APPENDIX 1

Isle of Wight Council

Statement of Accounts

2016-17

CONTENTS

Narrative report

This narrative report is intended to provide a concise and easily understandable guide to the most significant matters reported in the council's financial statements. 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 can therefore be quite technical.

This narrative report aims to help to translate some of the key points from the council's annual statement of accounts; placing information into the wider context and explaining how this relates to the council's overall performance and plans for the future.

Foreword from Chief Executive

Over the past year, the council has continued to shape services to meet the challenges, of a continued reduction in available funds in line with the national austerity agenda. At the same time, it continues to experience an ever increasing demand for services by the community. In response to this changing landscape, the council has sought to identify and pursue all of the opportunities available or that it can create, in order to ensure that our community is supported in the best possible way and to improve the future sustainability of the Island. In so doing, the council has been able to meet its legal obligation to set a balanced budget again this year

Across the year we have:

- created a new and robust medium term financial strategy with a clear focus on ensuring our annual expenditure does not exceed our income and that we have sufficient reserves to allow us to respond to opportunities that may present themselves and threats we might face.
- developed a forward looking and resourced regeneration strategy that sets out our ambitions to build our local economy on the pillars of regeneration, growth and productivity. In providing a more stable economic base for the Isle of Wight, this will, in turn improve the income and funding to the council, in order to continue to deliver services and support our community.
- implemented a revised senior management structure and retained officer capacity at all levels across the council in order deliver the transformation we need make; we are in active engagement with staff to secure their contribution to and involvement in how we will shape our services in the future.
- recognised that we need to be proactive as we move forward; focussing on developing capacity, skills and knowledge on the Island to attract businesses to invest here. In this way we can focus on growth and prosperity, drawing in additional funding for both the Island and the council.
- recognised the need to transform local services; providing them in an alternative way, building and strengthening partnerships to ensure that as an Island, we meet the growing and changing needs of our community. The health and social care integration agenda continues to be a key challenge in achieving this and we are working to support the development of an 'all Island' approach to the delivery of these services. This aligns with initiatives such as the 'One Public Estate', which offers the opportunity for closer working across all of the Island's public services.
- undertaken work to prove that, as an Island, we have other pressures not seen by other areas around the country. The unique 'Island factors' have been investigated and recognised this year, especially in terms of the additional costs that they can create. This work has informed our response to the government's 'fair funding review' of the local authority finances, which is being undertaken in preparation for the move towards the retention of 100 per cent of business rates as a means of funding the council's services.
- focused our efforts on reducing inefficiencies in 'back office' areas wherever possible in order to protect essential funding for services to the most vulnerable people on the Island, support

inward investment and the creation of jobs and wealth.

In the short term, the single biggest challenge to the council will continue to be its challenging financial position. I believe that the financial position outlined in this report puts us in a sound place to manage our response to this challenge and implement the necessary changes over the next few years this to achieve our goals of ‘financial self-sufficiency’ and great public services.

This narrative report presents a balanced picture of our performance at the end of 2016-17, acknowledging where we can improve and how we plan to move forward. It places a much stronger emphasis on how our past performance impacts on our future plans and I hope it is, therefore, valuable in supporting your understanding of the council’s overall position.

John Metcalfe
Chief Executive

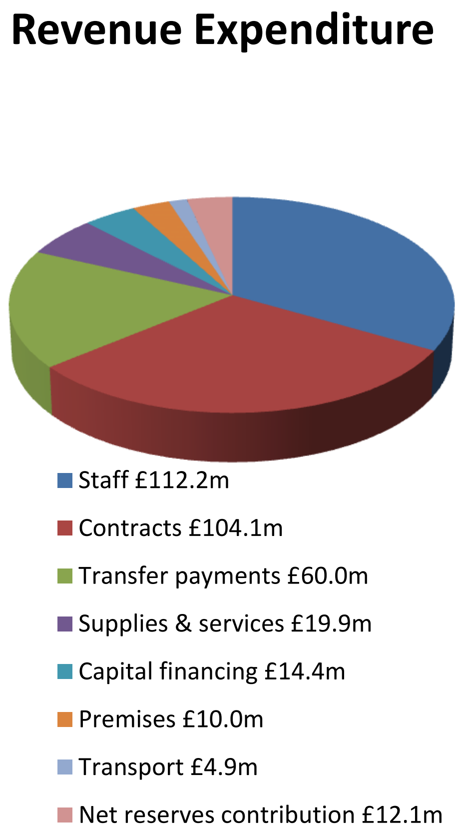
The Council's Financial Performance

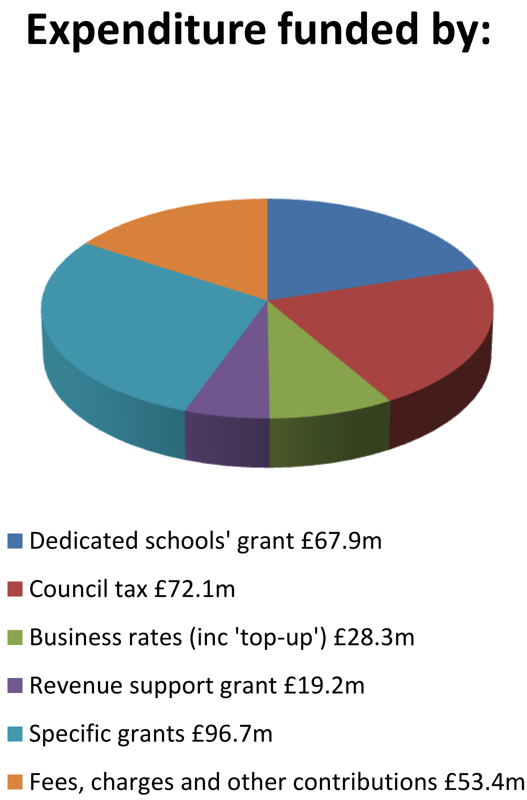
Revenue income and expenditure
Where the council has costs related to the day to day provision of services e.g. salaries, supplies and services, utilities, etc, these costs are called revenue expenditure. The amount of revenue we can spend depends on the income we receive from various sources including:

- Revenue support grant from the Government
- The council tax
- Business rates
- Government grants for specific services and projects
- Dedicated schools grant from the Government
- Income from charging for services and other contributions

The years since 2011-12 have seen considerable change to both the way in which we received our income and the levels of grant coming from Government. Due to changes in the Government grant mechanisms during this period it is difficult to compare funding levels in detail across the years, but we can be clear that overall funding from Government has reduced in that period by around £40 million.

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





The council is legally required to set a 'balanced budget' that is we can't plan to spend more than we have, so annual budgets for services are allocated from that income reflecting the council's priorities and the changing demands on the island. Budget consultation exercises have consistently identified that we must protect care services to the vulnerable in our society and so protecting budgets for adults and children's social care continues to be a priority wherever possible.

In terms of council spending, our annual revenue spend is therefore dominated by essential care services which account for around 58% of the council's total budget. Care services are very demand driven so spend can be unpredictable and can lead to over or under spends across services.

The table below shows a summary across service areas of the:
- Revised net 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 £000's	Net Expenditure £000s	Net outturn position £000s
Adult Services:			
Adult Services Care Packages	37,822	38,959	1,137
Adult Services Other	8,690	9,843	1,153
Children's Services:			
Children & families	19,398	19,038	(360)
Education & Inclusion	1,316	1,356	40
Access, Performance & Resources	6,504	6,306	(198)
Corporate items:			
Corporate finance	5,090	3,856	(1,234)
Housing benefits	124	(281)	(405)
Summary Accounts	6,732	5,951	(781)
Chief Executive:			
Chief Executive	365	378	13
Emergency management	169	170	1
Public health	0	0	0
Place:			
Head of Place	63	62	(1)
Contract management	12,049	11,996	(53)
Commercial services	(1,059)	(605)	454
Economy & tourism	1,340	1,103	(237)
Planning & regulatory services	5,832	4,742	(1,090)
Fire & rescue service	6,168	6,158	(10)
Resources:			
Head of Resources	113	113	0
Corporate core	7,940	7,661	(279)
Business centre	2,915	2,703	(212)
Strategic commissioning	88	150	62
Regeneration	500	500	0
Building maintenance	645	645	0
Net revenue expenditure	**122,804**	**120,804**	**(2,000)**
Net underspend transferred to general fund			**2,000**

Notes:

- Staff related savings from vacancy management in service areas have been allocated against staff savings targets held centrally
- Approved carry forward requests are included in the service positions above
- The figures above exclude entries relating to accounting adjustments such as depreciation and IAS19 pension adjustments
- Public health is funded by a ringfenced grant which nets costs to £0
- The children's services position includes both schools and non-schools expenditure. The DSG (schools) budget was overspent by £0.336 million at the year end. This overspend has been transferred to a reserve as per the agreement from the schools forum to be recouped during 2017-18.

To put this financial information into context, although care services have been one of the few areas in the council to receive additional funding each year and be protected from cuts, the growth in demand and the complexity of individual cases has resulted in year on year increases in costs. This is not restricted to the island, it is a national issue which continues to challenge public services.

However, the review of the council's financial strategy in October 2016, provided the flexibility to be able to respond to these issues and to ultimately end the year in an underspend position as shown in the table above. This, and the decision to accept the Government's 4 year funding settlement, enables us to plan ahead with some degree of certainty, smoothing out the further savings we need to find and enabling us to set a balanced budget in February 2017. However, we cannot ignore that there will be further demands on services and potential cuts in funding that we will need to deal with.

These risks are therefore the reason that the council continues to show its performance against its corporate priority A4 as improving but still at amber as shown in the table below:

Corporate Priority	Q4 15/16	Q1 16/17	Q2 16/17	Q3 16/17	Q4 16/17	Direction of travel
A1: Supporting growth in the economy, making the Island a better place and keeping it safe	Amber	Amber	Amber	Amber	Amber	↗
A2: Keeping children safe and improving their education	Amber	Amber	Amber	Amber	Amber	↗
A3: Protecting the most vulnerable with health and social care, investing in support, prevention and continuing care	Amber	Amber	Amber	Amber	Red	↗
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	Amber	↗

The full report on performance is reported to Cabinet and can be found here.

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

Revenue Reserves

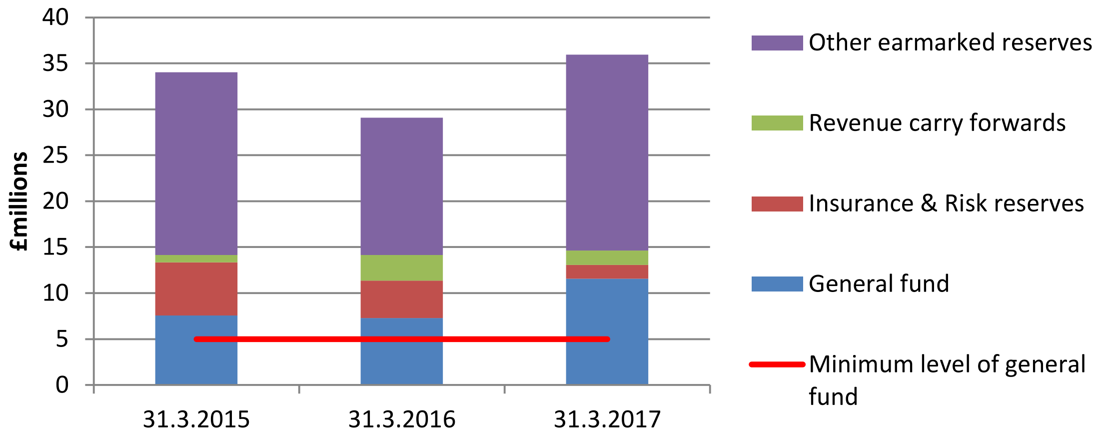
Councils and other organisations need financial reserves to help us to respond to unforeseen circumstances, but they can also be used to take advantage of any opportunities that arise which are in the financial interests of the island, such as providing council funding in order to lever in external grants. Equally they can be used to give us time to respond to cuts in funding by using them to support the budget.

Whilst many reserves are general reserves and can be used to support our overall financial position, others are known as earmarked reserves. Earmarked reserves are set aside to provide for known liabilities in the future, so they cannot be used for general purposes.

Over the last 5 years, general reserves have been used to support the council's position whilst we implement efficiencies and make savings. As a result reserves were at low levels and given the risks that the council faces, £5m is considered to be the absolute minimum acceptable level for general reserves. The council's latest financial plans have therefore identified the need to restore the levels of general reserves which will give us greater financial stability. However, budget plans aim to achieve this in a manner which is gradual and do not give rise to spikes in savings requirements in any one year. The planned addition was achieved in 2016-17 and a further £2m from the underspend shown in the table on page 2 was also restored to the general fund.

General Fund balance	£000s
Opening balance 1st April 2016	7,298
Contribution to general fund per 2016-17 budget strategy	2,255
Net 2016-17 underspend	2,000
Closing balance 31st March 2017	**11,553**

Note 10 to the statement of accounts detail the council's reserves and balances and together with the general fund these are summarised in the chart below. This excludes the schools' balances, the public health reserve and the highways PFI contract cashflow reserves which are not available for general expenditure.



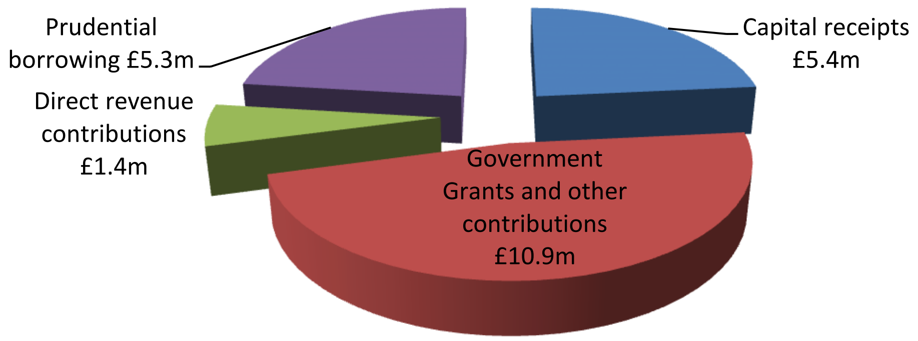
In addition to restoring general reserve balances, the council has established a Transformation Reserve of £1.0 million. This recognises that improvements which can result in cost reduction often require up front resources and that the ability to 'invest to save' is vital to the success of the council's financial planning and future savings requirements. There will be criteria for its use to ensure that proposals for use are for non-recurrent spending with a genuine payback. However this reserve will need to be replenished year on year and so a further £1.0 million was added from the revenue underspend at the end of 2016-17.

Capital expenditure and funding
In addition to spend on day to day services, the council can also spend on one off capital projects. Capital projects are one off items of spend, time limited and create or improve assets that have a life of more than one year, such as buildings, land and equipment.

Capital investment can be paid for from:

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

The council can also borrow to fund capital schemes provided the borrowing complies with the Prudential Code. Note 42 to the statement of accounts details the sources of capital funding in 2016-17 which are summarised in the chart below:



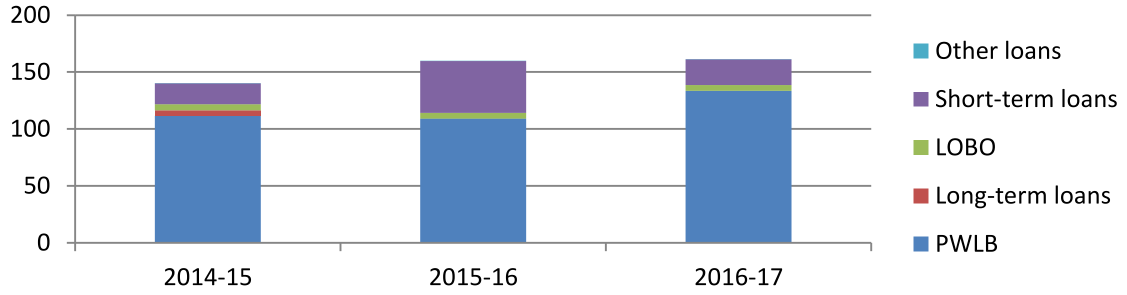
Capital spend in 2016-17 is summarised by service in the table below:

Service area	£000s
Resources & children's	4,950
Adult social care & public health	108
Environment, fire & local engagement	2,031
Contract management (waste & PFI) and car parking	4,081
Regeneration, housing & homelessness and transport	8,089
Planning, tourism, recreation & culture	3,779
Total	**23,038**

As many projects are delivered across financial years, any unspent budgets will be carried forward into 2017-18 to complete those projects. In addition, the council has approved a programme of new capital projects from 2017-18 for the next 5 years. This includes a commercial property investment fund of £100m funded by prudential borrowing. This investment fund will focus on property investments which will generate a revenue return for the council which can then be used to support island services. A sum has also been set aside for 'match funding' opportunities in order to take advantage of 'free' funding, where these are in line with the councils overall objectives.

Treasury management and cash flow
As explained in the previous section on capital expenditure, councils are allowed in some circumstances to borrow to fund capital projects. In addition, 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 can include borrowing and investments and is known as treasury management.

The council's strategy has been to minimise external borrowing where possible and to utilise its own reserves and working capital to manage cash flow. Where this has not been possible, it has been advantageous to undertake short term borrowing due to low interest rates. It has also been possible to refinance in some instances in order to take advantage of low interest rates. Note 18 of the statement of accounts summarises the councils borrowing in 2016-17 and is summarised in the chart below:



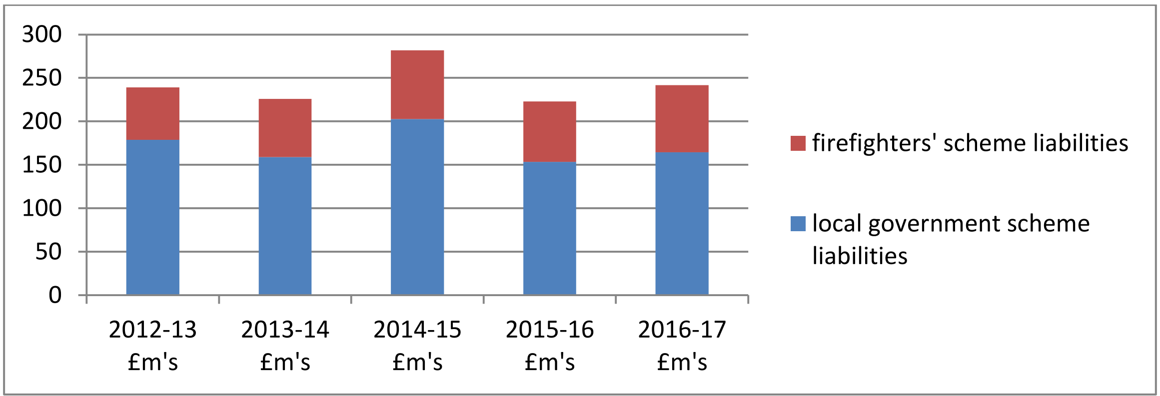
The council holds invested funds representing income received in advance of expenditure plus reserves and balances held. Our objective when investing money is to strike a balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low income. Note 18 of the statement of accounts details the council's investments at 31 March which is summarised in the table below:

	Balance at 31/03/16 £000s	**Balance at 31/03/17 £000s**
Short-term fixed	22,530	**16,563**
Cash & cash equivalents	2,752	**16,003**
Total	25,282	**32,566**

As in previous years, the council has performed well in terms of cash flow and treasury management due mainly to savings in capital project costs or the re-profiling of those projects across future years. This and a change in the way in which the council provides for borrowing repayments means that the council has been able to take a 'debt repayment holiday' in 2016-17 which has supported the underspend reported in earlier sections of this report. This debt repayment holiday will also continue for a further four years to 2020-21 effectively giving the council 'breathing space' in its transformation and regeneration plans. Further details of how the debt repayment holiday has arisen are shown in note 3 to the accounts.

