Isle of Wight Council

Statement of Accounts

2012-13



CONTENTS

Explanatory Foreword

1. Introduction

Much of the format, terminology and presentation of the full statement of accounts is prescribed by the Code of Practice on Local Authority Accounting in the United Kingdom, which all Local Authorities are required to follow. The full statement of accounts is also intended to meet the needs of various readers who might include central government and agencies or regulators, grant awarding bodies, suppliers, contractors and lenders as well as the general public. We understand that this presentation of technical accounting information can make the full statement of accounts difficult to interpret. This foreword therefore aims to assist the reader in interpreting the accounts and provides a more concise summary of the key points of the council's financial performance and position for 2012/13.

In addition, this foreword also aims to present a general guide to the main statements that make up the full statement of accounts. Its purpose is not to comment on the policies of the council, but it does give factual details of strategic objectives and spending priorities where these provide a context to reporting on financial performance.

This foreword follows the recommended topics included in the Code of Practice on Local Authority Accounts 2012/13, and considers the relevant points of the Governments Financial Reporting Manual which, for the first time, Local Authorities are being encouraged to take into consideration in presenting their accounts. This recommends a management commentary be provided covering a wider range of topics than just financial performance and that the foreword looks to the future as well as the past.

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

2. Managing Directors Summary

Over the last 3 years, the council has had to operate in an environment of reducing grant resources from central government, increasing demands for services such as adult social care and reducing income received from fees and charges.

The council has therefore operated strong financial and budgetary control and delivered savings in back office costs through efficiencies and reductions in management and other staffing costs.

The 2012-13 year end position summarised in this foreword and detailed in the full statement of accounts reflects this financial management culture and is therefore a very positive outcome for the council on a net revenue budget of £132.0m. It is a particularly good result when considering the fact that the council had to achieve net savings of £7.201m during the 2012-13 year in additional to savings targets achieved in previous years. Strong financial management and control measures in place across all service areas including the authorisation panel, budget review board and procurement board have all contributed to this position.

Despite this largely positive position, the council faces continued reductions in grant resources in 2014/15 and future years. The spending review for 2015/16 announced on 26th June 2013, indicated that there will another significant reduction in local government funding in that financial year.

3. Summary of financial position for 2012/13

Revenue income and expenditure

Where the council has costs related to the day to day provision of services e.g. salaries, supplies and services, utilities, these costs are called revenue expenditure. The amount of revenue the council can spend depends on the income the council receives from various sources, and the way in which the council plans to spend it depends on what service demands the council plans to meet.

The council is required to set a balanced budget each year, but in some service areas, for instance adult social care, the demand for the service can be unpredictable and change midyear. When this happens, additional costs have to be accommodated elsewhere within the overall budget.

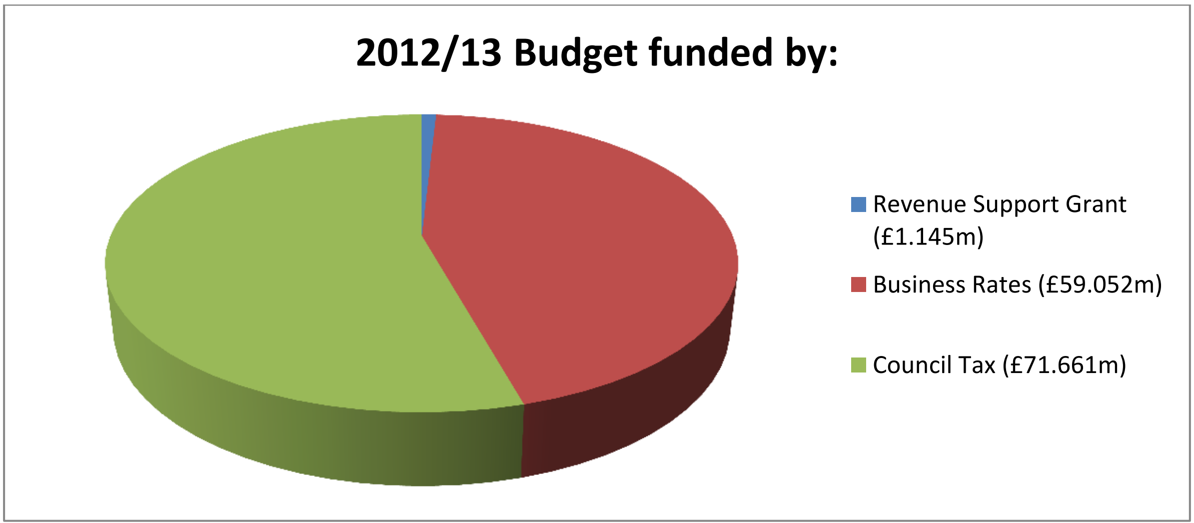
The table below shows a summary of the:

- Revised budget – the amount of money we planned to spend on services
- Net expenditure - the actual day to day costs of those services
- Net outturn position – the resulting net saving at the end of the year.

Directorate	Revised budget £000	Net expenditure £000	Net outturn position £000
Chief Executive, Schools & Education	7,737	7,571	(166)
Resources	12,642	11,329	(1,313)
Economy & Environment	37,948	36,233	(1,715)
Community Wellbeing & Social Care	68,413	68,288	(125)
Corporate accounts	5,118	5,020	(98)
Net revenue expenditure	**131,858**	**128,441**	**(3,417)**

For 2012/13, the council spent £3.417 million less than originally planned. Of this saving, £2.400 million has been utilised to reduce the Dedicated Schools Grant budget deficit and £550,000 will be used to support the Waste Management Strategy (£250,000), security costs of closed schools (£200,000) and as a contribution to Children's Services improvement (£100,000). Once these amounts have been set aside, this leaves an overall net saving for 2012/13 of £467,000.

The budget was funded as shown below:



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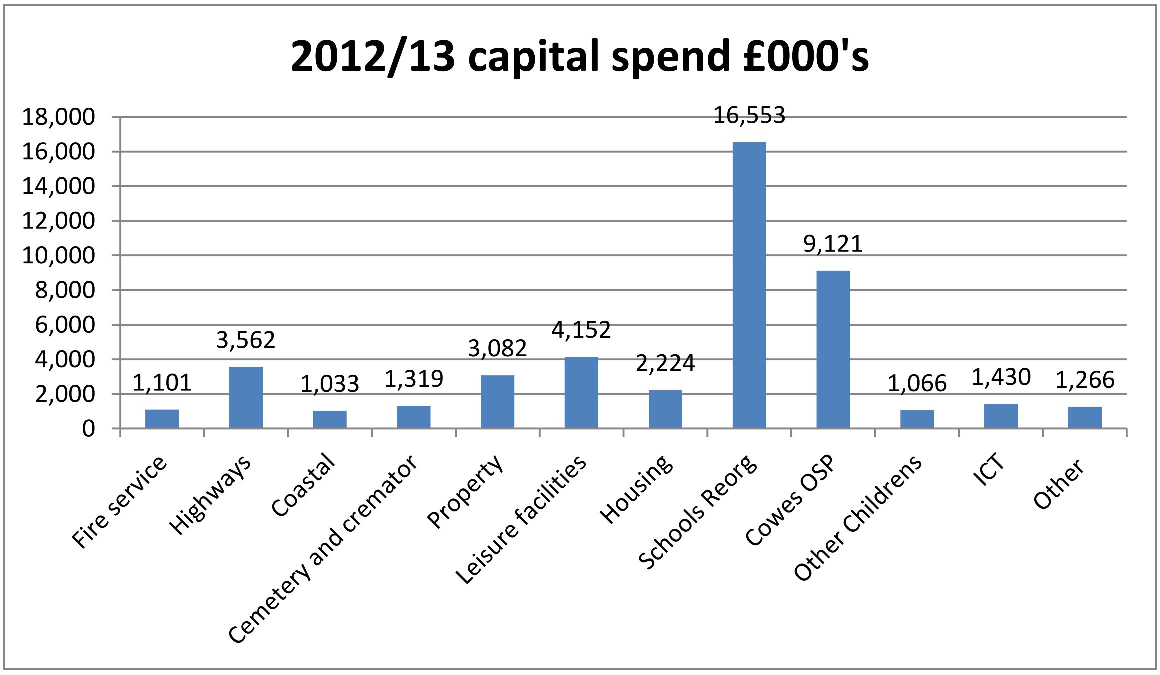
Capital expenditure and funding

Capital expenditure creates or enhances assets that have a life of more than one year, such as buildings, land and equipment. The capital projects that the council plans to deliver, therefore represent significant investments to support the council's strategic priorities such as education, highways and housing, or to deliver on going savings in future years by investing now, such as county hall improvements allowing the disposal of other less efficient administrative buildings. Many of the projects are delivered over a period of years and budgets will be spread across years according to project delivery plans. In 2012/13, the council planned to spend £48.7 million on capital projects and actually spent £45.9 million. The remainder of the budget will be carried forward into 2013/14 and future years to complete the project delivery.

The chart below demonstrates the range of projects delivered in 2012/13 and how much was spent:

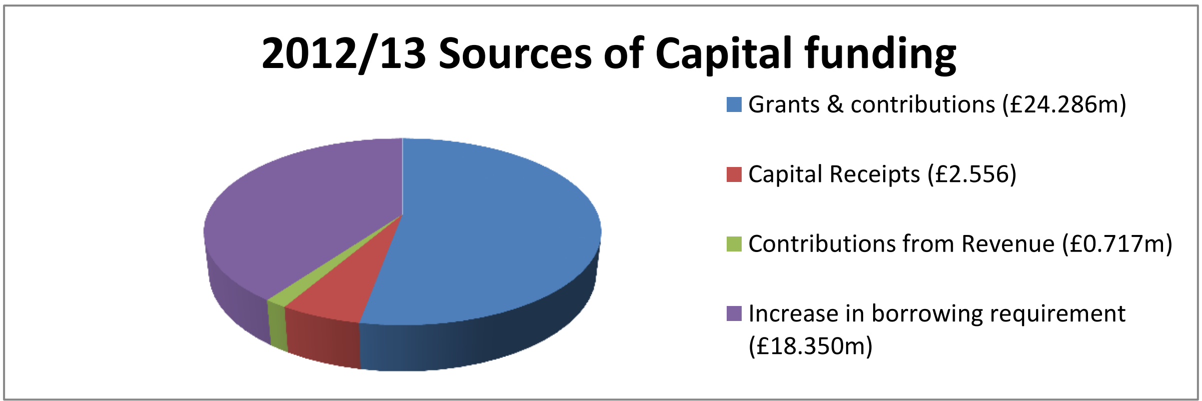


Capital investment can be paid for from:

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

If funding is not available from these sources, the council can choose to borrow to fund capital schemes.

