Isle of Wight Council

Statement of Accounts

2021-22

CONTENTS

Narrative report

In accordance with the Accounts and Audit Regulations 2015 the council is required to prepare a narrative report in respect of each financial year. The narrative report must include comment by the council on its financial performance and economy, efficiency and effectiveness in its use of resources over the financial year.

The narrative report has been produced as a separate document and can be downloaded from the following web link: https://www.iwight.com/Council/OtherServices/Financial-Management/Accounts1

Annual Governance Statement

In order to evaluate good governance in practice, there is also a statutory requirement under the Accounts and Audit Regulations 2015 for every local council to prepare and publish an annual governance statement. This provides members of the public with an open assessment of how effective the council's governance arrangements are considered to be against a code of corporate governance entitled "Delivering Good Governance in Local Government (2016)". This document is published by CIPFA/SOLACE as recognised national lead bodies for public services. The code takes into account the characteristics of good governance set out above and translates them into specific core activities.

The annual governance statement has also been produced as a separate document and can be downloaded from the following web link: https://www.iwight.com/Council/OtherServices/Financial-Management/Accounts1

THE STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The council's responsibilities

The council 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 council, 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 council'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 2022 gives a true and fair view of the financial position of the Isle of Wight Council at the 31 March 2022 and its income and expenditure for the year then ended.

Chris Ward
Director of Finance and Section 151 officer　　　　Date: 20 March 2022

Approval of Accounts

In accordance with the Accounts and Audit Regulations 2015, I certify that the Statement of Accounts was approved by the Audit committee on (TBC)

Chair of Audit Committee　　　　Dated: 20 March 2022

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.

2020-21 (Restated - see Note 52)				**2021-22**		
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	**Portfolio reporting structure (Continuing services)**	**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**
47,481	1,665	49,146	Adult Social Care & Public Health	**52,995**	**3,962**	**56,957**
25,797	6,705	32,502	Children's Services, Education & Lifelong Skills	**31,489**	**15,378**	**46,867**
10,434	1,900	12,334	Community Protection, Digital Transformation, Housing Provision & Housing Needs	**8,145**	**2,690**	**10,835**
6,565	2,284	8,849	Environment, Heritage & Waste Management	**6,683**	**2,831**	**9,514**
14,420	9,796	24,216	Highways PFI, Transport & Infrastructure	**13,184**	**10,366**	**23,550**
814	92	906	Leader & Strategic Partnerships	**838**	**181**	**1,019**
543	325	868	Planning & Community Engagement	**(174)**	**535**	**361**
(3,007)	1,124	(1,883)	Regeneration, Business Development & Tourism	**2,013**	**1,154**	**3,167**
10,535	244	10,779	Strategic Finance, Corporate Resources & Transformational Change	**12,347**	**1,675**	**14,022**
113,582	24,135	137,717	**Net cost of continuing services**	**127,520**	**38,772**	**166,292**
6,239	(504)	5,735	Fire & Rescue transferred to Hampshire & Isle of Wight Fire & Rescue Authority	**-**	**-**	**-**
(165,486)	7,762	(157,724)	Other Income and Expenditure	**(135,230)**	**(110,695)**	**(245,925)**
(45,665)	31,393	(14,272)	**(Surplus)/deficit on provision of services**	**(7,710)**	**(71,923)**	**(79,633)**
69,220			Opening General Fund balance	**117,372**		
2,488			Add back DSG reserve deficit (see note 10)	**-**		
45,664			Less/add Surplus or (deficit) on General Fund balance in year	**7,710**		
117,372			**Closing General Fund Balance at 31 March**	**125,082**		

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.

2020-21 (restated - see Note 52)				**2021-22**		
Gross Expenditure (see note 8)	Gross Income (see note 8)	Net expenditure	**Portfolio reporting structure (Continuing operations)**	**Gross Expenditure (see note 8)**	**Gross Income (see note 8)**	**Net Expenditure**
£000	£000	£000		**£000**	**£000**	**£000**
91,815	(42,669)	49,146	Adult Social Care & Public Health	**99,429**	**(42,472)**	**56,957**
130,488	(97,986)	32,502	Children's Services, Education & Lifelong Skills	**147,506**	**(100,639)**	**46,867**
27,022	(14,688)	12,334	Community Protection, Digital Transformation, Housing Provision & Housing Needs	**18,818**	**(7,983)**	**10,835**
11,224	(2,375)	8,849	Environment, Heritage & Waste Management	**12,678**	**(3,164)**	**9,514**
29,487	(5,271)	24,216	Highways PFI, Transport & Infrastructure	**31,594**	**(8,044)**	**23,550**
1,056	(150)	906	Leader & Strategic Partnerships	**1,064**	**(45)**	**1,019**
2,957	(2,089)	868	Planning & Community Engagement	**3,427**	**(3,066)**	**361**
5,586	(7,470)	(1,884)	Regeneration, Business Development & Tourism	**6,761**	**(3,594)**	**3,167**
46,141	(35,361)	10,780	Strategic Finance, Corporate Resources & Transformational Change	**53,431**	**(39,409)**	**14,022**
345,776	(208,059)	137,717	**Net cost of continuing services**	**374,708**	**(208,416)**	**166,292**
6,378	(642)	5,736	Fire & Rescue transferred to Hampshire & Isle of Wight Fire & Rescue Authority	**-**	**-**	**-**
9,445	(443)	9,002	Other operating expenditure (note 11)	**(74,762)**	**0**	**(74,762)**
33,666	(15,388)	18,278	Financing & investment income & expenditure (note 12)	**33,875**	**(19,620)**	**14,255**
0	(185,005)	(185,005)	Taxation & non-specific grant income (note 13)	**0**	**(185,418)**	**(185,418)**
395,265	(409,537)	(14,272)	**Deficit/(surplus) on provision of services**	**333,821**	**(413,454)**	**(79,633)**
		(23,838)	Surplus on revaluation of non-current assets (note 28)			**(19,291)**
		3,014	Downward revaluation of assets and impairment losses on non-current assets charged to the revaluation reserve (note 28)			**14,455**
		103,315	Actuarial (gains)/losses on pension assets/liabilities (note 28)			**(85,222)**
		82,491	**Other comprehensive income & expenditure**			**(90,058)**
		68,219	**Total comprehensive income & expenditure**			**(169,691)**

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 council reserves £000
Balance at 31 March 2020 brought forward	69,220	2,273	12,191	83,684	(115,426)	(31,742)
Reporting of Schools Budget Deficit to new Adjustment Account at 1 April 2020	2,488	0	0	2,488	(2,488)	0
Restated balance at 1 April 2020	71,708	2,273	12,191	86,172	(117,914)	(31,742)
Movement in reserves during 2020-21:						
Total Comprehensive Income & Expenditure	14,272	0	0	14,272	(82,491)	(68,219)
Adjustments between accounting basis & funding basis under regulations (Notes 7A & 9)	31,392	1,051	(4,595)	27,848	(27,848)	0
Increase/decrease in 2020-21	45,664	1,051	(4,595)	42,120	(110,339)	(68,219)
Balance at 31 March 2021 carried forward	117,372	3,324	7,596	128,292	(228,253)	(99,961)

General Fund analysed between:	**Balance brought forward at 31 March 2020**	**Restated to unusable reserve at 1 April 2020**	**Balance after restatement at 1 April 2020**	**Movement in 2020-21 year**	**Balance carried forward at 31 March 2021**
	£000	**£000**	**£000**	**£000**	**£000**
Earmarked Reserves (see note 10)	59,479	-	59,479	44,247	103,726
Dedicated Schools Grant (DSG) reserve deficit (see note 10)	(2,488)	2,488	0	-	-
Reserve for general purposes (see note 27)	12,229	-	12,229	1,417	13,646
Total	69,220	2,488	71,708	45,664	117,372

	General fund balance £000	Capital receipts reserve £000	Capital grants unapplied £000	Total usable reserves £000	Unusable reserves £000	Total council reserves £000
Balance at 1 April 2021 brought forward	**117,372**	**3,324**	**7,596**	**128,292**	**(228,253)**	**(99,961)**
Movement in reserves during 2021-22:	**0**	0	0	0	0	0
Total Comprehensive Income & Expenditure	**79,632**	**0**	**0**	**79,632**	**90,058**	**169,690**
Adjustments between accounting basis & funding basis under regulations (Notes 7A & 9)	**(71,922)**	**(1,387)**	**(1,813)**	**(75,122)**	**75,122**	**0**
Increase/decrease in 2021-22	**7,710**	**(1,387)**	**(1,813)**	**4,510**	**165,180**	**169,690**
Balance at 31 March 2022 carried forward	**125,082**	**1,937**	**5,783**	**132,802**	**(63,073)**	**69,729**

General Fund analysed between:	Balance brought forward at 1 April 2021	Movement in 2021-22 year	Balance carried forward at 31 March 2022
	£000	£000	£000
Earmarked Reserves (see note 10)	103,726	9,298	113,024
Reserve for general purposes (see note 27)	13,646	(1,589)	12,057
Total	117,372	7,709	125,084

BALANCE SHEET

The balance sheet shows the value as at the balance sheet date of the assets and liabilities held by the council. The net assets of the council (assets less liabilities) are matched by the reserves held by the council. Reserves are reported in two categories. The first category of reserves are usable reserves, ie those reserves that the council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example, the capital receipts reserve may only be used to fund capital expenditure or repay debt). The second category of reserves 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 2021			**31 March 2022**
£000		**Note**	**£000**
521,728	Property, plant & equipment	**14**	**511,180**
1,297	Heritage assets	**15**	**1,297**
35,050	Investment property	**16**	**41,350**
293	Intangible assets	**17**	**339**
1,104	Long term debtors	**21**	**2,532**
559,472	**Long term assets**		**556,698**
43,535	Short-term investments	**18**	**40,526**
793	Assets held for sale	**24**	**5,826**
67	Inventories	**20**	**64**
41,062	Short term debtors	**21**	**30,355**
38,849	Cash and cash equivalents	**23**	**21,468**
124,306	**Current assets**		**98,239**
(63,166)	Short term borrowing	**18**	**(33,767)**
(63,841)	Short term creditors	**25**	**(64,817)**
(5,092)	Short term provisions	**26**	**(4,643)**
(132,099)	**Current liabilities**		**(103,227)**
(97,360)	Long term creditors	**18**	**(92,584)**
(1,347)	Long term provisions	**26**	**(1,354)**
(180,827)	Long term borrowing	**18**	**(168,189)**
(360,212)	Other long term liabilities	**28**	**(203,372)**
(394)	Donated assets account	**15**	**(394)**
(11,500)	Capital grants receipts in advance	**40**	**(16,092)**
(651,640)	**Long term liabilities**		**(481,985)**
(99,961)	**Net liabilities**		**69,725**
128,291	Usable reserves	**27**	**132,801**
(228,252)	Unusable reserves	**28**	**(63,076)**
(99,961)	**Total reserves**		**69,725**

Signed: **Chris Ward**

Date: **20 March 2022**

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.

2020-21		**2021-22**
£000		**£000**
14,272	Net surplus/(deficit) on the provision of services	**79,632**
61,629	Adjustments to net surplus or deficit on the provision of services for non-cash movements (note 30)	**(41,187)**
(18,009)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (note 30)	**(18,238)**
57,892	Net cash flows from operating activities	**20,207**
(6,084)	Investing activities (note 31)	**666**
(47,332)	Financing activities (note 32)	**(38,254)**
4,476	Net increase or decrease in cash & cash equivalents	**(17,381)**
34,373	Cash & cash equivalents at the beginning of the reporting period	**38,849**
38,849	**Cash & cash equivalents at the end of the reporting period (note 23)**	**21,468**

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 2021-22 financial year and its position at the year-end of 31 March 2022. 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 2021-22, 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.

The accounts have been reviewed so that only statutory disclosures are included.

The accounts have been prepared on a going concern basis, under the assumption that the council will continue in existence for the foreseeable future.

Unless otherwise stated, the convention used in this document is to round amounts to the nearest thousand pounds. Credit balances are shown with parentheses.

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 contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- 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 an integral 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 Local Government Act 2003 requires the Council to have regard to the Ministry of Housing, Communities and Local Government Guidance on Minimum Revenue Provision (the CLG Guidance) most recently issued in 2018.

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

- The broad aim of the CLG Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.
- The CLG Guidance requires the Council to approve an Annual MRP Statement each year and recommends a number of options for calculating a prudent amount of MRP. The statement incorporates options recommended in the Guidance as well as locally determined prudent methods.
- The council has adopted the annuity method for capital expenditure. This method will ensure the repayment of the debt better reflects the consumption of these assets financed. MRP will be determined by charging the expenditure over the expected useful life of the relevant asset. This being equal to the principal repayment on an annuity with an annual interest rate equal to the relevant PWLB rate for the year of expenditure, starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 40 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years.
- For finance leases and the Highways PFI contract, the MRP charge will be equal to the repayment of the liability in year.
- For investment properties with a holding period of less than 50 years; MRP will not be provided for investment properties. Upon sale of these assets the capital receipt will be set aside to repay the borrowing that has financed these assets. Where the fair value of the property falls below acquisition cost, MRP will be provided on an annuity method over the remainder of the life of asset.
- For investment properties with a holding period of greater than 50 years; MRP will be provided on an annuity method over the life of asset.
- For capital expenditure loans to third parties the income received has an interest and principal element. No MRP will be charged on these loans unless the loan is deemed to be impaired in line with IFRS 9.

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.

Where debtor balances for the above are identified as impaired because of a likelihood arising from a past event that payments due under the statutory arrangements will not be made (fixed or determinable amounts), the asset is written down and a charge made to the collection fund. The impairment loss is measured as the difference between the carrying amount and the revised future cash flows.

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 three 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 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, education and skills service line in the comprehensive income and expenditure statement is charged with the employer's contributions payable to Teachers' Pensions in the year. The adult social care and 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 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 as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the surplus or deficit on the provision of services in the resources line of the comprehensive income and expenditure statement;
  - net interest on the defined benefit liability (asset), i.e. net interest expense for the council – 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.

1.8 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.

1.9.2 Financial assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics. There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI)

The council's business model is to hold investments to collect contractual cash flow. Financial assets are therefore classified as amortised cost.

1.9.3 Financial assets measured at amortised cost

Financial assets measured at amortised cost 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. 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 (CIES) 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 financial assets held by the council, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

1.9.4 Expected credit loss model

The council recognises expected credit losses on all of its financial assets held at amortised cost either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the council.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

The council has one significant loan to a renewable energy business operating locally. Lifetime expected losses are assessed based on a credit scoring matrix taking financial statements, market conditions and other relevant factors into consideration. The impairment allowance is reviewed at each year-end to take account of any changes in relevant factors.

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 council's heritage service holds historic items in perpetuity for their contribution to knowledge and culture, facilitating enjoyment and education. Many items have been donated to the service to ensure their long term care and preservation. Others have been obtained using grant sources and have conditions governing their acquisition, care, and display.

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. This is due to the number and uniqueness of items retained and the associated costs and time required to undertake valuations. Where it is not practical, the measurement rules are relaxed for heritage assets detailed below. The council's collection of heritage assets is accounted for as follows:

Social History Collection
The social history collection currently contains 11,500 items (or groups of items) recorded on a museum catalogue system called Modes. The council considers that obtaining valuations for this collection would involve a disproportionate cost in comparison to the benefits to the users of the council's financial statements. Many of the items within the collection are unique or irreplaceable resulting in a lack of comparable markets: consequentially the council does not recognise the assets on the balance sheet.

Within the Social History Collection there is a collection of civic regalia (Local Government Collection) that was valued by Christies in 1993 and is deemed to be on a historic cost basis. 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. The use of historic cost does provide a limitation when determining the current value of these assets.

The Social History Collection also contains 400 artworks, paintings, prints and watercolours (Art Collection), The Art Collection includes 112 watercolour sketches by Thomas Rowlandson and his circle, purchased from the Longleat Estate with grant funding in 2002. These artworks were re-valued in 2019 by Christies. 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. Acquisitions 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 professional valuers.

Archaeology Collection
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 90 items and has been valued by British Museum Treasure Committee and is deemed to be on a historic cost basis. The remaining 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 professional valuers.

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.

Geology
The geology 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 obtaining valuations for the collection exhibited within the Dinosaur Isle museum and stored at the museum store would involve a disproportionate cost in comparison to the benefits to the users of the council's financial statements. 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 held within the Isle of Wight Records Office and associated out stores. The council does have local council 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. The collection also includes a collection of local books. The Record Office 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.

Heritage assets - general
The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, (e.g. 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 separately 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 Service maintains acquisition and disposal policies and procedures for museum collections.

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 council 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 council 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 council 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 fair 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 fair value. The difference between fair value and any consideration paid is credited to the taxation and non-specific grant income line of the comprehensive income and expenditure statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the donated assets account. Where gains are credited to the comprehensive income and expenditure statement, they are reversed out of the general fund balance to the capital adjustment account in the movement in reserves statement.

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

- infrastructure, community assets and assets under construction – depreciated historical cost
- vehicles, plant and equipment - depreciated historical cost.
- 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 as follows:

- 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 remaining 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 of non-financial assets

The council's accounting policy for fair value measurement of financial assets is set out in note 1.9.2. The council also measures some of its non-financial assets such as surplus assets and investment properties at fair value at each reporting date. Fair value is the price that would be received to sell an asset 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 council-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 services, education and skills 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 Re-classifiable transactions under IAS 1 (Presentation of Financial Statements)

The council does not have any transactions in 2021-22 that are re-classifiable 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 re-classifiable in the surplus or deficit on the provision of services.

1.29 Going Concern

These accounts have been prepared on a going concern basis assuming that that the Authority will continue in operational existence for 12 months from the date the accounts are approved.

The provisions in the CIPFA/LASAAC Code of Practice of Local Authority Accounting 2021-22 and the Financial Reporting Council's Practice Note 10 in respect of going concern reporting requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting. Local authorities carry out functions essential to the local community and are themselves revenue-raising bodies (with limits on their revenue-raising powers arising only at the discretion of central government). If an authority were in financial difficulty, the prospects are thus that alternative arrangements might be made by central government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year and indeed, correspondence from MHCLG during Covid-19 is supportive of this approach. As a result of this, it would not therefore be appropriate for local authority financial statements to be provided on anything other than a going concern basis. Accounts drawn up under the Code therefore assume that a local authority's services will continue to operate for the foreseeable future.

The Council set its budget for 2023-24 at its Full Council meeting on 22 February 2023 which provided for the full financial impact of the extra-ordinary inflation and associated demand related cost pressures experienced over the past year and extending into 2023-24 and the ongoing impact of the Covid Pandemic in the current year and its expected ongoing legacy over the next 3 years.

The Council has identified £3.9 million of savings in order to meet the original £2 million planned savings requirement as per the council resolution of 23 February 2022, the extra-ordinary budget pressures that have not been met through additional government funding or council tax and that the Council has been unable to mitigate of £1.6 million and the financial impact of increase to the Council's Local Council Tax Support scheme at a cost of £0.3 million.

The Council agreed a council tax increase of 4.99% (2% of which is raised specifically to be passported to Adult Social Care). The Council also agreed to provide additional funding of £7.6 million for Adult Social Care and £4.3 million to Childrens Services to ensure that the financial position of these services remains robust both in the short and medium term.

Despite the extra-ordinary costs associated with inflation and demand arising from the "Cost of Living Crisis" the Council has provided for a Medium Term Financial Strategy delivering a "Structural Budget balance" for 2023-24 without a need to draw on General Reserves. It also importantly returns to the original level of planned savings of £2 million per annum for the next three-year period from 2024-25 to 2026-27.

As described in the Going Concern Assessment last year a Covid Contingency was established to provide for additional costs and loss of income for the duration of the Covid -19 pandemic and the expected legacy impact in the medium term. The Contingency stands at £11.7 million in 2022-23 and is expected to fund pressures in relation to the legacy impact of Covid on Adult Social Care (£2.1 million) and the continuing loss of income relating to leisure (£0.9 million) and car parking (£0.2 million) making a total planned withdrawal of some £3.2 million. A further budgeted contribution of £0.5 million for 2023-24 from the previous budget strategy will result in an estimated balance at 1 April 2023 of £8.9 million. It is estimated that the Covid contingency will continue to be required to support legacy covid costs that are likely to reduce over time (i.e., are not "structural") such as Adult Social Care, for the next three financial years and leisure income for 2023-24 until a leisure review concludes the future direction for this service. This will result in an estimated balance of the contingency at year end 2023-24 of £4.2 million to fund a further two years of the estimated legacy impact on Adult Social Care at which point it is estimated that this pressure will have unwound from the system.

The minimum level of general reserves has been increased from £7 million to £8 million. Reserves in 2023-24 are estimated to be maintained at £11.9 million and gently rising to £12.3 million by 2026-27, therefore providing headroom of £3.9 - £4.3 million over this period.

The Council has also increased its revenue annual corporate contingency from £3.5 million to £4 million to provide for further increased resilience.

A Transformation Reserve with a current uncommitted balance of £3.2 million also remains in place as the Council's primary vehicle for funding Spend to Save and Spend to avoid Cost Initiatives and Feasibility Studies.

The Council has also undertaken cashflow forecasting for the foreseeable future period. Our projections for the revenue budget show that the Council has sufficient liquidity over the period to the end of March 2024, with positive cash balances throughout

The Council does have a significant capital programme for the same period and through to the end of March 2024 and there was always an intent to borrow, from the PWLB, as one of a source of funds for this programme. When taken into the cashflow forecast this situation does not change and PWLB borrowing will be required. With the impact of Covid-19 in mind we continue to focus on reviewing the timing and extent of the capital programme but are of the view that PWLB loans will be available.

Considering all of the above the Council considers it appropriate to prepare the financial statements on a going concern basis.