Isle of Wight Council Pension Scheme and Firefighters Pension Scheme
As part of the terms and conditions of employment of its staff, we make contributions towards the cost of post-employment benefits (pension payments) alongside those made by the staff themselves. The council, acting as a fire and rescue authority also administers and pays firefighters' pensions. Both pension schemes then have a commitment to pay those benefits when employees retire.

For the purposes of local authority accounts, the commitment from both schemes needs to be disclosed at the time that employees earn their future benefits rather than when they are actually paid. In common with most other councils across the country, this results in a funding deficit, creating a future liability. Note 47 of the statement of accounts details this liability which is summarised in the following chart:



As the council is the administering body for both schemes, the deficit of £241.570 million has to be recorded on the council's balance sheet. This results in an overall negative balance of £81.192 million.

However, local councils 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 firefighters' pension fund are reimbursed by Government grant.

The full 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 firefighters' pension fund accounts are shown on page 107 of the statement of accounts.

Material items of income or expense
Details of material items charged to the comprehensive income and expenditure statement in 2016-17 are contained in note 5 to the accounts. These comprise:

- Losses on the disposal of non-current assets amounting to £10.422 million
- Revaluation losses of £4.923 million
- Actuarial loss on pension assets/liabilities of £8.495 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.

Changes to Accounting Policies
There have been no significant changes to the council's accounting policies.

Other material changes
While not representing a change to an accounting policy, the council has implemented a change in the way it provides for debt repayments, known as Minimum Revenue Provision (MRP). This change has been approved by the council's external auditors and effectively reduces the annual amount required to be set aside over the medium term. This also means that the council has set aside sums in the past that are now in excess of what is required. Discussions with the external auditor have resulted in an agreement that, due to this past over provision, the council can take a debt repayment holiday. Further information about this can be found in note 3 of the Statement of Accounts.

There has been code of practice changes to the presentation of financial statements relating to new formats and reporting requirements for the comprehensive income and expenditure statement and the movement in reserves statement. A new expenditure and funding analysis has also been introduced. The categories for the comprehensive income and expenditure statement and expenditure and funding analysis now reflect the way in which resources are allocated for decision making purposes between the council's service areas. The 2016-17 statements and supporting notes have been prepared to incorporate the new reporting requirements and the 2015-16 comparatives are shown in the same format.

Environmental matters
Both the islands total municipal solid waste recycle and compost (MSW) rate and the landfill diversion targets are highly encouraging. However there is a risk that the target for household waste recycle and compost (HWRC) will not be met as rates for the newly introduced mobile recycling centre and Lynbottom commercial waste recycling centre are not yet available.

Recycling performance year to date	April	May	June	July	Aug	Sept	Oct	Nov	Avg rate Contract Y2 to date	Target Rate (%) Contract Yr 2
Total MSW Recycling Compost Rate (%)	47.9	56.79	58.08	55.34	53.73	55.46	52.23	51.74	53.91	**52.1**
HWRC Recycling Compost Rate	51.22	57.46	61.02	58.75	55.43	55.29	53.72	51.19	55.51	**73**
Diversion From Landfill (%)	55.35	62.52	63.69	60.62	59.23	61.32	57.23	54.47	59.55	**53.69**

The council has invested £1.7m in a solar energy project by providing a fixed term loan to establish a community energy scheme, allowing residents to invest in the scheme with profits used for local social and environmental benefit such as reducing fuel poverty, improving management of natural resources and maintaining public spaces. It also contributes to delivery of clean, sustainable energy and the islands energy security and move towards energy self-sufficiency.

The council also works to improve sustainable transport on the island, investing each year in footpaths and cyclepaths. In 2016-17 a number of schools were supported by the council and received the Sustrans School Mark for sustainable travel to schools as well as taking part in 'Balanceability' training teaching younger children to ride bikes. The council also worked with organisations like Amey and the Footprint Trust to deliver recycling workshops to local Scouts.

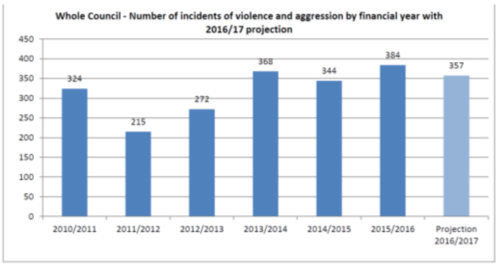
The UK's first SMART cycling corridor has moved a step closer with a project that will include a new Bicycle Island App which will enable participants to challenge monthly distance targets and inlock support for local charity campaigns. Cyclists will be able to find virtual offers and discover seasonal information about wildlife and history along the route.

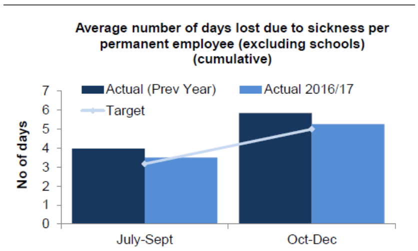
The council has secured £1.3m through the Department for Transport Access Fund for Sustainable Travel over the next 3 years. This will enable the council to continue to deliver the programme of travel behaviour change in partnership with education, business and tourism sectors, saving more than 3,000 tonnes of carbon and generating a net increase in 1.17m walking and 832,000 cycling trips over the 3 year period.

Employee related matters

The council has reduced its staff numbers over the last few years from the full time equivalent of 4,416 in December 2010, to 3,095 (including 1,601 full time equivalent post in schools) in December 2016. This overall reduction is due to the restructuring of council services and changes to schools. Staff costs accounted for £112.2 million of the councils spend in 2016-17 and full details of senior employees remuneration are included in note 35 of the statement of accounts.

The council's employment committee receives annual performance reports against the organisational health indicators intended to monitor how well we manage our workforce.
These include:





There are a number of issues which may impact on future costs which are related to staff and are therefore relevant to include in this narrative report:

- Following the recommendations of the independent Low Pay Commission, the government has announced in the Autumn Statement that it will increase the national living wage (NLW) rate applicable to those aged 25 and over by 4.2 per cent from £7.20 to £7.50 from April 2017. The government's stated target remains for the NLW rate to reach 60 per cent of median earnings by 2020 subject to sustained economic growth.

- The government will also accept all of the Low Pay Commission recommendations for the other NMW rates, which were last increased in October 2016, to apply from April 2017. These rise at a more modest rate with the result that:
  - the rate for 21 to 24 year olds will rise from £6.95 to £7.05 per hour
  - the rate for 18 to 20 year olds will rise from £5.55 to £5.60 per hour
  - the rate for 16 to 17 year olds will rise from £4.00 to £4.05 per hour
  - the rate for apprentices will rise from £3.40 to £3.50 per hour.

- The council introduced a local pay framework as a result of the job evaluation review project from 1 July 2015. As a result, the lowest pay grade and lowest hourly rate of pay is currently £7.79 (£15,023 per annum) and which will rise to £7.99 (£15,418 per annum) with effect from 1 April 2017 which is already above the new NLW rate of £7.50 which will also apply from 1 April 2017.

These increases have been accounted for within the council's budget plans.

The council publishes details of the senior officer structure, along with pay grades and workforce profiles on the council's website www.iwight.com as part of its Transparency data.

Risks, changes to functions and future developments
There are some significant risks and changes ahead which will impact on the council, some underway at the time of writing this report and some which are still in planning stages. These have been outlined here and where known, the financial impact has been summarised.

- Fire service control – for the past 5 years, the islands fire service control has been run through a contract with Surrey. From April 2017, this moved to Hampshire to align with the strategic partnership agreement already in place. It is hoped that this would further assist with service delivery to the public and savings. There will also be benefits from the existing collaboration between the fire and rescue services for Hampshire, Devon and Somerset, and Dorset and Wiltshire.

- One Public Estate (OPE) - The council has received funding from the Governments 'One Public Estate' Programme which will be used to scope the development of a range of projects to generate income for public services and new homes and jobs for the Island**.** The announcement follows an earlier award of £50,000 to develop an Isle of Wight OPE delivery plan, led by the council with partners including the NHS trust, clinical commissioning group, Homes and Communities Agency, police, and fire and rescue service.

  The latest bid included projects for locality hubs at Pyle Street, Newport and the Heights, Sandown (linked to the My Life a Full Life programme), development of the former Camp Hill Prison as part of a wider regeneration of parts of St Mary's Hospital and the Horsebridge Hill area, and exploration of the potential for joint "blue light" services (co-location of fire, police and ambulance services). The sites involved are mainly in the ownership of the partner organisations.

- New Homes Bonus – the Government is changing the scheme for the new homes bonus which councils received annually. In particular the introduction of a threshold of a 0.4% increase in new homes (or deadweight) before any bonus is paid is of concern to the council as the island has more limited potential for housing growth.

- Business Rates – the retained business rate system is complex and subject to a significant degree of inherent risk. In broad terms local councils retain 50% of all business rates received, which can be affected by the number of successful appeals, mandatory reliefs and the overall collection rate. This is increased by a fixed amount 'top up'. For 2017-18, business rates are also subject to a revaluation, revising both the rateable value and the multiplier. Whilst this revaluation is intended to be neutral across the country, there will be local winners and losers. The key risk is the extent of successful appeals. To help mitigate against these risks the council maintains a modest reserve to provide the council with a degree of stability in the event of fluctuations.

- Adult social care precept – the Government has allowed councils to set an adult social care precept of up to 3%. The council in line with many other local authorities has agreed to set the maximum allowed in recognition of the pressures on the adult social care budget.

- Joint Ventures – The council in common with other local authorities is developing joint ventures where that can support the council's financial position or where it encourages investment, jobs or development on the island. Councils with such interests or investments in subsidiaries, associates or joint ventures may be required to prepare group accounts by the Accounting Codes of Practice, unless their interest is not material and dependent on whether the council has a degree of influence or control. The Statement of Accounts includes a statement about this in note 41, but in summary, the council has developed interests as shown in the table below:

Entity	Relationship	Requirement for group accounts
Perpetuus Tidal Energy Centre	15% shares and loan agreement since 2013, rights to dividends	The council does have a degree of influence of control over decisions and has the right to receive dividends. However during 2016-17, the entity was still in early development stages and the council's interest is therefore considered to be non-material.
Public Sector PLC Facilitating Ltd – Limited Liability Partnership	50% share of limited liability partnership, 50% returns	The council does have a degree of influence of control over decisions and has the right to receive returns. However during 2016-17, the entity was still in early development stages and the council's interest is therefore considered to be non-material.

The council is monitoring its position in terms of group accounts and whilst they are not required at this time, there may be a requirement to produce them in future.

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 Government's Financial Reporting Manual which Local Authorities are being encouraged to adopt. 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 Director of Finance for the accounts.
Expenditure and Funding Analysis	This is a new financial performance analysis has been introduced from 2016-17. Its purpose is to report performance in a similar format used for reporting to management throughout the year. The objective of the Expenditure and Funding Analysis (EFA) is to demonstrate to council taxpayers how the funding available to the Council (i.e. Government grants, council tax and business rates) for the year has been used in providing services in comparison with those resources consumed or earned by authorities in accordance with Generally Accepted Accounting Practices. The EFA also shows how this expenditure has been allocated for decision making purposes between the Council's services. Income and expenditure accounted for under generally accepted accounting practices are shown more fully in the Comprehensive Income and Expenditure Statement.
Comprehensive income and expenditure statement	This statement shows the costs in the year of providing services and compares them with the previous year.
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.
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.
Notes to the Accounts	These notes include the Accounting Policies which explain the basis adopted in preparing the accounts in accordance with the relevant Codes of Practice applicable to local authorities.
Collection fund	This statement shows the income received from council tax and business rate payers and how the income is distributed.
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 member's directorship and interest in companies which may conflict with their management responsibilities. Members' declarations are now published on the council's website under their individual pages. Senior officers' declarations are available on request at County Hall. A review of both takes place each year and the findings are detailed in note 40 of the statement of accounts.

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 2017 required by the Accounts and Audit Regulations 2015 is set out on pages 18 to 136.

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 2017 and its income and expenditure for the year then ended.

Chris Ward

Director of Finance and Section 151 officer Date: 15 September 2017
(original signed)

Adrian Axford

Chair of Audit Committee Date: 25 September 2017

EXPENDITURE AND FUNDING ANALYSIS

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the council's services. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement. This analysis is a note to accounts rather than a principal statement.

2015-16				**2016-17**		
Net Expenditure Chargeable to the General Fund Balance	Adjustments between the Funding and Accounting Basis (see note 7A)	Net Expenditure in the Comprehensive Income and Expenditure Statement		**Net Expenditure Chargeable to the General Fund Balance**	**Adjustments between the Funding and Accounting Basis (see note 7A)**	**Net Expenditure in the Comprehensive Income and Expenditure Statement**
£000	£000	£000		**£000**	**£000**	**£000**
46,269	793	47,062	Adult Social Services	**48,269**	**451**	**48,720**
28,609	3,629	32,238	Children's Services	**28,051**	**3,056**	**31,107**
23,480	11,353	34,833	Place	**15,025**	**13,279**	**28,304**
11,112	3,109	14,221	Resources	**10,815**	**2,640**	**13,455**
594	25	619	Chief Executive	**581**	**7**	**588**
118	31	149	Public Health	**(244)**	**14**	**(230)**
-	-	-	Regeneration	**121**	**0**	**121**
236	(921)	(685)	Corporate items	**(2,191)**	**5,341**	**3,150**
110,418	18,019	128,437	**Net Cost of services**	**100,427**	**24,788**	**125,215**
(110,150)	(11,935)	(122,085)	Other Income and Expenditure	**(112,534)**	**(3,688)**	**(116,222)**
268	6,084	6,352	**(Surplus)/deficit on provision of services**	**(12,107)**	**21,100**	**8,993**
50,532			Opening General Fund balance	**50,264**		
(268)			Less/add Surplus or (deficit) on General Fund balance in year	**12,107**		
50,264			**Closing General Fund Balance at 31 March**	**62,371**		

- The Place service area includes contract management; commercial services; economy and tourism; planning; regulatory; housing and fire and rescue services.
- Corporate items include housing benefit payments and related subsidy and external debt interest charges.

COMPREHENSIVE INCOME & EXPENDITURE STATEMENT

This statement shows 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 statutory requirements; this may be different from the accounting cost. The taxation position is shown in both the expenditure and funding analysis and the movement in reserves statement.

2015-16 (restated see note 51)				**2016-17**		
Gross Expenditure (see note 8)	Gross Income (see note 8)	Net expenditure		**Gross Expenditure (see note 8)**	**Gross Income (see note 8)**	**Net Expenditure**
£000	£000	£000		**£000**	**£000**	**£000**
68,442	(21,380)	47,062	Adult Social Services	**74,840**	**(26,120)**	**48,720**
117,423	(85,184)	32,239	Children's Services	**115,920**	**(84,813)**	**31,107**
72,420	(37,587)	34,833	Place	**68,169**	**(39,865)**	**28,304**
17,571	(3,350)	14,221	Resources	**16,804**	**(3,348)**	**13,456**
624	(5)	619	Chief Executive	**588**	**0**	**588**
7,409	(7,260)	149	Public Health	**7,694**	**(7,924)**	**(230)**
-	-	-	Regeneration	**121**	**0**	**121**
50,495	(51,181)	(686)	Corporate items	**54,010**	**(50,860)**	**3,150**
334,384	(205,947)	128,437	**Cost of services**	**338,146**	**(212,930)**	**125,216**
9,170	0	9,170	Other operating expenditure (note 11)	**13,997**	**0**	**13,997**
34,197	(31,692)	2,505	Financing & investment income & expenditure (note 12)	**36,120**	**(15,640)**	**20,480**
0	(133,760)	(133,760)	Taxation & non-specific grant income (note 13)	**0**	**(150,700)**	**(150,700)**
377,751	(371,399)	6,352	**(Surplus)/deficit on provision of services**	**388,263**	**(379,270)**	**8,993**
		(20,889)	Surplus on revaluation of non-current assets (note 27)			**(21,928)**
		2,860	Downward revaluation of assets and impairment losses on non-current assets charged to the revaluation reserve (note 27)			**6,769**
		(69,132)	Actuarial (gains)/losses on pension assets/liabilities (note 47)			**8,495**
		(87,161)	**Other comprehensive income & expenditure**			**(6,664)**
		(80,809)	**Total comprehensive income & expenditure**			**2,329**

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 ‘unusable reserves’. The statement shows how the movements in the year of the council’s reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax for the year. The net increase/decrease line shows the statutory general fund balance movements in the year following those adjustments.

	General fund balance £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	50,532	1,739	580	52,851	(212,523)	(159,672)
Movement in reserves during 2015-16						
Total Comprehensive Income & Expenditure	(6,352)	0	0	(6,352)	87,161	80,809
Adjustments between accounting basis & funding basis under regulations (Notes 7A & 9)	6,084	17,991	354	24,429	(24,429)	0
Increase/decrease in 2015-16	(268)	17,991	354	18,077	62,732	80,809
Balance at 31 March 2016 carried forward	50,264	19,730	934	70,928	(149,791)	(78,863)

General Fund analysed between:	Balance brought forward	Movement in year	Balance carried forward
	£000	£000	£000
Earmarked Reserves (see note 10)	42,981	(15)	42,966
Reserve for general purposes (see note 26)	7,551	(253)	7,298
Total	**50,532**	**(268)**	**50,264**

	General fund balance £000	Capital receipts reserve £000	Capital grants unapplied £000	Total usable reserves £000	Unusable reserves £000	Total authority reserves £000
Balance at 31 March 2016 brought forward	**50,264**	**19,730**	**934**	**70,928**	**(149,791)**	**(78,863)**
Movement in reserves during 2016-17						
Total Comprehensive Income & Expenditure	**(8,993)**	**0**	**0**	**(8,993)**	**6,664**	**(2,329)**
Adjustments between accounting basis & funding basis under regulations (Note 7A & 9)	**21,100**	**(4,515)**	**10,953**	**27,538**	**(27,538)**	**0**
Increase/decrease in 2016-17	**12,107**	**(4,515)**	**10,953**	**18,545**	**(20,874)**	**(2,329)**
Balance at 31 March 2017 carried forward	**62,371**	**15,215**	**11,887**	**89,473**	**(170,665)**	**(81,192)**

General Fund analysed between:	**Balance brought forward**	**Movement in year**	**Balance carried forward**
	£000	**£000**	**£000**
Earmarked Reserves (see note 10)	42,966	7,852	**50,818**
Reserve for general purposes (see note 26)	7,298	4,255	**11,553**
Total	50,264	12,107	**62,371**

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, i.e. 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 is those that the council is not able to use to provide services. This 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 2016			**31 March 2017**
£000		**Note**	**£000**
346,383	Property, plant & equipment	**14**	**364,740**
1,949	Heritage assets	**15**	**1,950**
600	Investment property	**16**	**600**
1,237	Intangible assets	**17**	**1,501**
2,114	Long term debtors	**18**	**3,936**
352,283	**Long term assets**		**372,727**
22,530	Short-term investments	**18**	**16,563**
205	Assets held for sale	**23**	**907**
110	Inventories	**20**	**103**
24,008	Short term debtors	**21**	**22,446**
5,792	Cash and cash equivalents	**22**	**26,822**
52,645	**Current assets**		**66,841**
(56,932)	Short term borrowing	**18**	**(38,168)**
(20,376)	Short term creditors	**24**	**(22,386)**
(3,902)	Short term provisions	**25**	**(3,216)**
(81,210)	**Current liabilities**		**(63,770)**
(67,597)	Long term creditors	**18**	**(83,412)**
(1,140)	Long term provisions	**25**	**(1,140)**
(102,888)	Long term borrowing	**18**	**(123,088)**
(222,553)	Other long term liabilities	**18**	**(241,644)**
(393)	Donated assets account	**15**	**(393)**
(8,010)	Capital grants receipts in advance	**39**	**(7,313)**
(402,581)	**Long term liabilities**		**(456,990)**
(78,863)	**Net assets**		**(81,192)**
70,928	Usable reserves	**26**	**89,473**
(149,791)	Unusable reserves	**27**	**(170,665)**
(78,863)	**Total reserves**		**(81,192)**

These financial statements replace the unaudited financial statements certified by the Director of Finance and Section 151 officer on 30 June 2017. ***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.