The sources of capital funding from last year are shown in the chart below:



Reserves

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

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

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

	Balance 1 April 2012 £000	Movement In Year £000	Balance 31 March 2013 £000
Repairs & Renewals	883	247	1,130
Earmarked Reserve – Services	6,327	5,118	11,445
Insurance & Risk Reserve	6,234	(131)	6,103
Dedicated Schools Budget deficit	(5,335)	4,099	(1,236)
Termination Costs Reserve	608	(393)	215
Section 106 Reserve	738	33	771
Total earmarked reserves	**9,455**	**8,973**	**18,428**
Revenue carry-forward reserve 2011-12 to 2012-13	8,158	(8,158)	0
Revenue carry-forward reserve 2012-13 to 2013-14	0	5,949	5,949
Schools Balances	2,865	823	3,688
Total reserves	**20,478**	**7,587**	**28,065**
Insurance Provision	2,659	132	2,791
Doubtful Debts	2,783	(403)	2,380
General Fund	8,550	467	9,017
Total	**34,470**	**7,783**	**42,253**

Borrowing and investments

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

Of the £151.205 million loans outstanding at 31 March 2013, £112.974 million were from the Public Works Loan Board (PWLB - a Government run organisation providing public sector finance at lower interest rates than might otherwise be available); £8.134 million were lender's option/borrower's option (LOBO) loans, £29.844 million were short term borrowings and £0.253 million other loans.

Increase in Borrowing	**2012-13 £000**
Long term Borrowing	**0**
Borrowing for Capital	**18,350**
Short term borrowing	**5,475**

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

Changes to the accounting policies

In preparing these accounts the council has complied with the Code of Practice on Local Authority Accounting in the United Kingdom 2012-13 which defines proper accounting practices for all Local Authorities. The latest changes to the code have been reflected in the preparation of these accounts and this foreword.

4. Isle of Wight Council Pension Scheme

The council is the administering body for the Isle of Wight Council Pension Scheme and also makes up 91% of the scheme's membership with the remainder coming from admitted bodies such as harbour commissioners and housing associations, and scheduled bodies such as the Isle of Wight College and town and parish councils.

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

The liabilities in the following table show the underlying commitments that the council has in the long run to pay post-employment (retirement) benefits and this includes the liabilities relating to the fire-fighters' pension scheme which is an unfunded scheme having no investment assets. Any deficit in the fire-fighters' pension scheme arising from the difference between employees/employers contributions and pensions paid is reimbursed by the government.

	2008-09 £000	2009-10 £000	2010-11 £000	2011-12 £000	**2012-13 £000**
Present value of liabilities:					
Local Government Pension Scheme	(303,107)	(489,718)	(415,373)	(459,869)	**(534,892)**
Firefighters' Pension Scheme	(37,100)	(53,800)	(47,600)	(52,000)	**(60,300)**
Fair value of assets in the Local Government Pension Scheme	192,919	271,554	298,089	304,647	**356,057**
Surplus/(deficit) in the scheme:					
Local Government Pension Scheme	(110,188)	(218,164)	(117,284)	(155,222)	**(178,835)**
Firefighters' Pension Scheme	(37,100)	(53,800)	(47,600)	(52,000)	**(60,300)**
Total	(147,288)	(271,964)	(164,884)	(207,222)	**(239,135)**

The total liability of £239.135 million has a substantial impact on the net worth of the council as recorded in the balance sheet. This results in an overall negative balance of £46.021 million.

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

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

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

5. Performance

The council produces regular performance monitoring reports on a monthly basis for Directors and Heads of Service, providing up to date financial information and identifying potential budget pressure areas and options for dealing with them. Financial management information is also an integral part of internal management reports which consider performance, risk and finance in year. This integrated finance/performance/risk information is included within quarterly reports to cabinet and Overview and Scrutiny Committee.

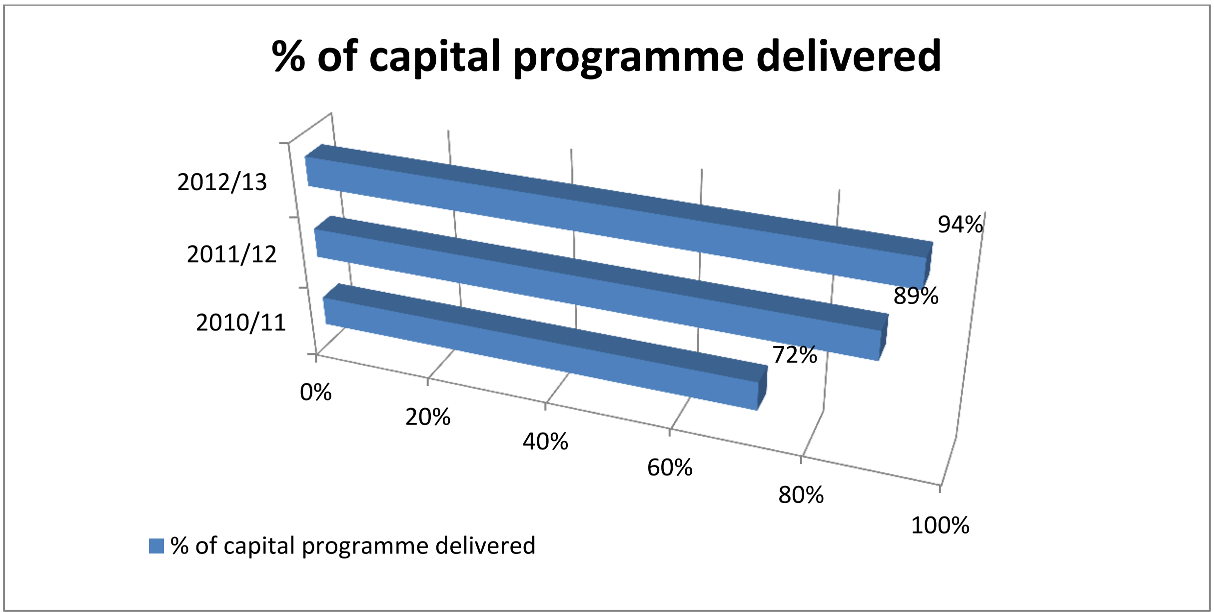
Financial Performance

In order to achieve the positive outcome for 12/13, the council budget established for 2012/13, set a savings target of £7.2m which was fully achieved. An overview of the council's financial position and progress with achieving the savings set out in the budget strategy is provided to and considered by the Budget Review Board on a regular basis throughout the year. The savings targets for 2012/13 included:

- Joint working arrangements with other local authorities
- Management of the capital programme to avoid increasing external debt
- Establishing an integrated NHS/Social Adult Care crisis response and reablement service
- Savings from procurement and contract management arrangements
- Working in partnership with local community groups to delivery services
- Savings from planning and regulatory services
- Savings in staff costs from the review of all recruitment by Authorisation Panel

The councils approach to managing financial performance has ensured the savings required and enabled the positive year end position already reported.

By the time the accounts for 2012/13 were closed the council had delivered £45.9m of capital investment in year. The programme was slightly smaller in 2012/13 than in 2011/12 but the %age of the capital programme delivered has improved year on year.



Performance against Corporate Plan Priorities

The table below indicates the status of each corporate priority as at 31 March 2013 as reported to Cabinet in June 2013.

Corporate Plan priority	Q1-2012/13 status	Q2-2012/13 status	Q3-2012/13 status	Q4 – 2012-13 status
Delivery of budget savings through changed service provision	Green	Green	Green	Green
Raising educational standards	Amber	Red	Amber	Red
Keeping children safe	Green	Green	Red	Red
Supporting older and vulnerable residents	Amber	Amber	Amber	Amber
Housing and homelessness	Green	Green	Green	Green
Regeneration and the economy	Green	Green	Green	Green
Highways PFI scheme	Green	Green	Green	Green
Waste strategy	Green	Green	Green	Green

Key	Status
Green	Majority of performance is on or above target, projects are meeting planned delivery dates, risk is managed appropriately and financial position stable against profiled spend
Amber	Some performance is off target but within accepted tolerance levels, project milestones are still attainable, risk levels demonstrate some concern with appropriate planned activity, financial overspends being forecast
Red	Significant underperformance or project slippage, high scoring risks without active mitigation in place and/or significant overspend impacting delivery of corporate priority

Raising educational standards – the islands GCSE results continue to be a focus for improvement but the recent OFSTED inspection results suggest that the achievement of targets in this key area will once again be difficult to reach. In contrast to this and despite still being below the national average, the levels for key stage 2 attainment were substantially improved and it is hoped for further progress in this area.

Keeping children safe - achievement of this priority experienced setbacks last quarter, with the OFSTED inspection of child protection arrangements in December 2012 judging the IW Council as inadequate, specifically in terms of overall effectiveness of help and protection, quality of practice and leadership and governance. Work is already underway to address this with the Childrens Safeguarding Improvement Programme, and the strategic partnership with Hampshire County Council which was approved in June 2013.

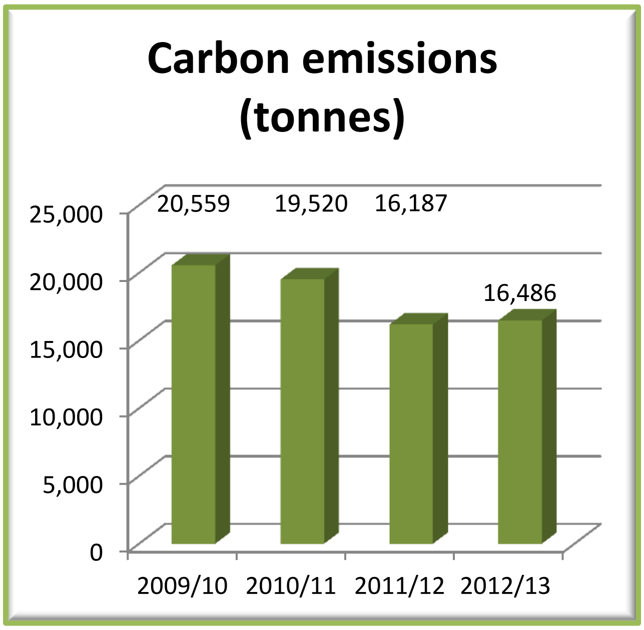
The councils support for older and vulnerable people continues to be rated as amber. However a number of developments have seen improvements to the risk management arrangements, namely a training programme to raise awareness of safeguarding (refreshed and reviewed annually), development of a commissioning framework to support personalisation and the development of a quality assurance framework.