See Full Council Budget Report (Item 6) at the following link:
https://iow.moderngov.co.uk/ieListDocuments.aspx?CId=172&MId=1438&Ver=4

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 2022-23 (the Code) has introduced changes in accounting policies which will need to be adopted by the council in the 2022-23 financial statements. The Code requires implementation from 1 April 2022 and there is therefore no impact on the 2021-22 statement of accounts.

The Code also requires that changes in accounting policy are to be applied retrospectively unless transitional arrangements are specified, this would result in an impact on disclosures spanning two financial years.

Accounting changes that are introduced by the 2022-23 code are:

- IFRS 16 Leases (but only for those local authorities that have decided to adopt IFRS 16 in the 2022-23 year).
- Annual Improvements to IFRS Standards 2018–2020. The annual IFRS improvement programme notes 4 changed standards:

- IFRS 1 (First-time adoption) – amendment relates to foreign operations of acquired subsidiaries transitioning to IFRS
- IAS 37 (Onerous contracts) – clarifies the intention of the standard
- IFRS 16 (Leases) – amendment removes a misleading example that is not referenced in the Code material
- IAS 41 (Agriculture) – one of a small number of IFRSs that are only expected to apply to local authorities in limited circumstances.

These changes are not expected to have a material impact on the Council's statements

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**.

The financial year 2022-23 was the originally intended date for the Local Government Funding Reform to coincide with the Comprehensive Spending review, however, this has been delayed once again and will now not take place until at least 2025/26. Funding reform covers the following:

- The "Fair Funding Review", (to determine a new formula methodology which will set each Local Authority's baseline funding level and creating "winners and losers")
- The Retained Business Rates system which involves the removal of all existing growth to date (amounting to £10 million) and re-distributing that growth nationally according to relative need (rather than where it was generated)

Government have confirmed that the additional £1m allocated in 2022-23 in respect of the costs of the physical separation from the mainland will continue into 2023-24 and Government have committed to further engagement over 2023-24 to inform the Local Government Finance Settlement for 2024-25.

The council's future forecast has been estimated in the context of the uncertainty of the funding reforms outlined above and for the 3 year period 2024-25 to 2026-27 it is estimated that the budget deficit will be £6 million. This requires the Council to make incremental budge savings of £2.0 million per annum for each of those years. The forecast deficit is predicated on an assumed Council Tax increase of 5% for 2023-24 and 2024-25, representing 3% for general purposes and 2% for Adult Social Care, with increases reducing to 3% per annum in total thereafter.

There are a large number of other significant variables such as elevated levels of inflation and other unavoidable cost pressures that may arise, particularly in care services and the level of successful business rate appeals arising from the revaluation in 2023-24 and taking these risks together the forecast deficit has the potential to vary by between +/£5 million which when spread over 3 years would vary the annual savings requirements by +/-£1.67 million per annum

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.

- **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 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.

- **Investment properties**

Investment properties have been assessed using the identifiable criteria under the international accounting standards and are being held for rental income or for capital appreciation. Properties have been assessed using these criteria, which is subject to interpretation to determine if there is an operational reason for holding the property such as regeneration.

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	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 £0.175 million for every year that useful lives had to be reduced.

Item	Uncertainties	Effect if actual results differ from assumptions
	assets. The carrying value of property, plant and equipment at 31 March 2022 is £511.180 million.	
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 2022 is a deficit of £203.372 million.	The impact on the net pensions liability of changes in individual assumptions can be measured in approximate terms. For example, a 1% decrease in the real discount rate would result in an increase of 2% to the employer liability for which the approximate monetary value would be £15.604 million. A one year increase in member life expectancy would result in an increase 4% 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 1% increase in the salary increase rate would result in an increase of 0% to the employer liability for which the approximate monetary value would be £1.207 million. A 1% increase in the pension increase rate would result in an increase of 2% to the employer liability for which the approximate monetary value would be £14.280 million.
Allowance for impairment of short-term debtors	The council has made impairment allowances of £12.011 million for the non-collection of outstanding debts at 31 March 2022. This includes an allowance of £7.500 million for council tax and business rate arrears representing the council's share of the allowance. The allowance for all other 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. In the current economic climate it is not certain whether these allowances will be sufficient. If collection rates were to deteriorate then an increase in the amount of the impairment allowance would be required.	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 2.5% increase in the percentage applied would require an adjustment to the allowance of £0.113 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 2022 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	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 75% of claim amounts will be paid out and so the 25% 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

Item	Uncertainties	Effect if actual results differ from assumptions
	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 provision.
Accumulated absences account	An accrual in respect of non-schools staff annual leave entitlement carried forward at 31 March 2022 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 2022 is £3.219 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 refunding ratepayers who will successfully appeal against the rateable value of their properties on the rating list. This will include amounts relating to business rates prior to 1 April 2013. A list of outstanding appeals on the 2010 valuation list has been provided by the valuation office (VAO) and the services of rating 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. For the 2017 valuation list, the services of the rating experts have also been engaged to assess the potential liability that takes account of appeals lodged, settled and also of appeals yet to be submitted. The total amount recognised as a provision in the council's balance sheet (£3.99 million) is therefore the council's share (50%) of the estimate at the balance sheet date of the expenditure required to settle the potential obligation from appeals up to 31 March 2022 on both the 2010 and 2017 valuation lists.	The collection fund statement shows how the appeals provision impacts on the business rate deficit at 31 March 2022. The council's share of all business rate balances for 2021-22 is 50%. 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 2022. 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 1.58% for year 9 of the contract (2021-22) and estimated as being 2.5% per year for the	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 £0.224 million to the total cost of the scheme over the remaining life of the contract.

Item	Uncertainties	Effect if actual results differ from assumptions
	remainder of the contract.	
Investment Property	The Council's valuers use valuation techniques to determine the fair value of investment property. This involves developing estimates and assumptions consistent with how market participants would price the property. The valuers base their assumptions on observable data as far as possible, but this is not always available. In that case, the valuers use the best information available and their own judgement.	Estimated fair values may differ from the actual prices that could be achieved in an arm's length transaction at the reporting date. If the value of the Council's investment properties were to reduce by 10% this would lead to a reduction in value of £37.215 million.

Land, buildings material valuation uncertainty

The outbreak of COVID-19 declared by the World Health Organisation as a "Global Pandemic" on 11 March 2020, has and continues to impact many aspects of daily like and the global economy - with some real estate markets having experienced lower levels of transactional activity and liquidity.

The valuer has stated that the pandemic and the measures taken to tackle COVID-19 continue to affect economies and real estate markets. Nevertheless, as at the valuation date property markets are mostly functioning again, with transaction volumes and other relevant evidence at levels where an adequate quantum of market evidence exists upon which to base opinions of value. Accordingly, the valuations are therefore no longer subject to "material valuation uncertainty" as defined by VPS 3 and VPGA 10 of the RICS Valuation - Global Standards effective from 31 January 2020.

This note is being included to ensure transparency around the market context in which the valuation opinion was prepared.

Investment Property Market Conditions: Novel Coronavirus (COVID-19)

The pandemic and the measures taken to tackle COVID-19 continue to affect economies and real estate markets globally. Nevertheless, as at the valuation date some property markets have started to function again, with transaction volumes and other relevant evidence at levels where an adequate quantum of market evidence exists upon which to base opinions of value. Accordingly, and for the avoidance of doubt, the valuation is not reported as being subject to 'material valuation uncertainty' as defined by VPS 3 and VPGA 10 of the RICS Valuation – Global Standards.

5. <u>Material items of income and expense</u>

5.1. Disposal or derecognition losses

During 2021-22, the council has recognised a net loss of £13.179 million in relation to the disposal or derecognition of property, plant and equipment. This has been charged to the other operating expenditure line in the comprehensive income and expenditure statement and then reversed through the movement in reserves statement. There is therefore no impact on the amount to be raised through the council tax. The carrying value of property, plant and equipment in the balance sheet has been reduced by £13.179 million as a result of disposals or derecognition. The principal loss (£12.875 million) relates to the transfer of assets to Hampshire and Isle of Wight Fire Service.

5.2 Pension assets/liabilities

The actuarial valuation of the Council's pension scheme liabilities shown on the Balance Sheet has reduced from £360.212 million at 31 March 2021 to £203.412 million at 31 March 2022.

This is principally due to the transfer of the Firefighters' pension scheme to Hampshire and Isle of Wight Fire Service (£93.126 million).

The individual factors which contribute to this increase in liability 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 28 and note 48 defined benefit pensions schemes give further details of the impact on the council's finances.

5.3 Isle of Wight Fire & Rescue Service

With effect from 1st April 2021, the Isle of Wight Council Fire and Rescue Service was combined with the Hampshire Fire and Rescue Service to form the new Hampshire and Isle of Wight Fire Service. All income, expenditure, assets and liabilities from 1st April 2021 relating to the former Isle of Wight Fire and Rescue Service will be included within the new combined service's financial statements. Property, Plant and Equipment with a net book value of £12.875 million will be transferred to the new combined service on 1st April 2021. This reduction in asset values will be offset by corresponding entries in the Revaluation Reserve and Capital Adjustment Account in the balance sheet.

6. Events after the reporting period

The statement of accounts was authorised for issue by the Director of Finance and Section 151 officer on 29 July 2022. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2022, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

There are no non-adjusting events after the Balance Sheet date.

7A. Note to the Expenditure and Funding Analysis

Adjustments between Funding and Accounting Basis 2020-21 (restated – see note 52)

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts (Continuing services)	Adjustments for Capital Purposes (Note 7A.1) £000s	Net change for Pension Adjustments (Note 7A.2) £000s	Other Differences (Note 7A.3) £000s	Total Adjustments £000s
Adult Social Care & Public Health	320	1,260	85	1,665
Children's Services, Education & Lifelong Skills	3,965	2,916	(176)	6,705
Community Protection, Digital Transformation, Housing Provision & Housing Needs	1,364	504	32	1,900
Environment, Heritage & Waste Management	2,050	218	16	2,284
Highways PFI, Transport & Infrastructure	9,609	175	12	9,796
Leader & Strategic Partnerships	2	84	6	92
Planning & Community Engagement	190	126	9	325
Regeneration, Business Development & Tourism	887	223	14	1,124
Strategic Finance, Corporate Resources & Transformational Change	689	(500)	55	244
Net Cost of Continuing Services	19,076	5,006	53	24,135

Fire & Rescue transferring to Hampshire & Isle of Wight Fire & Rescue Authority	661	(1,165)	0	(504)
Other income and expenditure from the Expenditure and Funding Analysis	(14,107)	5,333	16,535	7,761
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	5,630	9,174	16,588	31,392

Adjustments between Funding and Accounting Basis 2021-22

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes (Note 7A.1) £000s	Net change for Pension Adjustments (Note 7A.2) £000s	Other Differences (Note 7A.3) £000s	Total Adjustments £000s
Adult Social Care & Public Health	**304**	**3,668**	**(10)**	**3,962**
Children's Services, Education & Lifelong Skills	**7,505**	**7,642**	**231**	**15,378**
Community Protection, Digital Transformation, Housing Provision & Housing Needs	**1,331**	**1,363**	**(4)**	**2,690**
Environment, Heritage & Waste Management	**2,207**	**625**	**(1)**	**2,831**
Highways PFI, Transport & Infrastructure	**9,831**	**536**	**(1)**	**10,366**
Leader & Strategic Partnerships	**2**	**180**	**(1)**	**181**
Planning & Community Engagement	**190**	**346**	**(1)**	**535**
Regeneration, Business Development & Tourism	**536**	**620**	**(2)**	**1,154**
Strategic Finance, Corporate Resources & Transformational Change	**608**	**1,072**	**(5)**	**1,675**
Net Cost of Services	**22,514**	**16,052**	**206**	**38,772**
Other income and expenditure from the Expenditure and Funding Analysis	**(16,807)**	**(87,629)**	**(6,259)**	**(110,695)**
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	**5,707**	**(71,577)**	**(6,053)**	**(71,923)**

Note 7A.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 7A.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 council 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 7A.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:

Portfolio reporting structure (Continuing services)	2020-21 (Restated – see note 52) Income from Services £000s	**2021-22 Income from Services £000s**
Adult Social Care & Public Health	(19,317)	**(21,692)**
Children's Services, Education & Lifelong Skills	(3,694)	**(5,188)**
Community Protection, Digital Transformation, Housing Provision & Housing Needs	(3,697)	**(4,046)**
Environment, Heritage & Waste Management	(2,365)	**(3,139)**
Highways PFI, Transport & Infrastructure	(5,261)	**(7,773)**
Leader & Strategic Partnerships	(17)	**(1)**
Planning & Community Engagement	(1,487)	**(2,375)**
Regeneration, Business Development & Tourism	(7,390)	**(3,249)**
Strategic Finance, Corporate Resources & Transformational Change	(4,639)	**(3,448)**
Total income from continuing services	(47,867)	**(50,911)**
Fire & Rescue transferred to Hampshire & Isle of Wight Fire & Rescue Authority	(162)	**-**

Total income analysed on a segmental basis	(48,029)	**(50,911)**

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	2020-21 £000s	**2021-22 £000s**
Expenditure		
Employee benefit expenses	133,378	**146,262**
Other services expenses	199,500	**112,283**
Depreciation, amortisation, impairment	19,276	**22,462**
Financing and investment expenditure	33,666	**33,876**
Precepts and levies	5,050	**5,184**
Gain or loss on the disposal of assets	4,395	**13,179**
Firefighters' pension scheme – top-up grant from Government	0	**575**
Total expenditure	395,265	**333,821**
Income		
Fees, charges and other service income (see note 7B)	(48,029)	**(50,911)**
Financing and investment income	(15,389)	**(19,620)**
Income from council tax and business rates	(100,089)	**(109,256)**
Government grants and contributions	(246,030)	**(233,092)**
Firefighters' pension scheme – top-up grant from Government	0	**(575)**
Total income	(409,537)	**(413,454)**
Deficit/(surplus) on the provision of services	(14,272)	**(79,633)**

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.

2021-22 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	**(17,996)**	**-**	**-**	**(17,996)**
Revaluation losses/gains on Property, Plant & Equipment	**(4,235)**	**-**	**-**	**(4,235)**
Movements in the market value of investment properties	**6,300**	**-**	**-**	**6,300**

2021-22 Adjustments	**General fund balance £000**	**Capital receipts reserve £000**	**Capital grants unapplied £000**	**Movement in unusable reserves £000**
Amortisation of intangible assets	**(232)**	**-**	**-**	**(232)**
Capital grants and contributions applied	**15,198**	**-**	**-**	**15,198**
Revenue expenditure funded from capital under statute	**(2,028)**	**-**	**-**	**(2,028)**
Capitalised interest	**11**	**-**	**-**	**11**
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	**(304)**	**(418)**	-	**(722)**
Transfer of fire assets	**(12,875)**	**-**	-	**(12,875)**
Insertion of items not debited or credited to the comprehensive income & expenditure statement:				
Provision for the financing of capital investment (minimum revenue provision - MRP)	**5,171**	**-**	**-**	**5,171**
Capital expenditure charged against the General fund	**2,261**	**-**	**-**	**2,261**
Adjustments primarily involving the capital grants unapplied account:				
Capital grants and contributions unapplied credited to the comprehensive income & expenditure statement	**3,020**	-	**(3,020)**	**0**
Application of grants to capital financing transferred to the capital adjustment account	-	-	**4,833**	**4,833**
Adjustments primarily involving the capital receipts reserve				
Capital loans repaid	**-**	**(82)**	**-**	**(82)**
Use of the capital receipts reserves to finance new capital expenditure	**-**	**1,805**	**-**	**1,805**
Use of Capital Receipts Reserve for repayment of debt	**-**	**82**	**-**	**82**
Adjustments primarily involving the pensions reserve:				
Reversal of items relating to retirement benefits debited or credited to the comprehensive income & expenditure statement (see Note 28)	**(36,424)**	**-**	**-**	**(36,424)**
Employers' pension contributions and direct payments to pensioners in the year	**14,914**	**-**	**-**	**14,914**
Capitalised pension costs	**(40)**	**-**	**-**	**(40)**
Firefighters' pension scheme – movement on top-up grant repayable (to)/from Government	**(574)**	**-**	**-**	**(574)**
Firefighters' pension scheme - transfer to Hampshire & IOW Fire Service	**93,700**	**-**	**-**	**93,700**
Adjustments primarily involving the collection fund adjustment account:				
Amount by which council tax income credited to the comprehensive income & expenditure statement is different from council tax income calculated for the year in accordance with statutory requirements	**1,784**	**-**	**-**	**1,784**
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	**6,521**	**-**	**-**	**6,521**

2021-22 Adjustments	**General fund balance £000**	**Capital receipts reserve £000**	**Capital grants unapplied £000**	**Movement in unusable reserves £000**
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	**(204)**	**-**	**-**	**(204)**
Adjustment primarily involving the Dedicated Schools Grant Adjustment				
Dedicated Schools Grant in-year deficit	**(2,046)**	**-**	-	**(2,046)**
Total adjustments	**71,922**	**1,387**	**1,813**	**75,122**

2020-21 Adjustments (comparative year)	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	(18,262)	-	-	18,262
Revaluation losses/gains on Property, Plant & Equipment	(676)	-	-	676
Movements in the market value of investment properties	1,955	-	-	(1,955)
Amortisation of intangible assets	(338)	-	-	338
Capital grants and contributions applied	14,530	-	-	(14,530)
Revenue expenditure funded from capital under statute	(4,220)	-	-	4,220
Capitalised interest	11	-	-	(11)
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	(4,395)	(1,820)	-	6,215
Insertion of items not debited or credited to the comprehensive income & expenditure statement:				
Provision for the financing of capital investment (minimum revenue provision - MRP)	0	-	-	0
Capital expenditure charged against the General fund	4,105	-	-	(4,105)
Adjustments primarily involving the capital grants unapplied account:				
Capital grants and contributions unapplied credited to the comprehensive income & expenditure statement	1,659	-	(1,659)	-
Application of grants to capital financing transferred to the capital adjustment account	-	-	6,254	(6,254)

2020-21 Adjustments (comparative year)	General fund balance £000	Capital receipts reserve £000	Capital grants unapplied £000	Movement in unusable reserves £000
Adjustments primarily involving the capital receipts reserve				
Capital loans repaid	-	(1,782)	-	1,782
Use of the capital receipts reserves to finance new capital expenditure	-	2,470	-	(2,470)
Use of Capital Receipts Reserve for repayment of debt	-	81	-	(81)
Adjustments primarily involving the pensions reserve:				
Reversal of items relating to retirement benefits debited or credited to the comprehensive income & expenditure	(26,266)	-	-	26,266
Employers' pension contributions and direct payments to pensioners in the year	16,620	-	-	(16,620)
Capitalised pension costs	29	-	-	(29)
Firefighters' pension scheme – movement on top-up grant repayable (to)/from Government	443	-	-	(443)
Adjustments primarily involving the collection fund adjustment account:				
Amount by which council tax income credited to the comprehensive income & expenditure statement is different from council tax income calculated for the year in accordance with statutory requirements	(1,641)	-	-	1,641
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	(13,083)	-	-	13,083
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	(52)	-	-	52
Adjustment primarily involving the Dedicated Schools Grant Adjustment				
Dedicated Schools Grant in-year deficit	(1,811)	-	-	1,811
Total adjustments	(31,392)	(1,051)	4,595	27,848

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 2022-23.

General Fund:	Balance at 1 April 2020 £000	Transfer out 2020/21 £000	Transfer in 2020/21 £000	Balance at 1 April 2021 £000	Transfer out 2021/22 £000	Transfer in 2021/22 £000	Balance at 31 March 2022 £000
Revenue carry-forward reserve	**5,878**	(5,878)	9,912	**9,912**	(9,912)	17,769	**17,769**
Balances held by schools under scheme of delegation	**(280)**	0	2,274	**1,994**	(321)	459	**2,132**
Repairs & renewal funds	**1,561**	(25)	507	**2,043**	(117)	22	**1,948**
Earmarked reserves – services	**18,567**	(7,345)	37,919	**49,141**	(29,279)	20,788	**40,650**
Insurance & risk funds	**5,943**	(51)	415	**6,307**	(255)	5	**6,057**
Capital resources reserve	**17,820**	(6,829)	11,140	**22,131**	(6,475)	12,873	**28,529**
Transformation reserve	**4,381**	(989)	1,000	**4,392**	(592)	1,351	**5,151**
Highways PFI contract cashflow reserve	**3,196**	(221)	1,989	**4,964**	(131)	1,902	**6,735**
Section 106 contributions reserve	**1,820**	(25)	127	**1,922**	(77)	704	**2,549**
Public Health earmarked reserve	**593**	(112)	439	**920**	(344)	928	**1,504**
Totals at 31 March 2021	**59,479**	**(21,475)**	**65,722**	**103,726**	**(47,503)**	**56,801**	**113,024**
DSG reserve restated as an unusable reserve from 1 April 2020	**(2,488)**	0	(1,811)	**(4,299)**	0	(2,046)	**(6,344)**
Totals post DSG restatement	**56,991**	**(21,475)**	**63,911**	**99,427**	**(47,503)**	**54,757**	**106,682**

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

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

The repairs and renewals fund provides a contingency to meet significant items of unforeseen expenditure relating to equipment renewal.

The council maintains a number of earmarked reserves for specific purposes at levels required to meet known future or potential commitments. The balance at 31 March 2022 includes:

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 Capital resources reserve has been accumulated from revenue contributions to be used as a source of finance for future capital expenditure

The Transformation reserve is the council's primary vehicle for funding initiatives such as spend to save, spend to avoid and feasibility studies.

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

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

The Public Health earmarked reserve has been created from underspent Public Health budgets in previous years and provides funding for on-going projects.

DSG reserve restatement
The Local Authority (Capital Finance and Accounting) (England) (Amendment) Regulations 2020, SI 2020 No 1212 requires that where a local authority has a deficit in respect of its schools budget for the financial year beginning on 1st April 2020, the deficit must be shown as an unusable reserve, rather than a deficit earmarked reserve. The carry forward deficit balances at 31 March 2022 is therefore classified as unusable reserves and included in note 28.