2015-16		**2016-17**
£000		**£000**
(6,352)	Net Surplus/(deficit) on the provision of services	**(8,993)**
31,600	Adjustments to net surplus or deficit on the provision of services for non-cash movements (note 29)	**45,953**
(24,412)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (note 29)	**(24,167)**
836	Net cash flows from operating activities	**12,793**
(12,359)	Investing activities (note 30)	**8,400**
14,683	Financing activities (note 31)	**(163)**
3,160	Net increase or decrease in cash & cash equivalents	**21,030**
2,632	Cash & cash equivalents at the beginning of the reporting period	**5,792**
5,792	**Cash & cash equivalents at the end of the reporting period (note 22)**	**26,822**

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 2016-17 financial year and its position at the year-end of 31 March 2017. 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 2016-17, 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, i.e. 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 Accounting for Council Tax and Business Rates

Billing authorities act as agents, collecting council tax and business rates (non-domestic rates) on behalf of the major preceptors (including government for business rates) and, as principals, collecting council tax and business rates for themselves. Billing authorities are required by statute to maintain a separate fund (the Collection Fund) for the collection and distribution of amounts due in respect of council tax and business rates. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionally the risks and rewards that the amount of council tax and business rates collected could be less or more than predicted.

The council tax and business rate income included in the comprehensive income and expenditure statement is the council's share of accrued income for the year. However, regulations determine the amount of council tax and business rates that must be included in the council's general fund. Therefore, the difference between the 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 included as a reconciling item in the movement in reserves statement.

The balance sheet includes the council's share of the end of year balances in respect of council tax and business rates relating to arrears, impairment allowances for doubtful debts, overpayments, prepayment and appeals.

1.7 Employee benefits

1.7.1 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 (e.g. 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, e.g. 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.

1.7.2 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.

1.7.3 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.

1.7.4 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 – i.e. 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 2.6% 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 corporate items;
    - net interest on the defined benefit liability (asset), i.e. 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.

1.7.5 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.

1.7.6 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 – i.e. 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 2.6% 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 corporate items;
  - net interest on the defined benefit liability, i.e. 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 (i.e. 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.

1.8 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.

1.9 Financial instruments

1.9.1 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.

1.9.2 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

1.9.3 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 2016-17 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.

1.9.4 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.

1.10 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.

1.11 Business Improvement District

A Business Improvement District (BID) scheme applies across the whole of the council’s area. The scheme is funded by a BID levy paid by business ratepayers. The council acts as agent under the scheme and does not account for income received and expenditure incurred within the comprehensive income and expenditure statement. The council is reimbursed for the cost of collection from the BID levy.

1.12. 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 comprises 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.

1.13. 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 (e.g. 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.

1.14 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.

1.15 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.

1.16 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.

1.17 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.

1.18 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.

1.18.1 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 (e.g. there is a rent-free period at the commencement of the lease).

1.18.2 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 (e.g. 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.

1.19 Overheads and support services

The costs of overheads and support services are charged to service segments in accordance with the council's arrangements for accountability and financial performance.

1.20 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.

1.20.1 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 (i.e. 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.

1.20.2 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 (i.e. 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.

1.20.3 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.

1.20.4 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 (i.e. freehold land, community assets and heritage assets) together with shared ownership properties and assets that are not yet available for use (i.e. 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.

1.20.5 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.

1.21 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.

1.22 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.

1.23 Provisions, contingent liabilities and contingent assets

1.23.1 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 (e.g. 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.

1.23.2 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.

1.23.3 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.

1.24 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.

1.25 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.

1.26 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.

1.27 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.

1.28 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.

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

The council does not have any transactions in 2016-17 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 2017-18 (the Code) has introduced changes in accounting policies which will need to be adopted by the council in the 2017-18 financial statements. The Code requires implementation from 1 April 2017 and there is therefore no impact on the 2016-17 statement of accounts. There are no new standards in the 2017-18 Code which are likely to have a material impact on the 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 Highways PFI contract. 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.

- **Minimum Revenue Provision (MRP)**

The council has made judgements on the application of a 'prudent amount' definition in the setting aside of sums for the repayment of debt (MRP). The council has judged that the accounting policy for charging the MRP can be interpreted so that the calculation considers all of the assets of the council in totality and considers them in the context of the maturity profile of the council's debt. As a result, the annuity method has been adopted as the most appropriate method for the setting aside of its MRP. On this basis, the council does not need to set aside sums at the previous levels and is able to prudently release previous years' overprovisions of £39.6 million back to support the council's overall medium term financial strategy over the next five years. The effect of this is to re-profile the council's debt provisions and take a 'debt repayment holiday' for the five year period.

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

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

Item	Uncertainties	Effect if actual results differ from assumptions
Property, plant and equipment	Assets are depreciated over useful lives that are dependent on assumptions about level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets. The carrying value of property, plant and equipment at 31 March 2017 is £364.740 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 £0.133 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 2017 is a deficit of £164.570 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 9% to the employer liability for which the approximate monetary value would be £60.436 million. A one year increase in member life expectancy would result in an increase of between 3% and 5% to the employer's defined benefit obligation. In practice the actual cost of a one year increase in life expectancy will depend on the structure of the revised assumption (ie if the improvements to survival rates predominantly apply at younger of older ages). 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 £7.448 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 £52.257 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 2017 is a deficit of £77.000 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 £6.400 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 £2.300 million. A 0.5% increase in the salary increase rate would result in an increase of 1% to the employer liability for

Item	Uncertainties	Effect if actual results differ from assumptions
		which the approximate monetary value would be £1.000 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 £5.400 million.
Allowance for non-payment of debtors (provision for bad debts)	The council has made allowances of £4.848 million for the non-collection of outstanding debts at 31 March 2017. The total allowance of £1.117 million for council tax and business rate represents the council's share of the allowance. The allowance all debt (including housing benefit overpayments) is calculated on a sliding scale of percentages applied to the outstanding amounts based on an age profile, historical levels and the nature of the debts.	For collection fund arrears, variances between estimated and actual write-offs will have an impact on the surplus or deficit on the collection fund. For the remaining sundry debts (including housing benefit overpayments) a 5% increase in the percentage applied would require an adjustment to the allowance of £0.151 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 2017 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 2017 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 2017 is £2.507 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.
Business rate appeals	Since the introduction of the business rates retention scheme on 1 April 2013, local authorities are required to make a provision for	The collection fund statement shows how the appeals provision impacts on the business rate deficit at 31 March 2017. The

Item	Uncertainties	Effect if actual results differ from assumptions
	refunding ratepayers who have successfully appealed against the rateable value of their properties on the rating list. This will include amounts relating to business rates prior to 1 April 2013. The amount recognised as a provision in the council's balance sheet (£2.061 million) represents 50% of an estimate at the balance sheet date of the expenditure required to settle the potential obligation up to 31 March 2017. A list of outstanding appeals has been provided by the valuation office (VAO) and the services of business rates experts have been engaged to 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.	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 2018. If the outcome of appeals is different than the amount estimated, then this will have an impact in a future year on both the business rates surplus or deficit in the collection fund and the business rates 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 £0.450 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 £1.037 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. <u>Material items of income and expense</u>

5.1 2016-17 Disposals

The other operating expenditure line in the comprehensive income and expenditure statement includes £10.422 million relating to losses on disposal of non-current assets. These losses primarily relate to the former Ventnor St Francis Primary school (£5.716 million), the derecognition of components following replacement through the Highways PFI contract (£1.494 million) and Arreton Primary School (£1.740 million) following re-categorisation to a voluntary aided school.

The carrying value of property, plant and equipment in the balance sheet has been reduced by £10.422 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 2016-17, the council has recognised revaluation losses of £4.923 million in relation to property, plant and equipment. 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 £4.923 million as a result of these revaluation losses.

Further details are shown in note 45.

5.3 Pension assets/liabilities

The pension reserve at 31 March 2017 includes an actuarial loss of £8.495 million for 2016-17 which has resulted in an increase in the negative position on the pension reserve from £222.579 million at 31 March 2016 to £241.857 million at 31 March 2017. The actuarial loss is included with other comprehensive income and expenditure in the comprehensive income and expenditure statement.

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

The notes to the Pension Reserve in note 27 and note 47 defined benefit pensions schemes give further details of the impact on the council's finances.

6. Events after the reporting period

The statement of accounts was authorised for issue by the Director of Finance and Section 151 officer on 15 September 2017. Events taking place after this date are not reflected in the financial statements or notes.

7A. Note to the Expenditure and Funding Analysis

Adjustments between Funding and Accounting Basis 2015-16

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes (Note 1) £000s	Net change for Pension Adjustments (Note 2) £000s	Other Differences (Note 3) £000s	Total Adjustments £000s
Adult Social Services	307	550	(64)	793
Children's Services	2,367	1,654	(392)	3,629
Place	11,915	(461)	(101)	11,353
Resources	2,636	520	(47)	3,109
Chief Executive	0	28	(3)	25
Public Health	0	38	(7)	31
Regeneration	-	-	-	-
Corporate items	247	(1,168)	0	(921)
Net Cost of Services	**17,472**	**1,161**	**(614)**	**18,019**
Other income and expenditure from the Expenditure and Funding Analysis	(21,990)	9,236	819	(11,935)
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	**(4,518)**	**10,397**	**205**	**6,084**

Adjustments between Funding and Accounting Basis 2016-17

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes (Note 1) £000s	Net change for Pension Adjustments (Note 2) £000s	Other Differences (Note 3) £000s	Total Adjustments £000s
Adult Social Services	217	259	(25)	451
Children's Services	2,161	530	365	3,056
Place	13,392	(88)	(25)	13,279
Resources	2,503	154	(17)	2,640
Chief Executive	0	8	(1)	7
Public Health	0	17	(3)	14
Regeneration	0	1	(1)	0
Corporate items	3,676	1,665	0	5,341
Net Cost of Services	21,949	2,546	293	24,788
Other income and expenditure from the Expenditure and Funding Analysis	(10,550)	8,237	(1,375)	(3,688)
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	11,399	10,783	(1,082)	21,100

Note 1: Adjustments for Capital Purposes

This column adds in depreciation and impairment and revaluation gains and losses in the services line, and for:

- Other operating expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.
- Financing and investment income and expenditure – the statutory charges for capital financing ie minimum revenue provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.
- Taxation and non-specific grant income and expenditure – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The taxation and non-specific grant income and expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

Note 2: Net Change for the Pension Adjustments

This represents the net change for the removal of pension contributions and the addition of IAS19 Employee Benefits pension related expenditure and income:

- **For services** this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.

- For **Financing and investment income and expenditure** – the net interest on the defined benefit liability is charged to the comprehensive income and expenditure statement.

Note 3: Other Differences

Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

- The charge under **taxation and non-specific grant income and expenditure** represents the difference between what is chargeable under statutory regulations for council tax and business rates that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future surpluses or deficits on the collection fund.

7B. Segmental Income

External income (excluding government grants) received on a segmental basis is analysed below:

Services	2015-16 Income from Services £000s	2016-17 Income from Services £000s
Adult Social Services	(19,597)	**(25,558)**
Children's Services	(6,202)	**(5,333)**
Place	(15,644)	**(17,593)**
Resources	(2,168)	**(2,377)**
Chief Executive	(5)	**0**
Public Health	(20)	**(19)**
Regeneration	-	**0**
Corporate items	(555)	**(2,431)**
Total income analysed on a segmental basis	(44,191)	**(53,311)**

8. Expenditure and Income analysed by nature

The council's expenditure and income is analysed as below and shows the accounting expenditure and income 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.

Expenditure /Income	2015-16 £000s	2016-17 £000s
Expenditure		
Employee benefit expenses	112,400	**115,628**
Other services expenses	205,585	**202,278**
Depreciation, amortisation, impairment	16,614	**21,312**
Interest payments	34,197	**35,410**
Precepts and levies	2,538	**3,212**
Gain or loss on the disposal of assets	6,417	**10,423**
Total expenditure	377,751	**388,263**

Income		
Fees, charges and other service income (see note 7B)	(44,191)	**(53,311)**
Interest and investment income	(31,692)	**(15,640)**
Income from council tax and business rates	(85,484)	**(92,251)**
Government grants and contributions	(210,032)	**(218,068)**
Total income	(371,399)	**(379,270)**
(Surplus) or deficit on the provision of services	6,352	**8,993**

9. 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.

2016-17 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	**(15,755)**	**-**	**-**	**15,755**
Revaluation losses on Property, Plant & Equipment	**(4,923)**	**-**	**-**	**4,923**
Amortisation of intangible assets	**(634)**	**-**	**-**	**634**
Capital grants and contributions applied	**10,144**	**-**	**-**	**(10,144)**
Revenue expenditure funded from capital under statute	**(3,761)**	**-**	**-**	**3,761**
Capitalised interest	**13**	**-**	**-**	**(13)**
Capital financing adjustment	**710**	**(24)**	**-**	**(686)**
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	**(10,423)**	**(833)**	**-**	**11,256**
Insertion of items not debited or credited to the comprehensive income & expenditure statement:				
Provision for the financing of capital investment (minimum revenue provision:- MRP)	**34**	**-**	**-**	**(34)**
Capital expenditure charged against the General fund	**1,442**	**-**	**-**	**(1,442)**
Adjustments primarily involving the capital grants unapplied account:				
Capital grants and contributions unapplied credited to the comprehensive income & expenditure statement	**11,755**	**-**	**(11,755)**	-
Application of grants to capital financing transferred to the capital adjustment account	**-**	**-**	**801**	**(801)**
Adjustments primarily involving the capital receipts reserve				
Use of the capital receipts reserves to finance new capital expenditure	**0**	**5,372**	**-**	**(5,372)**

2016-17 Adjustments	**General fund balance £000**	**Capital receipts reserve £000**	**Capital grants unapplied £000**	**Movement in unusable reserves £000**
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)	**(24,073)**	**-**	**-**	**24,073**
Employers' pension contributions and direct payments to pensioners in the year	**13,840**	**-**	**-**	**(13,840)**
Capitalised pension costs	**(188)**	**-**	**-**	**188**
Firefighters' pension scheme – movement on top-up grant repayable (to)/from Government	**(363)**	**-**	**-**	**363**
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	**(532)**	**-**	**-**	**532**
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	**1,907**	**-**	**-**	**(1,907)**
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	**(292)**	**-**	**-**	**292**
Other rounding adjustment	**(1)**		**1**	**0**
Total adjustments	**(21,100)**	**4,515**	**(10,953)**	**27,538**

Comparative year: 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 repayment	(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)
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:				

Comparative year: 2015-16 Adjustments	**General fund balance £000**	**Capital receipts reserve £000**	**Capital grants unapplied £000**	**Movement in unusable reserves £000**
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

10. 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 2016-17.

General Fund:	**Balance at 1 April 2015 £000**	**Transfer out 2015/16 £000**	**Transfer in 2015/16 £000**	**Balance at 1 April 2016 £000**	**Transfer out 2016/17 £000**	**Transfer in 2016/17 £000**	**Balance at 31 March 2017 £000**
Revenue carry-forward reserve	**835**	(835)	2,791	**2,791**	(2,791)	1,578	**1,578**
Balances held by schools under scheme of delegation	**3,506**	(1,624)	0	**1,882**	(886)	11	**1,007**
Repairs & renewal funds	**1,246**	(488)	6	**764**	(764)	0	**0**
Earmarked reserves – services	**16,551**	(9,712)	5,087	**11,926**	(4,892)	9,876	**16,910**
Insurance & risk funds	**5,777**	(2,294)	579	**4,062**	(2,923)	366	**1,505**
Highways PFI contract cashflow reserve	**11,978**	0	6,522	**18,500**	0	5,863	**24,363**
Transformation reserve	**0**	0	0	**0**	0	2,000	**2,000**
Section 106 contributions reserve	**2,066**	(65)	235	**2,236**	(1,122)	1,288	**2,402**
Public Health earmarked reserve	**1,022**	(518)	301	**805**	(238)	486	**1,053**
Total	**42,981**	**(15,536)**	**15,521**	**42,966**	**(13,616)**	**21,468**	**50,818**

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 council maintains a number of earmarked reserves for specific purposes, all of which are at levels required to meet known future commitments. Specific sums have also been set aside to meet future requirements relating to 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 Transformation reserve is the council's primary vehicle for funding initiatives such as spend to save, spend to avoid and feasibility studies.

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 2016-17 and will provide funding for on-going projects.

11. Other operating expenditure

2015-16 £000		**2016-17 £000**
2,399	Parish & Town Council precepts	**3,071**
139	Levies	**141**
215	Fire-fighters' Pension Scheme – movement in top-up grant repayable to/(from) Government	**363**
6,417	(Gains)/losses on the disposal of non-current assets and current assets held for sale	**10,422**
9,170	**Total**	**13,997**

In addition to the precepts shown above, Parish and Town Councils were also paid grants totalling £0.140 million (£0.206 million in 2015-16) in respect of the Localised Council Tax Support scheme.

A levy of £0.105 million (£0.105 million in 2015-16) was paid to the Southern Inshore Fisheries and Conservation Authority and £0.037 million (£0.035 million in 2015-16) was paid as a flood defence levy to the Environment Agency.