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

Environmental matters

The council's carbon management plan shows how the council will reduce the carbon emissions from its buildings and operations. It fulfils the commitment in the Nottingham Declaration on Climate Change which the council signed in May 2007 and demonstrates positive action by the council to implement Eco Island, the Sustainable Community Strategy. Carbon reduction measures also reduce energy costs which will help the council deliver more efficient services to local residents.

This chart shows the estimated levels of carbon emission since the inception of the plan in 2009/10. The plan outlined how the council would achieve a 6% year on year reduction in carbon emissions up to 2015. The council is currently ahead of this target. The full carbon management plan can be found at [Energy Management - Web Pages]

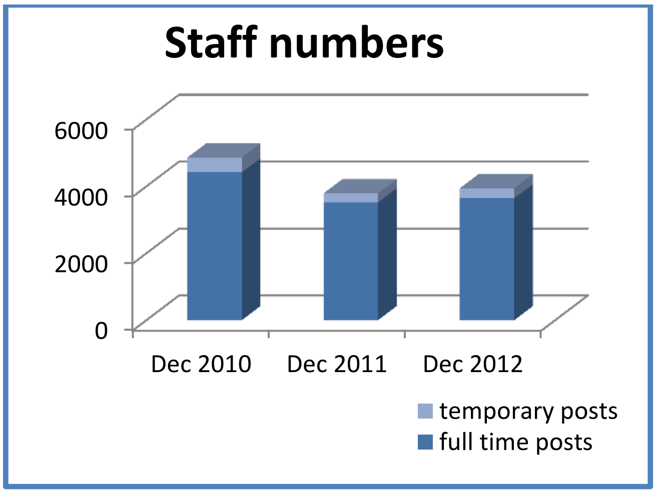


Employees

The council has reduced its staff numbers over the last 2 years from the full time equivalent of 4,416 in December 2010, to 3,520 in December 2011 and 3,640 in December 2012.

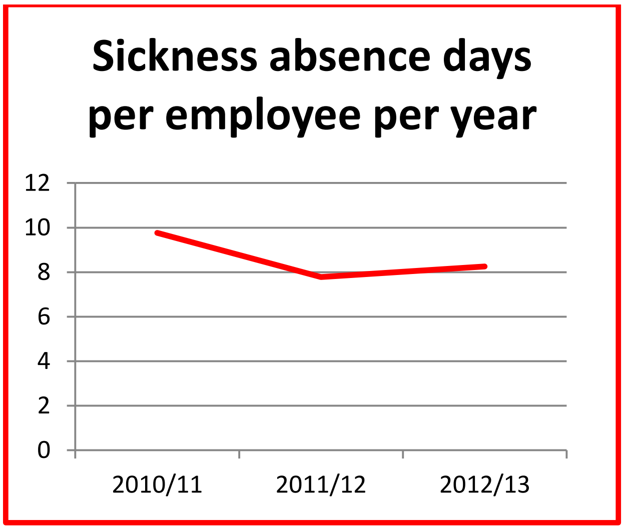
This overall reduction is due to the restructuring of council services and changes to schools. A small increase in the last year is due to 153 additional schools based staff offset by a reduction in other staff of 33.

Details of officer's remuneration are included in the main statement of accounts under note 35.



Sickness absence data

The average number of days taken as a result of sickness per employee has fallen from 9.77 days in 2010-11 to 7.78 days in 2011-12 and then rose again slightly in 2012-13 to 8.25 days against a target of 7.5 days. The Employment Committee receives regular reports of staff absence levels which can be viewed on the council's website iwight.com.



6. Other financial data

Persons with whom authority has contracted

The council has contracts or partnership arrangements with a number of organisations to deliver some of our key or statutory activities. Some of the key or larger contracts are shown below but this is by no means a comprehensive list:

- The council currently has a **waste management contract** with Island Waste Services which is due to expire in October 2015. The contract provides kerbside collection of recyclables, food and residual waste, operation of the Household Waste Recycling Centres, operation of composting activities and the management of the disposal of residual waste via landfill and through a separate arrangement with the gasification plant. The new waste contract will be the second largest contract under the council's responsibility and will be based on a waste strategy which is currently being formulated.
- The **Highways PFI contract** began in April 2013 and will see the bulk of the islands roads upgraded within the first 7 years of the 25 year contract. The PFI is financed in the main through a government grant – not a loan and does not have to be repaid. The council will make an annual contribution which will be less than the sum it currently pays to provide the services that are now provided through the PFI.
- The councils **internal audit service** is provided by Price Waterhouse Coopers LLP who have also provided advice to the council on the Highways PFI contract and the waste contract. Since the closure of the Audit Commission, the councils external audit service is provided by Ernst and Young LLP who have not undertaken any additional non audit work for the council.
- The council has formed a **strategic partnership** with Hampshire County Council and Hampshire's director of children's services has assumed the statutory role of director of children's services for both councils. The arrangement means that both local authorities share the statutory senior leadership and management of the islands children's services over the next three to five years.
- The council has **pooled budget arrangements** with the Isle of Wight Primary Care Trust (PCT) to provide free nursing care, adaptions and equipment stores and substance misuse services, for all of which the council hosts the budget. Occupational therapy services are provided through a pooled budget arrangement with the Isle of Wight NHS Trust who host this budget. Details of these arrangements can be found in the main statement of accounts note 33.
- The council had previously contracted with Somerset care to provide residential homes for **adults with learning disabilities**. Somerset Care have given notice that it will cease to provide this service in 2013. This service including all its staff and assets are transferring back to the council and will be provided directly by the council until such time as the contract can be retendered and a contact awarded to a new provider.

Other contracts can be viewed on www.iwight.com

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

Members and officers register of interests

Councillors and officers are required to declare their own or close family members directorship and interests in companies which may conflict with their management responsibilities. Members declarations are now published on the councils website under their individual pages http://www.iwight.com/councillor/azCouncillors.aspx. Senior officers declarations are available on request at County Hall. A review of both takes place each year and the findings are detailed in note 40 of the main statement of accounts.

7. Looking ahead

Impact of current economic climate on authority and services

An autumn statement from the Chancellor was made on 29 November 2011 setting out the overall position on the national economy and steps that would be taken to deal with current reduced growth forecasts and to avoid going back into recession. As part of the announcement there were a number of national changes that impacted on local authorities. Since this announcement, local authorities have experienced significant cuts to their grant funding and the last 2 years have seen a requirement for on-going savings across the council as a whole.

It is clear that, for the foreseeable future, resources will continue to be limited and the council expects there to be additional reductions made in future years. The draft spending limits for a further two years, 2015-16 and 2016-17 have been announced which give an on-going reduction of 0.9% in real terms each year. It is likely that within these limits the reductions for local authorities and for certain services will be higher.

In preparing for this likelihood, the council is continuing to review the services it provides and how they are provided. The new administration, following its election in May 2013, has already expressed an intent to undertake a 'roots and branch' review of council services which will be used to shape strategy and determine priorities from 2014 onwards and informs the budget which will be laid before council for debate and agreement in February 2014.

Trends or factors

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

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

Resources, risks and uncertainties

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

PFI contracts for both highways and waste mean that the council is committed to funding levels for these services in the medium to long term. Although the provision of services under these contracts provides a saving to what it would cost the council to deliver them directly, the commitment to these contracts reduces the proportion of the council's costs which can be reduced or saved in future years. In addition, income from fees and charges is already under pressure in some areas, such as car parking, and this and the risk of inflation being higher than expected will create additional pressures.

Whilst reserves and balances are healthy now, they are not a permanent source of funding, as once spent they are gone. Any use of reserves and balances now to offset reductions in grant resources, adds to the gap in funding that we face in future years and which is only expected to worsen. However, they do provide a source of funding for one off initiatives, for example, invest to save and pump priming projects, where this enables on going revenue savings to be made. The full implications of the June 2013 Comprehensive Spending Review (which are being analysed at the time of writing this foreword) will add to the already significant funding gap of £24 million over the next 3 years.

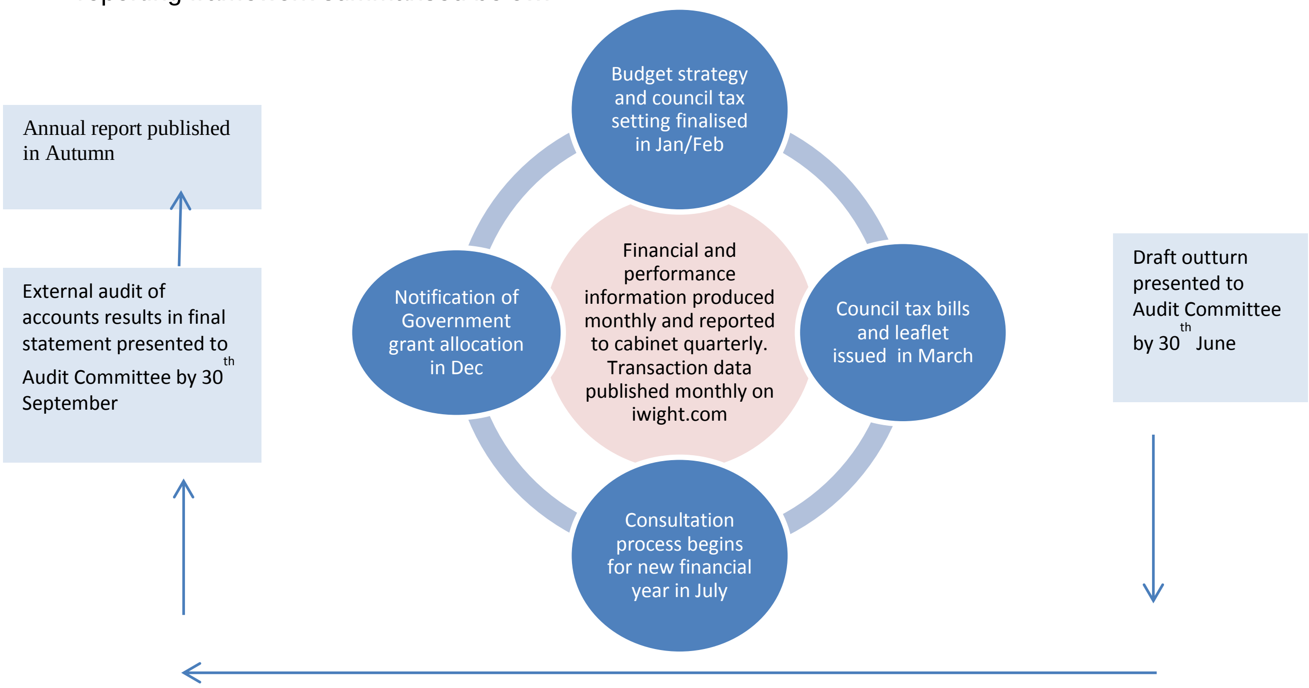
8. Changes to Statutory Functions and future developments

There have been a number of changes to statutory functions within the council in 2012/13 and further developments are planned for the future. A brief outline is included here:

- Responsibility for Public health services transferred from the NHS to local authorities from April 2013. This service is funded by a ring-fenced grant.
- The Chief Executive post was made redundant effective from 31 March 2013 and a new Chief Officer position created to fulfil the statutory Head of Paid Service role which includes a significant service area responsibility as part of this new role. This new role has been renamed Managing Director until 1 April 2014.
- A Childrens services Safeguarding Strategic Partnership with Hampshire County Council has been established as a result of the OFSTED report into Childrens services. The strategic partnership will be for a period of 5 years, with a review after three years and will include the appointment of John Coughlan as Director of Children's Services
- The council worked with the tourism industry to develop a new private sector led tourist board (Destination Management Organisation (DMO)) to lead the development and growth of the industry. The council is committed to maintaining its financial support to the industry at the current level which equates to £3m over the nine years commencing 2012/13. The DMO has now been formally established and constituted as Visit Isle of Wight.
- The council is establishing a Joint Venture Company (JVC) with the private sector to set up the Solent Ocean Energy Centre which will provide a test bed for tidal and offshore energy technology. The council has recently entered into the option to lease the seabed with Crown Estates which will enable the JVC to support the development of renewal energy technology.

