**	**6.1%**
Investment Funds & Unit Trusts:				
Equities	159,121.6	36.5%	**169,027.9**	**38.6%**
Bonds	89,599.4	20.6%	**87,711.5**	**20.0%**
Other	66,319.2	15.2%	**65,540.9**	**14.9%**
Total assets	435,529.0	100.0%	**438,478.0**	**100.0%**

<u>Basis for estimating assets and liabilities</u>

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**	
	2014-15	**2015-16**	2014-15	**2015-16**
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**	29.5	**29.7**
Women	24.5	**24.5**	31.7	**31.6**

Longevity for future pensioners (years):				
Men	23.8	**23.8**	31.1	**31.2**
Women	26.7	**26.7**	33.2	**33.2**
Pension increase rate (CPI)	2.4%	**2.2%**	2.4%	**2.2%**
Market derived RPI	3.3%	**3.2%**	3.3%	**3.2%**
Rate of increase in salaries	4.3%	**4.2%**	3.4%	**3.2%**
Rate for discounting scheme liabilities	3.2%	**3.5%**	3.2%	**3.5%**
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 2016	**Approximate % increase to employer liability**	**Approximate monetary amount**
	%	**£000**
0.5% decrease in real discount rate	10%	59,208
1 year increase in member life expectancy	3%	17,764
0.5% increase in the salary increase rate	3%	15,687
0.5% increase in the pension increase rate	7%	42,730

Fire-fighters' Pension Scheme	**Impact on the defined benefit obligation in the scheme**	
Change in assumptions at 31 March 2016	**Approximate % increase to employer liability**	**Approximate monetary amount**
	%	**£000**
0.5% decrease in real discount rate	8%	5,800
1 year increase in member life expectancy	3%	2,100
0.5% increase in the salary increase rate	1%	600
0.5% increase in the pension increase rate	8%	5,200

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 2017 is £10.453 million. Due to the unfunded nature of the Fire-fighters' Pension Scheme, the contributions in the year to 31 March 2017 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	43.2%	25.4	33.7%	23.3
Deferred members	17.7%	23.6	0.0%	0.0
Pensioner members	39.1%	12.0	66.3%	12.2
Total	**100.0%**	**18.3**	**100.0%**	**15.9**
Injury pensions				
Contingent liabilities	-	-	18.1%	23.3
Injury pension liabilities	-	-	81.9%	13.1
Total	**-**	**-**	**100.0%**	**15.0**

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

47. Contingent liabilities

The council has indemnified the South Wight Housing Association (now part of the Southern Housing Group) 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 in excess twenty five years, there is a diminishing probability of a claim against the council.

48. Contingent assets

Under the terms of the land transfer contract between the council and Asda relating to the development site at Pan, Newport, a sum of £2.5 million has been placed in an escrow account. The council is obliged under the contract to deliver the spine road providing access to the site. Providing the council does deliver the works on time, the full £2.5 million will be released to the council. The net benefit to the council will be the £2.5 million less the cost of the works.

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 £0.083 million at 31 March 2016 (£0.086 million on 31 March 2015).

- 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 £0.048 million at 31 March 2016 (£0.047 million on 31 March 2015). This fund is administered by Newport Parish Council on behalf of the Isle of Wight Council.

	31 March 2015	**31 March 2016**
	£000s	**£000s**
Trust Funds etc	139	**137**
Cash in Safekeeping	114	**91**
Amenity Funds	106	**71**
Total	359	**299**

50. Authorisation of accounts for issue

The Director of Finance and Section 151 officer authorised the draft financial statements for issue on 30 June 2016 and re-authorised them following completion of the audit on 20 September 2016.