12. Financing and investment income & expenditure

2015-16 £000		**2016-17 £000**
10,941	Interest payable	**12,972**
9,020	Pension interest cost and expected return on pension assets	**7,874**
(159)	Interest receivable	**(366)**
(17,338)	Income & expenditure in relation to investment properties and changes in fair value	**0**
41	Impairment of long-term capital loans	**0**
2,505	**Total**	**20,480**

13. Taxation and non-specific grant incomes

2015-16 £000 (restated)		2016-17 £000	
69,882	Council tax income (notes 2 & 4 to the collection fund)		**74,607**
15,602	Business rates income (note 5a to the collection fund)		**17,644**
45,365	Non-ringfenced government grants	**38,966**	
2,911	Capital grants & contributions	**19,483**	
48,276	Total grant income (see note 39)		**58,449**
133,760	**Total**		**150,700**

14. Property, plant & equipment

Movements on balances in 2016-17	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 2016	3,326	212,955	34,193	145,750	597	1,632	16,047	414,500	119,315
Additions	0	4,706	4,202	20,834	2	0	7,215	36,959	20,098
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	210	12,123	0	0	0	(4,525)	0	7,808	0
Revaluation increases/ (decreases) recognised in the Surplus/deficit on the Provision of Services	0	(1,459)	0	0	0	(3,409)	0	(4,868)	0
Derecognition	0	(10,677)	(1,910)	(3,628)	0	0	0	(16,215)	(3,104)
Assets reclassified (to)/from held for sale	(18)	(115)	(23)	0	0	(780)	0	(936)	0
Other movements	0	596	158	(1)	0	(1)	(67)	685	0
Reclassification	0	(9,045)	1,887	229	0	9,544	(2,898)	(283)	33
At 31 March 2017	3,518	209,084	38,507	163,184	599	2,461	20,297	437,650	136,342

Accumulated depreciation & impairment 2016-17	**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 2016	**0**	**(7,405)**	**(21,391)**	**(38,784)**	**(537)**	**0**	**0**	**(68,117)**	**(32,546)**
Depreciation charge	**0**	**(3,751)**	**(3,832)**	**(8,360)**	**0**	**(212)**	**0**	**(16,155)**	**(7,549)**
Depreciation written out to the revaluation reserve	**0**	**5,160**	**0**	**0**	**0**	**210**	**0**	**5,370**	**0**
Depreciation written out to the Surplus/deficit on the provision of services	**0**	**136**	**0**	**0**	**0**	**0**	**0**	**136**	**0**
Impairment losses or reversals written out to the revaluation reserve	**0**	**1,617**	**0**	**0**	**0**	**0**	**0**	**1,617**	**0**
Impairment losses or reversals recognised in the surplus/deficit on the provision of services	**0**	**264**	**0**	**0**	**0**	**0**	**0**	**264**	**0**
Derecognition	**0**	**791**	**1,021**	**2,134**	**0**	**0**	**0**	**3,946**	**1,610**
Assets reclassified (to)/from held for sale	**0**	**3**	**23**	**0**	**0**	**3**	**0**	**29**	**0**
Reclassification	**0**	**3**	**(1)**	**1**	**0**	**(3)**	**0**	**0**	**0**
At 31 March 2017	**0**	**(3,182)**	**(24,180)**	**(45,009)**	**(537)**	**(2)**	**0**	**(72,910)**	**(38,485)**

Net book value at 31 March 2017	**3,518**	**205,902**	**14,327**	**118,175**	**62**	**2,459**	**20,297**	**364,740**	**97,857**
Net book value at 31 March 2016	3,326	205,550	12,802	106,966	60	1,632	16,047	346,383	86,769

Comparative 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**

Comparative 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

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, 80.2% 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 2017, the council's principal commitments relate to:

- Waste contract £66.658 million (over remaining life of 25 year contract)
- Pan/Asda roadworks £1.603 million
- Shanklin Cliff Lift £0.426 million
- East Cowes Folly Moorings £0.287 million

Similar commitments at 31 March 2016 were £77.474 million.

Effects of changes in estimates

In 2016-17, 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	14,327	118,175	62	0	20,297	**152,861**
Valued at current as at:								
31 March 2017	3,518	106,543	0	0	0	1,610	0	**111,671**
31 March 2016	0	76,333	0	0	0	849	0	**77,182**
31 March 2015	0	13,849	0	0	0	0	0	**13,849**
31 March 2014	0	7,203	0	0	0	0	0	**7,203**
31 March 2013	0	1,974	0	0	0	0	0	**1,974**
Total	**3,518**	**205,902**	**14,327**	**118,175**	**62**	**2,459**	**20,297**	**364,740**

15. 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 2015	**136**	**1,763**	**49**	**1,948**
1 April 2015	136	1,763	49	**1,948**
Additions	0	0	1	**1**
31 March 2016	**136**	**1,763**	**50**	**1,949**
1 April 2016	136	1,763	50	**1,949**
Revaluations	0	0	1	**1**
31 March 2017	**136**	**1,763**	**51**	**1,950**

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	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**

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	2	1,503
31 March 2017	**136**	**1,763**	**51**	**1,950**

Acquired	0	1,507	50	1,557
Donated	136	256	1	393
31 March 2017	**136**	**1,763**	**51**	**1,950**

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.

16. <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:

	2015-16 £000s	**2016-17 £000s**
Balance at 1 April	2,613	**600**
Asset classification adjustment (see note 12)	(1,913)	**0**
Balance at 1 April (adjusted)	700	**0**
Disposals	(17,750)	**0**
Net gains/losses from fair value adjustments	17,650	**0**
Balance at 31 March	600	**600**

17. 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 £0.634 million was charged to the comprehensive income and expenditure statement in 2016-17. The majority of this was charged to Corporate items (£0.525 million), Adult social services (£0.058 million) and Place services (£0.050 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:

	2015-16			**2016-17**		
	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	1,331	3,551	4,882	**1,487**	**3,966**	**5,453**
Accumulated amortisation	(575)	(3,033)	(3,608)	**(831)**	**(3,385)**	**(4,216)**
Net carrying amount at 1 April	756	518	1,274	**656**	**581**	**1,237**
Additions:						
Internal development	156	0	156	**324**	**0**	**324**

Purchases	0	182	182	**0**	**292**	**292**
Assets reclassified from property, plant & equipment	0	287	287	**128**	**154**	**282**
Amortisation for the period	(256)	(406)	(662)	**(270)**	**(364)**	**(634)**
Disposals gross value	0	(54)	(54)	**0**	**0**	**0**
Disposals amortisation	0	54	54	**0**	**0**	**0**
Net carrying amount at 31 March	656	581	1,237	**838**	**663**	**1,501**
Comprising:						
Gross carrying amounts	1,487	3,966	5,453	**1,939**	**4,412**	**6,351**
Accumulated amortisation	(831)	(3,385)	(4,216)	**(1,101)**	**(3,749)**	**(4,850)**
Balance at 31 March	656	581	1,237	**838**	**663**	**1,501**

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 2017 there are no contractual commitments for the acquisition of intangible assets.

18. <u>Financial instruments</u>

<u>Classifications</u>

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.

<u>Financial liabilities</u>

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.

<u>Financial assets</u>

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 2016	**31 March 2017**	31 March 2016	**31 March 2017**
	£000	**£000**	£000	**£000**
Investments				
Short-term Investments	-	**-**	22,530	**16,563**
Cash equivalents	-	**-**	2,752	**16,003**
Total investments	0	**0**	25,282	**32,566**
Debtors				
Loans and receivables	2,114	**3,936**	-	**-**
Financial assets carried at contract amounts	-	**-**	15,004	**13,428**
Total debtors	2,114	**3,936**	15,004	**13,428**
Borrowings				
Financial liabilities at amortised cost	(102,888)	**(123,088)**	(56,932)	**(38,168)**
Total borrowings	(102,888)	**(123,008)**	(56,932)	**(38,168)**
Other long-term liabilities & creditors				
PFI and finance lease liabilities	(67,459)	**(83,157)**	(1,774)	**(2,491)**
Other financial liabilities at amortised cost	(138)	**(255)**	-	**-**
Financial liabilities carried at contract amount	-	**-**	(12,272)	**(2,878)**
Total other long-term liabilities & creditors	(67,597)	**(83,412)**	(14,046)	**(5,369)**

Income, expense, gains and losses

	2015-16 £000	**2016-17 £000**
Interest expense from financial liabilities measures at amortised cost	(10,941)	**(12,972)**
Total expense in surplus or deficit on the provision of services	(10,941)	**(12,972)**
Interest income from financial assets: loans and receivables	159	**366**
Total expense in surplus or deficit on the provision of services	159	**366**
Net loss for the year	(10,782)	**(12,606)**

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 2017 of 1.03% to 2.80% 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 2016		**31 March 2017**	
	Carrying amount	Fair value	**Carrying amount**	**Fair value**
	£000	£000	**£000**	**£000**
Financial liabilities	173,865	200,338	**166,625**	**199,703**
Long-term creditors	67,597	95,294	**83,412**	**216,163**

- the carrying value of the council's portfolio of loans is £132.288 million. The fair value has been calculated as £162.848 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 e.g. 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 £7.518 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 e.g. 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 e.g. interest rates or yields for similar instruments.

Assets	31 March 2016		**31 March 2017**	
	Carrying amount	Carrying amount	**Carrying amount**	**Fair value**
	£000	£000	**£000**	**£000**
Loans and receivables	40,286	40,286	**45,994**	**45,994**
Long-term debtors	2,114	2,114	**3,936**	**3,936**

- 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 £241.644 million (£222.553 million in 2015-16). These figures include the balance due from central government in respect of the 2016-17 element of the top-up grant.

19. 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 £16.003 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 2017 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 2017	**Historical experience of default**	**Historical experience adjusted for market conditions at 31 March 2017**	**Estimated maximum exposure to default & uncollectability at 31 March 2017**	Estimated maximum exposure at 31 March 2016
	A	**B**	**C**	**(A x C)**	
	£000	**%**	**%**	**£000**	£000
Deposits with banks and financial institutions	32,566	0.00	0.00	**0**	0
Customers	3,527	12.91	13.60	**480**	589
Other debtors	10,194	0.00	0.00	**0**	0
			Total	**480**	589

The other debtors figure includes £1.530 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 2016-17 was approved by the council in February 2016. Amongst other controls, the strategy sets out the arrangements for managing credit risk (i.e. 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 2016-17 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 24 February 2016 is located on the council's website:- www.iwight.com

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

The authority does not generally allow credit for customers, such that £2.722 million is due for payment at 31 March 2017 from invoices raised through the council's accounts receivable system.

This amount due can be analysed by age as follows:

	31 March 2016	**31 March 2017**
	£000	**£000**
Less than two months	1,726	**1,495**
Two to four months	134	**107**
Four months to one year	566	**400**
More than one year	603	**720**
Total	3,029	**2,722**

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 £22.709 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 2016	**31 March 2017**
	£000	**£000**
Less than one year	56,932	**38,168**
Between one and two years	8,000	**5,200**
Between two and five years	15,000	**20,800**
Between five and ten years	29,288	**41,688**
Between ten and fifteen years	32,600	**26,000**
Between fifteen and twenty years	17,000	**23,000**
Between twenty and twenty five years	0	**5,400**
More than twenty five years	1,000	**1,000**
Total external borrowing	159,820	**161,256**
Of which, Public Works Loan Board (PWLB)	107,888	**132,288**

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 (£85.106 million) at 31 March 2017. 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 2016	**31 March 2017**
	£000	**£000**
Less than one year	1,774	**2,491**
Between one and two years	1,986	**7,103**
Between two and five years	17,350	**16,952**
Between five and ten years	11,274	**12,297**
More than ten years	36,890	**46,844**
Total	69,274	**85,687**

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 2017, 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 £0.405 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 2016-17, the impact would have been limited to the actual amount of investment income received (£0.190 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 £0.291 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 2016-17, the impact would have been limited to the actual amount of temporary loan interest paid (£0.193 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.

20. Inventories

Inventories comprise consumable stores with a value of £0.029 million (£0.030 million at 31 March 2016) and stocks held for resale with a value of £0.074 million (£0.080 million at 31 March 2016).

21. Debtors

	31 March 2016 £000	**31 March 2017 £000**
Central Government bodies	4,086	**3,850**
Other local authorities	330	**227**
NHS bodies	3,237	**1,595**
Public Corporations	1	**1**
Other entities and individuals (see below)	16,354	**16,773**
Total	24,008	**22,446**

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 2016 £000	**31 March 2017 £000**
Sundry debtors	7,046	**7,543**
Less: allowance for non-collection	(562)	**(688)**
Sundry debtors (net of allowance for non-collection)	6,484	**6,855**
Local taxpayers	4,704	**5,292**
Less: allowance for non-collection	(564)	**(1,118)**
Local taxpayers (net of allowance for non-collection)	4,140	**4,174**
Housing benefit overpayments	3,209	**4,614**
Less: allowance for non-collection	(1,446)	**(3,043)**
Housing benefit overpayments (net of allowance for non-collection)	1,763	**1,571**

Academy schools	1	**0**
Prepayments	3,966	**4,173**
Total Other entities and individuals	16,354	**16,773**

22. Cash and cash equivalents

	31 March 2016 £000	**31 March 2017 £000**
Cash held by the council	4,186	**3,643**
Short-term deposits with banks	2,752	**16,003**
Bank current accounts (overdrawn)	(1,146)	**7,176**
Total	5,792	**26,822**

23. 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 2015-16 and 2016-17.

	Current	
	2015-16 £000	**2016-17 £000**
Balance at 1 April	609	**205**
Assets newly classified as held for sale:		
Property, plant & equipment	1,290	**908**
Revaluation losses	0	**(56)**
Revaluation gains	456	**364**
Assets sold	(2,150)	**(514)**
Balance at 31 March	205	**907**

24. Creditors

	31 March 2016 £000	**31 March 2017 £000**
Central government bodies	2,304	**4,381**
Other local authorities	242	**220**
NHS bodies	1,529	**577**
Other entities and individuals (see below)	16,301	**17,208**
Total	20,376	**22,386**

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

	31 March 2016 £000	**31 March 2017 £000**
Sundry creditors	10,887	**10,759**
Local taxpayers	2,178	**2,846**
Academy schools	24	**0**
Receipts in advance	3,212	**3,603**
Total	16,301	**17,208**

25. Provisions

	Outstanding Insurance Claims £000	**Employment related & other costs £000**	**Business Rates appeals £000**	**Care related costs £000**	**Total £000**
Balance at 1 April 2016	2,157	579	2,199	107	**5,042**
Additional provision made in 2016-17	232	0	376	0	**608**
Amounts used in 2016-17	(299)	(14)	(514)	0	**(827)**
Unused amounts reversed in 2016-17	0	(467)	0	0	**(467)**
Balance at 31 March 2017	**2,090**	**98**	**2,061**	**107**	**4,356**

Analysis of provisions between short and long term:

	2015-16 £000	**2016-17 £000**
Short-term provisions	3,902	**3,216**
Long-term provisions	1,140	**1,140**
Balance at 31 March	5,042	**4,356**

Outstanding insurance claims
The Insurance Provision at 31 March 2017 is based on an estimate of potential liabilities arising from outstanding claims. Of the total at 31 March 2017, £0.951 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 £2.090 million, £1.140 million relates to the potential MMI clawback. This potential clawback has been categorised as a long-term liability.

Employment related and other costs
This provision relates to potential costs relating to a claim from a member of staff and some outstanding employment termination costs.

Business 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 2017-18.

26. 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 2016 £000	**31 March 2017 £000**
General fund balance	7,298	**11,553**
Capital receipts reserve	19,730	**15,215**
Capital grants unapplied	934	**11,887**
Earmarked reserves (see note 10)	42,966	**50,818**
Total usable reserves	70,928	**89,473**

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

27. Unusable reserves

	31 March 2016 £000	**31 March 2017 £000**
Revaluation reserve	79,526	**90,732**
Capital adjustment account	(2,795)	**(18,115)**
Pensions reserve	(222,579)	**(241,857)**
Deferred capital receipts reserve	2	**1,438**
Collection fund adjustment account	(1,731)	**(356)**
Accumulated absences account	(2,214)	**(2,507)**
Total unusable reserves	(149,791)	**(170,665)**

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.

2015-16 £000		Revaluation reserve	2016-17 £000	
	64,452	Balance at 1 April		**79,526**
	51	Asset classification adjustment		**0**
	64,503	1 April (adjusted)		**79,526**
20,889		Upward revaluation of assets	**21,928**	
(2,860)		Downward revaluation of assets and impairment losses not charged to the surplus/ deficit on the provision of services	**(6,769)**	
	18,029	Surplus or deficit on revaluation of non-current assets not posted to the surplus or deficit on the provision of services		**15,159**
(1,127)		Difference between current depreciation and historical cost depreciation	**(1,360)**	
(1,879)		Accumulated gains on assets sold or scrapped	**(2,593)**	
	(3,006)	Amount written off to the capital adjustment account		**(3,953)**
	79,526	**Balance at 31 March**		**90,732**

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

2015-16 £000		Capital adjustment account	2016-17 £000	
	8,034	Balance at 1 April		**(2,795)**
	(51)	Asset classification adjustment		**0**
	7,983	1 April (adjusted)		**(2,795)**
		Reversal of items relating to capital expenditure debited or credited to the comprehensive income and expenditure statement:		
(12,967)		• Charges for depreciation and impairment of non-current assets	**(15,755)**	
(2,985)		• Revaluation losses on property, plant & equipment	**(4,923)**	
(662)		• Amortisation of intangible assets	**(634)**	

(3,730)		• Revenue expenditure funded from capital under statute	**(3,761)**	
12		• Write-down of PFI deferred income	**0**	
24		• Capitalised interest	**13**	
(25,371)		• 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	**(12,784)**	
0		• Amounts of non-current liabilities written-off on disposal or sale as part of the gain/loss on disposal to the comprehensive income and expenditure statement	**92**	
	(45,679)			**(37,752)**
	3,006	Adjusting amounts written out of the revaluation reserve		**3,953**
	(34,690)	Net written out amount of the cost of non-current assets consumed in the year		**(36,594)**
		Capital financing applied in the year:		
653		• Use of capital receipts reserve to finance new capital expenditure	**5,371**	
5,087		• Capital grants and contributions credited to the comprehensive income and expenditure statement that have been applied to capital financing	**10,144**	
330		• Application of grants to capital financing from the capital grants unapplied account	**802**	
8,175		• Statutory provision for the financing of capital investment charged against the general fund	**34**	
0		• Capital expenditure charged against the general fund	**1,442**	
	14,245			**17,793**
	17,650	Movements in the market value of investment properties debited or credited to the comprehensive income and expenditure statement	**0**	
	0	Other movements	**686**	
	(2,795)	**Balance at 31 March**		**(18,115)**

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.

2015-16	Pension reserve	2016-17
£000		**£000**
281,313	Balance at 1 April	**222,579**
(69,132)	Actuarial (gains) and losses on pensions assets and liabilities	**8,495**
23,987	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	**24,073**
(13,830)	Employer's pensions contributions and direct payments to pensioners payable in the year	**(13,840)**
215	Fire-fighters' Pension Scheme – movement on top-up grant repayable from Government	**362**
26	Capitalised pension - movement	**188**
222,579	**Balance at 31 March**	**241,857**

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 2017 is £1.438 million (£0.002 million at 31 March 2016) and includes a capital receipt of £1.436 million where the related scheme concluded prior to 31 March 2017, but the cash settlement was received after this date. This sum will be transferred to the capital receipts reserve as a usable reserve in 2017-18.

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.

2015-16	Collection fund adjustment account	2016-17
£000		**£000**
911	Balance at 1 April	**1,731**
(270)	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)	**532**
1,090	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)	**(1,907)**
1,731	**Balance at 31 March**	**356**

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, e.g. 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 2017 is £2.507 million (£2.214 million at 31 March 2016).