11. Other operating expenditure

2020-21 £000		**2021-22 £000**
4,894	Parish & Town Council precepts	**5,028**
156	Levies	**157**
(443)	Fire-fighters' Pension Scheme – movement in top-up grant repayable to/(from) Government	**574**
4,395	(Gains)/losses on the disposal of non-current assets and current assets held for sale	**304**
0	Fire-fighters Pension Scheme - transfer to Hampshire Fire	**(93,700)**
0	Loss on transfer of assets to Hampshire Fire	**12,875**
9,002	**Total**	**(74,762)**

A levy of £0.113 million (£0.113 million in 2020-21) was paid to the Southern Inshore Fisheries and Conservation Authority and £0.044 million (£0.043 million in 2020-21) was paid as a flood defence levy to the Environment Agency.

12. Financing and investment income & expenditure

2020-21 £000		**2021-22 £000**
15,627	Interest payable and similar charges	**15,119**
5,776	Net interest on the net defined benefit liability	**5,497**
(330)	Interest receivable and similar income	**(106)**
(2,858)	Income and expenditure in relation to investment properties and changes in their fair value	**(7,108)**
63	Impairment of financial instruments	**853**
18,278	**Total**	**14,255**

13. Taxation and non-specific grant incomes

2020-21 £000		2021-22 £000	
93,016	Council tax income (notes CF2 to CF4 to the collection fund)	**95,262**	
7,073	Business rates income (note CF5a to the collection fund)	**13,994**	
100,089	Total income from local taxation		**109,256**
72,485	Non-ringfenced government grants	**59,920**	
12,431	Capital grants & contributions	**16,242**	
84,916	Total grant income (see note 40)		**76,162**
185,005	**Total**		**185,418**

14. Property, plant & equipment

Movements on balances in 2021-22	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 2021	3,989	267,238	55,908	0	536	11,498	76,807	415,976	192,624
Additions	0	6,497	640	0	0	0	12,096	19,233	2,506
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	0	550	0	0	(1)	448	0	997	0
Revaluation increases/ (decreases) recognised in the Surplus/deficit on the Provision of Services	0	(4,277)	0	0	0	43	0	(4,234)	0
Derecognition	0	(10,846)	(11,489)	0	0	0	0	(22,335)	(611)
Assets reclassified (to)/from held for sale	0	(424)	0	0	0	(5,048)	(121)	(5,593)	0
Other movements	0	8	0	0	0	0	0	8	0
Reclassification	0	28,243	1,663	0	0	822	(37,585)	(6,857)	0
At 31 March 2022	3,989	286,989	46,722	0	535	7,763	51,197	397,195	194,519

Accumulated depreciation & impairment 2021-22	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
At 1 April 2021	**0**	**(5,131)**	**(33,034)**	**0**	**(494)**	**(22)**	**0**	**(38,861)**	**(66,753)**
Depreciation charge	**0**	**(5,567)**	**(3,086)**	**0**	**0**	**(7)**	**0**	**(8,660)**	**(9,455)**
Depreciation written out to the revaluation reserve	**0**	**3,862**	**0**	**0**	**0**	**0**	**0**	**3,862**	**0**
Depreciation written out to the Surplus/deficit on the provision of services	**0**	**718**	**0**	**0**	**0**	**0**	**0**	**718**	**0**
Derecognition	**0**	**285**	**9,158**	**0**	**0**	**0**	**0**	**9,443**	**471**
Assets reclassified (to)/from held for sale	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Reclassification	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
At 31 March 2022	**0**	**(5,833)**	**(26,962)**	**0**	**(494)**	**(29)**	**0**	**(33,318)**	**(75,737)**

Net book value at 31 March 2022	**3,989**	**281,156**	**19,760**	**0**	**41**	**7,734**	**51,197**	**363,877**	**118,782**
Net book value at 31 March 2021	3,989	262,107	22,874	0	42	11,476	76,807	377,295	125,871

* Note 1 - Infrastructure assets
Infrastructure assets have been removed from Note 14 Property, Plant & Equipment in line with CIPFA's guidance (CIPFA Bulletin 12 Accounting for Infrastructure Assets - Temporary Solution). This bulletin adopts CIPFA's Code and recommends that the gross and accumulated depreciation split is not appropriate for infrastructure assets based on the assumption that the carrying amount of a replaced or restored infrastructure asset is derecognised at a zero amount where expenditure has occurred to renew or replace any part of an infrastructure asset. Therefore, a separate movement on infrastructure assets has been included beneath the 2021/22 note, along with a reconciliation with the entries in the balance sheet.

The Council has determined in Accordance with Regulation 30M of the Local Authorities (Capital Finance & Accounting (England) (Amendment) Regulations 2022 that the carrying amounts to be derecognised for infrastructure assets when there is replacement expenditure is nil.

Infrastructure Assets - In Year Movement	2020/21 £000	2021/22 £000
Net Book Value (Modified Historic Cost) At 1 April	**148,366**	**144,433**
Additions	6,600	6,249

Derecognition	(828)	(175)
Depreciation	(9,770)	(10,061)
Impairment	0	0
Other movements in cost	65	6,857
At 31 March	**144,433**	**147,303**

The following note provides a reconciliation between the Property, Plant & Equipment note versus the entry on the Balance Sheet for PPE.

	2020/21 £000	**2021/22 £000**
Infrastructure Assets	144,433	147,303
Other PPE Assets	377,295	363,877
PPE Assets per Balance Sheet	**521,728**	**511,180**

Movements on balances in 2020-21 (comparative year)	**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 2020	3,674	262,460	55,283	0	536	3,166	64,234	389,353	192,596
Additions	0	1,792	1,466	0	0	0	13,501	16,759	6,016
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	315	10,047	0	0	0	7,532	0	17,894	0
Revaluation increases/ (decreases) recognised in the Surplus/deficit on the Provision of Services	0	(435)	0	0	0	(241)	0	(676)	0
Derecognition	0	(3,559)	(1,271)	0	0	(460)	0	(5,290)	(6,000)
Assets reclassified (to)/from held for sale	0	(1,491)	(55)	0	0	(96)	0	(1,642)	0
Other movements	0	0	0	0	0	0	(359)	(359)	0
Reclassification	0	(1,576)	485	0	0	1,597	(569)	(63)	12
At 31 March 2021	3,989	267,238	55,908	0	536	11,498	76,807	415,976	192,624

Accumulated depreciation & impairment in 2020-21 (comparative year)	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
At 1 April 2020	0	(3,317)	(30,640)	0	(494)	(15)	0	(34,466)	(62,730)
Depreciation charge	0	(5,118)	(3,629)	0	0	(7)	0	(8,754)	(9,196)
Depreciation written out to the revaluation reserve	0	2,930	0	0	0	0	0	2,930	0
Depreciation written out to the Surplus/deficit on the provision of services	0	228	0	0	0	33	0	261	0
Derecognition	0	128	1,180	0	0	0	0	1,308	5,173
Assets reclassified (to)/from held for sale	0	(15)	55	0	0	0	0	40	0
Reclassification	0	33	0	0	0	(33)	0	0	0
At 31 March 2021	0	(5,131)	(33,034)	0	(494)	(22)	0	(38,681)	(66,753)
Net book value at 31 March 2021	**3,989**	**262,107**	**22,874**	**0**	**42**	**11,476**	**76,807**	**377,295**	**125,871**
Net book value at 31 March 2020	3,674	259,143	24,643	0	42	3,151	64,234	354,887	129,866

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, 83% 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 2022, the council's principal commitments relate to:

- Waste contract £13.808 million (over remaining life of 25 year contract)
- All Saints Freshwater Primary priority school building programme £4.025 million
- Ryde Highway/Bus Interchange £3.956 million
- Ryde Pier £3.606 million

- BAE Innovation Hub £1.566 million
- Smallbrook Junction Safety Scheme £0.922 million
- Branstone Farm Business Park £0.633 million
- Camp Hill Street Lighting £0.380 million
- Newport St George's Junction £0.355 million

Similar commitments at 31 March 2021 were £23.995 million.

Effects of changes in estimates

There have been no material changes to the council's accounting estimates for property, plant and equipment during 2021-22.

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 in the last quarter of the financial year. An assessment is undertaken between the inspection date and balance sheet date to ensure that there have been no material changes.

The valuation of land and property were undertaken by Phillip Smith BSc (Hons), MRICS, IRRV (Hons), RICS Registered Valuer of Wilks Head & Eve LLP. These valuations 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	19,760	147,303	41	0	51,197	**218,301**
Valued at current as at:								
31 March 2022	0	106,210	0	0	0	2,174	0	**108,384**
31 March 2021	3,989	71,987	0	0	0	5,308	0	**81,284**
31 March 2020	0	52,706	0	0	0	166	0	**52,872**

31 March 2019	0	26,716	0	0	0	86	0	**26,802**
31 March 2018	0	23,537	0	0	0	0	0	**23,537**
Total	**3,989**	**281,156**	**19,760**	**147,303**	**41**	**7,734**	**52,197**	**511,180**

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 2020	**136**	**1,104**	**56**	**1,296**
1 April 2020	136	1,104	56	**1,296**
Revaluations	0	0	1	**1**
31 March 2021	**136**	**1,104**	**57**	**1,297**
1 April 2021	136	1,104	57	**1,297**
Revaluations	0	0	0	**0**
31 March 2022	**136**	**1,104**	**57**	**1,297**

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	0	398
Valuation	0	842	57	899
31 March 2021	136	1,104	57	1,297

Acquired	0	848	55	903
Donated	136	256	2	394
31 March 2021	**136**	**1,104**	**57**	**1,297**

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Acquired	0	848	55	903
Donated	136	256	2	394
31 March 2022	**136**	**1,104**	**57**	**1,297**

16. Investment properties

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

2020-21 £000		**2021-22 £000**
(1,938)	Rental income from investment properties	**(1,697)**
1,035	Direct operating expenses arising from investment property	**889**
(903)	**Net gain**	**(808)**

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:

	31 March 2021 £000	**31 March 2022 £000**
Balance at 1 April	33,095	**35,050**
Disposals	0	**0**
Net gain from fair value adjustments	1,955	**6,300**
Balance at 31 March	35,050	**41,350**

Fair value hierarchy

Details of the council's investment properties and information about the fair value hierarchy as at 31 March 2022 and the comparative year are as follows:

Recurring fair value measurement using:	**Quoted prices in active markets for identical assets (level 1) £000s**	**Other significant observable inputs (level 2) £000s**	**Significant unobservable inputs (level 3) £000s**	**Fair value as at 31 March 2022 £000s**
Commercial properties	0	41,350	0	41,350
Total at 31 March 2022	**0**	**41,350**	**0**	**41,350**

Recurring fair value measurement using: (Previous year comparative figures)	Quoted prices in active markets for identical assets (level 1) £000s	Other significant observable inputs (level 2) £000s	Significant unobservable inputs (level 3) £000s	Fair value as at 31 March 2021 £000s
Commercial properties	0	35,050	0	35,050
Total at 31 March 2021	0	35,050	0	35,050

Transfers between levels of the fair value hierarchy

There were no transfers between levels 1 and 2 during the year.

Valuation techniques used to determine level 2 fair values for investment properties

Significant observable inputs - Level 2

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

Highest and best use of investment properties

In estimating the fair value of the council's investment properties, the highest and best use of the properties is their current use.

Changes in valuation techniques

There has been no change in the valuation techniques used during the year for investment properties.

Valuation process for investment properties

The fair value of the council's investment properties is measured annually at each reporting date. Off-island commercial property valuations were undertaken by Robert Baldwin MRICS of Avison Young.

Market Conditions: Novel Coronavirus (COVID-19)

The investment properties valuer has provided the following explanatory note:

The outbreak of COVID-19, declared by the World Health Organisation as a "Global Pandemic" on the 11 March 2020, has and continues to impact many aspects of daily life and the global economy – with some real estate markets having experienced lower levels of transactional activity and liquidity. Travel, movements and operational restrictions have been implemented by many countries, in some cases "lockdowns" have been applied to varying degrees and to reflect further "waves" of COVID-19; although these may imply a new stage of the crisis, they are not unprecedented in the same way as the initial impact.

The pandemic and the measures taken to tackle COVID-19 continue to affect economies and real estate markets globally. Nevertheless, as at the valuation date some property markets have started to function again, with transaction volumes and other relevant evidence at levels where an adequate quantum of market evidence exists upon which to base opinions of value. Accordingly, and for the avoidance of doubt, our valuation is not reported as being subject to 'material valuation uncertainty' as defined by VPS 3 and VPGA 10 of the RICS Valuation – Global Standards.

For the avoidance of doubt this explanatory note has been included to ensure transparency and to provide further insight as to the market context under which the valuation opinion was prepared. In recognition of the potential for market conditions to move rapidly in response to changes in the control or future spread of COVID-19 we highlight the importance of the valuation date.

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 carrying value of intangible assets at 31 March 2022 is £0.339 million (£0.293 million at 31 March 2021). The figures at 31 March 2022 comprise internally generated assets of £0.043 million (£0.112 million at 31 March 2021) and purchased assets of £0.296 million (£0.181 million at 31 March 2021).

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £0.232 million was charged to the comprehensive income and expenditure statement in 2021-22, of which £0.178 million was charged to the ICT service within the Resources service line.

The council does not revalue its software assets and holds these at historic cost less accumulated amortisation with annual reviews for impairment. Software licenses are not transferable so obtaining a current value is not possible.

At 31 March 2022 there are no contractual commitments for the acquisition of intangible assets.

18. Financial instruments

Classifications

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

Financial liabilities

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

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

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

Financial assets

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

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
- lease receivables
- trade receivables for goods and services delivered

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

	Non-current		Current	
	31 March 2021	**31 March 2022**	31 March 2021	**31 March 2022**
	£000	**£000**	£000	**£000**
Financial assets				
Short-term Investments	-	**0**	43,535	**40,526**
Cash equivalents	-	**0**	24,804	**10,005**
Total investments	0	**0**	68,339	**50,531**
Debtors				
Long-term debtors	1,267	**2,695**	-	**0**
Short-term debtors and cash	-	**0**	30,003	**25,906**
Total debtors	1,267	**2,695**	30,003	**25,906**
Financial liabilities				

Borrowings	(180,827)	**(168,189)**	(63,166)	**(33,767)**
Total borrowings	(180,827)	**(168,169)**	(63,166)	**(33,767)**
Other long-term liabilities & creditors				
PFI and finance lease liabilities	(97,261)	**(92,458)**	(3,661)	**(4,805)**
Other financial liabilities	(99)	**(126)**	(8,424)	**(11,616)**
Total other long-term liabilities & creditors	(97,360)	**(92,584)**	(12,085)	**(16,421)**

Income, expense, gains and losses

	2020-21 £000	**2021-22 £000**
Interest expense from financial liabilities measures at amortised cost	(15,627)	**(15,119)**
Total expense in surplus or deficit on the provision of services	(15,627)	**(15,119)**
Interest income from financial assets: loans and receivables	330	**106**
Total expense in surplus or deficit on the provision of services	330	**106**
Net loss for the year	(15,297)	**(15,013)**

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 2022 of 2.11% to 2.79%.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 2021		**31 March 2022**	
	Carrying amount	Fair value	**Carrying amount**	**Fair value**
	£000	£000	**£000**	**£000**
Financial liabilities	256,078	265,320	**218,378**	**223,076**
Long-term creditors	97,360	152,856	**92,584**	**143,327**

- the carrying value of the council's portfolio of PWLB loans is £181.814 million. The fair value has been calculated as £185.169 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 with a carrying value (including accrued interest) of £5.075 million. The lender has the option to request a change in the interest rate which could lead the council to make an early repayment. The lender has not exercised their option to change the interest rate. The fair value of the LOBO loan has been calculated at £6.508 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 2021		**31 March 2022**	
	Carrying amount	Fair value	**Carrying amount**	**Fair value**
	£000	£000	**£000**	**£000**
Short-term investments, debtors, cash and cash equivalents	98,342	98,347	**76,437**	**76,295**
Long-term debtors	1,267	1,267	**2,695**	**2,695**

- The fair value of short-term loans and receivables is higher than their carrying value as the council's investments include a number of temporary loans where the interest rate receivable is higher than the rates available for similar loans at the balance sheet date.
- The fair value of long-term debtors is equal to the carrying value as this is a fair approximation of their value. The carrying value shown above is before the reduction relating to an impairment allowance.

Other long-term liabilities
The liability relating to the defined benefit pension schemes (Local Government Pension Scheme and the Fire-fighters' Pension Fund) is £203,372 million (£360.212 million in 2020-21).

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 with banks of £10.005 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 non-recovery applies to all council's deposits, but there was no evidence as at the 31 March 2022 that this was likely to crystalise.

The council's short-term investments are with the Isle of Wight Council Pension Fund and other local authorities. These investments have been assessed and it has been concluded that the expected credit loss is not material therefore no allowances have been made.

The impairment loss allowance on short-term debtors is calculated on a sliding scale of percentages applied to the outstanding amounts based on age profile, historical levels and nature of the debts. Following the COVID-19 pandemic these percentages have been revised to reflect the greater risk of debtor default and the impairment loss allowance have consequently increased. The amount of debtors written-off in 2021-22 (excluding local taxation debtors) was £0.175 million (£0.250 million in 2020-21). The amount of local taxation debtors written-off in both years is shown in the Collection Fund Statement. The impairment on long-term debtors is based on a credit scoring matrix taking financial statements, market conditions and other relevant factors into account. Details of the amounts outstanding at 31 March, the impairment allowances and resulting balances after the impairment allowances are shown in note 21.

The other short-term debtors figure in note 21 includes £1.779 million of deferred payments at 31 March 2022 (£1.877 million at 31 March 2021) made in respect of care fees for clients in residential or nursing homes. No impairment allowance has been applied as legislation allows the council to place a legal charge or to register an interest on the client's property and so 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 2021-22 was approved by the council in March 2022. 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 impact of the current COVID-19 pandemic on the 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 daily 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 2021-22 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 14 March 2022 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 non-collectability is covered by the impairment allowance.

The council does not generally allow credit for customers, such that £6.843 million is due for payment at 31 March 2022 (£5.292 million at 31 March 2021) from invoices raised through the council's accounts receivable system. This amount due can be analysed by age as follows:

	31 March 2021	**31 March 2022**
	£000	**£000**
Less than two months	2,088	**2,254**
Two to four months	392	**513**
Four months to one year	1,245	**1,295**
More than one year	1,567	**2,781**
Total	5,292	**6,843**

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 council 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 £40.526 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 2021	**31 March 2022**
	£000	**£000**
Less than one year	63,166	**33,767**
Between one and two years	12,638	**11,638**

Between two and five years	33,001	**39,601**
Between five and ten years	60,788	**46,884**
Between ten and fifteen years	38,667	**38,666**
Between fifteen and twenty years	20,667	**19,067**
Between twenty and twenty five years	10,066	**8,666**
More than twenty five years	5,000	**3,667**
Total external borrowing	243,993	**201,956**
Of which, Public Works Loan Board (PWLB)	192,665	**180,827**

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 (£96.805 million) at 31 March 2022 (£100.953 million at 31 March 2021). 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 council 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 2021	**31 March 2022**
	£000	**£000**
Less than one year	3,661	**4,691**
Between one and two years	4,805	**4,938**
Between two and five years	15,939	**16,542**
Between five and ten years	29,924	**28,690**
More than ten years	46,624	**41,944**
Total	100,953	**96,805**

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 2022, 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 £0.762 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 low for the duration of 2021-22, the impact would have been limited to the actual amount of investment income received (£0.079 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 £0.316 million. The impact of a 1% fall in interest rates would be as above, but with the movements being reversed. The actual amount of temporary loan interest paid in 2021-22 is £0.048 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 stocks held for resale at 31 March 2022 with a value of £0.065 million (£0.067 million at 31 March 2021).

21. Debtors

The council's short-term debtors are as follows:

	31 March 2021 £000	**31 March 2022 £000**
Trade receivables	17,489	**15,238**
Less: impairment allowance	(2,241)	**(3,150)**
Trade receivables (net of impairment allowance)	15,248	**12,088**
Local taxpayers	10,991	**12,215**
Less: impairment allowance	(6,316)	**(7,500)**
Local taxpayers (net of impairment allowance)	4,675	**4,715**
Housing benefit overpayments	2,124	**1,952**
Less: impairment allowance	(1,680)	**(1,548)**
Housing benefit overpayments (net of impairment allowance)	444	**404**

Prepayments and accrued income	18,255	**10,917**
Other debtors	2,440	**2,231**
Total short-term debtors (net of impairment allowance)	41,062	**30,355**

The total debtor balance is further analysed between financial instruments and non-financial instruments as follows:

	31 March 2021 £000	**31 March 2022 £000**
Financial instruments	19,459	**14,966**
Non-financial instruments	21,603	**15,389**
Total debtors (net of impairment allowance)	41,062	**30,355**

The council's long-term debtors are as follows:

	31 March 2021 £000	**31 March 2022 £000**
Capital loans to renewable energy businesses	1,101	**1,112**
Less: impairment allowance	(163)	**(163)**
Capital loans net of impairment allowance	938	**949**
Other loans	166	**1,583**
Total long-term debtors (net of impairment allowance)	1,104	**2,532**

The lifetime expected impairment has been assessed based on a credit scoring matrix taking financial statements, market conditions and other relevant factors into consideration. The impairment allowance will be reviewed annually and reversed or increased in accordance with any change in the impairment risk as indicated by the credit scoring matrix.