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 non-domestic rates are apportioned between the council and central government 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 2015-16	Non-domestic Rates	Council Tax	Total
	£000	£000	£000
Income			
Council Tax receivable (note 3)		(77,976)	(77,976)
Non-domestic rates receivable (note 1)	(31,644)		(31,644)
Total income	(31,644)	(77,976)	(109,620)
Expenditure			
Apportionment of Previous Year Surplus/(Deficit):			
Central Government	(220)		(220)
Isle of Wight Council	(220)	755	535
Police & Crime Commissioner		86	86
	(440)	841	401
Precepts, Demands and Shares:			
Central Government (note 1)	17,070		17,070
Isle of Wight Council (notes 1 & 3)	17,070	68,857	85,927
Police & Crime Commissioner (note 3)		7,793	7,793
	34,140	76,650	110,790
Charges to the Collection Fund:			
Write-offs of uncollectable amounts	149	219	368
Net decrease in Bad Debt Provision	(41)	(34)	(75)
Net increase in Provision for appeals (note 6)	306		306
Cost of Collection	254		254
Renewable energy projects	227		227
	895	185	1,080
(Surplus)/Deficit arising during the year	2,951	(300)	2,651
(Surplus)/Deficit brought forward at 1 April	1,634	(855)	779
(Surplus)/Deficit carried forward at 31 March (notes 4 & 5a)	4,585	(1,155)	3,430
Allocated to:			
Isle of Wight Council	2,293	(1,038)	1,255
Central Government	2,292		2,292
Police and Crime Commissioner		(117)	(117)
Total	4,585	(1,155)	3,430

Collection Fund 2014-15 (Comparative year)	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

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 total of non-domestic rates payable for 2015-16 was estimated before the start of the financial year as £34.139 million, to be divided equally between the 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 £12.449 million in 2015-16 (£12.216 million in 2014-15) which is credited to the general fund (see note 38).

The total income from non-domestic ratepayers collectable in 2015-16 was £31.644 million (£33.873 million in 2014-15). Authorities are compensated for reductions in income due to measures implemented by central government announced in Autumn Statements since the scheme was introduced by receipt of section 31 grants. These grants are credited to the general fund rather than the collection 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 2016. 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 £4.398 million (£4.091 million in 2014-15) 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 2016 was £93.689 million (£92.719 million at 31 March 2015) and the non-domestic rate multiplier for the year was 49.3p (48.2p in 2014-15). A reduced multiplier of 48.0p (47.1p in 2014-15) was applicable where there was eligibility for small business rate relief. The gross yield for the year was £42.578 million (£43.448 million in 2014-15) and the net yield was £31.644 million (£33.873 million in 2014-15). Several nationally defined adjustments and reliefs contribute towards this reduction as shown below:-

	2014-15		**2015-16**	
	£000	£000	**£000**	**£000**
Gross Non-domestic rate yield at 31 March		43,448		**42,578**
Less:-				
Mandatory/discretionary relief granted	(3,753)		**(4,655)**	
Empty rate relief	(816)		**(849)**	
Small Business Rate relief	(5,006)		**(5,400)**	
Interest on refunds	0		**(30)**	
		(9,575)		**(10,934)**
Net Non-domestic rate yield at 31 March		33,873		**31,644**

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 2015-16 was 49,535 (48,712 in 2014-15).

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

Band	Relevant Proportion	Chargeable dwellings (net of council tax support scheme)	Band D equivalents	Chargeable dwellings (net of council tax support scheme)	Band D equivalents
		2014-15		**2015-16**	
Band A (disabled)	5/9	9	5	**9**	**5**
Band A	6/9	5,458	3,639	**5,543**	**3,695**
Band B	7/9	11,787	9,167	**12,188**	**9,480**
Band C	8/9	12,917	11,482	**13,159**	**11,697**
Band D	9/9	10,911	10,911	**11,069**	**11,069**
Band E	11/9	6,122	7,482	**6,157**	**7,525**
Band F	13/9	2,851	4,118	**2,869**	**4,144**
Band G	15/9	1,370	2,283	**1,379**	**2,298**
Band H	18/9	100	200	**101**	**202**
Total		51,525	49,287	**52,474**	**50,115**
Less reduction for bad debts & valuation changes			(575)		**(580)**
Council tax base			48,712		**49,535**
Council tax per band D property (£)			1,315.47		**1,341.64**
Isle of Wight Council: Council tax precept (£000)			64,079		**66,458**