28. Cash flow statement – operating activities (interest)

The cash flows for operating activities include the following items:

2015-16		2016-17
£000's		**£000's**
14,022	Interest received	**15,647**
(33,893)	Interest paid	**(36,042)**

29. Cash flow statement – operating activities

The surplus or deficit on the provision of services has been adjusted for the following non-cash movements:

2015-16		2016-17	
£000		**£000**	**£000**
12,967	Depreciation	**15,755**	
2,985	Impairment and downward valuations	**4,923**	
662	Amortisation	**634**	
(921)	Increase/decrease in creditors	**(943)**	
(2,006)	Increase/decrease in debtors	**2,787**	
54	Increase/decrease in inventories	**7**	
10,372	Movement in pension liability	**10,784**	
25,371	Carrying amount for non-current assets and non-current assets held for sale, sold or derecognised	**12,692**	
(17,884)	Other non-cash items charged to the net surplus or deficit on the provision of services	**(686)**	
31,600			**45,953**
	Adjustment for items in the net surplus or deficit on the provision of services that are investing or financing activities:-		
(18,642)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	**(2,268)**	
(5,770)	Any other items for which the cash effects are investing or financing cash flows	**(21,899)**	
(24,412)			**(24,167)**

30. Cash flow statement – investing activities

2015-16		2016-17
£000		**£000**
(19,933)	Purchase of property, plant & equipment, investment property and intangible assets	**(17,790)**
(22,505)	Purchase of short-term and long-term investments	**(16,545)**
(73)	Other payments for investing activities	**(1,844)**
18,685	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	**2,268**
3,035	Proceeds from short-term and long-term investments	**22,505**
8,432	Other receipts from investing activities	**19,806**
(12,359)	**Net cash flows from investing activities**	**8,400**

31. Cash flow statement – financing activities

2015-16		**2016-17**
£000's		**£000's**
40,512	Cash receipts of short and long-term borrowing	**52,507**
(103)	Other receipts for financing activities	**0**
(3,043)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	**(3,582)**
(20,847)	Repayments of short and long-term borrowing	**(51,149)**
(1,836)	Other payments for financing activities	**2,061**
14,683	**Net cash flows from financing activities**	**(163)**

32. Trading operations

The *Service Reporting Code of Practice (SeRCOP*) sets out categories of trading operations which authorities should consider disclosing and detailing in a note to the accounts. In accordance with *SeRCOP*, the amounts below include depreciation, impairment, IAS 19 retirement benefit charges, central support recharges and overhead apportionments attributable to the particular service where applicable. This is not consistent with the treatment of central support recharges and overhead apportionments in the comprehensive income and expenditure statement where these costs are not distributed to services. In certain instances, a service may be subsidised in order to achieve specific service objectives.

Operation	**Description**		**£000**
Industrial units	The council let industrial units in a variety of locations.	Turnover	154
		Expenditure	82
		Agreed contribution to/(from) general fund:	
		2016-17	**72**
		2015-16	53
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 foot passengers. Income for 2016-17 has been affected by the ferry being out of operation while new slipway works have been carried out in preparation for a replacement vessel. Additional cost has also been incurred on the hire of a passenger launch during this period.	Turnover	731
		Expenditure	805
		Agreed contribution to/(from) general fund:	
		2016-17	**(74)**
		2015-16	27
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	Parking income:	
		Ticket machine income	3,004
		Permit income	563
		Penalty charge notice income	659
		Other sources of income	28
		Turnover	4,254

Operation	Description		£000
	improvements in the local area. During 2016-17 such investment included concessionary fares and rights of way.	Expenditure	1,012
		2016-17 Parking account surplus	**3,242**
		2015-16 surplus	2,933
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	1,367
		Expenditure	1,051
		Agreed contribution to/(from) general fund:	
		2016-17	**316**
		2015-16	115
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. The 2016-17 expenditure figure includes £0.055 million revaluation loss for Ryde Harbour.	Turnover	101
		Expenditure	291
		Agreed contribution to/(from) general fund:	
		2016-17	**(190)**
		2015-16	(132)
Leisure facilities	The running of Leisure facilities at Medina Leisure Centre, The Heights, Westridge Leisure Centre, Fairway and Ryde Sports Centres. These are subsidised facilities, as is the case with many similar local authorities.	Turnover	2,594
		Expenditure	3,792
		Agreed contribution to/(from) general fund:	
		2016-17	**(1,198)**
		2015-16	(1,262)
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 expenditure figure includes £0.066 million revaluation loss.	Turnover	220
		Expenditure	256
		Agreed contribution to/(from) general fund:	
		2016-17	**(36)**
		2015-16	(164)

33. 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 business rates. The council received an allowance from the government for the cost of collection of £0.257 million in 2016-17 (£0.254 million in 2015-16). There was no other significant agency work carried out during 2016-17.

34. Members' allowances

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

	2015-16 £000	**2016-17 £000**
Basic allowance & special responsibility allowances	419	**416**
Employers' national insurance & pension contributions paid on behalf of members	43	**45**
Travelling & subsistence allowance and reimbursements	21	**19**
Co-opted members	2	**2**
Total	485	**482**

35. Officers' remuneration

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

Post	**Year**	**Salary**	**Expense Allowance**	**Compensation of loss of office**	**Remuneration excluding pension contributions**	**Pension contributions**	**Remuneration including pension contributions**
		£	**£**	**£**	**£**	**£**	**£**
Chief Executive (i)	2016-17 2015-16	126,250 41,667	0 0	0 0	126,250 41,667	29,669 9,583	155,919 51,250
Head of Legal Services & Monitoring Officer (ii)	2016-17 2015-16	51,649 49,861	0 0	0 0	51,649 49,861	12,138 11,468	63,787 61,329
Head of Resources	2016-17 2015-16	81,577 79,210	0 0	0 0	81,577 79,210	19,171 18,218	100,748 97,428
Head of Place (iii)	2016-17 2015-16	73,848 65,569	0 0	0 0	73,848 65,569	17,354 15,081	91,202 80,650
Director of Public Health	2016-17 2015-16	98,554 73,983	0 0	0 0	98,554 73,983	13,564 6,643	112,118 80,626
Director of Adult Social Services (iv)	2016-17 2015-16	34,555 -	0 -	0 -	34,555 -	8,120 -	42,675 -
Director of Regeneration (v)	2016-17 2015-16	16,877 -	0 -	0 -	16,877 -	3,966 -	20,843 -

Notes to officers' remuneration

Note (i)	The postholder commenced in this role on 1 December 2015.
Note (ii)	The postholder has a 4 day per week working pattern. The wholetime equivalent salary for 2016-17 is £63,701.
Note (iii)	The postholder commenced in this role on 5th September 2016. The figures shown include the postholder's previous role as Head of Planning and Housing. The annualised salary for the Head of Planning and Housing is £67,487 and is £78,604 for the Head of Place.
Note (iv)	The Director of Adult Social services commenced employment on 1 December 2016 at an annualised salary of £103,664.

Note (v)	The Director of Regeneration commenced employment on 30 January 2017 at an annualised salary of £98,096.

Other notes relating to senior employees:

Note (vi)	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 20% of costs are paid by the Isle of Wight Council. The amount recharged to IWC relating to this post in 2016-17 is £35,381 (£62,185 in 2015-16).
Note (vii)	With effect from 1 April 2016 the post of Director of Finance and Section 151 Officer has been filled under a strategic partnership with Portsmouth City Council. The remuneration details are disclosed in full by Portsmouth City Council. The amount recharged to the Isle of Wight Council relating to this post for 2016-17 is £57,000.
Note (viii)	With effect from 1 April 2015 the post of Chief Fire Officer has 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 2016-17 is £29,550 (£29,550 in 2015-16).
Note (ix)	From 1 April to 1 December 2016 the post of Interim Director of Adult Social Services was 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 for the above period is £96,400. The amount payable in 2015-16 for a similar contract was £157,776.
Note (x)	A senior employee included in this table in the 2015-16 statement of accounts was not employed by the council during 2016-17. Additionally, as a result of a restructuring, three senior employees who were included in this table in the 2015-16 statement of accounts have not been included in this table for 2016-17. The remuneration for these four employees relating to 2015-16 has been added to the relevant band shown below under all other council employees. The 2015-16 totals therefore differ from those previously published in the 2015-16 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	2015-16				**2016-17**			
	School based employees				**School based employees**			
	Voluntary Aided & Foundation schools	Other schools	All other council employees (see note (x) above)	Total number of employees	**Voluntary Aided & Foundation schools**	**Other schools**	**All other council employees**	**Total number of employees**
£50,000 to £54,999	18	9	14	41	**18**	**8**	**16**	**42**
£55,000 to £59,999	6	7	3	16	**4**	**8**	**2**	**14**
£60,000 to £64,999	6	8	7	21	**3**	**10**	**5**	**18**
£65,000 to £69,999	2	3	0	5	**5**	**1**	**3**	**9**
£70,000 to £74,999	1	0	0	1	**3**	**2**	**2**	**7**
£75,000 to £79,999	1	0	2	3	**0**	**0**	**0**	**0**
£80,000 to £84,999	0	1	0	1	**0**	**1**	**1**	**2**
£85,000 to £89,999	0	0	0	0	**0**	**0**	**0**	**0**
£90,000 to £94,999	1	1	0	2	**0**	**1**	**0**	**1**
£95,000 to £99,999	1	0	0	1	**1**	**1**	**0**	**2**
£100,000 to £104,999	0	0	0	0	**1**	**0**	**0**	**1**
£120,000 to £124,999	1	0	0	1	**0**	**0**	**0**	**0**
Totals	37	29	26	92	**35**	**32**	**29**	**96**

36. Termination benefits

The council terminated the contracts of a number of employees in 2016-17, incurring liabilities of £0.803 million. (£1.076 million in 2015-16).

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	
	2015-16	**2016-17**	2015-16	**2016-17**	2015-16	**2016-17**	2015-16 £	**2016-17 £**
£0 to £20,000	47	**36**	62	**23**	109	**59**	735,453	**369,893**
£20,001 to £40,000	0	**2**	9	**7**	9	**9**	275,268	**224,362**
£40,001 to £60,000	0	**2**	0	**0**	0	**2**	0	**94,993**
£60,001 to £80,000	0	**0**	1	**0**	1	**0**	64,872	**0**
£100,001 to £150,000	0	**1**	0	**0**	0	**1**	0	**114,031**
Total	47	**41**	72	**30**	119	**71**	1,075,593	**803,279**

The total of termination payments made during 2016-17 has been charged to the Comprehensive Income and Expenditure Statement. The total cost of exit packages excludes £0.096 million relating to seven former members of staff who left the council in a previous year but includes £0.011 million relating to one member of staff who has taken flexible retirement, but who remains an employee of the council. The total number of exit packages does not include the seven former members of staff.

37. External audit costs

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

	2015-16 £000	**2016-17 £000**
Fees payable with regard to external audit services carried out by the appointed auditor for the year	135	**128**
Fees payable to the appointed auditor for certification of grant claims and returns for the year	15	**17**
Total of fees payable to the appointed auditor	150	**145**

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

38. Dedicated schools grant

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

Details of the deployment of DSG receivable are as follows:

Deployment of dedicated schools grant 2016-17	**Central expenditure £000**	**Individual schools budget £000**	**Total £000**
Final DSG for 2016-17 before Academy recoupment			**87,210**
Academy figure recouped for 2016-17			**(19,307)**
Total DSG after Academy recoupment for 2016-17			**67,903**
Brought forward from 2015-16			**0**
Carry-forward to 2017-18 agreed in advance			**0**
Agreed initial budget distribution in 2016-17	**15,639**	**51,548**	**67,187**
In-year adjustments	**732**	**(16)**	**716**
Final budget distribution for 2016-17	**16,371**	**51,532**	**67,903**
Less: Actual central expenditure	**16,671**		**16,671**
Less: Actual ISB deployed to schools		**51,568**	**51,568**
Plus: Local authority contribution for 2016-17	**0**	**0**	**0**
Carry forward to 2017-18	**(300)**	**(36)**	**(336)**

Deployment of dedicated schools grant 2015-16 (comparative year)	**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

39. Grant income

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

Credited to taxation and non-specific grant income	2015-16 £000 (restated)	**2016-17 £000**
Revenue grants:		
Revenue Support grant	(26,103)	**(19,170)**
Business rates top-up grant	(12,449)	**(12,553)**

New homes bonus	(3,153)	**(3,989)**
Education services grant	(1,425)	**(1,295)**
Small business rate relief scheme s31 grant	(1,327)	**(1,460)**
Other business rate relief schemes s31 grant	(868)	**(447)**
Council tax flood relief grant	(6)	**0**
Council tax annexe discount grant	(7)	**(15)**
Transparency code grant	(13)	**(13)**
Inshore fisheries grant	(14)	**(14)**
Migration grant	0	**(10)**
Capital grants:		
Department for Education grants	(701)	**(1,661)**
Local transport plan grant	(1,076)	**(1,095)**
DCLG grants	(2)	**(11,535)**
Solent Growth Deal funding	0	**(3,427)**
Other capital grants	(1,132)	**(1,765)**
Total	(48,276)	**(58,449)**

Credited to services	2015-16 £000 (restated)	**2016-17** **£000**
Dedicated schools grant	(67,340)	**(67,903)**
Sixth form funding grant	(3,431)	**(3,784)**
Rent allowance & rent rebates subsidy	(50,440)	**(48,189)**
Housing benefit & council tax support administration grant	(943)	**(833)**
Highways PFI grant	(18,615)	**(19,428)**
Public health grant	(6,886)	**(7,904)**
Pupil premium grant	(4,252)	**(4,186)**
Free school meal grant	(1,103)	**(1,318)**
Care Act grant	(1,126)	**0**
Other revenue grants	(4,782)	**(3,821)**
Revenue expenditure funded by capital under statute (REFCUS):		
Disabled facilities grant	(1,260)	**(1,584)**
Department for Education REFCUS grants	(925)	**(333)**
Other REFCUS grants	(653)	**(336)**
Total	(161,756)	**(159,619)**

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	2015-16 £000	**2016-17 £000**
Department for Education grants	(4,535)	**(4,459)**
Other grants	(2,636)	**(2,437)**
Contributions	(839)	**(417)**
Total	(8,010)	**(7,313)**

Revenue grants & contributions receipts in advance	2015-16 £000	**2016-17 £000**
Housing benefit subsidy (DWP)	(856)	**(452)**
Business rates (DCLG)	0	**(1,604)**
Other grants	(511)	**(458)**
Section 106 contributions	(1,471)	**(1,651)**
Total	(2,838)	**(4,165)**

40. Related parties transactions

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

Central Government
Central government has significant influence over the general operations of the council – it is responsible for providing the statutory framework within which the council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are detailed in note 39.

Members and their family
Members of the council have direct control over the council's financial and operating policies. The total of members' allowances paid in 2016-17 is shown in note 34. During 2016-17, payments to the value of £31.5 million were made to organisations where members had declared an interest including £19.3 million to educational facilities where members or close family were employed, £2.6 million to parish and town councils (including precepts) and £7.9 million to the NHS with whom the council transacts as part of its day to day business. The remaining £1.5 million included payments of:

- £0.181 million to the Real World Trust which relates to housing benefit payments.
- £0.235 million to the Friends of Northwood cemetery relating to loans to support cash flow which are repaid upon receipt of grant funding.
- £0.236 million to the Chamber of Commerce which relates to health check, stop smoking and workplace engagement programmes.
- £0.238 million to Community Action Isle of Wight which relates to core grant funding as well as elements of the My Life a Full Life programme and youth services.
- £0.265 million to Firbank which is a residential care home in Shanklin which has a contract with the council to provide residential care services.

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 Director of Finance and section 151 officer is provided by Portsmouth City Council under a partnership arrangement approved in April 2016. This officer also holds various directorships as part of the role at Portsmouth City Council.

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

Further details of these arrangements are shown in note 35.

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 2016-17 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 £1.794 million were made to Hampshire County Council in 2016-17 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 £0.367 million for expenses incurred in administering the fund.

Entities controlled or significantly influenced by the council
Grants to other bodies of £1.9 million were made by the council during 2016-17. However, none of these grants were for material amounts and the allocation of such funding does not constitute effective influence over the financial and operating policies of those organisations.

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 41.

The council made a fixed term loan to Homestead Solar Energy Company of £1.7 million during 2016-17 which is attracting interest until its repayment in 2018. This does not give the council any influence or control over the company.

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 2016-17. This is subject to a more detailed disclosure in the group accounts note 41.

41. Group accounts

The council has invested in a joint venture company known as Perpetuus Tidal Energy Centre Ltd, with partners Perpetuus Energy Ltd and TB Partners LLP. This is to undertake the design and construction of a 20 megawatt grid connect and managed tidal energy facility for the test and demonstration for deployment of single devices and arrays of tidal stream technologies. 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 2016-17 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 2016-17 as no disposals or developments have taken place since the partnership was formed in 2015-16. There are likely to be disposals or developments in 2017-18 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.

42. Capital expenditure and capital financing

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

	2015-16 £000	**2016-17 £000**
Balance carried forward	246,793	**275,300**
Adjustment to opening balance	(354)	**0**
Opening capital financing requirement	246,439	**275,300**
Capital investment:		
Property, plant and equipment	17,782	**16,961**
Intangible assets	338	**616**
Revenue expenditure funded from capital under statute	3,730	**3,761**
Loans and financial assistance	0	**1,700**
Highways PFI assets brought onto balance sheet	20,722	**19,998**
Finance lease assets brought onto balance sheet	605	**0**
Sources of finance:		
Capital receipts	(653)	**(5,371)**

Government grants and other contributions	(5,417)	**(10,946)**
Sums set-aside from revenue:		
Revenue contributions to capital	0	**(1,442)**
Finance lease disposal	(59)	**(92)**
Waste PFI deferred income	(12)	**0**
Statutory charge to revenue	(8,175)	**(34)**
Closing capital financing requirement	275,300	**300,451**
Explanation of movements in year		
Increase/(reduction) in underlying need to borrow (unsupported by government financial assistance)	7,180	**5,153**
Assets acquired under PFI contracts	20,722	**19,998**
Assets acquired under finance leases	605	**0**
Increase/decrease in capital financing requirement	28,507	**25,151**

43. Leases

Council as lessee

The council has acquired vehicles, plant, furniture and equipment assets under finance leases. The rentals payable under these arrangements in 2016-17 were £0.295 million (£0.266 million in 2015-16), charged to the comprehensive income and expenditure account as £0.073 million finance costs (charged to interest payable) and £0.222 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 2016-17 or 2015-16.

Carrying amount of assets	31 March 2016 £000	**31 March 2017 £000**
Balance at 1 April	378	**689**
Additions	605	**0**
Depreciation	(198)	**(210)**
Reclassification	(96)	**0**
Balance at 31 March	689	**479**

Liability	**Minimum lease payments**		**Present value of minimum lease payments**	
	31 March 2016 £000	**31 March 2017 £000**	31 March 2016 £000	**31 March 2017 £000**
Not later than one year	302	**208**	222	**153**
Later than one year and not later than five years	706	**471**	541	**388**
Later than five years	418	**0**	91	**0**
	1,426	**679**	854	**541**
Less: future finance charges	(572)	**(138)**	-	**-**
Total	854	**541**	854	**541**

Included in:	31 March 2016 £000	**31 March 2017 £000**
Current borrowings	222	**153**
non-current borrowings	632	**388**
Total	854	**541**

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 2017 is £0.655 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 2016-17 were £1.443 million (£1.741 million in 2015-16), 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 2016-17 amounted to £0.785 million (£0.790 million in 2015-16).