9. Other sources of information

The council publishes a summary of the accounts each year in its annual report, and publishes details of financial transactions, both of which are available on the council's website www.iwight.com. The accounts and other publications all form part of the councils overall annual financial and performance reporting framework summarised below:



10. Guide to the main statements included in the accounts

The statement of accounts details the financial statements as follows:

Statement of responsibilities	This sets out the respective responsibilities of the council and the Managing Director and Strategic Director of Resources, and the Section 151 Officer for the accounts.
Movement in reserves statement	This shows the movement in the year on the different reserves held by the council. These reserves are separated into 'usable reserves' (those that can be applied to fund expenditure or reduce taxation) and other reserves.
Comprehensive income and expenditure statement	This statement shows the costs in the year of providing services and compares them with the previous year.
Balance sheet	The balance sheet includes information on the council's assets and liabilities. The net assets (assets less liabilities) are matched by the reserves held by the council.
Cash flow statement	This statement shows changes in cash and cash equivalents of the council during the reporting period. This provides a summary of the inflows and outflows of cash for revenue and capital purposes.
Statement of accounting policies	This explains the policies adopted in preparing the accounts, which are based on the relevant Codes of Practice applicable to local authorities.
Collection fund	This summarises the transactions of the council as billing authority in relation to Council Tax and National Non-Domestic Rates and illustrates the way in which the precepts have been distributed to the council and the Hampshire Police Authority.
Firefighters' pension fund	The purpose of this statement is to provide a basis for demonstrating the balance of cash-based transactions taking place over the year and for identifying the arrangements needed to close the balance for that year.
Isle of Wight Council pension fund	This summarises the income and expenditure of the pension funds and provides information about their financial position, performance and financial adaptability.

THE STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The authority's responsibilities

The authority is required to:

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

The duties of the Chief Financial Officer are carried out by the Strategic Director of Resources.

The Strategic Director of Resources' responsibilities

The Strategic Director of Resources is responsible for the preparation of the authority's statement of accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this statement of accounts, the Strategic Director of Resources 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 Strategic Director of Resources 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 2013 required by the Accounts and Audit (England) Regulations 2011 is set out on pages 16 to 132.

I further certify that the statement of accounts present a true and fair view of the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2013.

Strategic Director of Resources Date: 18/09/2013

Stuart R Fraser

Head of Financial Management
(Section 151 Officer) Date: 13/09/2013

Chair of Audit Committee Date: 26/09/2013

MOVEMENT IN RESERVES STATEMENT

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

	General fund balance £000	Earmarked general fund Reserves £000	Capital receipts reserve £000	Capital grants unapplied £000	Total usable reserves £000	Unusable reserves £000	Total authority reserves £000
Balance at 31 March 2011 brought forward	**8,060**	**13,627**	**0**	**631**	**22,318**	**(16,413)**	**5,905**
Movement in reserves during 2011-12							
Surplus or (deficit) on the provision of services	(4,334)	0	0	0	(4,334)	0	(4,334)
Other comprehensive income & expenditure	0	0	0	0	0	(26,753)	(26,753)
Total Comprehensive Income & Expenditure	**(4,334)**	**0**	**0**	**0**	**(4,334)**	**(26,753)**	**(31,087)**
Adjustments between accounting basis & funding basis under regulations (Note 7)	11,675	0	127	(30)	11,772	(11,772)	0
Net increase/decrease before transfers to earmarked reserves	**7,341**	**0**	**127**	**(30)**	**7,438**	**(38,525)**	**(31,087)**
Transfers to/from earmarked reserves (Note 8)	(6,851)	6,851	0	0	0	0	0
Increase/decrease in 2011-12	**490**	**6,851**	**127**	**(30)**	**7,438**	**(38,525)**	**(31,087)**
Balance at 31 March 2012 carried forward	**8,550**	**20,478**	**127**	**601**	**29,756**	**(54,938)**	**(25,182)**

	General fund balance £000	Earmarked general fund Reserves £000	Capital receipts reserve £000	Capital grants unapplied £000	Total usable reserves £000	Unusable reserves £000	Total authority reserves £000
Balance at 31 March 2012 brought forward	**8,550**	**20,478**	**127**	**601**	**29,756**	**(54,938)**	**(25,182)**
Movement in reserves during 2012-13							
Surplus or (deficit) on the provision of services	3,438	0	0	0	3,438	0	3,438
Other comprehensive income & expenditure	0	0	0	0	0	(24,277)	(24,277)
Total Comprehensive Income & Expenditure	**3,438**	**0**	**0**	**0**	**3,438**	**(24,277)**	**(20,839)**
Adjustments between accounting basis & funding basis under regulations (Note 7)	4,616	0	448	(225)	4,839	(4,839)	0
Net increase/decrease before transfers to earmarked reserves	**8,054**	**0**	**448**	**(225)**	**8,277**	**(29,116)**	**(20,839)**
Transfers to/from earmarked reserves (Note 8)	(7,587)	7,587	0	0	0	0	0
Increase/decrease in 2012-13	**467**	**7,587**	**448**	**(225)**	**8,277**	**(29,116)**	**(20,839)**
Balance at 31 March 2013 carried forward	**9,017**	**28,065**	**575**	**376**	**38,033**	**(84,054)**	**(46,021)**

COMPREHENSIVE INCOME & EXPENDITURE STATEMENT

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

	2011-12				2012-13	
Gross expenditure	Gross income	Net expenditure		**Gross expenditure**	**Gross income**	**Net Expenditure**
£000	£000	£000		**£000**	**£000**	**£000**
137,168	(103,616)	33,552	Education & children's service	**121,829**	**(93,678)**	**28,151**
57,251	(16,858)	40,393	Adult social care	**59,086**	**(15,579)**	**43,507**
12,215	(4,172)	8,043	Cultural & related services	**9,713**	**(3,320)**	**6,393**
17,353	(1,755)	15,598	Environmental & regulatory services	**17,231**	**(1,758)**	**15,473**
4,990	(2,407)	2,583	Planning services	**5,301**	**(2,708)**	**2,593**
21,199	(6,983)	14,216	Highways & transport services	**21,080**	**(5,869)**	**15,211**
7,643	(659)	6,984	Fire & rescue services	**7,669**	**(211)**	**7,458**
62,634	(56,353)	6,281	Housing services (including Benefits)	**63,175**	**(56,701)**	**6,474**
17,701	(16,836)	865	Central services to the public	**17,540**	**(16,605)**	**935**
3,282	(37)	3,245	Corporate & democratic core	**3,024**	**(2)**	**3,022**
10,895	0	10,895	Non-distributed costs	**5,954**	**0**	**5,954**
352,331	(209,676)	142,655	**Cost of services**	**331,602**	**(196,431)**	**135,171**
30,424	(555)	29,869	Other operating expenditure (note 9)	**10,093**	**0**	**10,093**
32,249	(20,506)	11,743	Financing & investment income & expenditure (note 10)	**31,048**	**(18,317)**	**12,731**
0	(179,933)	(179,933)	Taxation & non-specific grant income (note 11)	**0**	**(161,433)**	**(161,433)**
415,004	(410,670)	4,334	**(Surplus)/deficit on provision of services**	**372,743**	**(376,181)**	**(3,438)**
		(14,401)	Surplus on revaluation of non-current assets (note 25)			**(6,903)**
		5,791	Downward revaluation of assets and impairment losses on non-current assets charged to the revaluation reserve (note 25)			**3,985**
		35,363	Actuarial gains/losses on pension assets/liabilities (note 47)			**27,195**
		26,753	**Other comprehensive income & expenditure**			**24,277**
		31,087	**Total comprehensive income & expenditure**			**20,839**

BALANCE SHEET

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

31 March 2012			**31 March 2013**
£000		**Note**	**£000**
334,630	Property, plant & equipment	**12**	**345,729**
1,446	Heritage assets	**13**	**1,696**
5,853	Investment property	**14**	**6,401**
855	Intangible assets	**15**	**682**
11	Long term investments	**16**	**11**
97	Long term debtors	**16**	**100**
342,892	**Long term assets**		**354,619**
1,285	Short-term investments	**16**	**5,620**
2,501	Assets held for sale	**21**	**2,281**
460	Inventories	**18**	**263**
23,263	Short term debtors	**19**	**21,088**
27,509	**Current assets**		**29,252**
(3,828)	Cash and cash equivalents	**20**	**(2,635)**
(15,492)	Short term borrowing	**16**	**(39,317)**
(31,120)	Short term creditors	**22**	**(25,729)**
(2,033)	Short term provisions	**23**	**(2,186)**
(52,473)	**Current liabilities**		**(69,867)**
(3,952)	Long term creditors	**16**	**(2,249)**
(1,420)	Long term provisions	**23**	**(1,292)**
(111,888)	Long term borrowing	**16**	**(111,888)**
(206,874)	Other long term liabilities	**16**	**(238,814)**
(394)	Donated assets account	**13**	**(394)**
(18,582)	Capital grants receipts in advance	**39**	**(5,388)**
(343,110)	**Long term liabilities**		**(360,025)**
(25,182)	**Net assets**		**(46,021)**
29,756	Usable reserves	**24**	**38,033**
(54,938)	Unusable reserves	**25**	**(84,054)**
(25,182)	**Total reserves**		**(46,021)**

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.