3. Precepts made on the fund (Council tax)

	2014-15		**2015-16**	
	£000	£000	**£000**	**£000**
Isle of Wight Council: Council tax requirement (note 2)	64,079		**66,458**	
Parish & Town Council precepts	2,100		**2,399**	
Isle of Wight Council precept (including Parish & Town Councils)		66,179		**68,857**
Share of estimated collection fund deficit at 31 March in previous year		1,750		**755**
Isle of Wight Council: budget requirement		67,929		**69,612**
Police & Crime Commissioner: Council tax requirement	7,514		**7,793**	
Share of estimated collection fund deficit at 31 March in previous year	200		**86**	
Police & Crime Commissioner: budget requirement		7,714		**7,879**
Total precepts		75,643		**77,491**

Council Tax income analysis

	2014-15	**2015-16**
	£000	**£000**
Council Tax gross debit	97,022	**100,035**
Discounts	(8,827)	**(9,170)**
Exemptions	(1,435)	**(1,384)**
Council Tax Support	(11,774)	**(11,505)**
Council Tax income	74,986	**77,976**

Council Tax surplus/(deficit) analysis

	2014-15		**2015-16**	
	£000	£000	**£000**	**£000**
Net debit (actual)	74,986		**77,976**	
Less: Net debit (estimated)	75,643		**77,491**	
Increase/(reduction) in net debit		(657)		**485**
Contribution to allowance for bad debts		(374)		**(185)**
Collection Fund deficit brought forward		1,886		**855**
Council Tax surplus carried forward		855		**1,155**

4. 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)

2014-15: comparative year	**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 surplus (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

2015-16	**Isle of Wight Council £000**	**Police & Crime Commissioner £000**	**Total £000**
Demand/Precept	69,612	7,879	77,491
Share of 2015-16 in-year deficit (note 25)	270	30	300
Total (note 11)	**69,882**	**7,909**	**77,791**

Share of surplus carried forward at 31 March 2016	**1,038**	**117**	**1,155**

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

2014-15 (comparative year)	Isle of Wight Council £000		Central Government £000		Total £000	
Estimate of 2014-15 NDR income at 31 January 2014		17,151		17,151		34,302
Less: share of deficit at 31 March 2014 (estimated at 31 January 2014)		(1,770)		(1,770)		(3,540)
Less: share of actual deficit at 31 March 2014	1,633		1,633		3,266	
Share of 2014-15 deficit carried forward at 31 March 2015	(817)		(817)		(1,634)	
Share of 2014-15 in-year surplus		816		816		1,632
Renewable energy rates retained		141		-		141
Total NDR income (note 11)		**16,338**		**16,197**		**32,535**

2015-16	Isle of Wight Council £000		Central Government £000		Total £000	
Estimate of 2015-16 NDR income at 31 January 2015		17,070		17,070		34,140
Less: share of deficit at 31 March 2015 (estimated at 31 January 2015)		(220)		(220)		(440)
Less: share of actual deficit at 31 March 2015	817		817		1,634	
Share of 2015-16 deficit carried forward at 31 March 2016	(2,293)		(2,292)		(4,585)	
Share of 2015-16 in-year deficit		(1,476)		(1,475)		(2,951)
Renewable energy rates retained		227		-		227
Total NDR income (note 11)		**15,601**		**15,375**		**30,976**

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.

	2014-15 £000	**2015-16 £000**
Share of deficit brought forward at 1 April reversed in year	1,633	**817**
Renewable energy rates retained brought forward at 1 April reversed in year	(79)	**(78)**
Share of deficit at 31 March	(817)	**(2,293)**
Renewable energy rates retained at 31 March	78	**150**
Allowance for spreading the estimated cost of backdated appeals included in provision	313	**313**
Total (note 25)	1,128	**(1,091)**

6. <u>Appeals provision (non-domestic rates)</u>

	2014-15				**2015-16**			
	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		(3,156)		(1,578)		**(4,092)**		**(2,046)**
Charged to provision	1,550		775		**2,613**		**1,307**	
Contribution to provision	(2,485)		(1,243)		**(2,919)**		**(1,460)**	
Net increase in provision		(935)		(468)		**(306)**		**(153)**
Balance carried forward		(4,091)		(2,046)		**(4,398)**		**(2,199)**

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 April 2006 were eligible for membership of the '1992 scheme' and employees starting between April 2006 and March 2015 were eligible to the '2006 scheme'. These schemes are now closed. Whole-time fire-fighters' starting since April 2015 are eligible for the new 'CARE' scheme and retained firefighters are eligible to the 'modified scheme'. These four schemes have been combined for the purpose of the firefighters' pension fund account and the net assets statement.