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

Leases expiring	31 March 2016 £000	**31 March 2017 £000**
Not later than one year	991	**987**
Later than one year and not later than five years	1,373	**990**
Later than five years	224	**83**
Total	2,588	**2,060**

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

	2015-16 £000	**2016-17 £000**
Minimum lease payments	1,724	**1,436**
Contingent rents	17	**7**
Total	1,741	**1,443**
Sub-lease income receivable	(790)	**(785)**
Total	951	**658**

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 2016-17 was £0.858 million (£0.788 million in 2015-16), 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 2016 £000	**31 March 2017 £000**
Not later than one year	609	**629**
Later than one year and not later than five years	1,937	**2,070**
Later than five years	17,090	**17,574**
Total	19,636	**20,273**

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 2016-17 £0.040 million in contingent rents were received by the council (2015-16 £0.036 million).

44. Private finance initiatives and similar contracts

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 2016-17 were £10.015 million (£7.993 million in 2015-16) charged to the comprehensive income and expenditure statement as £6.747 million finance costs (charged to interest payable) and £3.268 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 £10.901 million (£11.962 million in 2015-16) and is charged to the Place service line in the comprehensive income and expenditure statement. Government grant of £19.428 million (£18.615 million in 2015-16) has been credited to Place service 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:-

	2015-16 £000	**2016-17 £000**
Value at 1 April	74,275	**86,769**
Additions	20,982	**20,098**
Reclassifications	(449)	**33**
Depreciation	(6,836)	**(7,549)**
Disposals	(1,203)	**(1,494)**
Total assets at 31 March	86,769	**97,857**

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

	2015-16 £000	**2016-17 £000**
Value at 1 April	50,449	**68,376**
Finance additions	20,723	**19,998**
Disposals	(59)	**0**
Finance charge	5,256	**6,747**
Finance lease rental	(7,993)	**(10,015)**
Finance lease outstanding at 31 March	68,376	**85,106**

The finance lease outstanding of £85.106 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 2017, 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 2016-17	3,819	8,320	12,517	0	(20)	**24,636**
Payable within 2 to 5 years	38,669	36,986	46,691	8,551	1,605	**132,502**
Payable within 6 to 10 years	25,974	38,161	59,247	9,161	6,061	**138,604**
Payable within 11 to 15 years	28,690	25,336	64,391	28,506	3,874	**150,797**
Payable within 16 to 20 years	30,976	12,857	72,058	50,024	(1,309)	**164,606**
Payable within 20 to 25 years	10,969	623	11,310	9,793	2,039	**34,734**
Total	**139,097**	**122,283**	**266,214**	**106,035**	**12,250**	**645,879**

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 2017 is £215.520 million based on discount contractual cash flows at the AA bond yield of the same remaining term.

45. Revaluation losses

During 2016-17, the council has recognised revaluation losses of £4.923 million in relation to property, plant and equipment. The most significant loss related to building assets at Newport Lynnbotton Waste Transfer (£0.637 million) which was categorised as Land and Buildings. In addition, revaluation losses were recognised in respect of surplus assets at the former Sandham Middle School (£2.340 million) and Barton Primary School (£1.009 million)

Asset valuations are based upon a number of factors such as the condition of buildings, likely useful life and income generation estimates from the use of land based assets. The recoverable amount of these assets has been reduced to their current value as estimated by a professional valuer. This is based on 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.

46. Pension schemes accounted for as defined contribution schemes

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

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

In 2016-17, the council paid £4.332 million to teachers' pensions in respect of teachers' retirement benefits, representing 16.48% of pensionable pay. (2015-16 £4.128 million and 14.1%). There were no contributions remaining payable at year-end.

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

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

In 2016-17, the council paid £0.040 million (2015-16 £0.020 million) to NHS pensions in respect of retirement benefits, representing 14.3% of pensionable pay.

47. Defined benefit pension schemes

Participation in pension schemes

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

The authority participates in two post-employment schemes:

- The Local Government Pension Scheme is administered by the council and is a funded defined benefit scheme, meaning that the council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.
- the Fire-fighters' Pension Scheme is administered by the council and is an unfunded defined benefit final salary scheme, meaning that there are no investment assets built up to meet the pensions liabilities, and cash has to be generated to meet actual pension payments as they eventually fall due. The authority and employees pay contributions into a fund from which pension payments are made. Under the Fire-fighters' Pension Scheme (Amendment)(England) Order 2006, the fund is topped up by Government grant if the contributions are insufficient to meet the cost of pension payment, while any surplus in the fund is repayable to Central Government. Regular 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	
	2015-16	**2016-17**	2015-16	**2016-17**	2015-16	**2016-17**
Comprehensive Income & Expenditure Statement						
Cost of services:						
Current service cost	(13,922)	**(12,407)**	(1,200)	**(1,100)**	(15,122)	**(13,507)**
Past service costs (including curtailments)	(245)	**(392)**	0	**(2,700)**	(245)	**(3,092)**
Fire Service injury pensions	-	**-**	400	**400**	400	**400**
Financing and investment income and expenditure						
Interest cost on defined benefit liability	(20,403)	**(20,648)**	(2,500)	**(2,500)**	(22,903)	**(23,148)**
Interest income on plan assets	13,883	**15,274**	-	**-**	13,883	**15,274**
Movement on top-up grant repayable (to)/from Government	-	**-**	(215)	**(363)**	(215)	**(363)**
Total post-employment benefit charged to the surplus or deficit on the provision of services	(20,687)	**(18,173)**	(3,515)	**(6,263)**	(24,202)	**(24,436)**
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)	(7,556)	**37,641**	-	**-**	(7,556)	**37,641**
Actuarial gains and losses arising on changes in demographic assumptions	0	**12,949**	200	**(300)**	200	**12,649**
Actuarial gains and losses arising on changes in financial assumptions	56,120	**(93,027)**	7,200	**(14,000)**	63,320	**(107,027)**
Other experience gains and losses	9,168	**36,942**	4,000	**11,300**	13,168	**48,242**
Total post-employment benefit charged to the comprehensive income and expenditure statement	37,045	**(23,668)**	7,885	**(9,263)**	44,930	**(32,931)**
Movement in reserves statement:						
Reversal of net charges made to the surplus or deficit for the provision of services for post-employment benefits in accordance with the Code	8,757	**5,433**	1,400	**4,800**	10,157	**10,233**
Movement on top-up grant repayable to/(from) Government	-	**-**	215	**363**	215	**363**
Actual amount charged against the general fund balance for pensions in the year:						
Employers' contributions payable to the scheme (including unfunded benefits)	11,930	**12,740**	-	**-**	11,930	**12,740**

Retirement benefits payable to pensioners (net of member contributions)	-	**-**	1,900	**1,100**	1,900	**1,100**

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**	
	2015-16	**2016-17**	2015-16	**2016-17**	2015-16	**2016-17**
Present value of the defined benefit obligation	(592,121)	**(652,367)**	(69,200)	**(77,000)**	(661,321)	**(729,367)**
Fair value of plan assets	438,479	**487,797**	0	**0**	438,479	**487,797**
Net liability arising from defined benefit obligation	(153,642)	**(164,570)**	(69,200)	**(77,000)**	(222,842)	**(241,570)**

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**	
	2015-16	**2016-17**	2015-16	**2016-17**	2015-16	**2016-17**
Opening fair value of scheme assets	435,530	**438,479**	0	**0**	435,530	**438,479**
Interest income	13,883	**15,274**	-	**-**	13,883	**15,274**
Re-measurement gains/loss:						
Return on plan assets excluding the amount included in the net interest expense	(7,556)	**37,641**	-	**-**	(7,556)	**37,641**
Contributions by employer	10,517	**11,313**	1,900	**1,100**	12,417	**12,413**
Contributions from plan participants	2,729	**2,871**	300	**400**	3,029	**3,271**
Contributions in respect of unfunded benefits paid	1,413	**1,427**	-	**-**	1,413	**1,427**
Benefits paid	(16,624)	**(17,781)**	(1,900)	**(1,500)**	(18,524)	**(19,281)**
Unfunded benefits paid	(1,413)	**(1,427)**	-	**-**	(1,413)	**(1,427)**
Backdated commutation payments	-	-	(300)	**0**	(300)	**0**
Contributions towards injury pensions	-	-	400	**400**	400	**400**
Injury award expenditure	-	-	(400)	**(400)**	(400)	**(400)**
Closing fair value of scheme assets	438,479	**487,797**	0	**0**	438,479	**487,797**
Top-up grant debtor	-	-	291	**0**	291	**0**
Closing balance at 31 March	438,479	**487,797**	291	**0**	438,770	**487,787**

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	
	2015-16	**2016-17**	2015-16	**2016-17**	2015-16	**2016-17**
Opening balance at 1 April	(638,147)	**(592,121)**	(79,200)	**(69,200)**	(717,347)	**(661,321)**
Current service cost	(13,922)	**(12,407)**	(1,200)	**(1,100)**	(15,122)	**(13,507)**
Interest cost	(20,403)	**(20,648)**	(2,500)	**(2,500)**	(22,903)	**(23,148)**
Contributions by scheme participants	(2,729)	**(2,871)**	(300)	**(400)**	(3,029)	**(3,271)**
Re-measurement gains/loss:						
Actuarial gains/losses arising from changes in demographic assumptions	0	**12,949**	200	**(300)**	200	**12,649**
Actuarial gains/losses arising from changes in financial assumptions	56,120	**(93,027)**	7,200	**(14,000)**	63,320	**(107,027)**
Other experience gains/loss	9,168	**36,942**	4,000	**11,300**	13,168	**48,242**
Past service costs (including curtailments)	(245)	**(392)**	0	**(2,700)**	(245)	**(3,092)**
Benefits paid	16,624	**17,781**	1,900	**1,500**	18,524	**19,281**
Unfunded benefits paid	1,413	**1,427**	-	**-**	1,413	**1,427**
Backdated commutation payments	-	-	300	**0**	300	**0**
Injury award expenditure	-	-	400	**400**	400	**400**
Closing fair value of scheme liabilities	(592,121)	**(652,367)**	(69,200)	**(77,000)**	(661,321)	**(729,367)**
Top-up grant creditors	-	-	-	**(72)**	-	**(72)**
Closing balance at 31 March	(592,151)	**(652,367)**	(69,200)	**(77,072)**	(661,321)	**(729,439)**

Local Government Pension Scheme assets comprised:

	Fair value of scheme assets			
	2015-16		**2016-17**	
	Quoted prices in active markets	Percentage of total assets	**Quoted prices in active markets**	**Percentage of total assets**
	£000	%	**£000**	**%**
Cash and cash equivalents	1,877.6	0.4%	**2,088.8**	**0.4%**
Equity securities:				
Consumer	15,801.3	3.6%	**17,578.6**	**3.6%**
Energy & Utilities	12,332.8	2.8%	**13,720.0**	**2.8%**
Financial Institutions	20,896.7	4.8%	**23,247.0**	**4.8%**
Health & Care	6,164.6	1.4%	**6,857.9**	**1.4%**
Information Technology	1,208.4	0.3%	**1,344.3**	**0.3%**

Other	30,992.4	7.1%	**34,478.3**	**7.1%**
Real Estate	26,923.9	6.1%	**29,952.2**	**6.1%**
Investment Funds & Unit Trusts:				
Equities	169,027.9	38.6%	**188,039.4**	**38.6%**
Bonds	87,711.5	20.0%	**97,576.8**	**20.0%**
Other	65,540.9	14.9%	**72,912.7**	**14.9%**
Total assets	438,478.0	100.0%	**487,796.0**	**100.0%**

Basis for estimating assets and liabilities

Liabilities have been assessed on the actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Both fund liabilities have been assessed by Hymans Robertson, an independent firm of actuaries, estimates for the Local Government Scheme being based on the latest full valuation of the scheme as at 31 March 2016.

The significant assumptions used the actuary have been:

	Local Government Pension Scheme		**Fire-fighters' Pension Scheme**	
	2015-16	**2016-17**	2015-16	**2016-17**
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	**22.3**	29.7	**30.2**
Women	24.5	**24.7**	31.6	**31.7**
Longevity for future pensioners (years):				
Men	23.8	**23.9**	31.2	**31.6**
Women	26.7	**26.5**	33.2	**33.2**
Pension increase rate (CPI)	2.2%	**2.4%**	2.2%	**2.4%**
Market derived RPI	3.2%	**3.4%**	3.2%	**3.4%**
Rate of increase in salaries	4.2%	**2.8%**	3.2%	**3.4%**
Rate for discounting scheme liabilities	3.5%	**2.6%**	3.5%	**2.6%**
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 2017	**Approximate % increase to employer liability**	**Approximate monetary amount**
	%	**£000**
0.5% decrease in real discount rate	9%	60,436
0.5% increase in the salary increase rate	1%	7,448
0.5% increase in the pension increase rate	8%	52,257

A one year increase in life expectancy would approximately increase the Employer's Defined Benefit Obligation by between 3% to 5%. In practice the actual cost of a one year increase in life expectancy will depend on the structure of the revised assumption (ie. if improvements to survival rates predominately apply at younger or older ages).

Fire-fighters' Pension Scheme	**Impact on the defined benefit obligation in the scheme**	
Change in assumptions at 31 March 2017	**Approximate % increase to employer liability**	**Approximate monetary amount**
	%	**£000**
0.5% decrease in real discount rate	8%	6,400
1 year increase in member life expectancy	3%	2,300
0.5% increase in the salary increase rate	1%	1,000
0.5% increase in the pension increase rate	7%	5,400

Impact on the council's cash flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% of the next 20 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed on 31 March 2019.

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 2018 is £10.861 million. Due to the unfunded nature of the Fire-fighters' Pension Scheme, the contributions in the year to 31 March 2018 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	32.3%	24.2	36.7%	25.1
Deferred members	24.4%	23.3	1.0%	24.5
Pensioner members	43.3%	11.4	62.3%	12.0
Total	**100.0%**	**17.3**	**100.0%**	**17.0**
Injury pensions				
Contingent liabilities	-	-	25.8	25.1
Injury pension liabilities	-	-	74.2	12.4
Total	**-**	**-**	**100.0**	**15.7**

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

48. Contingent liabilities

The council has indemnified the South Wight Housing Association (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.

49. 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 £1 million was placed in an escrow account. The council is obliged under the contract to deliver additional offsite works and this work is being funded from the escrow account. At 31 March 2017, there was a balance of £0.695 million remaining in the account with a corresponding value of works to be completed. The council has recognised a debtor of £0.156 million during the 2016-17 financial year, leaving a balance of £0.539 million. The council is responsible for funding any costs which exceed the escrow balance or alternatively any balance remaining in the account on completion of the work will be returned to the council. In addition, the council is obliged under the contract to deliver the spine road providing access to the site and providing the council completes the works, a £2.5 million retention from the original capital receipt will be paid by Asda to the council. The council has recognised a debtor of £1.280 million during the 2016-17 financial year, leaving a balance of £1.220 million. These works are scheduled to be completed in June 2017.

50. 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 £0.075 million at 31 March 2017 (£0.083 million on 31 March 2016).
- 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 £0.052 million at 31 March 2017 (£0.048 million on 31 March 2016). This fund is administered by Newport Parish Council on behalf of the Isle of Wight Council.

	31 March 2016	**31 March 2017**
	£000s	**£000s**
Trust Funds etc	137	**134**
Cash in Safekeeping	91	**63**
Amenity Funds	71	**64**
Total	299	**261**

51. Prior Period Adjustment

The council has made a prior year adjustment in preparing the 2016-17 statement of accounts. This is summarised below. For comparative purposes, the 2015-16 comprehensive income and expenditure statement has been restated. A new expenditure and funding analysis (and supporting note) has also been introduced. The presentation of the movement in reserves statement has also been simplified. The balance sheet is not affected by this restatement.

Segmental Reporting in the Comprehensive Income and Expenditure Statement (and associated changes)

These financial statements are prepared in accordance with the requirements of the CIPFA Code of Practice on Local Authority Accounting (the Code). Following its *Telling the Story* review, the Code's segmental reporting requirements for the comprehensive income and expenditure statement were changed. Instead of the cost of services being presented using a standardised SERCOP classification, from 2016-17 the Code requires that the cost of services be presented in a manner consistent with how the council manages and monitors financial performance locally. For the Isle of Wight Council, this means reporting based on management responsibilities.

In accordance with the requirements of IAS1 Presentation of Financial Statements, the 2015-16 comparators in the comprehensive income and expenditure statement have been restated on this new reporting basis.

	2015-16 Net Expenditure £000		**2015-16 Net Expenditure £000**
Education & children's service	33,601	Adult Social Services	**47,062**
Adult social care	51,415	Children's Services	**32,239**
Cultural & related services	5,337	Place	**34,833**
Environmental & regulatory services	14,977	Resources	**14,221**
Planning services	2,020	Chief Executive	**619**
Highways & transport services	22,516	Public Health	**149**
Fire & rescue services	6,439	Corporate items	**(686)**
Housing services (including benefits)	4,473		
Public health	144		
Central services to the public	2,275		
Corporate & democratic core	2,169		
Non-distributed costs	471		
Cost of services	**145,837**	**Cost of services**	**128,437**

Other operating expenditure	9,170	Other operating expenditure	**9,170**
Financing & investment income & expenditure	2,505	Financing & investment income & expenditure	**2,505**
Taxation & non-specific grant income	(151,160)	Taxation & non-specific grant income	**(133,760)**
(Surplus)/deficit on provision of services	**6,352**	**(Surplus)/deficit on provision of services**	**6,352**

The differences in the cost of service and taxation and non-specific grant income lines are offsetting. The adjustments have been made so that there is consistency with how the council manages and monitors financial performance locally. The adjustments are shown below and note 39 (grant income) has also been re-presented to match the changes.

	Total of cost of services £000	**Taxation & non-specific grant income £000**
Reported in 2015-16 comprehensive income & expenditure statement	145,837	(151,160)
Highways PFI grant	(18,615)	18,615
Education services grant	1,425	(1,425)
Local services support grant	(210)	210
Restated as 2015-16 comparator in 2016-17 comprehensive income & expenditure statement	**128,437**	**(133,760)**

The *Telling the Story* changes have also introduced a new expenditure and funding analysis (and associated note) to reconcile the amounts reported to management as chargeable to the general fund under statute with the amounts presented in the comprehensive income and expenditure statement under proper accounting practices. A simplified movement in reserves statement has also been introduced and the 2015-16 comparators have also been presented in accordance with the new format.

There are no implications for the general fund or any other reserves arising from these changes. The balance sheet and cash flow statement are also unaffected.

52. Authorisation of accounts for issue

The Director of Finance and Section 151 officer authorised the draft financial statements for issue on 30 June 2017 and re-authorised them following completion of the audit on 15 September 2017.

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 business 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 business 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.

The local government finance regime was revised in 2013-14 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 business rates tax base.