22. Debtors for local taxation

The net debtor balance on local taxation (council tax and business rates) after the impairment allowance can be analysed by age as follows:

	Council tax		**Business rates**	
	£000s		**£000s**	
	31 March 2021	**31 March 2022**	31 March 2021	**31 March 2022**
Less than one year	4,194	**4,785**	1,142	**1,173**
Between one and two years	2,421	**2,702**	680	**412**
Between two and five years	2,995	**3,754**	331	**518**
More than five years	1,498	**1,824**	42	**50**
Total due	11,108	**13,065**	2,195	**2,153**
Less: share attributed to Police & Crime Commissioner for Hampshire	(1,214)	**(1,444)**	-	**0**
Less: share attributed to Hampshire and IOW Fire Service	0	**(461)**	0	**(22)**
Less: share attributed to Central Government	-	**0**	(1,098)	**(1,076)**
Council's share before impairment allowance	9,894	**11,160**	1,097	**1,055**

Council's share of impairment allowance	(5,413)	**(6,790)**	(903)	**(711)**
Net debtor balance after impairment allowance	4,481	**4,370**	194	**344**

The impairment allowance is calculated on a sliding scale of percentages applied to the outstanding amounts based on an age profile of the debts.

23. Cash and cash equivalents

	31 March 2021 £000	**31 March 2022 £000**
Cash held by the council	6,623	**6,242**
Short-term deposits with banks	24,803	**10,005**
Bank current accounts	7,423	**5,221**
Total	38,849	**21,468**

24. 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 2020-21 and 2021-22.

	Current	
	2020-21 £000	**2021-22 £000**
Balance at 1 April	595	**793**
Assets newly qualified as held for sale: Property, Plant & Equipment	1,797	**5,571**
Assets declassified as held for sale: Property, Plant & Equipment	(195)	**0**
Assets sold	(1,404)	**(538)**
Balance at 31 March	793	**5,826**

25. Creditors

	31 March 2021 £000	**31 March 2022 £000**
Trade creditors	12,279	**12,945**
Central government – Business rates	0	**0**
Local taxpayers	3,009	**4,303**
Other tax and social security payable	1,440	**1,720**
Highways PFI finance lease liability (short-term)	3,553	**4,691**
BEIS business grants receipts in advance	20,558	**10,263**
Other receipts in advance	17,881	**25,934**

Other creditors	5,121	**4,961**
Total	63,841	**64,817**

The total creditor balance is further analysed between financial instruments and non-financial instruments as follows:

	31 March 2021 £000	**31 March 2022 £000**
Financial instruments	15,847	**18,837**
Non-financial instruments	47,994	**47,980**
Total	63,841	**64,817**

26. Provisions

	Outstanding Insurance Claims £000	**Outstanding Legal Cases £'000**	**Business Rates appeals £000**	**Total £000**
Balance at 1 April 2021	1,893	0	4,455	**6,348**
Additional provision made in 2021-22	7	350	1,562	**1,919**
Amounts used in 2021-22	(245)	0	(2,025)	**(2,270)**
Amounts reversed in 2021-22	0	0	0	**0**
Balance at 31 March 2022	**1,655**	**350**	**3,992**	**5,997**

Analysis of provisions between short and long term:

	2020-21 £000	**2021-22 £000**
Short-term provisions	5,092	**4,643**
Long-term provisions	1,347	**1,354**
Balance at 31 March	6,439	**5,997**

Outstanding insurance claims
The Insurance Provision at 31 March 2022 is based on an estimate of potential liabilities arising from outstanding claims. Of the total at 31 March 2022, £0.301 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 £1.655 million, £1.354 million relates to the potential MMI clawback. This potential clawback has been categorised as a long-term liability.

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 on both the 2010 and 2017 valuation lists. It includes amounts which may be backdated to 1 April 2010. Under the business rate retention scheme applicable to 2021-22, the council has retained 49% of business rates income and the same proportion applies to balance sheet values at 31 March 2022.

Analysis of provisions between short and long term
It is expected that the costs relating to short-term liabilities will be incurred in 2022-23.

27. 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 2021 £000	**31 March 2022 £000**
General fund balance	13,646	**12,057**
Capital receipts reserve	3,324	**1,938**
Capital grants unapplied	7,595	**5,782**
Earmarked reserves (see note 10)	103,726	**113,024**
Total usable reserves	128,291	**132,801**

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

28. Unusable reserves

	31 March 2021 £000	**31 March 2022 £000**
Revaluation reserve	151,702	**147,757**
Capital adjustment account	2,675	**8,941**
Pensions reserve	(360,212)	**(203,412)**
Collection fund adjustment account	(15,104)	**(6,799)**
Accumulated absences account	(3,014)	**(3,219)**
Dedicated Schools Grant adjustment account	(4,299)	**(6,344)**
Total unusable reserves	**(228,252)**	**(63,076)**

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.

2020-21 £000		**Revaluation reserve**	**2021-22 £000**	
	136,236	Balance at 1 April		**151,702**
23,838		Upward revaluation of assets	**19,291**	
(3,014)		Downward revaluation of assets and impairment losses not charged to the surplus/ deficit on the provision of services	**(14,454)**	

	20,824	Surplus or deficit on revaluation of non-current assets not posted to the surplus or deficit on the provision of services		**(4,837)**
(2,615)		Difference between current depreciation and historical cost depreciation	**(2,772)**	
(2,743)		Accumulated gains on assets sold or scrapped	**(6,010)**	
	(5,358)	Amount written off to the capital adjustment account		**(8,782)**
	151,702	**Balance at 31 March**		**147,757**

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.

2020-21 £000		Capital adjustment account	**2021-22 £000**	
	(597)	Balance at 1 April		**2,675**
		Reversal of items relating to capital expenditure debited or credited to the comprehensive income and expenditure statement:		
(18,262)		• Charges for depreciation and impairment of assets	**(17,996)**	
(676)		• Revaluation (losses)/reversals on property, plant & equipment	**(4,235)**	
(338)		• Amortisation of intangible assets	**(232)**	
(4,220)		• Revenue expenditure funded from capital under statute	**(2,028)**	
11		• Capitalised interest	**11**	
0		• Impairment allowance for long-term debts	**0**	
(6,215)		• Amounts of assets written-off on disposal or sale as part of the gain/loss on disposal to the comprehensive income and expenditure statement	**(13,597)**	
(1,781)		• Capital loans repaid	**(82)**	
	(31,481)			**(38,159)**
	5,358	Adjusting amounts written out of the revaluation reserve		**8,782**

	(26,720)	Net written out amount of the cost of non-current assets consumed in the year		**(26,702)**
		Capital financing applied in the year:		
2,470		• Use of capital receipts reserve to finance new capital expenditure	**1,805**	
81		• Use of capital receipts reserve for repayment of debt	**82**	
14,530		• Capital grants and contributions credited to the comprehensive income and expenditure statement that have been applied to capital financing	**15,198**	
6,254		• Application of grants to capital financing from the capital grants unapplied account	**4,833**	
0		• Statutory provision for the financing of capital investment charged against the general fund	**5,171**	
4,105		• Capital expenditure charged against the general fund	**2,261**	
	27,440			**29,350**
	1,955	Movement in the market value of investment properties debited or credited to the comprehensive income & expenditure statement		**6,300**
	0	Other movements		**(7)**
	2,675	**Balance at 31 March**		**8,941**

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.

2020-21	**Pension reserve**	**2021-22**
£000		**£000**
247,723	Balance at 1 April	**360,210**
0	Transfer of Fire-fighters' Pension Scheme to Hampshire & IOW Rescue Service	**(93,700)**
103,313	Actuarial (gains) and losses on pensions assets and liabilities	**(85,222)**
26,266	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	**36,424**
(16,620)	Employer's pensions contributions and direct payments to pensioners payable in the year	**(14,914)**
(443)	Fire-fighters' Pension Scheme – movement on top-up grant repayable from Government	**574**
(29)	Capitalised pension - movement	**40**
360,210	**Balance at 31 March**	**203,412**

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 taxpayers compared with the statutory arrangements for paying across amounts to the general fund from the collection fund.

2020-21	Collection fund adjustment account	2021-22
£000		£000
380	Balance at 1 April	15,104
1,641	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 CF4 to the collection fund)	(1,784)
13,083	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 CF5b to the collection fund)	(6,521)
15,104	**Balance at 31 March**	6,799

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 2022 is £3.219 million (£3.014 million at 31 March 2021).

Dedicated Schools Grant adjustment account

The Local Authority (Capital Finance and Accounting) (England) (Amendment) Regulations 2020, SI 2020 No 1212 requires that where a local authority has a deficit in respect of its schools budget for the financial year beginning after 1st April 2020, the deficit must be shown as an unusable reserve, rather than a deficit earmarked reserve.

Dedicated Schools Grant adjustment account	2021-22
	£000
Balance at 1 April	4,299
Adjustments between accounting basis and funding basis under statutory provisions (in-year Schools Budget Deficit)	2,045
Balance at 31 March	6,344

29. Cash flow statement – operating activities (interest)

The cash flows for operating activities include the following items:

2020-21		2021-22
£000's		£000's
15,388	Interest received	19,620
(33,666)	Interest paid	(33,875)

30. Cash flow statement – operating activities

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

2020-21		2021-22	
£000		£000	£000

18,262	Depreciation	**22,231**	
676	Impairment and downward valuations (reversed)	**0**	
338	Amortisation	**232**	
0	Movement in contract assets, liabilities and costs (IFRS15)	**4,691**	
32,637	Increase/decrease in creditors	**(4,218)**	
(2,840)	Increase/decrease in debtors	**1,970**	
19	Increase/decrease in inventories	**2**	
9,646	Movement in pension liability	**(72,150)**	
6,215	Carrying amount for non-current assets and non-current assets held for sale, sold or derecognised	**13,597**	
(3,324)	Other non-cash items charged to the net surplus or deficit on the provision of services	**(7,542)**	
61,629	**Adjustments to net deficit on the provision of services for non-cash movements**		**(41,187)**
	Adjustment for items in the net surplus or deficit on the provision of services that are investing or financing activities:-		
(1,820)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	**(418)**	
(16,189)	Any other items for which the cash effects are investing or financing cash flows	**(17,820)**	
(18,009)	**Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities**		**(18,238)**

31. Cash flow statement – investing activities

2020-21		**2021-22**
£000		**£000**
(23,468)	Purchase of property, plant & equipment, investment property and intangible assets	**(26,390)**
(43,500)	Purchase of short-term and long-term investments	**(40,500)**
0	Other payments for investing activities	**(11)**
1,820	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	**418**
37,000	Proceeds from short-term and long-term investments	**43,500**
22,064	Other receipts from investing activities	**23,649**
(6,084)	**Net cash flows from investing activities**	**666**

32. Cash flow statement – financing activities

2020-21		**2021-22**
£000's		**£000's**
45,000	Cash receipts of short and long-term borrowing	**30,000**
0	Other receipts for financing activities	**0**
(1,013)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	**(3,658)**
(81,640)	Repayments of short and long-term borrowing	**(71,844)**

(9,679)	Billing authority - council tax and business rate adjustments	**7,248**
(47,332)	**Net cash flows from financing activities**	**(38,254)**

33. Agency services

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 £0.268 million in 2021-22 (£0.266 million in 2020-21).

As part of the response to the restrictions imposed during the Covid-19 pandemic, the government introduced a range of grants to support local businesses. Where the eligibility criteria is specified by the government, the council is deemed to have acted as an agent in administering these grants. The total of Local Restrictions Support Grants (LRSG) paid during 2021-22 is £23.652 million and this is funded by the government. There was a further £1.424 million of other Covid-19 related payments made where the council were acting as an agent and these were also funded by the government. The income and expenditure relating to these grants and payments have been excluded from the comprehensive income and expenditure statement, although any debtor or creditor position between the council and the government is included in the Balance Sheet.

The council received £0.512 million in new burdens funding to assist with the cost of administering the LRSG and Business rate relief schemes.

34. Members' allowances

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

	2020-21 £000	**2021-22 £000**
Basic allowance & special responsibility allowances	**471**	**459**
Employers' national insurance & pension contributions paid on behalf of members	**20**	**18**
Travelling & subsistence allowance and reimbursements	**20**	**21**
Co-opted members	**1**	**2**
Total	**512**	**499**

35. Officers' remuneration

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

Post	**Year**	**Salary**	**Returning officer fees (elections)**	**Remuneration excluding pension contributions**	**Employers' contribution to pension fund**	**Remuneration including pension contribution**
		£	**£**	**£**	**£**	**£**
Chief Executive	2021-22 2020-21	137,703 135,998	0 0	137,703 135,998	32,439 31,959	170,142 167,957
Assistant Chief Executive & Chief Strategy Officer	2021-22 2020-21	105,799 109,607	389 0	106,188 109,607	24,863 25,758	131,051 135,365
Director of Corporate Services	2021-22 2020-21	107,703 103,979	10,061 1,343	118,304 105,322	25,310 24,435	143,614 129,757

Director of Neighbourhoods	2021-22 2020-21	107,703 105,850	0 0	107,703 105,850	25,310 24,875	133,013 130,725
Director of Adult Social Services to 31.08.2021	2021-22 2020-21	62,809 123,931	0 0	62,809 123,931	12,135 29,124	74,944 153,055
Director of Adult Social Services from 01.09.2021	2021-22 2020-21	64,455 0	0 0	64,455 0	15,147 0	79,602 0
Director of Regeneration	2021-22 2020-21	115,925 113,931	0 0	115,925 113,931	27,242 26,774	143,167 140,705
Assistant Director of Corporate Services and Monitoring Officer (i)	2021-22 2020-21	86,242 36,036	697 0	86,939 36,036	20,267 8,468	107,206 44,504

Notes to officers' remuneration

Note (i)	The post holder for Director of Adult Social Services changed in year, with the previous post holder leaving on 31.08.2021, being replaced by the new post holder on 01.09.2021.
Note (ii)	The post of Monitoring Officer was bought in house 26.10.2020. The annualised pay for 2020/21 was £83,264.

Other notes relating to senior employees:

Note (iii)	The post of Director of Children's Services is filled under a strategic partnership with Hampshire County Council. The remuneration details are disclosed in full by Hampshire County Council. The amount recharged to the Isle of Wight Council relating to this post in 2021-22 is £46,624 (£46,620 in 2020-21).
Note (iv)	The post of Director of Finance and Section 151 officer is 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 2021-22 is £60,500 (£60,400 in 2020-21.
Note (v)	The post of Director of Public Health is filled under a strategic partnership with Hampshire County Council. The remuneration details are disclosed by the Hampshire County Council. The amount recharged to the Isle of Wight Council for 2021-22 is £48,728 (£46,515 in 2020-21).

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	2020-21				**2021-22**			
	School based employees				**School based employees**			
	Voluntary Aided & Foundation schools	Other schools	All other council employees	Total number of employees	**Voluntary Aided & Foundation schools**	**Other schools**	**All other council employees**	**Total number of employees**
£50,000 to £54,999	12	6	24	42	**9**	**16**	**26**	**51**
£55,000 to £59,999	4	8	7	19	**7**	**9**	**2**	**18**
£60,000 to £64,999	10	11	12	33	**12**	**4**	**16**	**32**
£65,000 to £69,999	3	1	3	7	**2**	**7**	**2**	**11**
£70,000 to £74,999	0	8	8	16	**2**	**7**	**12**	**21**
£75,000 to £79,999	2	4	2	8	**2**	**3**	**1**	**6**
£80,000 to £84,999	0	2	1	3	**1**	**1**	**0**	**2**
£85,000 to £89,999	0	0	5	5	**0**	**1**	**3**	**4**
£90,000 to £94,999	0	0	1	1	**0**	**2**	**2**	**4**

£95,000 to £99,999	0	1	1	2	**0**	**0**	**0**	**0**
£100,000 to £104,999	0	0	0	0	**0**	**0**	**0**	**0**
£105,000 to £109,999	0	1	0	1	**0**	**1**	**0**	**1**
£110,000 to £114,999	0	1	0	1	**0**	**0**	**0**	**0**
£115,000 to £119,999	0	0	0	0	**0**	**0**	**0**	**0**
£120,000 to £124,999	1	0	0	1	**0**	**0**	**0**	**0**
£125,000 to £129,999	0	0	0	0	**0**	**1**	**0**	**1**
£130,000 to £134,999	0	0	0	0	**0**	**0**	**0**	**0**
£135,000 to £139,999	0	0	1	1	**0**	**0**	**1**	**1**
£140,000 to £144,999	0	0	0	0	**0**	**0**	**0**	**0**
£145,000 to £149,999	0	0	0	0	**0**	**0**	**0**	**0**
£150,000 to £154,999	0	0	0	0	**0**	**0**	**0**	**0**
Totals	**32**	**43**	**65**	**140**	**35**	**52**	**65**	**152**

36. Termination benefits (2020-21 Restated)

The council terminated the contracts of a number of employees in 2021-22, incurring liabilities of £0.233 million. (£0.403 million in 2020-21).

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**	
	2020-21	**2021-22**	2020-21	**2021-22**	2020-21	**2021-22**	2020-21 £	**2021-22 £**
£0 to £20,000	16	**8**	19	**22**	35	**30**	241,125	**207,273**
£20,001 to £40,000	1	**1**	7	**0**	8	**1**	161,933	**25,673**
£40,001 to £60,000	0	**0**	0	**0**	0	**0**	0	**0**
£100,001 to £150,000	0	**0**	0	**0**	0	**0**	0	**0**
Total	17	**9**	26	**22**	43	**31**	403,058	**232,946**

The total of termination payments made during 2021-22 has been charged to the Comprehensive Income and Expenditure Statement. The total cost of exit packages excludes £0.040 million relating to former members of staff who left the council in a previous year.

The information for 2020-21 has been restated to include Pay In Lieu of Notice and Pay in Lieu of Holiday. This has increased the cost of exit packages by £0.0125 million.

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.

	2020-21 £000	**2021-22 £000**

Fees payable with regard to external audit services carried out by the appointed auditor for the year (Ernst & Young LLP)	99	**159**
Additional fees payable with regard to external audit services carried out by the appointed auditor for the year (Ernst & Young LLP) paid in 2021-22 relating to 2020-21	38	**15**
Fees payable to the appointed auditor for certification of housing benefit subsidy grant claim and return for the year (KPMG)	8	**8**
Additional fees payable to the appointed auditor for certification of housing benefit subsidy grant claim and return for the year (KPMG) paid in 2021-22 relating to 2020-21	8	**11**
Total of fees payable to the appointed auditors	153	**193**

38. Dedicated schools grant

The council's expenditure on schools is funded primarily by grant monies provided by the Education and Skills Funding Agency, 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 and Early Years (England) (no 2) Regulations 2018. The Schools budget includes elements for a range of educational services provided on an council-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 2021-22	**Central expenditure £000**	**Individual schools budget £000**	**Total £000**
Final DSG for 2021-22 before academy and high needs recoupment			**104,150**
Academy and high needs figure recouped for 2021-22			**22,745**
Total DSG after academy and high needs recoupment for 2021-22			**81,405**
Plus: Brought forward from 2020-21			**0**
Less: Carry-forward to 2022-23 agreed in advance			**0**
Agreed initial budget distribution in 2021-22	**15,426**	**65,979**	**81,405**
In-year adjustments	**0**	**28**	**28**
Final budget distribution for 2021-22	**15,426**	**66,007**	**81,433**
Less: Actual central expenditure	**17,535**		**17,535**
Less: Actual ISB deployed to schools		**65,943**	**65,943**
Plus: Local authority contribution for 2021/22	**0**	**0**	**0**
In-year Carry forward to 2022-23	**(2,109)**	**64**	**(2,045)**
Plus: Carry-forward to 2022-23 agreed in advance			**0**
Carry-forward to 2022/23			**0**
DSG Unusable at the end of 2020/21			**(4,299)**
Addition to DSG unusable reserve at the end of 2021/22			**(2,045)**
Total of DSG unusable reserve at the end of 2021/22			**(6,344)**

Net DSG position at the end of 2021/22			**(6,344)**

The final DSG for 2021-22 includes academy and high needs funding. The recoupment figure for high needs is derived from commissioned places data during 2021-22 and academy recoupment is derived from the main school funding formula that was submitted to the DfE. The final allocation for the 2021-22 early years block will be made in July 2022 using the January 2022 census figures and any adjustments to be treated as an 'in year adjustment' for 2022-23.

Deployment of dedicated schools grant 2020-21	**Central expenditure £000**	**Individual schools budget £000**	**Total £000**
Final DSG for 2020-21 before academy and high needs recoupment			**97,714**
Academy and high needs figure recouped for 2020-21			**20,588**
Total DSG after academy and high needs recoupment for 2020-21			**77,126**
Plus: Brought forward from 2018-20			**0**
Less: Carry-forward to 2021-22 agreed in advance			**0**
Agreed initial budget distribution in 2020-21	**13,937**	**63,189**	**77,126**
In-year adjustments	**10**	**19**	**29**
Final budget distribution for 2020-21	**13,947**	**63,208**	**77,155**
Less: Actual central expenditure	**15,641**		**15,641**
Less: Actual ISB deployed to schools		**63,323**	**63,323**
Plus: Local authority contribution for 2020-21	**0**	**0**	**0**
In-year Carry forward to 2021-22	**(2,110)**	**64**	**(1,811)**
Plus: Carry-forward to 2021-22 agreed in advance			**0**
Carry-forward to 2021-22			**0**
DSG Unusable at the end of 2019-20			**(2,488)**
Addition to DSG unusable reserve at the end of 2020-21			**(1,811)**
Total of DSG unusable reserve at the end of 2020-21			**(4,299)**
Net DSG position at the end of 2020-21			**(4,299)**

The Local Authority (Capital Finance and Accounting) (England) (Amendment) Regulations 2020, SI 2020 No 1212 requires that where a local authority has a deficit in respect of its schools budget for the financial year beginning after 1st April 2020, the deficit must be shown as an unusable reserve, rather than a deficit earmarked reserve. The carry forward deficit balances at each year end are therefore classified as unusable reserves and included in note 28.