Accounting Policies

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 46 to the financial statements.

2014-15	FIREFIGHTERS' PENSION FUND ACCOUNT	2015-16	
£000		£000	£000
	Contributions receivable:		
	Fire authority:		
(481)	Employers' contributions in relation to pensionable pay	**(423)**	
(374)	Firefighters' contributions	**(440)**	
(855)	**Total contributions receivable**		**(863)**
	Benefits payable:		
1,456	Pensions	**1,536**	
614	Commutations, lump sum retirement and other lump sum benefits	**413**	
0	Milne v GAD ombudsman decision – commutation & interest payments (see note below)	**325**	
2,070	**Total benefits payable**		**2,274**
1,215	**Net amount payable for the year**		**1,411**
(1,215)	**Top-up grant payable by the Government** (see note below)		**(1,411)**
0			**0**

2014-15	NET ASSETS STATEMENT	2015-16
£000		£000
	Current assets	
506	Debtors - top-up receivable from the Government	**291**
	Current liabilities	
(506)	Amount owing (to)/from general fund	**(291)**
0		**0**

Following an Ombudsman's decision on 13 May 2015, the Government Actuary's Department (GAD) issued guidance on the calculation of additional payments in respect of past commutations made to fire-fighter pensioners. The affected members are males who retired in receipt of a pension from the 1992 scheme between 1 December 2001 and 21 August 2006 inclusive and females who retired in receipt of a pension from the 1992 scheme between 1 December 2004 and 21 August 2006 inclusive. In both cases additional payments were only made where an option was taken to commute part of the retirement pension for a lump sum. The figure is the amount paid to pensioners and includes accrued interest. The full amount was reimbursed to the council by the DCLG and is included in the top-up grant shown above.

ISLE OF WIGHT COUNCIL PENSION FUND

2014-15 £000	FUND ACCOUNT	Notes	2015-16 £000
	Dealings with members, employers and others directly involved in the fund		
17,108	Contributions	7	17,714
455	Transfers in from other pension funds	8	221
21	Other income	9	23
17,584			17,958
(19,550)	Benefits	10	(19,262)
(377)	Payments to and on account of leavers	11	(1,524)
(19,927)			(20,786)
(2,343)			**(2,828)**
(2,868)	Management expenses	12	**(3,764)**
	Returns on investments		
8,601	Investment income	13	8,605
(377)	Taxes on income	14	(413)
50,513	Profit and losses on disposal of investments and changes in the market value of investments	17	(7,063)
(7)	Interest payable	16	(20)
58,730	Net returns on investments		**1,109**
53,519	**Net increase in the net assets available for benefits during the year**		**(5,483)**

ISLE OF WIGHT COUNCIL PENSION FUND

2015 £000	NET ASSETS STATEMENT AS AT 31 MARCH	Notes	2016 £000
481,403	Investment assets	17	478,267
1,279	Cash deposits	17	2,028
482,682			480,295
(13)	Investment liabilities	17	-
(3,025)	Borrowings	18	(6,505)
16	Long term assets	22	21
796	Current assets	23	811
(979)	Current liabilities	24	(628)
479,477	**Net assets of the fund available to fund benefits at the period end**		**473,994**

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 2015-16 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 2016 are:

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

The admitted bodies of the fund with active members at 31 March 2016 are:

- Barnados (NEW)
- Cowes Harbour Commissioners
- Island Roads Limited
- Island Youth Water Activities Centre
- Ryde Arena Ltd (NEW)
- Southern Housing Ltd
- Southern Vectis
- Spectrum Housing Ltd
- 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 2016

	Administering Authority	Scheduled Bodies	Admitted Bodies	Total
Number of employers with active members	1	14	13	**28**
Number of contributors (Active members)	3,159	511	137	**3,807**
Number of frozen refunds [1]	601	10	4	**615**
Number of deferred pensioners [2]	5,520	520	122	**6,162**
Number of pensioners/ widows/dependant pensioners	3,706	182	148	**4,036**
	12,986	1,223	411	**14,620**

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/ widows/dependant pensioners	3,564	167	142	**3,873**
	11,929	1,083	408	**13,420**

[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 2016 are detailed below.