The scheme allows the council to retain a proportion of the total business 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 business 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 2016-17	Business Rates	Council Tax	Total
	£000	£000	£000
Income			
Council Tax receivable (note 3)		(83,553)	(83,553)
Business rates receivable (note 1)	(35,371)		(35,371)
Total income	(35,371)	(83,553)	(118,924)
Expenditure			
Apportionment of Previous Year Surplus/(Deficit):			
Central Government	(2,033)		(2,033)
Isle of Wight Council	(2,033)	977	(1,056)
Police & Crime Commissioner		111	111
	(4,066)	1,088	(2,978)
Precepts, Demands and Shares:			
Central Government (note 1)	17,816		17,816
Isle of Wight Council (notes 1 & 3)	17,816	74,161	91,977
Police & Crime Commissioner (note 3)		8,176	8,176
	35,632	82,337	117,969
Charges to the Collection Fund:			
Write-offs of uncollectable amounts	413	97	510
Net (decrease)/increase in Bad Debt Provision	(21)	624	603
Net decrease in Provision for appeals (note 6)	(277)		(277)
Cost of Collection	257		257
Renewable energy projects	289		289
	661	721	1,382
(Surplus)/Deficit arising during the year	(3,144)	593	(2,551)
(Surplus)/Deficit brought forward at 1 April	4,585	(1,155)	3,430
(Surplus)/Deficit carried forward at 31 March (notes 4 & 5a)	1,441	(562)	879
Allocated to:			
Isle of Wight Council	721	(506)	215
Central Government	720		720
Police and Crime Commissioner		(56)	(56)
Total	1,441	(562)	879

Collection Fund 2015-16 (Comparative year)	Business Rates	Council Tax	Total
	£000	£000	£000
Income			
Council Tax receivable (note 3)		(77,976)	(77,976)
Business 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 increase 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

Notes to the collection fund

1. Business Rates

The council collects business 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.

The administration of business rates changed in 2013-14 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 business 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 business rates payable for 2016-17 was estimated before the start of the financial year as £35.632 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 business 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 £12.553 million in 2016-17 (£12.449 million in 2015-16) which is credited to the general fund (see note 39).

The total income from business ratepayers collectable in 2016-17 was £35.371 million (£31.644 million in 2015-16). 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 business 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 2017. 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 £4.121 million (£4.398 million in 2015-16) and council’s proportion of 50% is included in short-term provisions in the balance sheet (note 6).

The total business rate rateable value at 31 March 2017 was £94.270 million (£93.689 million at 31 March 2016) and the business rate multiplier for the year was 49.7p (49.3p in 2015-16). A reduced multiplier of 48.4p (48.0p in 2015-16) was applicable where there was eligibility for small business rate relief. The gross yield for the year was £45.588 million (£42.578 million in 2015-16) and the net yield was £35.371 million (£31.644 million in 2015-16). Several nationally defined adjustments and reliefs contribute towards this reduction as shown below:-

	2015-16		**2016-17**	
	£000	£000	**£000**	**£000**
Gross Business rate yield at 31 March		42,578		**45,588**
Less:-				
Mandatory/discretionary relief granted	(4,655)		**(3,382)**	
Empty rate relief	(849)		**(988)**	
Small Business Rate relief	(5,400)		**(5,847)**	
Interest on refunds	(30)		**0**	
		(10,934)		**(10,217)**
Net Business rate yield at 31 March		31,644		**35,371**

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 2016-17 was 50,954 (49,535 in 2015-16).

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
		2015-16		**2016-17**	
Band A (disabled)	5/9	9	5	**8**	**5**
Band A	6/9	5,543	3,695	**6,115**	**4,077**
Band B	7/9	12,188	9,480	**12,741**	**9,909**
Band C	8/9	13,159	11,697	**13,568**	**12,061**
Band D	9/9	11,069	11,069	**11,184**	**11,184**
Band E	11/9	6,157	7,525	**6,248**	**7,636**
Band F	13/9	2,869	4,144	**2,872**	**4,148**
Band G	15/9	1,379	2,298	**1,389**	**2,314**
Band H	18/9	101	202	**102**	**205**
Total		52,474	50,115	**54,227**	**51,539**
Less reduction for bad debts & valuation changes			(580)		**(585)**
Council tax base			49,535		**50,954**
Council tax per band D property (£)			1,341.64		**1,395.17**
Isle of Wight Council: Council tax precept (£000)			66,458		**71,090**

3. Precepts made on the fund (Council tax)

	2015-16		**2016-17**	
	£000	£000	**£000**	**£000**
Isle of Wight Council: Council tax requirement (note 2)	66,458		**71,090**	
Parish & Town Council precepts	2,399		**3,071**	
Isle of Wight Council precept (including Parish & Town Councils)		68,857		**74,161**
Share of estimated collection fund deficit at 31 March in previous year		755		**977**
Isle of Wight Council: budget requirement		69,612		**75,138**
Police & Crime Commissioner: Council tax requirement	7,793		**8,176**	
Share of estimated collection fund deficit at 31 March in previous year	86		**111**	
Police & Crime Commissioner: budget requirement		7,879		**8,287**
Total precepts		77,491		**83,425**

Council Tax income analysis

	2015-16	**2016-17**
	£000	**£000**
Council Tax gross debit	100,035	**105,054**
Discounts	(9,170)	**(9,570)**
Exemptions	(1,384)	**(1,482)**
Council Tax Support	(11,505)	**(10,449)**
Council Tax income	77,976	**83,553**

Council Tax surplus/(deficit) analysis

	2015-16		**2016-17**	
	£000	£000	**£000**	**£000**
Net debit (actual)	77,976		**83,553**	
Less: Net debit (estimated)	77,491		**83,425**	
Increase/(reduction) in net debit		485		**128**
Contribution to allowance for bad debts		(185)		**(721)**
Collection Fund deficit brought forward		855		**1,155**
Council Tax surplus carried forward		1,155		**562**

4. <u>Reconciliation with Isle of Wight Council's note 13 to the comprehensive income and expenditure statement and note 27 Collection Fund adjustment account (Council tax)</u>

2015-16: comparative year	**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 surplus (note 27)	270	30	300
Total (note 13)	69,882	7,909	77,791

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

2016-17	**Isle of Wight Council £000**	**Police & Crime Commissioner £000**	**Total £000**
Demand/Precept	**75,138**	**8,287**	**83,425**
Share of 2016-17 in-year deficit (note 27)	**(531)**	**(62)**	**(593)**
Total (note 13)	**74,607**	**8,225**	**82,832**

Share of surplus carried forward at 31 March 2017	**506**	**56**	**562**

5a. Reconciliation with Isle of Wight Council's note 13 to the comprehensive income and expenditure statement (Business Rates)

2015-16 (comparative year)	**Isle of Wight Council £000**		**Central Government £000**		**Total £000**	
Estimate of 2015-16 business rates 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 Business rate income (note 13)		**15,601**		**15,375**		**30,976**

2016-17	**Isle of Wight Council £000**		**Central Government £000**		**Total £000**	
Estimate of 2016-17 business rates income at 31 January 2016		**17,816**		**17,816**		**35,632**
Less: share of deficit at 31 March 2016 (estimated at 31 January 2016)		**(2,033)**		**(2,033)**		**(4,066)**
Less: share of actual deficit at 31 March 2016	**2,293**		**2,292**		**4,585**	
Share of 2016-17 deficit carried forward at 31 March 2017	**(721)**		**(720)**		**(1,441)**	
Share of 2016-17 in-year surplus		**1,572**		**1,572**		**3,144**
Renewable energy rates retained		**289**		**-**		**289**
Total Business rate income (note 13)		**17,644**		**17,355**		**34,999**

5b. Reconciliation with Isle of Wight Council's note 27 Collection Fund adjustment account (Business rates)

The figure shown in note 27 Collection fund adjustment account is the amount by which business rate income credited to the comprehensive income and expenditure statement is different from business 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 business rates income from specified renewable energy projects is retained by the council, as permitted by regulations.

	2015-16 £000	**2016-17 £000**
Share of deficit brought forward at 1 April reversed in year	817	**2,293**
Renewable energy rates retained brought forward at 1 April reversed in year	(78)	**(150)**
Share of deficit at 31 March	(2,293)	**(721)**
Renewable energy rates retained at 31 March	150	**171**
Allowance for spreading the estimated cost of backdated appeals included in provision	313	**313**
Total (note 27)	(1,091)	**1,906**

6. Appeals provision (business rates)

	2015-16				**2016-17**			
	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		(4,092)		(2,046)		**(4,398)**		**(2,199)**
Charged to provision	2,613		1,307		**1,028**		**514**	
Contribution to provision	(2,919)		(1,460)		**(751)**		**(376)**	
Net (increase)/decrease in provision		(306)		(153)		**277**		**138**
Balance carried forward		(4,398)		(2,199)		**(4,121)**		**(2,061)**

ISLE OF WIGHT COUNCIL FIREFIGHTERS' PENSION FUND

The council, acting as a fire and rescue authority, administers and pays firefighters' 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 47 to the financial statements.

2015-16	FIREFIGHTERS' PENSION FUND ACCOUNT	2016-17	
£000		£000	£000
	Contributions receivable:		
	Fire authority:		
(423)	Employers' contributions in relation to pensionable pay	**(418)**	
(440)	Firefighters' contributions	**(347)**	
(863)	**Total contributions receivable**		**(765)**
0	Contribution refunds (see note below)		**32**
	Benefits payable:		
1,536	Pensions	**1,535**	
413	Commutations, lump sum retirement and other lump sum benefits	**9**	
325	Milne v GAD ombudsman decision – commutation & interest payments	**0**	
2,274	**Total benefits payable**		**1,544**
0	Individual transfers to other schemes		**6**
1,411	**Net amount payable for the year**		**817**
(1,411)	**Top-up grant receivable payable from the Government** (see note below)		**(817)**
0			**0**

2015-16	NET ASSETS STATEMENT	2016-17
£000		£000
	Current assets	
291	Debtors - top-up receivable from the Government	**0**
0	Creditors – top-up payable to the Government	**(72)**
	Current liabilities	
(291)	Amount owing (to)/from general fund	**72**
0		**0**

The refund in contributions was due to overpayments made by certain categories of firefighters. This was a national issue and the amount refunded has been included in the grant receivable from the government.

ISLE OF WIGHT COUNCIL PENSION FUND

2015-16 £000	FUND ACCOUNT	Notes	2016-17 £000
	Dealings with members, employers and others directly involved in the fund		
17,714	Contributions	7	18,318
221	Transfers in from other pension funds	8	40
23	Other income	9	17
17,958			18,375
(19,262)	Benefits	10	(20,102)
(1,524)	Payments to and on account of leavers	11	(168)
(20,786)			(20,270)
(2,828)			**(1,895)**
(3,764)	Management expenses	12	**(2,213)**
	Returns on investments		
8,605	Investment income	13	8,432
(413)	Taxes on income	14	(36)
(7,063)	Profit and losses on disposal of investments and changes in the market value of investments	17	81,242
(20)	Interest payable	16	(35)
1,109	Net returns on investments		**89,603**
(5,483)	**Net increase/(decrease) in the net assets available for benefits during the year**		**85,495**
479,477	Opening Net Assets of the Scheme		473,994
473,994	**Closing Net Assets of the Scheme**		**559,489**

ISLE OF WIGHT COUNCIL PENSION FUND

2016 £000	NET ASSETS STATEMENT AS AT 31 MARCH	Notes	2017 £000
478,267	Investment assets	17	560,499
2,028	Cash deposits	17	5,949
480,295			566,448
-	Investment liabilities	17	(108)
(6,505)	Borrowings	19A	(7,045)
21	Long term assets	23	157
811	Current assets	24	895
(628)	Current liabilities	25	(858)
473,994	**Net assets of the fund available to fund benefits at the period end**		**559,489**

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 22.

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 2016-17 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 2016.

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, police officers 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 2017 are:

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

The admitted bodies of the fund with active members at 31 March 2017 are:

- Barnados
- Caterlink (NEW)
- Cowes Harbour Commissioners
- Island Roads Limited
- Southern Housing Limited
- Southern Vectis
- Sovereign Housing Limited
- St Catherine's School Ltd
- Top Mops Ltd (NEW)
- 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 2017

	Administering Authority	Scheduled Bodies	Admitted Bodies	Total
Number of employers with active members	1	16	13	**30**
Number of contributors (Active members)	3,150	485	118	**3,753**
Number of frozen refunds [1]	596	11	4	**611**
Number of deferred pensioners [2]	5,820	616	129	**6,565**
Number of pensioners/ widows/dependant pensioners	3,831	199	162	**4,192**
	13,397	**1,311**	**413**	**15,121**

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**

[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 2017 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 2016. The current and future employer contribution rates as determined by that valuation are detailed in note 21.

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 2016-17 financial year and its position at year-end as at 31 March 2017. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2016/17* 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 22 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 Local Government Pension Scheme Regulations 2013 (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 (2016)*

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 2016-17 no fees are based on such estimates (2015-16: 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 at fair value in accordance with the requirements of the Code and IFRS13 (see Note 18). For the purposes of disclosing levels of fair value hierarchy, the fund has adopted the classification guidelines recommended in *Practical Guidance on Investment Disclosures* (PRAG/Investment Association, 2016)

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 22).

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(1)(b) of the Local Government Pension Scheme (Management and Investment Funds) Regulations 2016 but are disclosed as a note only (note 26).

n) *Accruals of expenditure and income*

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.

o) *Provisions, Contingent Liabilities and Contingent Assets*

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

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.

Contingent liabilities are not recognised in the net assets statement but disclosed in note 28 to the accounts.

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.
This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in Note 22.

These actuarial revaluations are used to set future contribution rates and underpin the fund’s most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short-term yield/growth.

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 the assumption and estimates.

The items in the net assets statement at 31 March 2017 for which there is a significant risk of material adjustment within the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be provided.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance: A 0.5% increase in the discount rate assumption would result in a decrease in the pension fund deficit of £69m. A 0.5% increase in assumed earnings inflation would increase the deficit by approximately £13m. A 0.5% increase in assumed price inflation/pension increases would increase the deficit by approximately £56m. A one-year increase in assumed life

		expectancy would increase the deficit by approximately £27m
Pooled Property Funds	Valuation techniques are used to determine the carrying amount of pooled property funds. Where possible these valuation techniques are based on observable data, but where this is not possible management uses the best available data. Changes in the valuation assumptions used, together with significant changes in rental growth, vacancy levels or the discount rate could affect the fair value of the property.	The effect of variations in the factors supporting the valuation would be an increase or decrease in the value of pooled property funds.

6. EVENTS AFTER THE BALANCE SHEET DATE

These are 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.

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:

2015-16 £000		2016-17 £000
14,191	Employers	14,764
3,523	Members	3,554
17,714		**18,318**

By authority:

2015-16 £000		2016-17 £000
13,535	Administering authority	14,166
2,302	Scheduled bodies	2,416
1,877	Admitted bodies	1,736
17,714		**18,318**

By type:

2015-16 £000		2016-17 £000
3,497	Employees’ normal contributions	3,531
26	Employees’ additional contributions	23
13,065	Employers’ normal contributions	13,436
826	Employers’ deficit recovery contributions	824
300	Employers’ augmentation contributions	504
17,714		**18,318**

8. TRANSFERS IN FROM OTHER PENSION FUNDS

2015-16 £000		2016-17 £000
-	Group transfers	-
221	Individual transfers	40
221		**40**

9. OTHER INCOME

2015-16 £000		2016-17 £000
19	Miscellaneous income	12
4	Contribution Equivalent Premiums	5
23		**17**

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 26).

10. BENEFITS PAYABLE

By category:

2015-16 £000		2016-17 £000
16,556	Pensions	17,061
2,577	Commutation and lump sum retirement benefits	2,837
129	Lump sum death benefits	204
19,262		**20,102**

By authority:

2015-16 £000		2016-17 £000
17,474	Administering authority	18,160
1,187	Scheduled bodies	1,269
601	Admitted bodies	673
19,262		**20,102**

11. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2015-16 £000		2016-17 £000
28	Refund to members leaving service	55
-	Group transfers	31
1,496	Individual transfers	82
1,524		**168**

12. MANAGEMENT EXPENSES

2015-16 £000		2016-17 £000
326	Administrative costs	389
3,179	Investment management expenses	1,474
258	Oversight and governance costs	350
3,764		**2,213**

12A. INVESTMENT MANAGEMENT EXPENSES

2015-16 £000		2016-17 £000
881	Management Fees	1,161
2,262	Performance Related Fees	274
36	Custody Fees	39
	Transaction Costs	
3.179		**1,474**

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.

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

2015-16 £000		2016-17 £000
4,210	Income from equities	4,985
	Income from pooled investment vehicles:	
968	- Property	982
3,416	- Bonds	2,891
-	- Unit Trusts	
11	Interest on cash deposits	3
-	Other	(429)
8,605		**8,432**

14. TAXATION

2015-16 £000		2016-17 £000
413	Withholding tax - equities	36
413		**36**

15. EXTERNAL AUDIT COSTS

2015-16 £000		2016-17 £000
21	Payable in respect of external audit	21
21		**21**

16. INTEREST PAYABLE

2015-16 £000		2016-17 £000
20	Interest on short term borrowing	35
20		**35**

17. INVESTMENTS

Market value 31 March 2016 £000		Market value 31 March 2017 £000
	Investment assets	
93,993	Equities	111,854
383,781	Pooled Investment Vehicles	448,164
2,028	Cash deposits	5,949
474	Investment income due	389
-	Amounts receivable for sales	78
19	Recoverable withholding tax	14
480,295	**Total investment assets**	**566,448**
	Investment liabilities	
-	Amounts payable for purchases	(108)
-	**Total investment liabilities**	**(108)**
480,295	**Net investment assets**	**566,340**

17A. RECONCILIATION OF MOVEMENTS IN INVESTMENTS

	Market value 1 April 2016	Purchases during the year	Sales during the year	Change in market value during the year	**Market value 31 March 2017**
	£000	£000	£000	£000	**£000**
Equities	93,993	40,243	(44,036)	21,654	**111,854**
Pooled Investment Vehicles					
Global Equities	176,010	-	-	43,551	**219,561**
Property	28,587	982	(155)	890	**30,304**
Bonds	98,856	2,891	-	6,992	**108,739**
Diversified Growth Fund	70,603	1,497	-	5,920	**78,020**
Unit Trusts	9,725	-	(157)	1,972	**11,540**
	477,774	**45,613**	**(44,348)**	**80,979**	**560,018**
Cash deposits	2,028			254	**5,949**
Amounts receivable for sales of investments	-				**78**
Investment income due	474			8	**389**
Recoverable withholding tax	19				**14**
Amounts payable for purchases of investments	–			1	**(108)**
Net investment assets	**480,295**			**81,242**	**566,340**

	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**			**(6,880)**	**480,295**

17B. ANALYSIS OF INVESTMENTS

31 March 2016 £000		**31 March 2017 £000**
	Equities	
	UK	
78,269	Quoted	96,945
	Overseas	
15,724	Quoted	14,909
93,993		**111,854**
	Pooled funds – additional analysis	
	UK	
98,856	Fixed income unit trusts	108,739
256,338	Unit Trusts	309,121
355,194		**417,860**
28,587	Pooled property investments	30,304
28,587		**30,304**
2,028	Cash Deposits	5,949
474	Investment income due	389
-	Amounts receivable from sales	78
19	Withholding Tax	14
2,521		**6,430**
480,295	**Total investment assets**	**566,448**
	Investment Liabilities	
-	Amounts payable for purchases	(108)
-	**Total Investment Liabilities**	**(108)**
480,295	**Net investment assets**	**566,340**

17C. INVESTMENTS ANALYSED BY FUND MANAGER

Market value 31 March 2016			Market value 31 March 2017	
£000	%		£000	%
98,856	20.6%	Schroder Investment Management – Bonds	108,739	19.2%
28,687	6.0%	Schroder Investment Management – Property	30,404	5.4%
176,010	36.6%	Newton Investment Management – Overseas Equities	219,561	38.8%
106,120	22.1%	Majedie Asset Management – UK Equities	129,602	22.9%
70,603	14.7%	Baillie Gifford – Diversified Growth Fund	78,020	13.8%
480,276			**566,326**	
19	0.0%	Recoverable withholding tax	14	0.0%
480,295			**566,340**	

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 2016			Market value 31 March 2017	
£000	% of total fund		£000	% of total fund
176,010	37.13%	Newton International Growth X Account	219,561	39.29%
98,856	20.86%	Schroder Institutional Sterling Broad Market X Account	108,739	19.46%
70,603	14.9%	Baillie Gifford Diversified Growth Pension Fund	78,020	13.96%
28,687	6.03%	Schroder UK Property Fund	30,304	5.42%

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

Market value 31 March 2016			Market value 31 March 2017	
£000	% of asset class		£000	% of asset class
		Equities		
6,113	6.50%	Royal Dutch Shell	9,121	8.15%
6,245	6.64%	BP plc	7,687	6.87%
6,422	6.83%	HSBC	6,570	5.87%
5,317	5.66%	Vodafone Group	4,265	3.81%

Market value 31 March 2016			Market value 31 March 2017	
£000	% of asset class		£000	% of asset class
		Pooled Investment Vehicles		
		Global Equities		
176,010	100%	Newton International Growth X Account	219,561	100%
		Bonds		
98,856	100%	Schroder Institutional Sterling Broad Market X Account	108,739	100%
		Property		
28,687	100%	Schroder UK Property Fund	30,404	100%
		Diversified Growth Funds		
70,603	100%	Baillie Gifford Diversified Growth Pension Fund	78,020	100%
		Unit Trusts		
9,725	100%	Majedie Asset Management Special Situations Investment Fund	11,540	100%

18. FAIR VALUE – BASIS OF VALUATION

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best value available at the reporting date.