2011-12		**2012-13**
£000		**£000**
(4,334)	Net Surplus/(deficit) on the provision of services	**3,438**
59,248	Adjustments to net surplus or deficit on the provision of services for non-cash movements	**36,500**
(30,691)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	**(25,703)**
24,223	Net cash flows from operating activities (Note 26)	**14,235**
(28,635)	Investing activities (note 28)	**(37,909)**
2,297	Financing activities (note 29)	**24,867**
(2,115)	Net increase or decrease in cash & cash equivalents	**1,193**
(1,713)	Cash & cash equivalents at the beginning of the reporting period	**(3,828)**
(3,828)	**Cash & cash equivalents at the end of the reporting period (Note 20)**	**(2,635)**

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 2012-13 financial year and its position at the year-end of 31 March 2013. The council is required to prepare an annual statement of accounts by the Accounts and Audit (England) Regulations 2011 which those regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2012-13 and the Service Reporting Code of Practice 2012-13, supported by International Financial Reporting Standards (IFRS). The accounting convention adopted in the statement of accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

1.2 Accruals of income and expenditure

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

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

1.3 Cash and cash equivalents

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

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

1.4 Exceptional items

When items of income or expense are material, their nature and amount is disclosed separately, either on the face of the comprehensive income and expenditure statement or in the notes to the accounts, dependant on how significant the items are to an understanding of the council's financial performance.

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

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

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

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

1.6 Charges to revenue for non-current assets

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

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

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

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

- for all capital expenditure incurred before 1 April 2008, the MRP is calculated at 4% of the capital financing requirement
- For capital expenditure financed by council borrowing after 1 April 2008, the MRP is calculated in accordance with the expected life of each asset as estimated either at the time of acquisition or upon becoming fully operational
- For capital expenditure financed by finance leases, the MRP is calculated in accordance with the write-down of the liability

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.

1.7 Employee benefits

1.7.1 Benefits payable during employment

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

1.7.2 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 when the council is demonstrably committed to the termination of the employment of an officer or a group of officers or making an offer to encourage voluntary redundancy.

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 Fire-fighters' Pension Scheme, which is an unfunded scheme administered by the council and there are no investment assets held against the liabilities.

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

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

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 – ie an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates etc, and projections of projected earnings for current employees.

- Liabilities are discounted to their value at current prices, using a discount rate of 4.5% based on the yield available on long-dated UK Government bonds (as measured by the Fixed Interest Gilt Yield Index (over 15 years)), plus an allowance for the median credit spread available on this index at the IAS19 valuation date.

- 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 seven components:
    - current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the comprehensive income and expenditure statement to the services for which the employees worked
    - past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the surplus or deficit on the provision of services in the comprehensive income and expenditure statement as part of non-distributed costs
    - interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to financing and investment income and expenditure line in the comprehensive income and

expenditure statement

- expected return on assets – the annual investment return on the fund assets attributable to the council, based on an average of the expected long-term return – credited to financing and investment income and expenditure line in the comprehensive income and expenditure statement
- gains/losses on settlements and curtailments – the result of actions to relieve the council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the surplus or deficit on the provision of services in the comprehensive income and expenditure statement as part of non-distributed costs
- 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
- 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.

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

Where premiums and discounts are charged to the comprehensive income and expenditure statement, regulations allow the impact on the general fund balance to be spread over future years. The council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the comprehensive income and expenditure statement to the net charge required against the general fund balance is managed by a transfer to or from the financial instruments adjustment account in the movement in reserves statement.

1.9.2 Financial assets

Financial assets are classified into two types:

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

1.9.3 Loans and receivables

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

The council made a number of loans to voluntary organisations and individuals in the past at less than market rates (soft loans). A review of soft loans has been undertaken and the amounts involved are not considered to be material for the purposes of the 2012-13 statement of accounts.

1.9.4 Available-for-sale assets

Available-for-sale assets are recognised in the balance sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the financing and investment income and expenditure line in the comprehensive income and expenditure statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (eg dividends) is credited to the comprehensive income and expenditure statement when it becomes receivable by the council.

Assets are maintained in the balance sheet at fair value. Values are based on the following principles:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis
- equity shares with no quoted market prices – independent appraisal of company valuations.

Changes in fair value are balanced by an entry in the available-for-sale reserve and the gain/loss is recognised in the surplus or deficit on revaluation of available-for-sale financial assets. The exception is where impairment losses have been incurred – these are debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement, along with any net gain or loss for the asset accumulated in the available-for-sale reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the financing and investment income and expenditure line in the comprehensive income and expenditure statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the derecognition of the asset are credited or debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement, along with any accumulated gains or losses previously recognised in the available-for-sale reserve. Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

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. Heritage assets

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

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

- **Museum social history**

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

- **Local government collection**

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

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

- **Art**

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

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

- **Archaeology**

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

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

- **Geology**

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

- **Record Office collection**

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

- **Local collection books**

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

- **Heritage assets - general**

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

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

1.12. Intangible fixed assets

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

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

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

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

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

1.13 Interests in companies and other entities

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.

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

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

1.16 Jointly controlled operations and jointly controlled assets

Jointly controlled operations are activities undertaken by the council in conjunction with other venturers that involve the use of the assets and resources of the venturers rather than the establishment of a separate entity. The council recognises on its balance sheet the assets that it controls and the liabilities that it incurs and debits and credits the comprehensive income and expenditure statement with the expenditure it incurs and the share of income it earns from the activity of the operation.

Jointly controlled assets are items of property, plant or equipment that are jointly controlled by the council and other venturers, with the assets being used to obtain benefits for the venturers. The joint venture does not involve the establishment of a separate entity. The council accounts for only its share of the jointly controlled assets, the liabilities and expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint venture and income that it earns from the venture.

Section 75 of the National Health Service Act 2006 enables the establishment of joint working arrangements between NHS bodies and local authorities. Pooled funds enable health bodies and local authorities to work collaboratively to address specific local health issues. Memorandum accounts are prepared relating to pooled budget agreements between the Isle of Wight Council and Isle of Wight NHS Trust. All relevant income and expenditure is included in the relevant division of service in the comprehensive income and expenditure statement and year-end balances are shared pro-rata on the basis of contributions made.

1.17 Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. One of the key tests for classification of finance leases is that lease payments are substantially all of the fair value of the asset. The council has defined substantial as being where lease payments are at least 70% of the fair value of the asset. All other leases are classified as operating leases.

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

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

1.17.1 The council as lessee

Finance leases

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

Lease payments are apportioned between:

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

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

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

Operating leases

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

1.17.2 The council as lessor

Finance leases

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

Operating leases

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

1.18 Overheads and support services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2012-13 (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

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

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

1.19 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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1.19.3 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.

1.19.4 Depreciation

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

Depreciation is calculated on the following bases:

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

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

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

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

1.19.5 Disposals and non-current assets held for sale

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

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

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

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

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the capital receipts reserve, and can then only be used for new capital investment or set aside to reduce the council’s underlying need to borrow (the capital financing requirement). Receipts are appropriated to the reserve from the general fund balance in the movement in reserves statement.

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

1.20 Private finance initiative (PFI) and similar contracts

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

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

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

The amounts payable to the PFI operators each year (unitary charge) are analysed into four 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 of 6.1% on the outstanding balance sheet liability, debited to

the financing and investment income and expenditure line in the comprehensive income and expenditure statement

- payment towards liability – applied to write down the balance sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease)
- Payment towards the excess of capital investment over planned capital investment specified in the contract. Excess of capital investment is credited to deferred income on the balance sheet and credited to the relevant service in the comprehensive income and expenditure statement

1.21 Provisions, contingent liabilities and contingent assets

1.21.1 Provisions

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

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

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

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

Provisions are treated as short-term for the purpose of balance sheet categorisation, with the exception of an estimate of the amount liable to ‘clawback’ relating to the Municipal Mutual Insurance scheme of arrangement in excess of the levy of 15% of total claims payments carried forward at 31 March 2013 to be charged in 2013-14. This element has been categorised as a long-term liability.

1.21.2 Landfill allowance schemes

Landfill allowances, whether allocated by DEFRA or purchased from another waste Disposal Authority (WDA) are recognised as current assets and are initially measured at fair value. Landfill allowances allocated by DEFRA are accounted for as a government grant.

After initial recognition, allowances are measured at the lower of cost and net realisable value.

As landfill is used, a liability and an expense are recognised. The liability is discharged either by surrendering allowances or by payment of a cash penalty to DEFRA (or by a combination). The liability is measured at the best estimate of the expenditure required to meet the obligation, normally the market price of the number of allowances required to meet the liability at the reporting date. However, where some of the obligation will be met by paying a cash penalty to DEFRA, that part of its liability is measured at the cost of the penalty.

However, where a reliable estimate of fair value cannot be ascertained due to the absence of an active market, the value of allowances will be written down to nil.

1.21.3 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.

1.22 Reserves

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

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

1.23 Revenue expenditure funded from capital under statute

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

1.24 Accounting for Schools

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

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

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

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

1.25 VAT

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

1.26 Carbon reduction commitment allowances

The council is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This scheme is currently in its introductory phase which will last until 31 March 2014. The council is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions (ie carbon dioxide) produced as energy is used. As carbon dioxide is emitted (ie as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the council is recognised and reported in the costs of the council's services and is apportioned to services on the basis of energy consumption.

1.27 Collection fund

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

- In its capacity as a billing authority, the council acts as an agent in that it collects and distributes council tax income on behalf of the major preceptor (Hampshire Police Authority) and itself.
- While the council tax income for the year credited to the collection fund is the accrued income for the year, regulations determine when it should be released from the collection fund and transferred to the general fund of the billing authority or paid out of the collection fund to a major preceptor.
- Since the collection of council tax and NNDR income is in substance an agency arrangement:-

Cash collected by the billing authority from council tax debtors belongs proportionately to the billing authority and the major preceptors. There will therefore be a debtor/creditor position between the billing authority and each major preceptor to be recognised, since the net cash paid to each major preceptor in the year will not be its share of the cash collected from council taxpayers: and

Cash collected from NNDR taxpayers by billing authorities (net of the cost of collection allowance) belongs to the Government and the net amount not yet paid to the Government at the balance sheet date is included in the balance sheet as a creditor. Similarly, if the cash paid to the Government exceeds the cash collected from NNDR taxpayers (net of the cost of collection allowance), the excess is included in the balance sheet as a debtor. The accounting entries relating to NNDR will therefore net to zero in the collection fund.