Range (Actual pensionable pay)	Contribution rate
Up to £13,600	5.5%
More than £13,601 and up to £21,200	5.8%
More than £21,201 and up to £34,400	6.5%
More than £34,401 and up to £43,500	6.8%
More than £43,501 and up to £60,700	8.5%
More than £60,701 and up to £86,000	9.9%
More than £86,001 and up to £101,200	10.5%
More than £101,201 and up to £151,800	11.4%
More than £151,800	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 2015-16 financial year and its position at year-end as at 31 March 2016. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2015/16* 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 2015-16 no fees are based on such estimates (2014-15: 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 2016 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	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

provide the fund with expert advice about the assumptions to be provided.	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

A referendum on the United Kingdom's membership of the European Union took place on 23 June 2016. The result to leave the European Union has increased political and economic uncertainty. The fund's Actuary has confirmed that that the approach to the 2016 valuation will progress as normal. It will continue to be transparent about measurement but to take a long term view of the management of investments. Measurement will not be impacted as market conditions as at 31 March 2016 are used. It is impossible to predict what will happen in the medium term with any degree of accuracy. However, LGPS funds have the advantage of being long term investors and are therefore better equipped to ride out short term volatility.

Other than the above, 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:

2014-15 £000		2015-16 £000
13,617	Employers	14,191
3,491	Members	3,523
17,108		**17,714**

By authority:

2014-15 £000		2015-16 £000
13,111	Administering authority	13,535
2,096	Scheduled bodies	2,302
1,901	Admitted bodies	1,877
17,108		**17,714**

By type:

2014-15 £000		2015-16 £000
3,470	Employees' normal contributions	3,497
21	Employees' additional contributions	26
12,401	Employers' normal contributions	13,065
823	Employers' deficit recovery contributions	826
393	Employers' augmentation contributions	300
17,108		**17,714**

8. TRANSFERS IN FROM OTHER PENSION FUNDS

2014-15 £000		2015-16 £000
-	Group transfers	-
455	Individual transfers	221
455		**221**

9. OTHER INCOME

2014-15 £000		2015-16 £000
19	Miscellaneous income	19
2	Contribution Equivalent Premiums	4
21		**23**

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:

2014-15 £000		2015-16 £000
16,099	Pensions	16,556
2,879	Commutation and lump sum retirement benefits	2,577
572	Lump sum death benefits	129
19,550		**19,262**

By authority:

2014-15 £000		2015-16 £000
17,490	Administering authority	17,474
838	Scheduled bodies	1,187
1,222	Admitted bodies	601
19,550		**19,262**

11. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2014-15 £000		2015-16 £000
14	Refund of contributions	28
-	Group transfers	-
363	Individual transfers	1,496
377		**1.524**

12. MANAGEMENT EXPENSES

2014-15 £000		2015-16 £000
375	Administrative costs	326
2,303	Investment management expenses	3,179
190	Oversight and governance costs	259
2,868		**3,764**

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 £2,262.3 thousand (2014-15: £1,405.4 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

2014-15 £000		2015-16 £000
4,020	Equity dividends	4,210
	Income from pooled investment vehicles:	
945	- Property	968
3,615	- Bonds	3,416
-	- Unit Trusts	
4	Interest on cash deposits	11
17	Other	-
8,601		**8,605**

14. TAXATION

2014-15 £000		2015-16 £000
377	Withholding tax - equities	413
377		**413**

15. INVESTMENT MANAGEMENT

2014-15 £000		2015-16 £000
2,274	Management fees	3,143
29	Custodian fees	36
2,303		**3,179**

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

2014-15 £000		2015-16 £000
7	Interest on short term borrowing	20
7		**20**

17. INVESTMENTS

Market value 31 March 2015 £000		Market value 31 March 2016 £000
	Investment assets	
105,258	Equities	93,993
375,758	Pooled Investment Vehicles	383,781
1,279	Cash deposits	2,028
317	Investment income due	474
34	Amounts receivable for sales	-
36	Recoverable withholding tax	19
482,682	**Total investment assets**	**480,295**
	Investment liabilities	
(13)	Amounts payable for purchases	-
(13)	**Total investment liabilities**	**-**
482,669	**Net investment assets**	**480,295**