39. <u>Grant income</u>

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

Credited to taxation and non-specific grant income	2020-21 £000	**2021-22 £000**
Revenue grants:		
Revenue Support grant	(4,519)	**(3,642)**
Business rates top-up grant	(13,153)	**(11,695)**
New Homes bonus	(666)	**(501)**
Small business rate relief scheme s.31 grant	(3,408)	**(3,498)**
Business rates expanded retail discount and nursery relief s.31 grant	(12,713)	**(5,542)**
Other business rate relief schemes s31 grant	(847)	**(2,336)**
Extended rights to free travel	(257)	**(294)**
Housing Benefit administration	(487)	**(425)**
Council tax support administration	(179)	**(173)**
Local Reform/Community Voices	(110)	**(110)**
Troubled families (core grant)	(300)	**(400)**
Highways PFI grant	(19,428)	**(19,428)**
Social care in prisons grant	(221)	**(248)**
Independent Living Fund grant	(149)	**(149)**
Staying Put grant	(94)	**(94)**
Adult Social Care grant	(4,324)	**(5,125)**
School Improvement Monitoring/Brokering	(170)	**(155)**
Financial Transparency LA maintained schools	0	**(3)**
Virtual School grant	(30)	**(30)**
Covid-19 Local authority support grant	(6,372)	**(3,879)**
Income guarantee s.31 grant (council tax)	(83)	**0**
Income guarantee s.31 grant (business rates)	(275)	**0**
Covid-19 Income Support grant	(4,700)	**(563)**
Covid-19 LCTS Support	0	**(1,448)**
Lower Tier Services Grant	0	**(184)**
Capital grants:		
Department for Education grants	(8,648)	**(8,161)**
Department for Transport grants	(1,892)	**(2,878)**
Department for Health and Social Care grants	0	**(991)**
Other capital grants & contributions	(1,891)	**(4,212)**
Total	(84,916)	**(76,164)**

Credited to services	2020-21 £000	**2021-22 £000**

Dedicated schools grant	(77,154)	**(81,432)**
Sixth form funding grant	(3,188)	**(3,245)**
Rent allowance & rent rebates subsidy	(34,580)	**(32,612)**
Public health grant	(7,653)	**(7,719)**
Pupil premium grant	(4,131)	**(4,155)**
COVID-19 grants	(15,617)	**(9,638)**
Improved Better Care Fund grant	(5,232)	**(5,998)**
Other revenue grants	(9,801)	**(10,154)**
Revenue expenditure funded by capital under statute (REFCUS):		
Disabled facilities grant	(1,323)	**(1,281)**
Department for Education REFCUS grants	(2,236)	**(178)**
Other REFCUS grants	(199)	**(516)**
Total	(161,114)	**(156,928)**

The revenue grants listed above have been included in the Comprehensive Income and Expenditure Statement. Covid-19 related grants received from the Government where the council is deemed to be acting as an agent due to the eligibility being specified by the Government amount to a further £25.1 million. This includes £0.83 million relating to the Local Restrictions Support Grants. The income and related expenditure have been excluded from the Income and Expenditure Statement.

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	2020-21 £000	**2021-22 £000**
Department for Education grants (DfE)	(2,310)	**(3,926)**
Department for Transport grants (DfT)	(4,045)	**(2,676)**
Department for Business, Energy & Industrial Strategy grants (BEIS)	(3,047)	**(832)**
Ministry for Housing, Communities & Local Government grants (MHCLG)	(1,700)	**(8,278)**
Other grants & contributions	(398)	**(380)**
Total	(11,500)	**(16,092)**

Revenue grants & contributions receipts in advance	2020-21 £000	**2021-22 £000**
Energy Bills Support	0	**(8,872)**
BEIS business grant funding	(20,558)	**(10,263)**
Business rates s.31 grants (MHCLG)	(11,657)	**0**
Other Grants	(1,750)	**(1,325)**
Section 106 contributions	(1,829)	**(1,823)**
Total	(35,794)	**(22,283)**

The BEIS business grant funding relates to the various schemes in place during the Covid-19 lockdown periods which the council administered on behalf of BEIS.

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 Authority – it is responsible for providing the statutory framework within which the council operates, provides a significant element of its funding in the form of grants and prescribes the terms of many of the transactions that the council has with other parties (eg council tax bills, housing benefits). Grants received from government departments are detailed in note 40.

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 2021-22 is shown in note 35.

During 2021-22, payments to the value of £13.190 million were made to organisations where members or their families had declared an interest or employment including £7.945 million to educational facilities, £3.730 million to parish and town councils and £.753 million to the NHS with whom the council transacts as part of its day to day business. The remaining £0.762 million included a payments of £0.534 million to Visit Isle of Wight which related to the levy income collected by the council on their behalf.

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

Officers
During 2021-22 the Director of Children's Services was provided by Hampshire County Council as part of the strategic partnership arrangement that was approved in July 2013.

The Director of Finance and S151 officer is provided by Portsmouth City Council under a partnership arrangement approved in April 2016. This officer is also a council appointed Director of Access 4/20 Management Ltd and holds various Directorships as part of his role at Portsmouth City Council.

The Director of Public Health is provided by Hampshire County Council as part of a partnership agreement from April 2018.

Further details of these arrangements are shown in note 36.

The Chief Executive is a council appointed director for Access 4/20 Management Ltd.

The Team Manager for Licencing and Business Support in Regulatory Services is a council appointed Director of Pan Management CIC.

The Director of Regeneration is a council appointed Director of Access 4/20 Management Ltd, Sandy Lane (Oxford) Management Ltd, and IWight Homes Ltd.

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 funded 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 2021-22 financial statements.

During 2021-22 the council continued a service level agreement with the Isle of Wight NHS Trust to provide waste management services to the Trust, as a precursor to the development and implementation of a Joint

(Council / Trust) Waste Management Service. Although the value of the current arrangement is not material, the intention to form a multi-agency service could result in the need for a more detailed declaration in the future.

The council also has a strategic partnership agreement in place with Hampshire County Council for the provision of children's services, education and skills. The council remains accountable for the provision of these services and the associated budgets. Payments of £1.3m were made to Hampshire County Council in 2021-22 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 £0.522 million for expenses incurred in administering the funds.

<u>Entities Controlled or Significantly Influenced by the Authority</u>
Grants to other bodies of £3.66 million were made by the council during 2021-22. 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 is also now a minority shareholder in Perpetuus Energy and with no significant control or influence. This is the subject of a more detailed disclosure in the group accounts note 42.

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. During 2021-22, no disposals or developments were completed although planning and consents have commenced. This is the subject of a more detailed disclosure in the group accounts note 42.

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. The Council made a loan to the company during 2019-20. The council had no significant control or influence over the financial or operating decisions of the company during the 2021-22 financial year.

The council also holds shares in Access 4/20 Management Ltd and Sandy Lane (Oxford) Management Ltd, both companies limited by guarantee to manage the estate and service charges related to two commercial investment properties that the council purchased in 2018-19. This is the subject of a more detailed disclosure in the group accounts note 42.

In December 2019 the council established a wholly owned subsidiary – IWight Homes Ltd with 1 Director appointed from the councils senior management team. The council will have complete control over the strategic and operational decisions of the subsidiary, and this is the subject of a more detail disclosure in the group accounts note 41.

41. <u>Group accounts</u>

The council had previously invested £1 million over 2 years under a loan agreement repayable after 9 years, in a joint venture company known as Perpetuus Tidal Energy Centre Ltd, holding 15% of the ordinary shares in the company with rights to dividends and a position on the board. In September 2020, the council agreed to authorise PTEC to raise funds required to renew consenting licences by selling up to two thirds of the council's shareholding in the company. In addition, the council's original loan term was extended for 5 years, is now repayable alongside the other loan which capitalised the company and the council released its position on the PTEC Board. Although this means that the council will be foregoing its ability to 'direct' the work of the company and also the benefit of any future dividends from its shares, the council recognised that there is no likelihood of any dividend should the project fail at this juncture. These changes were also made in the spirit of the original intent for PTEC to create jobs and investment and put the Isle of Wight at the forefront of the renewable energy agenda.

The council has also formed a limited liability partnership (PSP Isle of Wight LLP which trades as IWight Developments) with Public Sector PLC Facilitating 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. The apportionment of costs from previous year spend has yet to be agreed and the future of the partnership is uncertain.

As part of the council's ownership of 4 commercial properties, the council also holds shares in Access 4/20 Management Ltd and Sandy Lane (Oxford) Management Ltd, both companies limited by guarantee set up to management the common estates and service charges for those properties. Access 4/20 Management Ltd is 100% owned by the council and therefore under accounting regulations, it is categorised as a subsidiary. The council holds 1 of 4 shares in Sandy Lane (Oxford) Management Ltd and this is therefore categorised as a joint venture. In both cases, the council would need to prepare group accounts, however this has not been necessary on materiality grounds in 2021-22 but will be considered each year and if appropriate they will be consolidated in the council's statement of accounts.

In December 2019 the council registered a limited liability company called IWight Homes Ltd as a wholly owned subsidiary of the council with 1 director appointed from the council's senior management team. No transactions have been undertaken in the 2021/22 financial year. As a wholly owned subsidiary, consolidation into the council's accounts would be required if transactions are considered to be material.

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.

	2020-21 £000	**2021-22 £000**
Balance brought forward	405,682	**405,512**
Adjustment to opening balance (aborted capital projects)	(360)	**(0)**
Adjusted opening balance	405,322	**405,512**
Capital investment:		
Property, plant and equipment	17,343	**22,976**
Intangible assets	52	**278**
Revenue expenditure funded from capital under statute	4,220	**2,028**
Highways PFI assets brought onto balance sheet	6,016	**2,506**
Finance lease assets brought onto balance sheet	0	**0**
Sources of finance:		
Capital receipts	(2,552)	**(1,886)**
Government grants and other contributions	(20,784)	**(20,031)**
Sums set-aside from revenue:		
Revenue contributions to capital	(4,105)	**(2,261)**

Statutory charge to revenue	0	**(5,171)**
Closing capital financing requirement	405,512	**403,951**
Explanation of movements in year		
Increase/(reduction) in underlying need to borrow (unsupported by government financial assistance)	(5,826)	**(4,067)**
Assets acquired under PFI contracts	6,016	**2,506**
Assets acquired under finance leases	0	**0**
Increase/decrease in capital financing requirement	190	**(1,561)**

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 2021-22 were £0.141 million (£0.288 million in 2020-21), charged to the comprehensive income and expenditure account as £0.014 million finance costs (charged to interest payable) and £0.141 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.

Carrying amount of assets	31 March 2021 £000	**31 March 2022 £000**
Balance at 1 April	745	**550**
Additions	0	**0**
Depreciation	(195)	**(116)**
Balance at 31 March	550	**434**

Liability	**Minimum lease payments**		**Present value of minimum lease payments**	
	31 March 2021 £000	**31 March 2022 £000**	31 March 2021 £000	**31 March 2022 £000**
Not later than one year	140	**140**	105	**112**
Later than one year and not later than five years	526	**386**	456	**344**
Later than 5 years	0	**0**	0	**0**
	666	**526**	561	**456**
Less: future finance charges	(105)	**(70)**	-	**0**
Total	561	**456**	561	**456**

Included in:	31 March 2021 £000	**31 March 2022 £000**
Current borrowings	105	**112**
Non-current borrowings	456	**344**
Total	561	**456**

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 2021 is £0.653 million based on discount contractual cash flows at the AA bond yield of the same remaining term.

Operating leases – Council as lessee

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 2021-22 were £1.345 million (£1.222 million in 2020-21), 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 2021-22 amounted to £0.897 million (£0.908 million in 2020-21).

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

Leases expiring	31 March 2021 £000	**31 March 2022 £000**
Not later than one year	513	**422**
Later than one year and not later than five years	699	**413**
Later than five years	2,689	**2,616**
Total	3,901	**3,451**

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

	2020-21 £000	**2021-22 £000**
Minimum lease payments	1,177	**1,291**
Contingent rents	45	**54**
Total	1,222	**1,345**
Sub-lease income receivable	(908)	**(897)**
Total	314	**448**

Operating leases - 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 2021-22 was £3.089 million (£3.205 million in 2020-21), 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 rental income received and capital appreciation from commercial property
- 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 2021 £000	**31 March 2022 £000**

Not later than one year	2,621	**2,583**
Later than one year and not later than five years	7,947	**6,958**
Later than five years	20,284	**19,566**
Total	30,852	**29,107**

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 2021-22 £0.153 million in contingent rents were received by the council (2020-21 £0.110 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 2021-22 were £12.437 million (£9.832 million in 2020-21) charged to the comprehensive income and expenditure statement as £8.883 million finance costs (charged to interest payable) and £3.553 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 £10.852 million (£10.426 million in 2020-21) and is charged to the Infrastructure and Transport service line in the comprehensive income and expenditure statement. Government grant of £19.428 million (£19.428 million in 2020-21) has been credited to taxation and non-specific grant income in the comprehensive income and expenditure statement.

The operator has the right to use highway assets defined as the project network. These include roads, footways, bridges and street lighting. The net book value of these assets at 31 March 2021 is £118.781 million and these are classified as service concession assets. The operator will hand back the project network in the condition defined by the council at expiry of contract.

As part of the services element of the contract, the operator will operate and maintain the project network, which includes maintenance on network to defined performance standards, street cleansing, grass cutting, winter maintenance and CCTV monitoring. A mechanism exists within the contract for the council to share in any efficiency gains and certain income generating activities undertaken by the service provider.

Within the provisions of the contract the council will notify the operator if it wishes to retender for the provision of services and/or transfer all it rights, title and interest in assets back to the council. Termination options are defined as voluntary termination by the council, service provider default, termination by the service provider, termination for corrupt gifts and fraud, or following a force majeure event. A compensation mechanism exists within the contract to deal with the various termination scenarios and this is based on the SOPC4 (standardisation of PFI contracts) wording.

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

	2020-21 £000	**2021-22** **£000**
Value at 1 April	129,866	**125,871**
Additions	6,016	**2,506**
Reclassifications	12	**0**
Revaluation gains	0	**0**
Depreciation	(9,196)	**(9,456)**

Derecognition and disposals	(827)	**(140)**
Total assets at 31 March	125,871	**118,781**

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

	2020-21 £000	**2021-22 £000**
Value at 1 April	101,138	**100,358**
Finance additions	0	**0**
Finance charge	9,052	**8,883**
Finance lease rental	(9,832)	**(12,436)**
Finance lease outstanding at 31 March	100,358	**96,805**

The finance lease outstanding of £96.804 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 2022, 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**
Not later than 1 year	4,691	8,535	11,728	1,702	1,239	**27,895**
Payable within 2 to 5 years	21,480	29,632	51,107	8,031	6,144	**116,394**
Payable within 6 to 10 years	28,690	25,336	68,301	30,283	4,631	**157,241**
Payable within 11 to 15 years	30,975	12,857	76,440	53,138	(1,511)	**171,898**
Payable within 16 to 20 years	10,969	623	11,992	10,403	2,317	**36,304**
Total	**96,805**	**76,983**	**219,568**	**103,557**	**12,820**	**509,733**

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 2022 is £142.702 million based on discount contractual cash flows at the AA bond yield of the same remaining term.

45. Revaluation losses

During 2021-22, the council has recognised revaluation losses of £4.235 million in relation to property, plant and equipment. The most significant losses relate to building assets at Binstead Primary School (£2.934 million), Barton Primary School (£1.02 million) and Godshill Primary School (£0.422 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 2021-22, the council paid £6.738 million to teachers' pensions in respect of teachers' retirement benefits. The employers' contribution rate was 23.68% of pensionable pay (2020-21 £6.620 million with a contribution rate of 23.68%). 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 48.

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 2021-22, the council paid £0.020 million (2020-21 £0.023 million) to NHS pensions in respect of retirement benefits, representing 16.88% 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 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.

With effect from 1 April 2021 the responsibility for the Fire-fighters' Pension Scheme was transferred to the Hampshire and Isle of Wight Fire and Rescue Service.

Transactions relating to post-employment benefits

The cost of retirement benefits is 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	
	2020-21	**2021-22**
Comprehensive Income & Expenditure Statement		
Cost of services:		
Current service cost	(19,746)	**(30,871)**

Past service costs (including curtailments)	(44)	**(56)**
Gain/loss from settlements	0	**0**
Financing and investment income and expenditure		
Interest cost on defined benefit liability	(15,041)	**(17,014)**
Interest income on plan assets	11,165	**11,517**
Movement on top-up grant repayable (to)/from Government	-	
Total post-employment benefit charged to the surplus or deficit on the provision of services	(23,666)	**(36,424)**
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)	81,963	**25,041**
Actuarial gains and losses arising on changes in demographic assumptions	(11,187)	**4,383**
Actuarial gains and losses arising on changes in financial assumptions	(169,553)	**57,104**
Other experience gains and losses	6,762	**(1,306)**
Total post-employment benefit charged to the comprehensive income and expenditure statement	(115,681)	**48,798**
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	8,946	**21,510**
Movement on top-up grant repayable to/(from) Government	-	
Actual amount charged against the general fund balance for pensions in the year:		
Employers' contributions payable to the scheme (including unfunded benefits)	14,720	**14,914**
Retirement benefits payable to pensioners (net of member contributions)	-	**-**

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	
	2020-21	**2021-22**
Present value of the defined benefit obligation	(844,830)	**(814,675)**
Fair value of plan assets	577,746	**611,303**
Net liability arising from defined benefit obligation	(267,084)	**(203,372)**

Reconciliation of fair value of the scheme assets:

	Local Government Pension Scheme £000	
	2020-21	**2021-22**
Opening fair value of scheme assets	486,901	**577,745**
Interest income	11,165	**11,517**

Re-measurement gains/loss:		
Return on plan assets excluding the amount included in the net interest expense	81,963	**25,041**
Contributions by employer	13,302	**13,528**
Contributions from plan participants	3,513	**3,584**
Contributions in respect of unfunded benefits paid	1,418	**1,386**
Benefits paid	(19,099)	**(20,112)**
Unfunded benefits paid	(1,418)	**(1,386)**
Contributions towards injury pensions	-	**-**
Injury award expenditure	-	**-**
Closing fair value of scheme assets	577,745	**611,303**

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

	Funded liabilities: Local Government Pension Scheme £000	
	2020-21	**2021-22**
Opening balance at 1 April	(653,024)	**(844,829)**
Current service cost	(19,746)	**(30,871)**
Interest cost	(15,041)	**(17,014)**
Contributions by scheme participants	(3,513)	**(3,584)**
Re-measurement gains/loss:		
Actuarial gains/losses arising from changes in demographic assumptions	(11,187)	**4,383**
Actuarial gains/losses arising from changes in financial assumptions	(169,553)	**57,104**
Other experience gains/loss	6,762	**(1,306)**
Past service costs (including curtailments)	(44)	**(56)**
Benefits paid	19,099	**20,112**
Unfunded benefits paid	1,418	**1,386**
Closing fair value of scheme liabilities	(844,829)	**(814,675)**

Local Government Pension Scheme assets comprised:

	Fair value of scheme assets			
	2020-21		**2021-22**	
	Quoted prices	Percentage of total assets	**Quoted prices**	**Percentage of total assets**
	£000	%	**£000**	**%**
In active markets				
Equity securities:				
Consumer	0.0	0.0%	0.0	0.0%
Energy & Utilities	0.0	0.0%	0.0	0.0%
Financial Institutions	0.0	0.0%	0.0	0.0%

Health & Care	0.0	0.0%	0.0	0.0%
Information Technology	0.0	0.0%	0.0	0.0%
Other	0.0	0.0%	0.0	0.0%
Real Estate	31,126.9	5.4%	**32,934.9**	**5.0%**
Investment Funds & Unit Trusts:				
Equities	326,828.6	56.6%	**345,812.3**	**57%**
Bonds	117,091.3	20.3%	**123,892.4**	**20%**
Other	102,698.2	17.7%	**108,663.4**	**18%**
Not in active markets				
Cash and cash equivalents	0.0	0.0%	**0**	**0.0%**
Total assets	577,745.0	100.0%	**611,303**	**100%**

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. Pension 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 2019.

The significant assumptions used the actuary have been:

	Local Government Pension Scheme	
	2020-21	**2021-22**
Mortality assumptions: (age 65 for Local Government Scheme):		
Longevity for current pensioners (years):		
Men	21.9	**21.7**
Women	24.2	**24.0**
Longevity for future pensioners (years):		
Men	22.9	**22.6**
Women	25.9	**25.7**
Pension increase rate (CPI)	2.9%	**3.2%**
Market derived RPI	3.4%	**3.7%**
Rate of increase in salaries	3.7%	**4.0%**
Rate for discounting scheme liabilities	2.0%	**2.7%**
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	-	**-**

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analysis below has 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 2022	**Approximate % increase to employer liability**	**Approximate monetary amount**
	%	**£000**
0.1% decrease in real discount rate	2	15,604
0.1% increase in the salary increase rate	0	1,207
0.1% increase in the pension increase rate	2	14,280

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).

<u>Impact on the council's cash flows</u>

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 2022.

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 2023 is £13.410 million

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

	Local Government Pension Scheme	
	Liability Split	
	£000	**%**
Active members	326,936.000	41.3%
Deferred members	183,650,000	23.2%
Pensioner members	280,376,000	35.4%
Total	**790,962,000**	**100.0%**

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

48. <u>Contingent liabilities</u>

Former council housing stock
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 in 1990, had a full survey been made on an individual property basis. The potential liability has not been quantified, but there is a diminishing probability of a claim against the council due to the time elapsed since the transfer.

49. Contingent asset

Bluebell Meadows
Under the terms of the development agreement between the council and Barratt Homes relating to residential land at Newport, Pan Estate (Bluebell Meadows) a guaranteed minimum payment of £4.7m at the end of the development was agreed in 2011. This calculation was based upon building costs and number of units built and is dependent on Barratts completing this development. Subsequent to this agreement the council and Barratt Homes are in discussions to transfer a number of units on this development in lieu of the guaranteed minimum payment.