- The year-end surplus or deficit on the collection fund relates entirely to council tax and is distributed between the billing and precepting authorities on the basis of estimates made on 15 January of the year-end balance.
- An assessment of an impairment allowance for both council tax and NNDR is carried out at each year-end and based on historical levels of write-offs of uncollectible amounts.
- With effect from November 2012, the Hampshire Police Authority was superseded by the Police and Crime Commissioner for Hampshire as a major preceptor. Any further reference to the Hampshire Police Authority in these accounts covers both bodies.

2. <u>Accounting standards that have been issued but have not yet been adopted</u>

The Code of Practice on Local Authority accounting in the United Kingdom 2013-14 (the Code) has introduced changes in accounting policies which will need to be adopted by the council in the 2013-14 financial statements.

2.1 IFRS 7 Financial Instruments: Disclosures (offsetting financial asset and liabilities)

Following a review of the authority's financial assets and liabilities at 31 March 2013, it is considered unlikely that this change in accounting standards will have a material impact on the financial statements of the council.

2.2 IAS 19 Employee Benefits

The key change relating to Local Government Pension Scheme employers relates to the expected return on assets. This will involve credits to the comprehensive income and expenditure statement relating to increases in pensions assets being based on the discount rate rather than projected investment returns. The estimated impact on the 2012-13 comprehensive income and expenditure statement is a reduction in the surplus on provision of services of £3.038 million, the effect of which will be reversed through the movement in reserves statement resulting in no impact on the council tax. There will be adjustments of an estimated £3.038 million on the pension reserve and other long-term liabilities on the balance sheet.

The changes will be implemented on 1 April 2013 and be included in the 2013-14 statement. There will also be a retrospective restatement of the 2012-13 comparative figures.

3. Critical judgements in applying accounting policies

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

- **Future funding of the council**.

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

- **Asset classifications**

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

- **Lease classifications**

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

- **Contractual arrangements**

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

- **School Land and Buildings**

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

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

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

Item	Uncertainties	Effect if actual results differ from assumptions
Property, plant and equipment	Assets are depreciated over useful lives that are dependent on assumptions about level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets. The carrying value of property, plant and equipment at 31 March 2013 is £345.729 million.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the asset falls. It is estimated that the annual depreciation charge for buildings would increase by £0.123 million for every year that useful lives had to be reduced.
Local Government Pension Scheme – Pensions Liability	The estimation of the net liability to pay retirement benefits depends on a number of complex judgements. In particular these judgement 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 2013 is a deficit of £178.835 million.	The impact on the net pensions liability of changes in individual assumptions can be measured in approximate terms. For example, a 0.5% decrease in the real discount rate would result in an increase of 10% to the employer liability for which the monetary value would be £52.022 million. A one year increase in member life expectancy would result in an increase of 3% to the employer liability for which the monetary value would be £16.047 million. A 0.5% increase in the salary increase rate would result in an increase of 3% to the employer liability for which the monetary value would be £15.089 million. A 0.5% increase in the pension increase rate would result in an increase of 7% to the employer liability for which the monetary value would be £36.234 million.
Fire-fighters' Pension Scheme – Pensions Liability	As with the Local Government Pension Scheme, the estimation of the net liability to pay retirement benefits depends on a number of complex judgements. The carrying value of the Fire-fighters' Pension Scheme at 31 March 2013 is a deficit of £60.300 million (excluding the top-up grant repayable).	The impact on the net pension liability of changes in individual assumptions can be measured in approximate terms. For example, a 0.1% decrease in the real discount rate would result in an increase of 2% to the employer liability for which the monetary value would be £1.100 million. A one year increase in member life expectancy would result in an increase of 4% to the employer liability for which the monetary value would be £1.800 million. A 0.5% increase in the salary increase rate would result in an increase of 2% to the employer liability for which the monetary value would be £0.800 million. A 0.5% increase in the pension increase rate would result in an increase of 9% to the employer liability for which the monetary value would be £4.700 million.

Item	Uncertainties	Effect if actual results differ from assumptions
Allowance for non-payment of debtors (provision for bad debts)	The council has made allowances for the non-collection of outstanding debts of £2.380 million at 31 March 2013. The allowance for council tax arrears (£0.314 million) is based on an average of historic levels of write-off. The allowances for the remaining sundry debts (including housing benefit overpayments) are calculated on a sliding scale of percentages applied to the outstanding amounts based on an age profile and nature of the debts.	For council tax arrears, variances between estimated and actual write-offs will have an impact on the surplus or deficit on the collection fund. A higher than anticipated collection fund deficit or surplus will need to be taken into account when setting future council tax levels. For the remaining sundry debts (including housing benefit overpayments) a 5% increase in the percentage applied would require an adjustment to the allowance of £0.079 million.
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 2013 has been based on information contained within the council's in-house claims recording database and also an estimate of the amount liable to 'clawback' in respect of claims against policies taken out with the Municipal Mutual Insurance (MMI) prior to 1 April 1993. MMI went into 'run-off' in September 1992 and subsequently established a scheme of arrangement whereby claims paid since January 1994 will be subject to a total or partial 'clawback' in the event of insolvency. In November 2012, the directors of MMI triggered the company's scheme of arrangement following a Supreme Court judgement in March 2012 relating to mesothelioma claims. Under this scheme, Ernst & Young have taken over management of MMI's business, with the power to levy on scheme creditors in order to achieve a solvent run-off. Ernst & Young have indicated their intention to levy an initial rate of 15% of the total claims payments carried forward at 31 March 2013 exceeding £0.050 million. The Insurance Provision of £2.791 million therefore includes an amount of £1.520 million for potential 'clawback' with 15% of this figure (£0.228 million) included as a short-term provision.	The insurance provision is being maintained at a level considered to be prudent in view of the information currently available. The impact of a significant claim paid from the provision would require a reassessment of the adequacy of the Provision and additional contributions may need to be made from the general fund if the provision was found to be insufficient to absorb such a claim. With regard to the MMI scheme, in future only 85% of claim amounts will be paid out and so the 15% shortfall will need to be self-funded by the council. In addition, it is possible that there will be further costs resulting from 'incurred but not reported' claims, although it is not possible to quantify the potential amounts. The potential liability relating to the MMI solvency position is based on a current assessment of the impact of industrial disease type claims. Should the solvency position deteriorate further, the council could face further calls on the amount in the provision.
Accumulated absences account	An accrual in respect of non-teaching staff annual leave entitlement carried forward at 31 March 2013 has been based on 100% of staff as systems have been implemented to ensure that adequate records are maintained. The accrual in respect of teaching 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 2013 is £2.781 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 impact on the comprehensive income & expenditure statement is the movement between the balance sheet figures between the two years. However, the entries in the comprehensive income & expenditure statement are reversed out through the movement in reserves statement, so that there is no impact on the general fund balance.

Item	Uncertainties	Effect if actual results differ from assumptions
Heritage assets	The council has valued a large number of heritage assets at historic cost of £0.446 million as current values cannot be obtained without significant expense.	The asset values could be understated or overstated in the balance sheet compared to the amounts if current value were to be available. A 20% change in asset values would equate to a change of £0.089 million in the value of these assets.

5. Material items of income and expense

5.1 2012-13 Disposals

The other operating expenditure line in the comprehensive income & expenditure statement includes £8.157 million relating to losses on disposal of non-current assets. These losses primarily relate to the freehold transfer of the Queensgate Foundation School (£2.130 million), the derecognition of replaced components at the Heights leisure centre (£1.467 million) and the transfer on a statutory 125 year lease of Totland Weston Community School to academy status (£0.793 million). In addition, a 125 year lease has been granted on the Ventnor Botanic Gardens as part of a transfer to a community group (£2.843 million).

The carrying value of property, plant and equipment in the balance sheet has been reduced by £8.157 million as a result of these disposals.

Losses on disposal are charged to the comprehensive income & expenditure statement and then reversed through the movement in reserves statement with the result that there is no impact on the council tax.

5.2. Impairments

During 2012-13, the council has recognised an impairment loss of £4.821 million in relation to land and buildings within property, plant and equipment. These have been charged to the relevant service line in the comprehensive income & expenditure statement and then reversed through the movement in reserves statement with the result that there is no impact on the council tax. The carrying value of property, plant and equipment in the balance sheet has been reduced by £4.821 million as a result of these impairments.

Impairment losses of £4.976 million have also been recognised in relation to assets held for sale. These have been charged to non-distributed costs in the comprehensive income & expenditure statement and then reversed through the movement in reserves statement with the result that there is no impact on the council tax. The carrying value of assets held for sale in the balance sheet has been reduced by £4.976 million as a result of these impairments.

These impairment losses principally relate to school assets, further details are shown in note 45.

5.3 Pension assets/liabilities

The pension reserve at 31 March 2013 includes an actuarial loss of £27.195 million for 2012-13 which has resulted in a negative pension reserve of £238.814 million. The actuarial loss is included with other comprehensive income and expenditure in the comprehensive income and expenditure statement. The notes to the Pension Reserve in note 25 and note 47 Defined benefit pensions schemes give further details of the impact on the council's finances.

6. Events after the reporting period

The statement of accounts was authorised for issue by the Strategic Director of Resources (as Chief Financial Officer during 2012-13) and the Head of Financial Management (section 151 officer at the date of signing) on 18 September 2013. 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 2013, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

The financial statements and notes have not been adjusted for the following events which took place after 31 March 2013 as they provide information that is relevant to an understanding of the council's financial position but do not relate to conditions at that date:

- 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 CCTV network will also be improved and maintained as will the Island's street-lighting network which will benefit from the installation of low-energy LED bulbs. Also included are related operational services such as the council's winter maintenance and roadside verge maintenance programmes as well as its street cleansing operations.

  The PFI is financed through a government grant and the council will also make an annual contribution. A total of £477 million of grant will be paid by the Government to the council over the 25 year duration of the project. The grant received by the council during 2013-14 will be £15 million and the budget for the amount to be paid out in unitary charge under the contract is £16.8 million. The unitary charge is the total of the service charge element, repayment of the capital element of the contract obligation and the interest expense. The total value of the contract over the 25 year life of the project is around £800 million.

  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.

- Northwood Primary School has transferred to academy status with effect from 1 April 2013. The carrying value of land and buildings for this school at 31 March 2013 was £1.7 million. Academy status involves the granting of a statutory 125 year lease and the removal of the asset from the council's balance sheet. This will be disclosed as a loss on disposal in the 2013-14 accounts as no cash proceeds have been received upon this lease being granted.

- Following the introduction of new arrangements for the retention of business rates which came into effect on 1 April 2013, the council will assume the liability for refunding ratepayers who successfully appeal against the rateable value of their properties on the rating list. The estimated liability at 31 March 2013 is £0.972 million with the council's 50% share that needs to be provided for in 2013-14 being £0.486 million.