Description of Asset	Valuation Hierarchy	Basis of Valuation	Observable and unobservable inputs
Market quoted investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required
Exchange traded pooled investments	Level 1	Closing bid value on published exchanges	Not required
Pooled investments – overseas unit trusts and property funds	Level 2	Closing bid price where bid and offer prices are published Closing single price where single price published	NAV- based pricing set on a forward pricing basis

18A. FAIR VALUE HEIRARCHY

Asset and liability valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur.

Level 1
Assets and liabilities 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.

Level 2
Assets and liabilities 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.

Level 3
Assets and liabilities 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.

At 31 March 2017, the fund does not have any investments which should be classified as Level 3.

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into Levels 1 to 3, based on the level at which the fair value is observable:

31 March 2016				31 March 2017		
Quoted Market Price	Using Observable Inputs			Quoted Market Price	Using Observable Inputs	
Level 1	Level 2	Total		Level 1	Level 2	Total
£000	£000	£000		£000	£000	£000
451,708	28,587	480,295	Financial assets at fair value through profit and loss	536,144	30,304	566,448
-	-	-	Financial liabilities at fair value through profit and loss	-	(108)	(108)
451,708	**28,587**	**480,295**	**Net investment assets**	**536,144**	**30,196**	**566,340**

19. FINANCIAL INSTRUMENTS

19A. CLASSIFICATION OF FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE

The following table analyses the carrying amounts of financial instruments by category and the net assets statement heading. No financial instruments were reclassified during the accounting period.

31 March 2016				31 March 2017		
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			
93,993			Equities	111,854		
383,781			Pooled investment vehicles	448,164		
	2,042		Cash		5,949	
493			Other investment balances	481		
	133		Debtors		98	
478,267	**2,175**	**-**		**560,499**	**6,047**	**-**
			Financial liabilities			
			Other investment balances	(108)		
		(432)	Creditors			(907)
			Bank Balance		(20)	
		(6,505)	Borrowings			(7,045)
-	**-**	**(6,937)**		**(108)**	**(20)**	**(7,952)**
478,267	**2,175**	**(6,937)**		**560,391**	**6,027**	**(7,952)**

19B. NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

31 March 2016 £000		31 March 2017 £000
	Financial assets	
(14,585)	Designated at fair value through profit and loss	80,987
(9)	Loans and receivables	254
	Financial liabilities	
-	Fair value through profit and loss	1
-	Financial liabilities at amortised cost	-
(14,594)	**Total**	**81,242**

The pension fund has not entered into any financial guarantees that are required to be accounted for as financial instruments.

20. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Risk and risk management

The fund's primary long-term risk is that its assets will fall short of its liabilities (i.e. promised benefits payables to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the fund and to maximise the opportunity for gains across the whole fund portfolio. The fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk, and interest rate risk) and credit risk to an acceptable level. In addition, the fund manages its liquidity risk to ensure there is sufficient liquidity to meet the fund's forecast cash flows. The council manages these investment risks as part of its overall pension fund risk management programme.

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.

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 is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The fund is exposed to market risk from its investment activities, particularly through it equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the fund's risk management strategy is to identify, manage and control market risk exposure 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 portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the council and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

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 changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

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 and the selection of securities and other financial instruments is monitored by the council to ensure it is within limits specified in the fund investment strategy.

Other price risk - sensitivity analysis

Following analysis of historical data during the financial year, the council has determined that the following movements in market price risk are reasonably possible for the 2016/17 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.

Had the market price of the fund investments increase/decreased in line with the percentages below, the change in the net assets available to pay benefits in the market price would have been as follows (the prior year comparator is shown below).

	Value as at 31 March 2017	Volatility of return	Value on increase	Value on decrease
	£000	%	£000	£000
Cash & cash equivalents	5,949	0.0%	5,949	5,949
Investment portfolio assets				
Equities – UK	96,945	7.3%	104,022	89,868
Equities – overseas	14,909	9.3%	16,296	13,523
Pooled investment vehicles:				
Global equities	219,561	6.8%	234,491	204,631
Property	30,304	1.8%	30,849	29,758
Bonds	108,739	3.4%	112,436	105,042
Diversified Growth Fund	78,020	2.9%	80,283	75,758
Unit Trusts	11,540	6.3%	12,267	10,813
Amounts receivable for sales	78	0.0%	78	78
Investment income due	389	0.0%	389	389
Recoverable withholding tax	14	0.0%	14	14
Amounts payable for purchases	(108)	0.0%	(108)	(108)
Total	**566,340**		**596,966**	**535,715**

	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**

b) Interest rate risk

The fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The fund's direct exposure to interest rate movements as at 31 March 2017 and 31 March 3016 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Interest rate risk - sensitivity analysis

The council recognises that interest rates can vary and can affect both income to the fund and the carrying value of fund assets, both of which affect the value of the net assets available to pay benefits.

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 future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fund is exposed to currency risk on investments that are denominated in any 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 2017, and as at the previous period end:

	Asset value as at 31 March 2017	Asset value as at 31 March 2016
	£'000	£'000
Overseas Quoted Securities	13,890	15,412
Investment income due	246	202
	14,136	**15,614**

Currency risk – sensitivity analysis

Following analysis of historical data, the council considers the likely volatility associated with foreign exchange movements to be 8.06% (2015-16: 6.49%) (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 2017	Value on increase +8.06%	Value on decrease -8.06 %
	£'000	£'000	£'000
Overseas Quoted Securities	13,890	15,003	12,776
Investment income due	246	272	220
	14,136	**15,275**	**12,996**

	Value as at 31 March 2016	Value on increase +6.49%	Value on decrease -6.49%
	£'000	£'000	£'000
Overseas Quoted Securities	15,412	16,416	14,408
Investment income due	202	212	192
	15,614	**16,628**	**14,600**

d) Credit Risk

Credit risk represents the risk that the counterparty to a transaction or financial instrument will fail to discharge an obligation and cause the fund to incur a financial loss. This is often referred to as counterparty risk. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the find's financial assets and liabilities.

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. The residual risk is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties. 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. The council therefore takes steps to ensure that the pension fund has adequate cash resources to meet its commitments. This will particularly be the case for cash from the cash flow matching mandates from the main investment strategy to meet the pensioner payroll costs.

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 27 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 2017 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.

21. FUNDING ARRANGEMENTS
In accordance with the Local Government Pension Scheme Regulations 2013, the fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2016 and the next valuation will take place as at 31 March 2019.

Description of Funding Policy
The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), dated March 2017. 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;
- 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 that balances risk and return.
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to determine 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 aim is to have 100% solvency over a period of 20 years and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. Normally this is three years but in some cases a maximum period of 15 years can be granted. Solvency is achieved when the funds held, plus future expected investment returns and future contributions are sufficient to meet expected future pension benefits payable. When an employer's funding level is less than 10% of the 100% funding target, then a deficit recovery plan will be put in place requiring additional employer contributions.

Funding Position as at the last formal funding valuation

At the 2016 actuarial valuation, the fund was assessed as 92% funded (78% at the March 2013 valuation). This corresponded to a deficit of £44m (2013 valuation £111m) at that time. Contribution increases will be in effect from 1 April 2017 for both scheme employers and admitted bodies.

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.
Individual employers' contributions for the period 1 April 2017 to 31 March 2020 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			
		2017	2018	2019	2020
		% of pay	% of pay	% of pay	% of pay
Isle of Wight Council		23.5	23.5	23.5	23.5
Barnardos		22.0	23.5	23.5	23.5
Caterlink		23.5	23.5	23.5	23.5
Cowes Enterprise College, an Ormiston Academy	*	23.5	23.5	23.5	23.5
Cowes Harbour Commissioners		21.0	21.5	21.5	21.5
The Island Free School	*	20.7	23.5	23.5	23.5
Island Roads		23.5	21.1	21.1	21.1
Isle of Wight College (from 1 August)		25.5	23.8	23.8	23.8
Isle of Wight Studio School		20.7	19.1	19.1	19.1
Lanesend Academy	*	23.5	23.5	23.5	23.5
Northwood Academy	*	23.5	23.5	23.5	23.5
Ryde Academy	*	23.5	23.5	23.5	23.5
Sandown Bay Academy	*	23.5	23.5	23.5	23.5
Southern Vectis (Wightbus)		27.7	23.8	23.8	23.8
Southern Housing Group		25.7	28.3	28.3	28.3
Sovereign Housing Group		20.5	26.9	26.9	26.9
St Blasius Academy	*	23.5	23.5	23.5	23.5
St Catherine's School Ltd		20.3	22.6	22.6	22.6
Top Mops		21.5	21.5	21.5	21.5
Trustees of Carisbrooke Castle Museum		22.3	26.8	26.8	26.8
Ventnor Botanical Gardens		18.9	18.9	18.9	18.9
Visit Isle of Wight		23.5	20.6	20.6	20.6
Yarmouth Harbour Commissioners		21.6	24.8	24.8	24.8

In addition, certain employers make a lump sum contribution:

Employer Name	Minimum Contributions for the Year Ending 31 March			
	2017	2018	2019	2020
	Lump sum £000	Lump sum £000	Lump sum £000	Lump sum £000
St Catherine's School Ltd	44	51	51	51
IOW Society for the Blind	41	41	41	41
Yarmouth Harbour Commissioners	59	57	57	57
Cowes Harbour Commissioners	20	19	19	19
Southern Housing Group	122	170	170	170
Sovereign Housing Group	109	139	139	139

* During 2016-17, academies within the fund were asked whether they wished to pool with the administering authority for contribution rate purposes only. Seven of the academies in operation at the time of the 2016 valuation opted to pool, and the pooled rates are shown above.

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 28 March 2017.

<u>Method</u>

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.

<u>Assumptions</u>

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 2016 valuation were as follows:

Financial Assumptions	31 March 2016
	% p.a. Nominal
Discount rate	4.00%
Salary Increases	2.60%
Price inflation/Pension Increases	2.10%

(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 bespoke set of VitaCurves in line with the CMI 2013 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 are as follows:

	Males	Females
Current Pensioners	22.3 years	24.7 years
Future Pensioners *	23.9 years	26.5 years

* based on members aged 45 at the valuation date.

Copies of the 2016 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.

22. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

In addition to the triennial funding valuation, the fund's actuary also undertakes a valuation of the pension fund liabilities, on an IAS 19 basis, using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year. This valuation is not carried out on the same basis as that used for setting fund contribution rates and the fund accounts do not take account of the liabilities to pay pensions and other benefits in the future.

In order to assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 21). The actuary has also used valued ill health and death benefits in line with IAS 19.

Balance sheet

Year ended	31 March 2017 £ m	31 March 2016 £ m
Present value of Promised Retirement Benefits	(720)	(643)
Fair value of scheme assets (bid value)	559	474
Net Liability	(161)	(169)

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2016. The actuary estimates this liability at 31 March 2017 comprises £253 million in respect of employee members (2016: £290 million), £169 million in respect of deferred pensioners (2016: £111 million) and £298 million in respect of pensioners (2015: £243 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 in financial assumptions to 31 March 2017 is to increase the actuarial present value by £97m. They estimate the impact of the change in demographic and longevity assumptions is to decrease the actuarial present value by £19m.

Financial assumptions

Year ended	31 March 2017 % p.a.	31 March 2016 % p.a.
Inflation/Pension Increase Rate	2.4%	2.20%
Salary Increase Rate	2.8%	4.20%
Discount Rate	2.6%	3.50%

(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.)

Longevity assumption

The life expectancy assumption is based on the Fund's bespoke VitaCurves in line with the CMI 2013 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	22.3 years	24.7 years
Future Pensioners *	23.9 years	26.5 years

* Future pensioners are assumed to be currently aged 45 at the most recent formal valuation as at 31 March 2016

Please note that the longevity assumptions have changed since 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. Please note the commutation assumptions have changed since the previous IAS26 disclosure for the Fund.

23. LONG TERM ASSETS

31 March 2016 £000		31 March 2017 £000
	Debtors	
21	• Contributions due - employers	157
21		**157**

Analysis of debtors

31 March 2016 £000		31 March 2017 £000
21	Local authorities	140
-	Other entities and individuals	17
21		**157**

24. CURRENT ASSETS

31 March 2016 £000		31 March 2017 £000
	Debtors	
118	• Contributions due - employees	116
484	• Contributions due - employers	609
62	• Taxation	72
8	• Sundry debtors	2
125	• Payments in advance	96
14	Cash balances	-
811		**895**

Analysis of debtors

31 March 2016 £000		31 March 2017 £000
62	Central government bodies	72
13	Local authorities	77
722	Other entities and individuals	746
797		**895**

25. CURRENT LIABILITIES

31 March 2016 £000		31 March 2017 £000
	Creditors	
195	• Taxation	216
286	• Accruals	375
147	• Sundry creditors	247
-	• Cash Balances	20
628		**858**

Analysis of creditors

31 March 2016 £000		31 March 2017 £000
196	Central government bodies	216
116	Local authorities	157
316	Other entities and individuals	465
628		**838**

26. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCS)

Market value 31 March 2016 £000		Market value 31 March 2017 £000
807	Prudential Life and Pensions	782

AVC contributions of £45.5 thousand were paid directly to Prudential Life and Pensions during the year (2015-16: £46.8 thousand).

AVC amounts are not included in the pension fund accounts in accordance with Regulation 4(2)(c) of the Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended).

27. 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.

During the reporting period, the council incurred costs of £367 thousand (2015-16: £305 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 £11.0 million in 2016-17 (2015-16: £10.7 million) to the fund. All monies owing to the fund, with the exception of deferred balances in respect of pension strain costs totalling £274.5 thousand (2016: £29.7 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 2016-17 was £7.0 million (2015-16: £6.5 million). The balance due to the council at 31 March 2017 is £7.0 million (2016: £6.5 million),
Interest of £ 34.4 thousand (2015-16: £20.0 thousand) was paid on the borrowings in the year.

Year ended 31 March 2016 £000	Repayment profile of borrowings from Isle of Wight Council	Year ended 31 March 2017 £000
330	less than 1 month	95
485	2 - 3 months	-
2,540	3 - 6 months	2,450
750	6 - 9 months	1,350
2,400	9 – 12 months	3,150
6,505	**Total value of borrowings**	**7,045**

Governance
There are three members of the pension fund committee who are in receipt of pension benefits from the Isle of Wight Council Pension Fund (Cllrs Barry, 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 30 form the Pension Fund Committee as trustees.

27A. KEY MANAGEMENT PERSONNEL

The key management personnel of the fund are the Finance Director and S151 Officer and the Technical Finance Manager.

Total remuneration payable to key management personnel is set out below:

Year ended 31 March 2016 £'000		Year ended 31 March 2017 £'000
32	Short-term benefits	33
6	Post-employment benefits	6
-	Other long-term benefits	-
-	Termination benefits	-
-	Share-based payments	-
38		**39**

28. CONTINGENT ASSETS AND LIABILITIES

At 31 March 2017 there were contingencies relating to Contribution Equivalent Premiums (CEPs) amounting to a net sum of £131 thousand (2016: £137 thousand) due to the Pension Fund. Assets amounted to £186 thousand and liabilities totalled £55 thousand (2016: £186 thousand and £49 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.

29. CAPITAL COMMITMENTS

There were no capital commitments as at 31 March 2017 (2016: nil)

30. TRUSTEES REPORT 2016-17

The trustees of the pension fund are the members for the time being of the Pension Fund Committee, who at 31 March 2017 were Councillors Barry, Eccles, Hutchinson, Kendall, and Warlow (chair).

Throughout the year the committee has been advised by the Director of Finance and Section 151 Officer, 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 2017 were £559.5 million, an increase of 18.0% on the 31 March 2016 valuation of £474.0 million. The fund's total investments over-performed compared to the agreed benchmarks by 0.4% during the year.

The overall performance of the fund in the year to 31 March 2016 is reflective of the performance of UK and global investment markets.

Over the longer term, the fund has continued to outperform annualised benchmark returns for three years (0.2% outperformance).

<u>Funding Level</u>

The Fund's last triennial actuarial valuation was undertaken at 31 March 2016, showing a funding level of 91.5%, compared to 77.7% at the previous valuation at 31 March 2013. The results of this latest valuation, in terms of revised contribution rates, were implemented with effect from April 2017.

The actuary's interim funding projection report at 31 March 2017 showed that the notional funding level had remained at 91.5%, the same as the last triennial valuation at 31 March 2016. However the deficit of £44 million at 31 March 2016 has increased to a deficit of £52 million at 31 March 2017.

<u>Governance</u>

The committee continues to keep its governance arrangements under review. Following the formation of the Local Pension Board, as required under the Public Service Pensions Act 2013, the arrangements are developing with a view to continuous improvement.

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 actuaries on improving the governance framework, and from officers on the pooling of pension investments.

The committee received reports on, and agreed, the valuation results, the funding strategy statement, the investment strategy statement, and 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 consultants, 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.

Business rates (non-domestic 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).