The guaranteed minimum payment has not been recognised on the balance sheet as completion of the development is not wholly within the control of the council.

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 £0.0033 million at 31 March 2022 (£0.035 million on 31 March 2021).
- 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 £0.082 million at 31 March 2022 (£0.073 million on 31 March 2021). This fund is administered by Newport and Carisbrooke Community Council on behalf of the Isle of Wight Council.

	31 March 2021	**31 March 2022**
	£000s	**£000s**
Trust Funds etc	108	**115**
Cash in Safekeeping	2	**0.5**
Amenity Funds	33	**31.5**
Total	143	**147**

51. Reclassification 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). The Code's segmental reporting requirements for the comprehensive income and expenditure statement 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 financial performance is managed, monitored and reported by portfolio responsibilities. Following the May 2021 local council elections these portfolio responsibilities were changed to the extent that valid comparisons with the prior year figures cannot be made.

In addition, the functions of the Isle of Wight Fire and Rescue Service were transferred on 1 April 2021 to the Hampshire and Isle of Wight Fire and Rescue Authority. The net cost figure in 2020-21 therefore has no equivalent net cost in 2021-22.

In accordance with the requirements of IAS1 Presentation of Financial Statements, the 2020-21 comparators in the comprehensive income and expenditure statement have been restated on the revised portfolio reporting basis. Additionally, the net cost of the Fire and Rescue Service is shown separately below the continuing services line.

Previous portfolio reporting structure (as reported in the 2020-21 Statement of Accounts)	2020-21 Net Expenditure £000s	Revised portfolio reporting structure	2020-21 Net Expenditure £000s
Adult Social Care, Public health & Housing Needs	51,499	Adult Social Care & Public Health	49,146
Children's Services, Education & Skills	32,502	Children's Services, Education & Lifelong Skills	32,502
Community Safety & Public protection	9,223	Community Protection, Digital Transformation, Housing Provision & Housing Needs	12,334
Environment & Heritage	7,280	Environment, Heritage & Waste Management	8,849
Infrastructure & Transport	24,053	Highways PFI, Transport & Infrastructure	24,216
Leader & Strategic Partnerships	906	Leader & Strategic Partnerships	906
Planning & Housing Renewal	1,226	Planning & Community Engagement	868
Procurement, Projects & Forward Planning	4,715	Regeneration, Business Development & Tourism	(1,884)
Regeneration & Business Development	(4,679)	Strategic Finance, Corporate Resources & Transformational Change	10,780
Resources	16,728		
		Net cost of continuing services	137,717
		Fire & Rescue transferred to Hampshire & Isle of Wight Fire & Rescue Authority	5,736
Net cost of services	**143,453**	**Net Cost of services**	**143,453**

The 2020-21 comparative figures in the Expenditure and Funding Analysis and the associated note 7A have also been restated. These figures are contained within the restated Comprehensive Income and Expenditure Statement above.

The Segmental Income note 7B has been restated as follows:

Previous portfolio reporting structure (as reported in the 2020-21 Statement of Accounts)	2020-21 Income from Services £000s	Revised portfolio reporting structure	2020-21 Income from Services £000s
Adult Social Care, Public health & Housing Needs	(20,515)	Adult Social Care & Public health	(19,317)
Children's Services, Education & Skills	(3,694)	Children's Services, Education & Lifelong Skills	(3,694)
Community Safety & Public protection	(2,626)	Community Protection, Digital Transformation & Housing	(3,697)
Environment & Heritage	(1,862)	Environment, Heritage & Waste Management	(2,365)

Infrastructure & Transport	(5,256)	Highways PFI, Transport & Infrastructure	(5,261)
Leader & Strategic Partnerships	(17)	Leader & Strategic Partnerships	(17)
Planning & Housing Renewal	(1,496)	Planning & Community Engagement	(1,487)
Procurement, Projects & Forward Planning	(1,091)	Regeneration & Business Development	(7,390)
Regeneration & Business Development	(6,813)	Strategic Finance, Corporate Resources & Transformational Change	(4,639)
Resources	(4,659)		
		Income from continuing services	**(47,867)**
		Fire & Rescue transferred to Hampshire & Isle of Wight Fire & Rescue Authority	(162)
Total income analysed on a segmental basis	**(48,029)**	**Total income analysed on a segmental basis**	**(48,029)**

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

Property, Plant and Equipment with a net book value of £12.875 million was transferred to the Hampshire and Isle of Wight Fire and Rescue Authority on 1st April 2021. This reduction in asset values was offset by corresponding entries in the Revaluation Reserve and Capital Adjustment Account in the balance sheet.

The fire-fighters' pension reserve of £93.700 million, which is a non-usable reserve in deficit, was also transferred to the Hampshire and Isle of Wight Fire and Rescue Authority on 1st April 2021.This was offset by a corresponding reduction in long-term liabilities in the balance sheet.

Transfers to the Hampshire and Isle of Wight Fire and Rescue Authority have also been made in respect of the appropriate share as at 31 March 2021 of the council's general fund (£0.523 million) and earmarked reserves (£0.459 million). This has reduced the usable reserves in the balance sheet.

All of the entries relating to the transfer of the fire and rescue service impacting on the balance sheet have been accounted for as in-year adjustments and not prior period restatements.

52. Authorisation of accounts for issue

The Director of Finance and Section 151 officer authorised the draft financial statements for issue on 29 July 2022 and then re-authorised them following completion of the audit on xx March 2023

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.

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 balance sheet, but shows only the council's proportionate share of the relevant balances.

Collection Fund 2021-22	Business Rates	Council Tax	Total
	£000	£000	£000
Income			
Council Tax receivable (note CF3)		(113,231)	(113,231)
Business rates receivable (note CF1)	(27,310)		(27,310)
Total income	(27,310)	(113,231)	(140,541)
Apportionment of Previous Year Deficit (based on January 2021 estimate)			
Central Government	(12,473)		(12,473)
Isle of Wight Council	(12,444)	(1,102)	(13,546)
Police & Crime Commissioner		(138)	(138)
Hampshire & Isle of Wight Fire & Rescue Authority	(252)	(41)	(293)
	(25,169)	(1,281)	(26,450)
Precepts, Demands and Shares:			
Central Government (note CF1)	19,936		19,936
Isle of Wight Council (notes CF1 & CF3)	19,538	94,581	114,119
Police & Crime Commissioner (note CF3)		12,066	12,066
Hampshire & Isle of Wight Fire & Rescue Authority	399	3,752	4,151
	39,873	110,399	150,272
Charges to the Collection Fund:			
Write-offs of uncollectable amounts	188	333	521
Net (decrease)/increase in Bad Debt Allowance	(356)	1,872	1,516
Net increase in Provision for appeals (note CF6)	(945)		(945)
Cost of Collection	268		268
Renewable energy projects	387		387
Council tax section 13A discretionary relief		(81)	(81)
	(458)	2,124	1,666
(Surplus)/Deficit arising during the year	(13,064)	(1,989)	(15,053)
(Surplus)/Deficit brought forward at 1 April	25,991	2,295	28,286
(Surplus)/Deficit carried forward at 31 March (notes CF4 & CF5a)	12,927	306	13,233
(Surplus)/Deficit allocated to:			
Isle of Wight Council	6,594	264	6,858
Central Government	6,464		6,464
Police and Crime Commissioner		32	32
Hampshire & Isle of Wight Fire & Rescue Authority	(131)	10	(121)
Total	12,927	306	13,233

Collection Fund 2020-21 (comparative year)	**Business Rates**	**Council Tax**	**Total**
	£000	**£000**	**£000**
Income			
Council Tax receivable (note CF3)		(105,363)	(105,363)
Business rates receivable (note CF1)	(16,346)		(16,346)
Total income	(16,346)	(105,363)	(121,709)
Apportionment of Previous Year Surplus (based on January 2020 estimate)			
Central Government	29		29
Isle of Wight Council	375	220	595
Police & Crime Commissioner		26	26
	404	246	650
Precepts, Demands and Shares:			
Central Government (note CF1)	19,517		19,517
Isle of Wight Council (notes CF1 & CF3)	19,517	94,437	113,954
Police & Crime Commissioner (note CF3)		11,386	11,386
	39,034	105,823	144,857
Charges to the Collection Fund:			
Write-offs of uncollectable amounts	237	316	553
Net (decrease)/increase in Bad Debt Allowance	925	1,929	2,854
Net increase in Provision for appeals (note CF6)	1,101		1,101
Cost of Collection	266		266
Renewable energy projects	329		329
Council tax section 13A discretionary relief		(1,112)	(1,112)
	2,858	1,133	3,991
(Surplus)/Deficit arising during the year	25,950	1,839	27,789
(Surplus)/Deficit brought forward at 1 April	41	456	497
(Surplus)/Deficit carried forward at 31 March (notes CF4 & CF5a)	25,991	2,295	28,286
Allocated to:			
Isle of Wight Council	13,107	2,048	15,155
Central Government	12,884		12,884
Police and Crime Commissioner		247	247
Total	25,991	2,295	28,286

Notes to the collection fund

CF1. 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 2020-21 the Isle of Wight Council's share was 50%, with the other 50% paid to central government as preceptor. For 2021-22 and following the creation of the Hampshire and Isle of Wight Fire and Rescue Authority on 1 April 2021, the new fire authority has been allocated a 1% share, with the council's share reducing to 49% and the central government share being 50%.

Business rates income since 2017-18 has been based on the 2017 valuation list which superseded the 2010 valuation list on 1 April 2017. The total of business rates payable for 2021-22 was estimated before the start of the financial year as £39.873 million (£39.034 million in 2020-21). This is shared between the council (£19.538 million), the Hampshire and Isle of Wight Fire and Rescue Authority (£0.399 million) and central government (£19.936 million) and 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 £11.695 million in 2021-22 (£13.153 million in 2020-21) which is credited to the general fund (see note 40). The increase in the top-up grant is due to the funding changes resulting from the reduction in the retention rate.

The business rates collection fund deficit for 2021-22 is much smaller than in previous years. This is primarily as a result of businesses being awarded expanded retail and nursery reliefs in 2020-21 totalling £10.659 million (£24.447 million in 2020-21) as part of the Governments response to the Covid-19 pandemic.

The reliefs effectively reduce the net amount the council can collect from businesses. The total income from business ratepayers collectable in 2021-22 was £27.098 million (£16.164 million in 2020-21). As the precept amounts cannot be changed the result is a considerable deficit. For 2020-21 such large losses were funded by the Government through section 31 grants and are credited to the council's general fund especially in the case. In respect of 2021-22 there has been a significant decrease in Section 31 grants compared to 2020-21 indicating that the Government believes businesses require less support and a belief that the Council would collect more Rateable Income from businesses.

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 2022. In addition to appeals made on the 2017 valuation list, there are also outstanding appeals on the 2010 valuation list. A successful appeal on the 2010 valuation list is likely to result in a backdated adjustment for any overpayment due. The total provision charged to the collection fund at 31 March 2022 is £8.148 million (£9.092 million at 31 March 2021). This amount is included in short-term provisions in the balance sheet (note CF6).

The total business rate rateable value at 31 March 2022 is £112.048 million (111.801 million at 31 March 2021). The business rate multiplier for 2021-22 was frozen at the 2020-21 level and is 51.2p (51.2p in 2020-21). A reduced multiplier of 49.9p (49.9p in 2020-21) is applicable where there is eligibility for small business rate relief.

The gross yield for the year is £55.574 million (£55.666 million in 2020-21) and the net yield was £27.310 million (£16.346 million in 2020-21). Several nationally defined adjustments and reliefs contribute towards this reduction as shown below:-

	2020-21		**2021-22**	
	£000	£000	**£000**	**£000**

Gross Business rate yield at 31 March		55,666		**55,574**
Less:-				
Mandatory/discretionary relief granted	(28,521)		**(16,975)**	
Empty rate relief	(1,199)		**(1,273)**	
Small Business Rate relief	(9,600)		**(10,016)**	
		(39,320)		**(28,264)**
Net Business rate yield at 31 March		16,346		**27,310**

CF2. 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 2021-22 was 53,279.6 (53,842.7 in 2020-21). The reduction in the tax base is principally due to an anticipated increase in the number of local council tax support scheme discounts arising the economic consequences of the Covid-19 pandemic.

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
		2020-21		**2021-22**	
Band A (disabled)	5/9	7.4	4.1	**7.0**	**3.9**
Band A	6/9	6,669.6	4,446.4	**6,555.2**	**4,370.1**
Band B	7/9	13,841.0	10,765.2	**13,630.4**	**10,601.4**
Band C	8/9	14,545.7	12,929.5	**14,465.0**	**12,857.8**
Band D	9/9	11,698.9	11,698.9	**11,586.6**	**11,586.6**
Band E	11/9	6,468.2	7,905.6	**6,455.0**	**7,889.4**
Band F	13/9	2,946.3	4,255.8	**2,922.3**	**4,221.1**
Band G	15/9	1,410.6	2,351.0	**1,404.3**	**2,340.5**
Band H	18/9	111.5	223.0	**110.1**	**220.2**
Total		57,699.2	54,579.5	**57,135.9**	**54,091.0**
Less reduction for bad debts & valuation changes			(736.8)		**(811.4)**
Council tax base			53,842.7		**53,279.6**
Council tax per band D property (£)			1,663.05		**1,680.82**
Isle of Wight Council: Council tax precept (£000)			89,543		**89,553**

CF3. Precepts made on the fund (Council tax)

	2020-21		**2021-22**	
	£000	£000	**£000**	**£000**
Isle of Wight Council: Council tax requirement (note CF2)	89,543		**89,553**	
Parish & Town Council precepts	4,894		**5,028**	
Isle of Wight Council precept (including Parish & Town Councils)		94,437		**94,581**
Share of estimated collection fund surplus/(deficit) at 31 March in previous year		220		**(1,102)**
Isle of Wight Council: budget requirement		94,657		**93,479**
Hampshire & Isle of Wight Fire & Rescue Authority: Council tax requirement	-		**3,752**	
Share of estimated collection fund surplus/(deficit) at 31 March in previous year	-		**(41)**	
Hampshire & Isle of Wight Fire & Rescue Authority: budget requirement		-		**3,711**
Police & Crime Commissioner: Council tax requirement	11,386		**12,066**	
Share of estimated collection fund surplus/(deficit) at 31 March in previous year	26		**(138)**	
Police & Crime Commissioner: budget requirement		11,412		**11,928**
Total precepts and shares of estimated collection fund surplus/(deficit) at 31 March in previous year		106,069		**109,118**

Council Tax income analysis

	2020-21	**2021-22**
	£000	**£000**
Council Tax gross debit	129,577	**137,406**
Discounts	(10,727)	**(11,528)**
Exemptions	(2,084)	**(2,361)**
Council Tax Support	(11,403)	**(10,285)**
Council Tax income	105,363	**113,232**

Council Tax surplus/(deficit) analysis

	2020-21		**2021-22**	
	£000	£000	**£000**	**£000**
Net debit (actual)	105,363		**113,231**	
Less: Net debit (estimated)	106,069		**109,118**	
Increase/(reduction) in net debit		(706)		**4,113**
Contribution to allowance for bad debts		(2,245)		**(2,204)**
Council tax section 13A discretionary relief		1,112		**79**
Collection Fund surplus/(deficit) brought forward		(456)		**(2,294)**
Council Tax deficit carried forward		(2,295)		**(306)**

CF4. 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)

2020-21: comparative year	Isle of Wight Council £000	Police & Crime Commissioner £000	Total £000
Demand/Precept	94,657	11,412	106,069
Share of 2020-21 in-year deficit (note 28)	(1,641)	(197)	(1,838)
Total (note 13)	93,016	11,215	104,231
Share of deficit carried forward at 31 March 2021	(2,047)	(247)	(2,294)

2021-22	Isle of Wight Council £000	Hampshire & IOW Fire & Rescue £000	Police & Crime Commissioner £000	Total £000
Demand/Precept	**93,479**	**3,712**	**11,928**	**109,119**
Share of 2021-22 in-year deficit (note 28)	**1,784**	**(9)**	**214**	**1,989**
Total (note 13)	**95,263**	**3,703**	**12,142**	**111,108**
Share of deficit carried forward at 31 March 2022	**(264)**	**(9)**	**(32)**	**(305)**

CF5a. Reconciliation with Isle of Wight Council's note 13 to the comprehensive income and expenditure statement (Business Rates)

2020-21 (Comparative year)	Isle of Wight Council £000		Central Government £000		Total £000	
Estimate of 2020-21 business rates income at 31 January 2020		19,517		19,517		39,034
Add: share of surplus at 31 March 2020 (estimated at 31 January 2020)		375		29		404
Share of actual deficit at 31 March 2020	(41)		82		41	
Share of 2020-21 deficit carried forward at 31 March 2021	(13,107)		(12,884)		(25,991)	
Share of 2020-21 in-year deficit		(13,148)		(12,802)		(25,950)
Renewable energy rates retained		329		-		329
Total Business rate income (note 13)		7,073		6,744		13,817

2021-22	Isle of Wight Council £000		Hampshire & IOW Fire & Rescue £000		Central Government £000		Total £000	
Estimate of 2021-22 business rates income at 31 January 2021		**19,538**		**399**		**19,936**		**39,873**
Add: share of deficit at 31 March 2021 (estimated at 31 January 2021)		**(12,444)**		**(252)**		**(12,473)**		**(25,169)**
Share of actual deficit at 31 March 2021	**13,107**		**-**		**12,884**		**25,991**	
Share of 2021-22 deficit carried forward at 31 March 2022	**(6,594)**		**131**		**(6,463)**		**(12,926)**	
Share of 2021-22 in-year deficit		**6,513**		**131**		**6,421**		**13,065**
Renewable energy rates retained		**387**		**0**		**0**		**387**
Total Business rate income (note 13)		**13,994**		**278**		**13,884**		**28,156**

CF5b. <u>Reconciliation with Isle of Wight Council's note 28 Collection Fund adjustment account (Business rates)</u>

The figure shown in note 28 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. The business rates income from specified renewable energy projects is retained by the council, as permitted by regulations.

	2020-21 £000	**2021-22 £000**
Share of deficit/(surplus) brought forward at 1 April reversed in year	**(41)**	**13,107**
Renewable energy rates retained brought forward at 1 April reversed in year	**14**	**(51)**
Share of deficit at 31 March	**(13,107)**	**(6,594)**
Renewable energy rates retained at 31 March (difference between estimate and actual)	**51**	**59**
Total (note 28)	**(13,083)**	**6,521**

CF6. Appeals provision (business rates)

	2020-21				**2021-22**			
	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		(7,992)		(5,994)		**(9,092)**		**(4,547)**
IWC retention share reduced from 75% to 50%		-		1,998		**-**		**-**
Charged to provision	1,337		668		**4,133**		**2,025**	
Transfer (to)/from provision	(2,857)		(1,429)		**(3,188)**		**(1,470)**	
Released back to Collection Fund	420		210		**0**		**0**	
Net (increase)/decrease in provision		(1,100)		(551)		**945**		**555**
Balance carried forward		(9,092)		(4,547)		**(8,148)**		**(3,992)**

ISLE OF WIGHT COUNCIL FIREFIGHTERS' PENSION FUND

With effect from 1st April 2021, the Isle of Wight Council Fire and Rescue Service combined with the Hampshire Fire and Rescue Service to form the new Hampshire and Isle of Wight Fire and Rescue Authority.

All matters relating to Firefighters' Pensions became the responsibility of the new combined Fire Service from this date.

The top-up grant £0.574 million showing in the 2020-21 Statement of Accounts as due from the government at 31 March 2021 has been received.

ISLE OF WIGHT COUNCIL PENSION FUND

2020-21 £000	FUND ACCOUNT	Notes	2021-22 £000
	Dealings with members, employers and others directly involved in the fund		
20,357	Contributions	7	21,015
585	Transfers in from other pension funds	8	953
10	Other income	9	15
20,952			21,983
(22,369)	Benefits	10	(24,067)
(687)	Payments to and on account of leavers	11	(895)
(23,056)			(24,962)
(2,104)			**(2,979)**
(7,166)	Management expenses	12	**(5,674)**
	Returns on investments		
19,112	Investment income	13	14,156
(14)	Taxes on income	14	-
119,220	Profit and losses on disposal of investments and changes in the value of investments	17A	32,125
(56)	Interest payable	16	(5)
138,262	Net returns on investments		**46,276**
128,992	**Net increase/(decrease) in the net assets available for benefits during the year**		**37,623**
561,705	Opening Net Assets of the Scheme		690,697
690,697	Closing Net Assets of the Scheme		**728,320**

ISLE OF WIGHT COUNCIL PENSION FUND

2021 £000	NET ASSETS STATEMENT AS AT 31 MARCH	Notes	2022 £000
695,385	Investment assets	17	709,786
-	Cash deposits	17	14,003
695,385			**723,789**
-	Investment liabilities	17	-
(5,500)	Short-term borrowings	19A	-
155	Long-term assets	23	183
1,138	Current assets	24	4,935
(481)	Current liabilities	25	(587)
690,697	**Net assets of the fund available to fund benefits at the period end**		**728,320**

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 2021-22 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 pensionable employees of Isle of Wight Council, 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 the terms of an admission agreement between the fund and the employer. Admitted bodies include voluntary, charitable and similar not-for-profit organisations 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 2022 are:

Cowes Town Council	Northwood Primary Academy
Cowes Enterprise College, an Ormiston Academy	Ryde Academy
Gurnard Parish Council	Ryde Town Council
Isle of Wight College	Sandown Town Council
Isle of Wight Free School	Shanklin Town Council
Lanesend Primary Academy	St Blasius Primary Academy
Newport and Carisbrooke Community Council	St Francis Academy
Northwood Parish Council	Wootton Bridge Parish Council

The admitted bodies of the fund with active members at 31 March 2022 are:

- Accomplish Group Ltd
- Barnados
- Caterlink
- CleanTEC (new)
- Cowes Harbour Commissioners
- Island Roads Limited
- RM Ltd
- Solutions 4 Health
- Southern Housing Limited
- Southern Vectis
- Sovereign Housing Limited
- Top Mops Ltd
- Ventnor Botanic Gardens
- Yarmouth (IW) Harbour Commissioners

The membership of the scheme is shown below:

Year ended 31 March 2022

	Administering Authority	Scheduled Bodies	Admitted Bodies	Total
Number of employers with active members	1	16	14	**31**
Number of contributors (Active members)	3,637	589	88	**4,314**
Number of frozen refunds 1	840	103	4	**947**
Number of deferred pensioners 2	5,575	646	123	**6,344**
Number of pensioners/ widows/dependant pensioners	4,719	360	214	**5,293**
	14,771	**1,698**	**429**	**16,898**

Year ended 31 March 2021

	Administering Authority	Scheduled Bodies	Admitted Bodies	Total
Number of employers with active members	1	16	15	**32**
Number of contributors (Active members)	3,678	583	102	**4,363**
Number of frozen refunds 1	520	12	4	**536**
Number of deferred pensioners 2	5,911	707	128	**6,746**
Number of pensioners/ widows/dependant pensioners	4,541	328	204	**5,073**
	14,650	**1,630**	**438**	**16,718**

[1] Frozen refunds are former employees who do not have any pension entitlement apart from a return of the contributions paid into the Fund 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 Fund but has not yet reached retirement age to enable them to access their benefits or transferred their accrued rights to another Fund/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 2022 are detailed below.