7. Adjustments between accounting basis and funding basis under regulations

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

2012-13 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	**(23,779)**	-	-	**23,779**
Movements in the market value of investment properties	**488**	-	-	**(488)**
Amortisation of intangible assets	**(412)**	-	-	**412**
Capital grants and contributions applied	**24,061**	-	**-**	**(24,061)**
Revenue expenditure funded from capital under statute	**(2,619)**	-	-	**2,619**
Waste PFI deferred income	**267**	-	-	**(267)**

2012-13 Adjustments	**General fund balance £000**	**Capital receipts reserve £000**	**Capital grants unapplied £000**	**Movement in unusable reserves £000**
Ryde Gateway liability	**201**	-	-	**(201)**
Prior year adjustment – capital loan	**13**	-	-	**(13)**
Capital loan adjustment	**7**	**(7)**	-	**0**
Other adjustment	**1**	**(1)**	-	**0**
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	**(8,157)**	**(2,927)**	**-**	**11,084**
Insertion of items not debited or credited to the comprehensive income & expenditure statement:				
Provision for the financing of capital investment (minimum revenue provision:- MRP)	**9,256**	**-**	**-**	**(9,256)**
Capital expenditure charged against the general fund	**717**	**-**	**-**	**(717)**
Adjustments primarily involving the capital grants unapplied account:				
Capital grants and contributions unapplied credited to the comprehensive income & expenditure statement	**0**	-	**0**	**-**
Application of grants to capital financing transferred to the capital adjustment account	**-**	-	**225**	**(225)**
Adjustments primarily involving the capital receipts reserve				
Use of the capital receipts reserves to finance new capital expenditure	-	**2,556**	-	**(2,556)**
Contribution from the capital receipts to finance the payments to the Government housing capital receipts pool	**0**	**0**	-	**-**
Transfer from deferred capital receipts reserve upon receipt of cash	**-**	**(2)**	-	**2**
Reinstatement of aborted capital expenditure	**-**	**(67)**	-	**67**
Adjustments primarily involving the pensions reserve:				
Reversal of items relating to retirement benefits debited or credited to the comprehensive income & expenditure statement (see Note 47)	**(17,575)**	-	-	**17,575**
Employers' pension contributions and direct payments to pensioners in the year	**12,857**	-	-	**(12,857)**
Firefighters' pension scheme – movement on top-up grant repayable (to)/from Government	**(27)**	-	-	**27**
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	**88**	-	-	**(88)**
Adjustments primarily involving the accumulated absences account:				

2012-13 Adjustments	General fund balance £000	Capital receipts reserve £000	Capital grants unapplied £000	Movement in unusable reserves £000
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	(3)	-	-	3
Total adjustments	**(4,616)**	**(448)**	**225**	**4,839**

Comparative year: 2011-12 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	(27,848)	-	-	27,848
Movements in the market value of investment properties	(347)	-	-	347
Amortisation of intangible assets	(677)	-	-	677
Capital grants and contributions applied	41,055	-	-	(41,055)
Revenue expenditure funded from capital under statute	(3,791)	-	-	3,791
Waste PFI deferred income	223	-	-	(223)
Ryde Gateway liability	201	-	-	(201)
Prior year adjustment	(45)	-	-	45
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	(28,597)	(1,273)		29,870
Insertion of items not debited or credited to the comprehensive income & expenditure statement:				
Provision for the financing of capital investment (minimum revenue provision – MRP)	11,714	-	-	(11,714)
Capital expenditure charged against the general fund	1,976	-	-	(1,976)
Adjustments primarily involving the capital grants unapplied account:				
Capital grants and contributions unapplied credited to the comprehensive income & expenditure statement	513	-	(513)	-
Application of grants to capital financing transferred to the capital adjustment account	-	-	543	(543)

Comparative year: **2011-12 Adjustments**	**General fund balance £000**	**Capital receipts reserve £000**	**Capital grants unapplied £000**	**Movement in unusable reserves £000**
Adjustments primarily involving the capital receipts reserve				
Use of the capital receipts reserves to finance new capital expenditure	-	1,147	-	(1,147)
Contribution from the capital receipts to finance the payments to the Government housing capital receipts pool	(1)	1	-	-
Transfer from deferred capital receipts reserve upon receipt of cash	-	(2)	-	2
Adjustments primarily involving the pensions reserve:				
Reversal of items relating to retirement benefits debited or credited to the comprehensive income & expenditure statement (see Note 47)	(20,404)	-	-	20,404
Employers' pension contributions and direct payments to pensioners in the year	13,429	-	-	(13,429)
'Capitalised' pension costs	194	-	-	(194)
Firefighters' pension scheme – movement on top-up grant repayable (to)/from Government	555	-	-	(555)
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	(28)	-	-	28
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	203	-	-	(203)
Total adjustments	(11,675)	(127)	30	11,772

8. Transfers to/from earmarked reserves

This note sets out the amounts set aside from the general fund balance in earmarked reserves to provide financing for future expenditure plans and the amounts transferred from earmarked reserves to meet general fund expenditure in 2012-13.

General Fund:	Balance at 1 April 2011 £000	Transfer out 2011/12 £000	Transfer in 2011/12 £000	Balance at 1 April 2012 £000	Transfer out 2012/13 £000	Transfer in 2012/13 £000	Balance at 31 March 2013 £000
Balances held by schools under scheme of delegation	583	(848)	3,130	2,865	(106)	928	**3,687**
Revenue carry-forward reserve	2,096	(2,096)	8,158	8,158	(8,158)	5,949	**5,949**
DSG budget deficit	(1,235)	1,235	(5,335)	(5,335)	0	4,099	**(1,236)**
Repairs & renewal funds	864	(23)	42	883	0	247	**1,130**
Earmarked reserves – services	2,524	(142)	3,945	6,327	(2,075)	7,193	**11,445**
Insurance & risk funds	5,730	(48)	552	6,234	(131)	0	**6,103**
Organisational change reserve	1,765	(1,157)	0	608	(393)	0	**215**
Section 106 contributions reserve	1,300	(928)	366	738	(35)	69	**772**
Total	13,627	(4,007)	10,858	20,478	(10,898)	18,485	**28,065**

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

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

There was a deficit of £5.335 million on the DSG (Schools budget) in 2011-12. The balance of the deficit at 31 March 2013 will be met from the 2013-14 DSG allocation.

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

The earmarked reserves - services includes reserves the council is required to maintain, such as the licensing account and the elections account; reserves to support specific projects, such as the job evaluation project; and reserves which support the delivery of corporate priorities, such as the waste procurement project. Specific sums have also been set aside to meet future requirements, specifically in relation to restructuring.

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 organisational change reserve provides for the potential cost of implementing the measures necessary to change the future shape and direction of the council and achieve a sustainable organisation, including a terms and conditions review and additional termination costs.

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.

9. Other operating expenditure

2011-12 £000		2012-13 £000
1,686	Parish & Town Council precepts	**1,769**
140	Levies	**140**
1	Payments to government housing capital receipts pool	**0**
(555)	Fire-fighters' Pension Scheme – movement in top-up grant repayable to/(from) Government	**27**
28,597	(Gains)/losses on the disposal of non-current assets and current assets held for sale	**8,157**
29,869	**Total**	**10,093**

A levy of £0.105 million (£0.105 million in 2011-12) was paid to the Southern Inshore Fisheries and Conservation Authority and £0.035 million (£0.035 million in 2011-12) was paid as a flood defence levy to the Environment Agency.

10. Financing and investment income & expenditure

2011-12 £000		2012-13 £000
6,399	Interest payable	**6,512**
5,229	Pension interest cost and expected return on pension assets	**6,870**
(117)	Interest receivable	**(46)**
232	Income & expenditure in relation to investment properties and changes in fair value	**(605)**
11,743	**Total**	**12,731**

11. Taxation and non specific grant incomes

2011-12 £000		2012-13 £000	
73,111	Council tax income		**73,518**
48,579	Non domestic rates distribution	**59,052**	
19,506	Non-ringfenced government grants	**6,057**	
38,737	Capital grants & contributions	**22,806**	
106,822	Total grant income (see note 39)		**87,915**
179,933	**Total**		**161,433**

12. Property, plant & equipment

Movements on balances in 2012-13	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 2012	1,661	240,243	43,034	109,200	1,148	7,828	37,547	**440,661**	21,343
Additions	0	14,090	1,583	4,415	18	2	23,088	**43,196**	133
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	1,355	243	304	0	0	144	0	**2,046**	304
Derecognition	0	(5,899)	(4,837)	(2,500)	0	(3,428)	0	**(16,664)**	(1,554)
Assets reclassified (to)/from held for sale	(52)	(3,701)	(157)	0	0	(4,418)	0	**(8,328)**	0
Other movements	0	(2)	(1)	0	0	0	(50)	**(53)**	0
Reclassification	0	3,335	611	829	(583)	6,902	(11,172)	**(78)**	0
At 31 March 2013	**2,964**	**248,309**	**40,537**	**111,944**	**583**	**7,030**	**49,413**	**460,780**	**20,226**

Accumulated depreciation & impairment 2012-13	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 2012	0	(46,804)	(27,577)	(30,982)	(346)	(322)	0	**(106,031)**	(18,802)
Depreciation charge	0	(3,579)	(4,045)	(5,735)	0	(89)	0	**(13,448)**	(351)
Depreciation written out to the revaluation reserve	0	2,020	(238)	0	0	29	0	**1,811**	(238)
Impairment losses or (reversals) written out to the revaluation reserve	0	972	0	(2,247)	(50)	(19)	0	**(1,344)**	0
Impairment losses or (reversals) recognised in the surplus/deficit on the provision of services	0	(4,821)	0	0	(210)	(325)	0	**(5,356)**	0
Derecognition	0	672	4,620	2,500	0	584	0	**8,376**	1,400
Assets reclassified (to)/from held for sale	0	788	150	0	0	(6)	0	**932**	0
Reclassification	0	1,037	0	0	79	(1,107)	0	**9**	0
At 31 March 2013	**0**	**(49,715)**	**(27,090)**	**(36,464)**	**(527)**	**(1,255)**	**0**	**(115,051)**	**(17,991)**

Net book value at 31 March 2013	**2,964**	**198,594**	**13,447**	**75,480**	**56**	**5,775**	**49,413**	**345,729**	**2,235**
Net book value at 31 March 2012	1,661	193,439	15,457	78,218	802	7,506	37,547	334,630	2,541