17A) RECONCILIATION OF MOVEMENTS IN INVESTMENTS

	Market value 1 April 2015	Purchases during the year	Sales during the year	Change in market value during the year	**Market value 31 March 2016**
	£000	£000	£000	£000	**£000**
Equities	105,258	37,571	(37,911)	(10,925)	**93,993**
Pooled Investment Vehicles					
Global Equities	171,942	-	-	4,068	**176,010**
Property	25,772	716	170	1,929	**28,587**
Bonds	96,647	3,416	-	(1,207)	**98,856**
Diversified Growth Fund	72,004	70,610	(70,548)	(1,463)	**70,603**
Unit Trusts	9,393	-	(215)	547	**9,725**
	481,016	112,313	(108,504)	(7,051)	**477,774**
Cash deposits	1,279			(9)	**2,028**
Amounts receivable for sales of investments	34				**-**
Investment income due	317			(3)	**474**
Recoverable withholding tax	36				**19**
Amounts payable for purchases of investments	(13)				_
Net investment assets	482,669			(7,063)	**480,295**

	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**

17B) ANALYSIS OF INVESTMENTS

31 March 2015 £000		31 March 2016 £000
	Equities	
	UK	
85,812	Quoted	78,269
	Overseas	
19,446	Quoted	15,724
105,258		**93,993**
	Pooled funds – additional analysis	
	UK	
375,758	Quoted	383,781
375,758		**383,781**
481,016		**477,774**

Investments analysed by fund manager

Market value 31 March 2015			Market value 31 March 2016	
£000	%		£000	%
96,647	20.0	Schroder Investment Management – Bonds	98,856	20.6
25,775	5.3	Schroder Investment Management – Property	28,687	6.0
171,942	35.6	Newton Investment Management – Overseas Equities	176,010	36.6
116,265	24.1	Majedie Asset Management – UK Equities	106,120	22.1
72,004	15.0	Baillie Gifford – Diversified Growth Fund	70,603	14.7
482,633			**480,276**	
36	0.0	Recoverable withholding tax	19	0.0
482,669			**480,295**	

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 2015			Market value 31 March 2016	
£000	% of total fund		£000	% of total fund
171,942	35.86	Newton International Growth X Account	176,010	37.13
96,647	20.16	Schroder Institutional Sterling Broad Market X Account	98,856	20.86
72,004	15.02	Baillie Gifford Diversified Growth Pension Fund	70,603	14.9
25,772	5.38	Schroder UK Property Fund	28,687	6.03

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

Market value 31 March 2015			Market value 31 March 2016	
£000	% of asset class		£000	% of asset class
		Equities		
5,626	5.35	HSBC	6,422	6.83
5,976	5.68	BP plc	6,245	6.64

3,543	3.37	Royal Dutch Shell	6,113	6.83
6,443	6.12	Vodafone Group	5,317	5.66

Market value 31 March 2015			Market value 31 March 2016	
£000	% of asset class		£000	% of asset class
		Pooled Investment Vehicles		
		Global Equities		
171,942	100.00	Newton International Growth X Account	176,010	100.00
		Bonds		
96,647	100.00	Schroder Institutional Sterling Broad Market X Account	98,856	100.00
		Property		
25,772	100.00	Schroder UK Property Fund	28,687	100.00
		Diversified Growth Funds		
72,004	100.00	Baillie Gifford Diversified Growth Pension Fund	70,603	100.00
		Unit Trusts		
9,393	100.00	Majedie Asset Management Special Situations Investment Fund	9,725	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 2015				31 March 2016		
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			
105,258			Equities	93,993		
375,758			Pooled investment vehicles	383,781		
	1,369		Cash		2,042	
387			Other investment balances	493		
	83		Debtors		133	
481,403	**1,452**	**-**		**478,267**	**2,175**	**-**
			Financial liabilities			
(13)			Other investment balances			
		(710)	Creditors			(432)
		(3,025)	Borrowings			(6,505)
(13)	**-**	**(3,735)**		**-**	**-**	**(6,937)**
481,390	**1,452**	**(3,735)**		**478,267**	**2,175**	**(6,937)**