Range (Actual pensionable pay)	Contribution rate
Up to £14,600	5.50%
More than £14,601 and up to £22,900	5.80%
More than £22,901 and up to £37,200	6.50%
More than £37,201 and up to £47,100	6.80%
More than £47,101 and up to £65,900	8.50%
More than £65,901 and up to £93,400	9.90%
More than £93,401 and up to £110,000	10.50%
More than £110,001 and up to £165,000	11.40%
More than £165,001	12.50%

Employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2019. 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 increased annually in line with the Consumer Prices Index.

A range of other benefits are also provided including early retirement, disability pensions and death benefits. as explained on the LGPS website – see www.lgpsmember.org. For more details, please refer to the Pension Fund website: http://www.isleofwightpensionfund.org/

2. BASIS OF PREPARATION

The Statement of Accounts summarises the fund's transactions for the 2021-22 financial year and its position at 31 March 2022. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2021-22* which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts report on the net assets available to pay pension benefits. They 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.

The accounts have been prepared on a going concern basis. Isle of Wight Council remains satisfied the LGPS that it administers continues to be a going concern, with detailed consideration of the period up to the twelve months from the date of approval of these accounts.

The Pension Fund's latest actuarial valuation, as at 31 March 2019, showed it to be 95% funded – an increase from the position 3 years prior of 92%. Investment markets were impacted by the effect of the Russian invasion of Ukraine in February 2022 and the increase in the cost of living. The Fund will be undertaking the next scheduled triennial valuation as at 31 March 2022 and will implement an agreed recovery period in its Funding Strategy Statement, should this be necessary, to make good any funding deficit that may arise as a result of this exercise.

The vast majority of employers in the pension scheme (92% of the Fund by active membership, are scheduled bodies excluding Further and Higher Education employers) have secure public sector funding, and therefore there should be no doubt in their ability to continue to make their pension contributions.

Following the latest actuarial valuation and schedule of employer contribution payments, the Pension Fund has reviewed its cashflow forecast and is confident in its ability to meet its ongoing obligations to pay pensions from its cash balance. In the unlikely event that investments need to be sold, 89.5% of the Fund's investments can be converted into cash within 3 months.

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 as follows:

- Employees contribution rates are set in accordance with LGPS regulations, using common percentage rates for all schemes which rise according to pensionable pay.
- Employer contributions are set at the percentage rate recommended by the fund actuary for the period to which they relate.

Employer deficit funding contributions are accounted for on the basis advised by the fund actuary in the rates and adjustment certificate issued to the relevant employing body.

Additional employers' contributions in respect of ill-health and early retirements are accounted for in the year the event arose. 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 or 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 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.

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 value of investments

Changes in the 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, providing that payment has been approved.

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 fund discloses its pension fund management expenses in accordance with the CIPFA guidance *Accounting for Local Government Pension Scheme Management Costs (2016),* as shown below. All items of expenditure are charged to the fund on an accruals basis as follows:

Administrative expenses

All staff costs relating to the pension's administration team are charged direct to the fund. Council recharges for management, accommodation and other overhead costs are also accounted for as administrative expenses of the fund.

Oversight and governance costs

All costs associated with governance and oversight are separately identified, apportioned to this activity and charged as expenses to the fund.

Investment management expenses

Investment fees are charged directly to the fund as part of management expenses and are not included in, or netted off from, the reported return on investments. Where fees are netted off returns by investment managers, these expenses are grossed up to increase the change in market value of investments.

Fees charged by external investment managers and custodians are set out in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

Where an investment manager's fee note has not been received by the year-end 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 2021-22 no fees are based on such estimates (2020-21: nil)

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

A proportion of the 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

All investment assets are included in the financial statements on a fair value basis as 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. Any amounts due or payable in respect of trades entered into, but not yet complete, at 31 March each year as accounted for as financial instruments held at amortised and reflected in the reconciliation of movements in investments in Note 17A.

Any gains or losses on investment sales arising from changes in the fair value of the asset are recognised in the fund account.

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, 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.

All cash balances 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
A financial liability is recognised in the net assets statement on the date the fund becomes legally responsible for that liability. The fund recognises financial liabilities relating to investment trading at fair value and any gains or losses arising from changes in the fair value of the liability between contract date, the year-end date and the eventual settlement date are recognised in the fund account as part of the change in value of investments.

Other financial liabilities classed as amortised cost are carried in the net asset statement at the value of the outstanding principal at 31 March each year. Any interest due not yet paid is accounted for on an accruals basis and included in administration costs.

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
The 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 for information in 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, as administering authority for the pension fund.
- 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, as administering authority for the pension fund.
- 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 based on 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) Contingent Liabilities and Contingent Assets

A contingent liability arises where an event prior to the year-end has created a possible financial obligation whose existence will only be confirmed or otherwise by 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 giving rise to a possible asset, whose existence will only be confirmed or otherwise by future events.

Contingent assets and liabilities are not recognised in the net asset statement but disclosed by way of a narrative in the notes (see note 28).

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 reported. Estimates and assumptions take account of historical experience, current trends and future expectations, however actual outcomes could differ from the assumption and estimates made.
The items in the net assets statement at 31 March 2022 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 (Note 22)	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, salary increases, changes in retirement ages, mortality rates and returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	For instance: A 0.1% decrease in the discount rate assumption would result in a increase in the pension fund deficit of £18m. A 0.1% increase in assumed earnings inflation would increase the deficit by approximately £1m. A 0.1% increase in assumed price inflation/pension increases would increase the deficit by approximately £16m. A one-year increase in assumed life expectancy would increase the deficit by approximately £37m
Pooled Property Funds (Note 18)	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 property-based investments.

Private Debt (Note 18)	These investments are valued at fair value in accordance with *International Private Equity and Venture Capital Valuation Guidelines* (December 2018), based on the fund manager valuations as at the end of the reporting period. These Investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	Private Debt investments are valued at £23.6m in the financial statements. There is a risk that this investment may be over or understated in the accounts.
Infrastructure (Note 18)	These investments are valued at fair value in accordance with *International Private Equity and Venture Capital Valuation Guidelines* (December 2018), based on the fund manager valuations as at the end of the reporting period. Investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	Infrastructure investments are valued at £7.8m in the financial statements. There is a risk that this investment may be over or understated in the accounts. The fund made its initial investment in July 2021.

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 additional information about conditions that existed at the end of the reporting period (adjusting events) and
- those that relate to events occurring after the reporting period (non-adjusting events)

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:

2020-21 £000		2021-22 £000
4,147	Employees' normal contributions	4,277
10	Employees' additional contributions	5
4,157		**4,282**
15,406	Employers' normal contributions	15,951
170	Employers' deficit recovery contributions	158
624	Employers' augmentation contributions	624
16,200		**16,733**
20,357		**21,015**

By type of employer:

2020-21 £000		2021-22 £000
16,816	Administering authority	17,364
2,256	Scheduled bodies	2,322
1,285	Admitted bodies	1,329
20,357		**21,015**

8. TRANSFERS IN FROM OTHER PENSION FUNDS

2020-21 £000		2021-22 £000
-	Group transfers	-
585	Individual transfers	953
585		**953**

9. OTHER INCOME

2020-21 £000		2021-22 £000
10	Miscellaneous income	15
10		**15**

10. BENEFITS PAYABLE

By category:

2020-21 £000		2021-22 £000
19,783	Pensions	20,110
2,208	Commutation and lump sum retirement benefits	3,207
378	Lump sum death benefits	750
22,369		**24,067**

By type of employer:

2020-21 £000		2021-22 £000
19,729	Administering authority	20,824
1,155	Scheduled bodies	1,422
1,485	Admitted bodies	1,821
22,369		**24,067**

11. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2020-21 £000		2021-22 £000
58	Refund to members leaving service	80
-	Group transfers	-
629	Individual transfers	815
687		**895**

12. MANAGEMENT EXPENSES

2020-21 £000		2021-22 £000
494	Administrative costs	557
6,194	Investment management expenses	4,562
478	Oversight and governance costs	555
7,166		**5,674**

12A. INVESTMENT MANAGEMENT EXPENSES

2021-22	Total £'000	Management Fees £'000	Performance Related Fees £'000	Transaction Fees £'000
Bonds	366	278	-	88
Equities	-	-	-	-
Pooled Investments *	2,623	1,903	-	720
Pooled Property Investments	554	449	-	105
Private Debt	242	105	104	33
Infrastructure	752	718	-	34
	4,537	**3,453**	**104**	**980**
Custody Fees	25			
Total	**4,562**			

'* Included £2.6m charged to the pension fund by ACCESS regional asset pool (£4.3m in 2020-21)

2020-21	Total £'000	Management Fees £'000	Performance Related Fees £'000	Transaction Fees £'000
Bonds	433	280	-	153
Equities	633	257	-	376
Pooled Investments *	4,284	1,399	-	2885
Pooled Property Investments	607	254	-	353
Private Debt	219	29	40	150
	6,176	**2,219**	**40**	**3,917**
Custody Fees	18			
Total	**6,194**			

13. INVESTMENT INCOME

2020-21 £000		2021-22 £000
2,672	Income from equities	-
	Income from pooled investment vehicles:	
3,552	- ACCESS Global Equity	2,801
209	- ACCESS UK Equity	2,273
701	- ACCESS Diversified Growth	1,597
1,141	- Property	1,398
4,135	- Bonds	3,779
47	- Unit Trusts	-
124	- Private Debt	1,059
-	- Infrastructure	1,252
-	- Interest on cash deposits	3
6,531	- Other	(6)
19,112		**14,156**

14. TAXATION

2020-21 £000		2021-22 £000
14	Withholding tax - equities	-
14		**-**

15. EXTERNAL AUDIT COSTS

2020-21 £000		2021-22 £000
23	Payable in respect of external audit	62
23		**62**

16. INTEREST PAYABLE

2020-21 £000		2021-22 £000
56	Interest on short term borrowing	5
56		**5**

17. INVESTMENTS

Market value 31 March 2021 £000		Market value 31 March 2022 £000
	Investment assets	
-	**Equities**	-
-	**Unit Trust**	-
	Pooled Investment Vehicles	
144,137	Pooled UK Equity	99,534
249,157	Pooled Global Equity	288,761
140,911	Pooled Fixed Income unit trusts	113,532
114,514	Pooled Diversified Growth Fund	131,952
648,719		**633,779**
	Other Investments	
37,459	Pooled Property Investments	44,453
9,186	Private Debt	23,605
-	Infrastructure	7,949
46,645		**76,007**
-	Cash deposits	14,003
-	Investment income due	-
-	Amounts receivable for sales	-
21	Recoverable withholding tax	-
21		**14,003**
695,385	**Total investment assets**	**723,789**
	Investment liabilities	
-	Amounts payable for purchases	-
-	**Total investment liabilities**	**-**
695,385	**Net investment assets**	**723,789**

17A. RECONCILIATION OF MOVEMENTS IN INVESTMENTS

	Market value 01/04/21	Purchases during year	Sales during year	Change in Mkt value	**Mkt Value 31/03/22**
	£000	£000	£000	£000	£000
Equities	**-**	-	-	-	**-**
Unit Trusts	**-**	-	-	-	**-**
Pooled Investment Vehicles	**648,719**	150,376	(190,468)	25,152	**633,779**
Pooled Property Investments	**37,459**	1,240	(105)	5,859	**44,453**
Private Debt	**9,186**	15,573	(2,031)	877	**23,605**
Infrastructure	**-**	11,544	(3,340)	(255)	**7,949**
	695,364	**178,733**	**(195,944)**	**31,633**	**709,786**
Cash deposits	**-**			492	**14,003**
Amounts receivable for sales of investments	**-**			-	**-**
Investment income due	**-**			-	**-**
Recoverable withholding tax	**21**			-	**-**
Amounts payable for purchases of investments	**-**			-	**-**
Net investment assets	**695,385**			**32,125**	**723,789**

	Market value 01/04/20	Purchases during year	Sales during year	Change in Mkt value	**Mkt Value 31/03/21**
	£000	£000	£000	£000	£000
Equities	**104,665**	41,906	(157,864)	11,293	**-**
Unit Trusts	**7,331**	47	(9,330)	1,952	**-**
Pooled Investment Vehicles	**415,419**	154,236	(25,629)	104,693	**648,719**
Pooled Property Investments	**35,053**	1,826	(242)	822	**37,459**
Private Debt	**-**	9,049	(70)	207	**9,186**
Infrastructure	**-**				**-**
	562,468	**207,064**	**(193,135)**	**118,967**	**695,364**
Cash deposits	**5,275**			253	**-**
Amounts receivable for sales of investments	**834**			-	**-**
Investment income due	**223**			-	**-**
Recoverable withholding tax	**35**			-	**21**
Amounts payable for purchases of investments	**(403)**			-	**-**
Net investment assets	**568,432**			**119,220**	**695,385**

17B. INVESTMENTS ANALYSED BY FUND MANAGER

Market value 31 March 2021 £000	%		Market value 31 March 2022 £000	%
Investments Managed by ACCESS pool:				
249,157	35.8%	ACCESS – Global Equities - Newton	149,384	21.1%
114,514	16.5%	ACCESS - Diversified Growth - Baillie Gifford	113,532	16.0%
144,137	20.7%	ACCESS - UK Equities - Liontrust (Majedie)	99,534	14.0%
-	0.0%	UBS Life Climate Aware World Equity Fund	139,377	19.6%
507,808	**73.0%**		**501,827**	**70.7%**
Investments Managed outside ACCESS pool:				
140,911	20.3%	Schroder Investment Management – Bonds	131,952	18.6%
37,459	5.4%	Schroder Investment Management – Property	44,453	6.3%
9,186	1.3%	Goldman Sachs - Private Debt	23,605	3.3%
-	0.0%	Partners Investment - Infrastructure	7,949	1.1%
187,556	**27.0%**		**207,959**	**29.3%**
695,364	**100.0%**		**709,786**	**100.0%**
21	0.0%	Recoverable withholding tax	-	0.0%
695,385	**100.0%**		**709,786**	**100.0%**

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

Market value 31 March 2021 £000	%		Market value 31 March 2022 £000	%
249,157	36.07%	ACCESS – Overseas Equities - Newton	149,384	20.52%
-	0.00%	UBS Life Climate Aware World Equity Fund	139,377	19.14%
140,911	20.40%	Schroder Institutional Sterling Broad Market X Account	131,952	18.12%
114,514	16.58%	ACCESS - Diversified Growth - Baillie Gifford	113,532	15.59%
144,137	20.87%	ACCESS - UK Equities - Liontrust	99,534	13.67%
37,459	5.42%	Schroder UK Property Fund	44,453	6.11%

17C. STOCK LENDING

The fund's investment strategy sets the parameters for its stock-lending programme.
Prior to joining the ACCESS pool, the fund did not undertake stock lending.
Since transitioning to the pool, the fund participates in a collateralised stock lending programme undertaken for each of the sub-funds by the pool's custodian, Northern Trust.
At the year-end, the value of quoted equities on loan was £9.0m (31 March 2021: £Nil).
These equities continue to be recognised in the fund's financial statements. No liabilities are associated with the loaned assets.
All income earned by lending securities is accumulated in the sub-fund and is reported in the value of investments.

18. FAIR VALUE – BASIS OF VALUATION

All investments are held at fair value in accordance with the requirements of the Code and IFRS13. The valuation bases are set out below. All assets have been valued using fair value techniques based on the characteristics of each instrument, with the overall objective of maximising the use of market-based information. There has been no change in the valuation techniques used during the year.

Description of Asset	Valuation Hierarchy	Basis of Valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not Required
Exchange traded pooled investments	Level 1	Closing bid value on published exchanges	Not required	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	Not Required
Private Debt	Level 3	The valuation is taken from the unaudited 31 March 2022 Goldman Sachs quarterly reports. The quarterly valuation is calculated in accordance with the fair value assessment described in Accounting Standards Codification 820 ("Fair Value Measurements and Disclosures") and in accordance with US GAAP. The Fund monitors audited year end to unaudited quarterly valuations to check the consistency of the unaudited and audited information. To date, the audited accounts for Goldman Sachs Asset Management Private Credit Funds have been given unqualified opinions without any identified exceptions.	Management's cash flow projections, estimates of growth expectations and profitability; profit margin expectations; gross domestic product; inflation; interest rates; discount rates; tax rates; Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA) and adjustments to current prices for similar assets, valuation techniques.	Valuations could be affected by material events occurring between the date of the financial statements provided and the Pension Funds reporting date by changes to expected cash flows, fair value adjustments, discount factors used, EBITDA and recent transaction prices.
Infrastructure	Level 3	Fair values as per International Private equity and venture capital guidelines (2012)	valuation of underlying investments, assets and companies; Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA) multiples	Valuations could be affected by changes in market conditions; industry specific conditions; differences in estimation techniques used in valuations.

Sensitivity of assets valued at Level 3

The Fund has determined that the valuation methods described above are likely to be accurate to within the following ranges and has set out below the consequent potential impact on the closing value of investments held at 31 March 2022.

	Potential variation in fair value	Value at 31 March 2022 £'000	Potential value on increase £'000	Potential value on decrease £'000
Private Debt	+ / - 10%	23,605	25,966	21,245
Infrastructure	+ / - 10%	7,949	8,744	7,154
Total		31,554	34,710	28,399

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 bonds 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 based on observable data.

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.
The following table provides an analysis of the 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 2021					**31 March 2022**			
Quoted Market Price Level 1 £000	Using Observable Inputs Level 2 £000	With Significant Unobservable Inputs Level 3 £000	Total £000		Quoted Market Price Level 1 £000	Using Observable Inputs Level 2 £000	With Significant Unobservable Inputs Level 3 £000	Total £000
648,719	37,459	9,186	695,364	Financial assets at fair value through profit and loss	633,779	44,453	31,554	709,786
-	-	-	-	Financial liabilities at fair value through profit and loss	-	-	-	-
648,719	**37,459**	**9,186**	**695,364**	**Net investment assets**	**633,779**	**44,453**	**31,554**	**709,786**

18A. RECONCILIATION OF FAIR VALUE MEASUREMENTS WITH LEVEL 3

	Private Debt £,000	Infrastructure £'000	Total £,000
Value at 1 April 2021	9,186	-	9,186
Purchases	15,573	11,544	27,117
Sales	(2,031)	(3,340)	(5,371)
Unrealised Gains and Losses*	824	(135)	689
Realised Gains and Losses*	53	(120)	(67)
Value at 31 March 2022	**23,605**	**7,949**	**31,554**

	Private Debt £,000	Infrastructure £'000	Total £,000
Value at 1 April 2020	-	-	-
Purchases	9,049	-	9,049
Sales	(70)	-	(70)
Unrealised Gains and Losses*	215	-	215
Realised Gains and Losses*	(8)	-	(8)
Value at 31 March 2021	**9,186**	**-**	**9,186**

* Unrealised and realised gains and losses are recognised in the changes in value of investments line of the fund account.

Investment into Private debt commenced in January 2021.

Investment into Infrastructure commenced in July 2021.

19. FINANCIAL INSTRUMENTS

19A. CLASSIFICATION OF FINANCIAL INSTRUMENTS

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 2021				31 March 2022		
Fair value through profit and loss £000	Assets at amortised costs £000	Liabilities at amortised cost £000		Fair value through profit and loss £000	Assets at amortised costs £000	Liabilities at amortised cost £000
			Financial assets			
-	-	-	Equities	-	-	-
686,178	-	-	Pooled investment vehicles	678,232	-	-
9,186	-	-	Private Debt	23,605	-	-
-	-	-	Infrastructure	7,949	-	-
-	791	-	Cash	-	18,290	-
-	-	-	Other investment balances	-	-	-
-	8	-	Debtors	-	8	-
695,364	**799**	**-**		**709,786**	**18,298**	**-**
			Financial liabilities			
-	-	-	Other investment balances	-	-	-
-	-	(268)	Creditors	-	-	(379)
-	-	-	Bank Balance	-	-	-
-	-	(5,500)	Borrowings	-	-	-
-	**-**	**(5,768)**		**-**	**-**	**(379)**
695,364	**799**	**(5,768)**		**709,786**	**18,298**	**(379)**

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 payable 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 pension fund's operations. Policies are reviewed regularly to reflect changes in activity and in 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 its 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 investment return.