18B) NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

31 March 2015 £000		31 March 2016 £000
	Financial assets	
50,520	Fair value through profit and loss	(14,585)
(7)	Loans and receivables	(9)
	Financial liabilities	
-	Fair value through profit and loss	-
-	Financial liabilities measured at amortised cost	-
50,513	**Total**	**(14,594)**

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 2015			31 March 2016	
Carrying value	Fair value		Carrying value	Fair value
£000	£000		£000	£000
		Financial assets		
481,403	481,403	Fair value through profit and loss	478,267	478,267
1,452	1,452	Loans and receivables	2,175	2,175
482,855	**482,855**	**Total financial assets**	**480,442**	**480,442**
		Financial liabilities		
(13)	(13)	Fair value through profit and loss	-	-
(3,735)	(3,735)	Financial liabilities measured at amortised cost	(6,937)	(6,937)
(3,748)	**(3,748)**	**Total financial liabilities**	**(6,937)**	**(6,937)**

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 2016, 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 2016			
Type of Asset	Level 1	Level 2	Level 3
	£000	£000	£000
Equities	93,993	-	-
Pooled Investment Vehicles:			
Global Equities	176,010	-	-
Property	-	28,587	-
Bonds	98,856	-	-
Diversified Growth Fund	-	70,603	-
Unit Trusts	9,725	-	-
Cash and Cash Equivalents	2,028	-	-
TOTAL	**380,612**	**99,190**	**-**

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**	**-**

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 2016	Volatility of return	Value on increase	Value on decrease
	£000	%	£000	£000
Cash & cash equivalents	2,028	0.0	2,028	2,028
Investment portfolio assets				
Equities – UK	78,269	5.3	82,417	74,121
Equities – overseas	15,724	9.1	17,156	14,294
Pooled investment vehicles:				
Global equities	176,010	3.1	181,467	170,554
Property	28,587	3.3	29,530	27,644
Bonds	98,856	1.5	100,339	97,373
Diversified Growth Fund	70,603	1.5	71,662	69,544
Unit Trusts	9,725	2.4	9,959	9,492
Amounts receivable for sales	-	0.0	-	-
Investment income due	474	0.0	474	474
Recoverable withholding tax	19	0.0	19	19
Amounts payable for purchases	-	0.0	-	-
Total	480,295		495,051	465,543

	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

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 2016, and as at the previous period end:

	Asset value as at 31 March 2016	Asset value as at 31 March 2015
	£'000	£'000
Equities	15,412	19,102
Investment income due	202	134
	15,614	**19,236**

Currency risk – sensitivity analysis

Following analysis of historical data, the council considers the likely volatility associated with foreign exchange movements to be 6.49% (2014-15: 4.24%) (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 2016	Value on increase +6.49%	Value on decrease -6.49 %
	£'000	£'000	£'000
Equities	15,412	16,416	14,408
Investment income due	202	212	192
	15,614	**16,628**	**14,600**

	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**

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 2016 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 2015-16. 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 year ending 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 2015

Since the last formal valuation, real bond yields have fallen placing a higher value on the liabilities. The effect of this has only been partially offset by strong asset returns. The result is a likely increased deficit amount, although the funding level is likely to be similar to the last formal valuation.

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 2015/16 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 2016 £ m	31 March 2015 £ m
Present value of Promised Retirement Benefits	643	689

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 2016 comprises £290 million in respect of employee members (2015: £295 million), £111 million in respect of deferred pensioners (2015: £125 million) and £243 million in respect of pensioners (2015: £268 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 2016 is to increase the actuarial present value by £92m.