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 pension fund 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 both considers and takes advice on the nature of the investments made as well as the 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 by factors affecting all such instruments in the market.

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 price risk through diversification. The selection of securities and other financial instruments is monitored to ensure it is within limits specified in the fund investment strategy.

Other price risk - sensitivity analysis
In consultation with its investment advisors, the fund has determined that the following movements in market price risk are reasonably possible for 2021-22 assuming that all other variables, in particular foreign exchange rates and interest rates, remain the same:

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 2022	**Volatility of return**	**Value on increase**	**Value on decrease**
	£000	%	£000	£000
Equities - UK	-	-	-	-
Equities - Overseas	-	-	-	-
Bonds	131,952	3.30%	136,307	127,598
Unit Trusts	-	-	-	-
Pooled Investment vehicles:				
UK Equities	99,534	2.40%	101,923	97,145
Global Equities	149,384	3.60%	154,762	144,006
Diversified Growth Fund	113,532	2.80%	116,711	110,353
UBS Climate Aware	139,377	3.00%	143,558	135,196
Pooled Property Investments	44,453	4.10%	46,279	42,633
Private Debt	23,605	19.90%	28,302	18,907
Infrastructure	7,949	23.60%	9,809	6,089
Cash & Cash Equivalents	14,003	0.00%	14,003	14,003
Amounts Receivable for Sales	-	-	-	-
Investment Income due	-	-	-	-
Recoverable withholding tax	-	-	-	-
Amounts payable for purchases	-	-	-	-
Total	**723,789**		**751,654**	**695,930**

	Value as at 31 March 2022	Volatility of return	Value on increase	Value on decrease
	£000	%	£000	£000
Equities - UK	-	-	-	-
Equities - Overseas	-	-		
Bonds	140,911	1.60%	143,165	138,656
Unit Trusts	-	-	-	-
Pooled Investment vehicles:				
UK Equities	144,137	3.10%	148,577	139,698
Global Equities	249,157	5.80%	263,608	234,706
Diversified Growth Fund	114,514	4.20%	119,324	109,705
UBS Climate Aware				
Pooled Property Investments	37,459	1.00%	37,834	37,084
Private Debt 1	9,186	0.00%	9,186	9,186
Infrastructure				
Cash & Cash Equivalents	-	-	-	-
Amounts Receivable for Sales	-	-	-	-
Investment Income due	-	-	-	-
Recoverable withholding tax	21	0.00%	21	21
Amounts payable for purchases	-	-	-	-
Total	**695,385**		**721,715**	**669,056**

1 The price sensitivity for Private Debt is assessed at zero due to the short period that the fund has been invested in it. The fund made its initial investment in January 2021. This is in alignment with the estimated variation on the valuation as mentioned in Note 5 above.

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.

Interest rate risk - sensitivity analysis

The fund 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 future cash flows will fluctuate because of changes in foreign exchange rates. The fund is exposed to currency risk on any cash balances and investment assets not denominated in UK 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 2022, and as at the previous period end:

	Asset value as at 31 March 2022	Asset value as at 31 March 2021
	£000	£000
Private Debt	23,605	9,186
Infrastructure	7,949	-
Investment Income	2,311	-
	33,865	**9,186**

Currency risk – sensitivity analysis
Following analysis of historical data, the fund considers the likely volatility associated with foreign exchange movements to not exceed be 7.1% (2020-21: 3.28%). This analysis assumes that all other variables, in particular interest rates, remain constant.

A 7.10% strengthening/weakening 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 2022	Value on increase +7.10%	Value on decrease -7.10%
	£000	£000	£000
Private Debt	23,605	25,281	21,929
Infrastructure	7,949	8,513	7,385
Investment income due	2,311	2,475	2,147
	33,865	**36,269**	**31,461**

	Value as at 31 March 2021	Value on increase +3.64%	Value on decrease -3.64%
	£000	£000	£000
Private Debt	9,186	9,487	8,885
Infrastructure	-	-	-
Investment income due	-	-	-
	9,186	**9,487**	**8,885**

d) Credit Risk
Credit risk represents the risk that the counterparty to a financial transaction will fail to discharge an obligation and cause the fund to incur a financial loss. Assets potentially affected by this risk are investment assets, cash deposits and third-party loans. The selection of high-quality counterparties, brokers, custodian and investment managers minimises credit risk and the market values of investments generally reflect an assessment of credit risk.

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 is exposed to counterparty risk in its operational activities through securities lending, via the ACCESS pool. This risk is managed through the pool’s custodian bank holding non-cash collateral as security, at the typical market rate of 102% of stock lent, or 105% for cross-currency, to allow for foreign exchange exposure.

The fund does not have any foreign exchange contracts, hence is not subject to credit risk in relation to the counterparties of the contracts.

Credit risk may also occur if an employing body not supported by central government does not pay contributions promptly, or defaults on its obligations. The pension fund has not experienced any actual defaults in recent years. All contributions due at 31 March 2022 and 31 March 2021 (£495k and £195k respectively) were received in the first month of the financial year.

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 pension fund therefore takes steps to ensure that it has adequate cash resources to meet its commitments. 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's investment strategy.

A substantial portion of the fund's investments consist of readily realisable securities, in particular equities and fixed income investments, even though they are 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. 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.

All financial liabilities at 31 March 2022 are due within one year.

f) **Refinancing risk**
The key risk is that the pension fund will need to replenish a significant proportion of its financial instruments at a time of unfavourable interest rates. The pension fund does not have any financial instruments that have a refinancing risk as part of its investment strategy.

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 2019 and the next valuation will take place as at 31 March 2022.

Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), dated March 2020. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the fund using a prudent long-term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- not to restrain unnecessarily the Investment Strategy of the Pension Fund so that the Administering Authority can seek to maximise investment returns (and hence meet the costs of benefits) for an appropriate level of risk;
- to minimise the long-term cash contributions which employers need to pay to the fund by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return (this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Taxpayer from an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to have a sufficiently high likelihood of achieving the funding target over 20 years. 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 at least an 80% likelihood that the Fund will achieve the funding target over 20 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2019. This valuation revealed that the Fund's assets, which at 31 March 2019 were valued at £596 million (2016: £474 million), were sufficient to meet 95% of the liabilities (2016: 92%) (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2019 valuation was £32 million (2016: deficit £44 million).

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure as per the FSS. Individual employers' contributions for the period 1 April 2020 to 31 March 2023 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		
		2021 % of pay	2022 % of pay	2023 % of pay
Isle of Wight Council		23.5	23.5	23.5
Barnardos		Nil	Nil	Nil
Caterlink		23.5	23.5	23.5
Cowes Enterprise College, an Ormiston Academy	*	23.5	23.5	23.5
Cowes Harbour Commissioners		21.5	21.5	21.5
The Island Free School		19.6	19.6	19.6
Island Roads		Nil	Nil	Nil
Isle of Wight College (from 1 August)		23.8	23.8	23.8
Lanesend Academy	*	21.1	21.1	21.1
Northwood Academy	*	23.5	23.5	23.5
Nviro		23.5	23.5	23.5
Ryde Academy, Academies Enterprise Trust	*	23.5	23.5	23.5
Sandown Bay Academy	*	23.5	23.5	23.5
Southern Vectis (Wightbus)		10.3	10.3	10.3
Southern Housing Group		31.6	31.6	31.6
Sovereign Housing Group		29.7	29.7	29.7
St Blasius Academy	*	23.5	23.5	23.5
St Catherine’s School Ltd		26.6	26.6	26.6
St Francis Academy	*	23.5	23.5	23.5
Top Mops		21.5	21.5	21.5
Trustees of Carisbrooke Castle Museum		35.4	35.4	35.4
Ventnor Botanical Gardens		Nil	Nil	Nil
Yarmouth Harbour Commissioners		24.8	24.8	24.8

in addition, certain employers make a lump sum contribution

Employer Name	Ending 31 March		
	2021 Lump Sum £000	2022 Lump Sum £000	2023 Lump Sum £000
St Catherine’s School Ltd	32	33	34
Yarmouth Harbour Commissioners	57	57	57
Cowes Harbour Commissioners	19	19	19
Southern Housing Group	274	274	274
Sovereign Housing Group	198	198	198

* During 2019-20, 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 2019 valuation opted to pool, and the pooled rates are shown above.

Employers that have joined the fund since the last valuation have opted to pay the administering authority’s contribution rate. This will be reviewed at the next valuation, 31 March 2022.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2019 valuation report.

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2019 valuation were as follows:

Financial Assumptions	**31 March 2019** % p.a. Nominal
Discount rate (Investment returns)	3.4%
Salary Increases	3.1%
Price inflation/Pension Increases	2.3%

(Explanatory note: The pay increases shown above are for the purposes of the actuarial valuation only and not a reflection of what actual pay rises will be in the short-term. The assumptions are consistent with other assumptions used in the actuarial valuation and reflect longer term trends.)

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2018 model, an allowance for smoothing of recent mortality experience and a long-term rate of 1.25% p.a. for both women and men.

Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	**Females**
Current Pensioners	21.7 years	23.8 years
Future Pensioners *	22.4 years	25.2 years

* based on members aged 45 at the valuation date.

Copies of the 2019 valuation report and the Funding Strategy Statement are available on the Isle of Wight Pension Fund website www.isleofwightpension.org.

Experience over the period since 31 March 2019
Markets were severely disrupted by COVID 19 in March 2020, but over most of 2020/21 and 2021/22 they recovered strongly. However, due to the war in Ukraine, March 2022 markets were particularly volatile, which affects values as at the accounting date. All other things being equal, the funding level of the Fund as at 31 March 2022 is likely to be better than that reported at the previous formal valuation as at 31 March 2019.

It is important to note that the formal triennial funding valuation exercise is as at 31 March 2022 and this may show a different picture when the finalised position is disclosed in next year's annual report. In particular, changes in Fund membership, changes in anticipated real investment returns, and changes in demographic assumptions will affect the valuation results. The Funding Strategy Statement will also be reviewed as part of the triennial funding valuation exercise.

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, every year using the same base data as the funding valuation rolled forward to the current financial year but 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 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.

Present value of promised retirement benefits

Year ended	31 March 2022 £m	31 March 2021 £m
Active members	385	379
Deferred members	216	233
Pensioners	319	345
Net Liability	**920**	**957**

The promised retirement benefits at 31 March 2022 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2019. The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However, the actuary is satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises.
The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value. The actuary has not made any allowance for unfunded benefits.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the pension fund accounts. 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 and are different as at 31 March 2022 and 31 March 2021. The actuary estimates that the impact of the change in financial assumptions to 31 March 2022 is to decrease the actuarial present value by £67m. The actuary estimates that the impact of the change in demographic and longevity assumptions is to decrease the actuarial present value by £5m.

Financial assumptions

Year ended	31 March 2022 % p.a.	31 March 2021 % p.a.
Pension Increase Rate (CPI)	3.20%	2.85%
Salary Increase Rate	4.00%	3.65%
Discount Rate	2.70%	2.00%

(Explanatory note: The pay increases shown above are for the purposes of the actuarial valuation only and are 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.)

Demographic assumptions

The longevity assumptions have changed since the previous IAS26 disclosure for the Fund.

Life expectancy is based on the fund's VitaCurves with improvements in line with the CMI 2021 model, with a 0% weighting of 2021 (and 2020 data), standard smoothing (Sk7), initial adjustment of 0.25% and a long-term rate of improvement of 1.5% p.a.

Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current Pensioners	21.7 years	24.0 years
Future Pensioners *	22.6 years	25.7 years

* Future pensioners are assumed to be aged 45 at the most recent formal valuation date, 31 March 2019

All other demographic assumptions are unchanged from last year and as per the latest funding valuation of the Fund.

Sensitivity Analysis

CIPFA guidance requires the disclosure of the sensitivity of the results to the methods and assumptions used. The sensitivities regarding the principal assumptions used to measure the liabilities are set out below:

change in assumption at 31 March 2022	Approximate % increase to promised retirement benefits	Approximate monetary amount (£m)
0.1% p.a. decrease in the discount rate	2%	18
1-year increase in member life expectancy	4%	37
0.1% p.a. increase in the Salary Increase Rate	0%	1
0.1% p.a. increase in the Pension Increase Rate (CPI)	2%	16

23. LONG TERM ASSETS

31 March 2021 £000		31 March 2022 £000
	Debtors	
11	Contributions due - employers	29
144	Reimbursement of annual tax allowances	154
155		**183**

24. CURRENT ASSETS

31 March 2021 £000		31 March 2022 £000
	Debtors	
42	Contributions due - employees	99
153	Contributions due - employers	396
195		**495**
13	Taxation	8
8	Sundry debtors	8
131	Payments in advance	137
791	Cash balances	4,287
1,138		**4,935**

25. CURRENT LIABILITIES

31 March 2021 £000		31 March 2022 £000
	Creditors	
213	Taxation	208
167	Accruals	360
101	Sundry creditors	19
481		**587**

26. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCS)

Market value 31 March 2021 £000		Market value 31 March 2022 £000
786	Prudential life and pensions	824

AVC contributions of £148.0 thousand were paid directly to Prudential Life and Pensions during the year (2020-21: £117.1 thousand).

AVC amounts are not included in the pension fund accounts in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

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 £522 thousand (2020-21: £503 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 £13.7 million in 2021-22 (2020-21: £13.3 million) to the fund. All monies owing to the fund, except for deferred balances in respect of pension strain costs totalling £39.6 thousand (2021: Nil), were paid during the year.

During the year, the pension fund was able to borrow funds from the council to support its working cash flow requirements; interest would be 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 2021-2 was £8.5 million (2020-21: £8.0 million). The balance due to the council at 31 March 2022 is Nil (2021: £5.5 million), interest of £5.14 thousand (2020-21: £56.2 thousand) was paid on the borrowings in the year.

Year ended 31 March 2021 £000	Repayment profile of borrowings from Isle of Wight Council	Year ended 31 March 2022 £000
-	less than 1 month	-
500	2 - 3 months	-
-	3 - 6 months	-
-	6 - 9 months	-
5,000	9 - 12 months	-
5,500	**Total value of borrowings**	**-**

Governance
There are no voting members of the Isle of Wight Pension Fund Committee who are in receipt of pension benefits from, or who are active members of the Isle of Wight Council Pension Fund.

Each member of the Isle of Wight Pension Fund Committee is required to declare their interests at each meeting.

Council members named in note 29 formed the Isle of Wight Pension Fund Committee as trustees at 31 March 2022.

27A. KEY MANAGEMENT PERSONNEL

The key management personnel of the fund are members of the Isle of Wight Pension Fund Committee, the Director of Finance and S151 Officer and the Pension Fund Manager.

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

Year ended 31 March 2021 £000		Year ended 31 March 2022 £000
59	Short-term benefits	60
13	Post-employment benefits	13
-	Other long-term benefits	-
-	Termination benefits	-
-	Share-based payments	-
72		**73**

28. CONTINGENT ASSETS, LIABILITIES AND CAPITAL COMMITMENTS

At 31 March 2022 there was a contingent liability relating to Contribution Equivalent Premiums (CEPs) amounting to £4 thousand (2021: £4 thousand) payable by the Pension Fund. These sums do not form part of the net assets of the fund.

In October 2018 a decision was made to join a Class Action against BHP Billiton which seeks to recover some of the loss in share value suffered because of BHP Billiton's alleged failure to disclose material information and its alleged misleading and deceptive conduct. It is estimated that there is a possible benefit to the Pension Fund of £6 thousand (2021: £5 thousand). This case is currently ongoing. The sums do not form part of the net assets of the fund.

One admitted body employer in the Isle of Wight Pension Fund holds a guarantee bond to guard against the possibility of being unable to meet their pension obligations. This bond is drawn in favour of the pension fund and payment will only be triggered in the event of an employer default. No such default has occurred during 2021-22 (2020-21 Nil).

During the financial year the Pension Fund has committed to investing into a Private Debt and an Infrastructure Fund. Each of these funds are calling the capital in instalments, the value of which depend on the investments the funds are making at the time. The balance that has been committed but not paid as at the 31 March 2022 is as per the table below:

	31 March 2022			
	Private Debt		Infrastructure	
	$'000	£'000	€'000	£'000
Total amount Committed	39,300	29,890	41,000	34,532
Total Invested	30,065	22,866	9,225	7,770
Balance committed but not yet paid	9,236	7,024	31,775	26,762

The committed balances do not form part of the net assets of the fund.

29. TRUSTEES REPORT 2021-22

The trustees of the Isle of Wight Council Pension Fund are the members for the time being of the Isle of Wight Pension Fund Committee, who at 31 March 2022 were Cllrs Andre, Brading, Churchman, Critchison (vice chair), Jarman (chair), Oliver and Quigley.
In addition, a non-voting representative of the scheme members (selected by UNISON) attends the committee. Throughout the year, the position of non-voting representative of the scheme employers (selected by the fund's external employers) was vacant.

Throughout the year the committee has been advised by the Director of Finance and Section 151 Officer, the Pension Fund Manager, and Hymans Robertson LLP (the fund's actuaries, investment consultants and governance consultants).

Investment Performance

The net assets of the fund at 31 March 2022 were £728.3 million, an increase of 5.4% on the 31 March 2021 valuation of £690.7 million. The fund's total investments under-performed compared to the agreed benchmarks by 0.4% during the year.

With the exception of a small over-performance by the fund's diversified growth investment, all other portfolios under-performed against their respective benchmarks in the year to 31 March 2022, most notably the UK Equity portfolio, which underperformed by 6.0%.

Over the longer term, the fund outperformed annualised benchmark returns for three years (0.6% relative overperformance).

Funding Level

The Fund's last triennial actuarial valuation was undertaken at 31 March 2019, showing a funding level of 95%, compared to 92% at the previous valuation at 31 March 2016. The results of this latest valuation, in terms of revised contribution rates, were implemented with effect from April 2020.

The next formal valuation is being undertaken on 31 March 2022, from which revised employer contribution rates will be implemented from 1 April 2023. As a result, the actuary is not providing an interim funding projection for 31 March 2022, to avoid confusion.

The most recent interim funding projection report was produced at 31 December 2021, which showed that the notional funding level had risen to 102.6% since the last triennial valuation at 31 March 2019, with a resulting surplus of £19 million at 31 December 2021 compared to the deficit of £32 million at the valuation date of 31 March 2019

Governance – pension fund committee

There were five scheduled pension fund committee meetings during the year 2021-22. The first scheduled meeting, the last of the previous administration, was held virtually, using MS Teams. Following the local elections in May 2021, all meetings were held in person at County Hall, Newport, Isle of Wight.

During the year the committee considered the following key items of business:

- An introduction meeting for the new committee members.
- Approval of 2020-21 annual report and accounts.
- Adoption of the fund's governance decision making matrix.
- Updated the fund's risk management policy and agreed the process for the creation of the risk register.
- Implementation of the agreed rebalancing of the fund's equity allocation to include passive management.
- Procurement and contract management activities.
- Knowledge and understanding requirements and activities.
- Regular updates on the ACCESS pool.

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 investment consultants, Hymans Robertson LLP

Development sessions were held outside the schedule of regular committee meetings, covering an introduction to investment asset classes, decision making, risk management, the ACCESS pool Environmental, Social and Governance (ESG) risk considerations and Responsible Investment (RI) requirements, and the triennial valuation.

As part of the development of the fund's responsible investment activities, the fund received a presentation from the Local Authority Pension Fund Forum (LAPFF) and agreed to join the forum.
The committee also convened an ESG working sub-group, comprising members of the pension fund committee, the pension board and other councillors, which met twice during the year

A summary of committee members' attendance for the year 2021-22 is detailed in table 1 below. Membership of the committee changed throughout the year, but the total number of members remained the same.

Table 1: committee attendance

	Chairman	Vice chairman	Elected member 1	Elected member 2	Elected member 3	Elected member 4	Elected member 5	Scheme member rep	Employer rep	
28-Apr-21	n/a	√	√	√	aps	√	√	√		86%
		Change of membership following local elections								
02-Jun-21	aps	√	√	√	√	aps	n/a	aps		57%
28-Jul-21	√	√	√	√	aps	√	√	√		88%
24-Nov-21	√	√	aps	√	√	√	√	aps		75%
16-Feb-22	√	√	√	√	√	√	aps	√		88%
	75%	100%	75%	100%	75%	75%	66%	50%		**77%**

Please note the percentage attendance at each meeting (final column) is based on a total committee membership of eight (including the scheme member representative but excluding the on-going employer representative vacancy), except where a member had not been appointed for that meeting (shown as “n/a”) when membership is counted as seven.
Also, total attendance by member (final row) is based on post-local election membership, so four meetings.

Governance – local pension board
During the year ended 31 March 2022, the composition of the membership of the local pension board changed.

At the start of the year, membership comprised two scheme member representatives and two employer representatives.
Following the expiry of the term of office for one of the scheme member representatives, and one of the employer representatives in September 2021, the opportunity was taken to amend the membership composition as follows:

- Three scheme member representatives: one of whom is nominated by recognised trade unions and the other two appointed following expressions of interest sought from all active, deferred and pensioner members of the fund.
- Three employer representatives: one an elected councillor of the Isle of Wight Council; one a senior officer of the Council, nominated by the corporate management team; the other appointed from nominations sought from the external employers in the fund.
- An independent chairperson appointed following external advertisement.

Recruitment activity was completed between October 2021 and April 2022. At 31 March 2022, the appointment of all scheme member representatives, the independent chairperson and two of the three employer representatives was completed. The final employer representative was appointed with effect from 1 June 2022.

As a result of the membership issues, only two board meetings were held in 2021-22, with three other meetings cancelled.
The pension fund reported itself to the Pension Regulator in October 2021, for non-compliance with the LGPS regulations in respect of the minimum membership of the local pension board. The Pension Regulator confirmed that it would take no further action on this matter.
The first full meeting of the newly constituted pension board was held on 6 April 2022.

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).