Financial assumptions

Year ended	31 March 2016 % p.a.	31 March 2015 % p.a.
Inflation/Pension Increase Rate	2.20%	2.40%
Salary Increase Rate	4.20%	4.30%
Discount Rate	3.50%	3.20%

(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 at the most recent formal valuation as at 31 March 2013

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 2015 £000		31 March 2016 £000
	Debtors	
16	• Contributions due - employers	21
16		**21**

Analysis of debtors

31 March 2015 £000		31 March 2016 £000
4	Local authorities	21
12	Other entities and individuals	-
16		**21**

23. CURRENT ASSETS

31 March 2015 £000		31 March 2016 £000
	Debtors	
121	• Contributions due - employees	118
468	• Contributions due - employers	484
34	• Taxation	62
9	• Sundry debtors	8
74	• Payments in advance	125
90	Cash balances	14
796		**811**

Analysis of debtors

31 March 2015 £000		31 March 2016 £000
34	Central government bodies	62
9	Local authorities	13
663	Other entities and individuals	722
706		**797**

24. CURRENT LIABILITIES

31 March 2015 £000		31 March 2016 £000
	Creditors	
204	• Taxation	195
689	• Accruals	286
86	• Sundry creditors	147
979		**628**

Analysis of creditors

31 March 2015 £000		31 March 2016 £000
204	Central government bodies	196
81	Local authorities	116
694	Other entities and individuals	316
979		**628**

25. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCS)

Market value 31 March 2015 £000		Market value 31 March 2016 £000
914	Prudential Life and Pensions	807

AVCs of £46.8 thousand were separately invested with Prudential Life and Pensions (2014-15: £70.9 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 £305 thousand (2014-15: £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 £10.7million (2014-15: £10.3 million) to the fund in 2015-16. All monies owing to the fund, with the exception of deferred balances in respect of pension strain costs totalling £29.7 thousand (2015: £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 2015-16 was £6.5 million (2014-15: £3.0 million). The balance due to the council at 31 March 2016 is £6.51 million (2015: £3.03 million), of which £0.33 million is repayable within 1 month, £0.49 million is repayable in 3 months, £1.68 million is repayable in 5 months, £0.86 million is repayable in 6 months, £0.75 million is repayable in 7 months and £2.4 million is repayable within 11 months. Interest of £ 20.0 thousand (2014-15: £6.7 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 Schedule 1 of the Accounts and Audit Regulations 2015 and Regulation 9 of The Accounts and Audit (Wales) Regulations 2014) 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 the above legislation 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.

Throughout the year, the fund was 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 2016 there were contingencies relating to Contribution Equivalent Premiums (CEPs) amounting to a net sum of £137 thousand (2015: £140 thousand) due to the Pension Fund. Assets amounted to £186 thousand and liabilities totalled £49 thousand (2015: £186 thousand and £46 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 2016 (2015: nil)

29. TRUSTEES REPORT 2015-16
The trustees of the pension fund are the members for the time being of the Pension Fund Committee, who at 31 March 2016 were Councillors Barry, Blezzard, Eccles, Hutchinson, Kendall, Pitcher and Warlow (chair).

Throughout the year the committee has been advised by the Managing Director, the Technical Finance Manager, 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.

<u>Investment Performance</u>
The net assets of the fund at 31 March 2016 were £474.0 million, a reduction of 1.1% on the 31 March 2015 valuation of £479.5 million. The fund's total investments under-performed compared to the agreed benchmarks by 0.9% during the year.
The overall performance of the fund in the year to 31 March 2016 is reflective of the lower performance of UK and global investment markets.

Despite the current year's performance, the fund has continued to outperform annualised benchmark returns for three years (1.6% outperformance) and five years (1.2% 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 2016 showed that the notional funding level had decreased to 78.5% (2015: 81.5%), but was still marginally higher than that at the last triennial valuation at 31 March 2013. Falling real bond yields have increased the value placed on the liabilities although these have been offset by strong assets returns.

Governance

The Committee continues to keep its governance arrangements under review. These arrangements have been enhanced during the year with the formation of the Local Pension Board, as required under the Public Service Pensions Act 2013.

In accordance with the training plan developed in the previous year, training sessions were held before each committee meeting, including presentations from the fund's custodian on their services, from the fund's actuaries on the 2016 triennial valuation of the fund, and from officers on the pooling of pension investments.

The committee received reports on, and agreed, the Governance Compliance Statement; and received regular updates on investment 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 non-current assets used in the provision of services (eg depreciation).

Capital expenditure
Expenditure that is incurred to create or add value to a non-current 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 non-current asset either as a result of its use, ageing or obsolescence.

Depreciated replacement cost
A valuation measure where insufficient market-based evidence of current 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 price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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 cover 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).