Comparative movements in 2011-12	**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 2011	1,173	271,100	38,592	101,233	2,053	210	12,838	**427,199**	21,072
Additions	0	8,814	3,738	4,776	44	69	28,341	**45,782**	278
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	550	5,759	30	2,500	54	894	0	**9,787**	0
Derecognition	0	(29,767)	(586)	0	(18)	(1,721)	0	**(32,092)**	(6)
Assets reclassified (to)/from held for sale	(62)	(9,248)	(838)	0	0	0	0	**(10,148)**	0
Other movements	0	0	0	1	0	0	(48)	**(47)**	(1)
Reclassification	0	(6,415)	2,098	690	(985)	8,376	(3,584)	**180**	0
At 31 March 2012	**1,661**	**240,243**	**43,034**	**109,200**	**1,148**	**7,828**	**37,547**	**440,661**	**21,343**

Comparative Accumulated depreciation & impairment 2011-12	**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 2011	0	(37,849)	(23,542)	(25,539)	(391)	(202)	0	**(87,523)**	(18,032)
Depreciation charge	0	(3,847)	(5,040)	(5,189)	0	(97)	0	**(14,173)**	(776)
Depreciation written out to the revaluation reserve	0	2,655	0	(254)	11	164	0	**2,576**	0
Impairment losses or (reversals) written out to the revaluation reserve	0	(4,398)	0	0	(52)	(1)	0	**(4,451)**	0
Impairment losses or (reversals) recognised in the surplus/deficit on the provision of services	0	(7,115)	0	0	(172)	0	0	**(7,287)**	0
Derecognition	0	2,883	416	0	0	44	0	**3,343**	6
Assets reclassified (to)/from held for sale	0	895	589	0	0	0	0	**1,484**	0
Reclassification	0	(28)	0	0	258	(230)	0	**0**	0
At 31 March 2012	**0**	**(46,804)**	**(27,577)**	**(30,982)**	**(346)**	**(322)**	**0**	**(106,031)**	**(18,802)**

Net book value at 31 March 2012	**1,661**	**193,439**	**15,457**	**78,218**	**802**	**7,506**	**37,547**	**334,630**	**2,541**
Net book value at 31 March 2011	1,173	233,251	15,050	75,694	1,662	8	12,838	339,676	3,040

Depreciation

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

- Other land and buildings – straight-line allocation over the life of the property as estimated by the valuer (between 5 and 999 years. Based on depreciated value, 81.4% 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 20 years)
- Infrastructure - straight-line allocation over estimated life of the asset (between 10 and 120 years).

Capital commitments

At 31 March 2013, the council has entered into a number of contracts for the construction or enhancement of property, plant and equipment in 2013-14 budgeted to cost £30.362 million. The major commitments are:

- Schools reorganisation programme - £0.744 million
- Cowes Enterprise College one school pathfinder - £1.899 million
- Leisure facilities improvements - £1.596 million
- Highways (including Highways PFI project) - £25.050 million

Similar commitments at 31 March 2012 were £27.037 million.

Of the £25.050 million shown above as commitments for Highways schemes, £24.919 million is an estimate, based on the schedule of works as agreed within the PFI contract, of the items that would be capitalised in 2013-14. The PFI contractor’s expectation of capital expenditure over the 25 years of the project which commenced on 1 April 2013 is £252 million.

Effects of changes in estimates

In 2012-13, there have been no material changes to the council’s accounting estimates for property, plant and equipment.

Revaluations

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

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

The significant assumptions applied in estimating the fair values are:

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

Valuation profile	**Shared ownership £000**	**other land & buildings £000**	**Vehicles, plant, furniture & equipment £000**	**Infrastructure assets £000**	**Community assets £000**	**Surplus assets £000**	**Assets under construction £000**	**Total property, plant & equipment £000**
Carried at historical cost	0	0	13,447	75,480	56	0	49,413	**138,396**
Valued at fair value as at:								
31 March 2013	2,964	56,457	0	0	0	528	0	**59,949**
31 March 2012	0	59,274	0	0	0	1,401	0	**60,675**
31 March 2011	0	22,221	0	0	0	291	0	**22,512**
31 March 2010	0	23,420	0	0	0	1,980	0	**25,400**
31 March 2009	0	37,222	0	0	0	1,575	0	**38,797**
Total	**2,964**	**198,594**	**13,447**	**75,480**	**56**	**5,775**	**49,413**	**345,729**

13. Heritage assets

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

Cost or valuation	Local government collection £000s	Art collection £000s	Archaeology treasure £000s	Total assets £000s
1 April 2010	136	1,262	48	1,446
Additions	0	0	0	0
Disposals	0	0	0	0
Revaluations	0	0	0	0
Impairment losses/(reversals) recognised in revaluation reserve	0	0	0	0
Impairment losses/(reversals) recognised in surplus or deficit on provision of services	0	0	0	0
31 March 2011	**136**	**1,262**	**48**	**1,446**
1 April 2011	136	1,262	48	1,446
Additions	0	0	0	0
Disposals	0	0	0	0
Revaluations	0	0	0	0
Impairment losses/(reversals) recognised in revaluation reserve	0	0	0	0
Impairment losses/(reversals) recognised in surplus or deficit on provision of services	0	0	0	0
31 March 2012	**136**	**1,262**	**48**	**1,446**
1 April 2012	136	1,262	48	1,446
Additions	0	0	0	0
Disposals	0	0	0	0
Revaluations	0	250	0	250
Impairment losses/(reversals) recognised in revaluation reserve	0	0	0	0
Impairment losses/(reversals) recognised in surplus or deficit on provision of services	0	0	0	0
31 March 2013	**136**	**1,512**	**48**	**1,696**

Cost	136	262	48	446
Valuation	0	1,000	0	1,000
31 March 2012	**136**	**1,262**	**48**	**1,446**

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

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

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

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

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

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

Art collection
The collection includes a collection of Rowlandsons paintings which are valued at £1.250 million based on an insurance valuation made at 31 March 2013. The collection was purchased for £0.825 million.

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

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

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

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

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

Heritage assets: Five year summary of transactions
The Code of Practice for Local Authority Accounting in the United Kingdom 2012-13 requires that a five year summary of transactions relating to heritage assets be disclosed. However, this information

need not be given where it is not practicable to do so. As there are no reliable records relating to the period from 2007-08 to 2009-10, it is not practicable to provide the information for the period before 1 April 2010.

14. Investment property

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:

	2011-12 £000s	**2012-13 £000s**
Rental income from investment property	127	**160**
Direct operating expenses arising from investment property	(13)	**(42)**
Net gain	114	**118**

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:

	2011-12 £000s	**2012-13 £000s**
Balance at 1 April	6,607	**5,853**
Additions: Subsequent expenditure	35	**0**
Disposals	(150)	**0**
Net gains/losses from fair value adjustments	(347)	**488**
Transfer to property, plant & equipment	(292)	**60**
Balance at 31 March	5,853	**6,401**

15. Intangible assets

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

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

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

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £0.412 million was charged to the comprehensive income and expenditure statement in 2012-13. The majority of this was charged to children and education services (£0.188 million) and support services (£0.204 million). The support services charge is absorbed as an overhead across all the service headings in the cost of services. It is not possible to quantify exactly how much of the amortisation is attributable to each service heading.

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

	2011-12			**2012-13**		
	Internally generated assets £000s	Other assets £000s	Total £000s	**Internally generated assets £000s**	**Other assets £000s**	**Total £000s**
Balance at 1 April						
Gross carrying amounts	135	2,698	2,833	**307**	**3,011**	**3,318**
Accumulated amortisation	(34)	(1,766)	(1,800)	**(111)**	**(2,352)**	**(2,463)**
Net carrying amount at 1 April	101	932	1,033	**196**	**659**	**855**
Additions:						
Internal development	172	0	172	**0**	**0**	**0**
Purchases	0	216	216	**0**	**228**	**228**
Assets reclassified from property, plant & equipment	0	111	111	**0**	**11**	**11**
Amortisation for the period	(77)	(600)	(677)	**(76)**	**(336)**	**(412)**
Disposals gross value	0	(14)	(14)	**0**	**0**	**0**
Disposals amortisation	0	14	14	**0**	**0**	**0**
Net carrying amount at 31 March	196	659	855	**120**	**562**	**682**
Comprising:						
Gross carrying amounts	307	3,011	3,318	**307**	**3,250**	**3,557**
Accumulated amortisation	(111)	(2,352)	(2,463)	**(187)**	**(2,688)**	**(2,875)**
Balance at 31 March	196	659	855	**120**	**562**	**682**

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

	Carrying amount		
	31 March 2012 £000	**31 March 2013 £000**	**Remaining amortisation period at 31 March 2013**
SAP system	405	347	6 years

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

At 31 March 2013 there are no contractual commitments for the acquisition of intangible assets.

16. Financial instruments

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

	Long-term		Current	
	31 March 2012	**31 March 2013**	31 March 2012	**31 March 2013**
	£000	**£000**	£000	**£000**
Investments				
Short-term Investments	-	**-**	1,285	**5,620**
Cash equivalents	-	**-**	540	**50**
Available-for-sale financial assets	11	**11**	-	**-**
Total investments	11	**11**	1,825	**5,670**
Debtors				
Loans and receivables	97	**100**	-	**-**
Financial assets carried at contract amounts	-	**-**	16,522	**28,796**
Total debtors	97	**100**	16,522	**28,796**
Borrowings				
Financial liabilities at amortised cost	(111,888)	**(111,888)**	(15,492)	**(39,317)**
Total borrowings	(111,888)	**(111,888)**	(15,492)	**(39,317)**
Creditors				
PFI and finance lease liabilities	(3,194)	**(1,867)**	-	**-**
Other financial liabilities at amortised cost	(758)	**(382)**	-	**-**
Financial liabilities carried at contract amount	-	**-**	(29,963)	**(33,049)**
Total creditors	(3,952)	**(2,249)**	(29,963)	**(33,049)**

Income, expense, gains and losses

	2011-12 £000	**2012-13 £000**
Interest expense from financial liabilities measures at amortised cost	(6,399)	**(6,512)**
Total expense in surplus or deficit on the provision of services	(6,399)	**(6,512)**
Interest income from financial assets: loans and receivables	117	**46**
Total expense in surplus or deficit on the provision of services	117	**46**
Net loss for the year	(6,282)	**(6,466)**

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 2013 of 1.16% to 4.25% 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 2012		**31 March 2013**	
	Carrying amount	Fair value	**Carrying amount**	**Fair value**
	£000	£000	**£000**	**£000**
Financial liabilities	157,343	189,194	**184,254**	**219,428**
Long-term creditors	3,952	3,952	**2,249**	**2,249**

The fair value of the liabilities is more than the carrying amount because the council's PWLB portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the prevailing rates at the balance sheet date. This shows a notional future loss (based on economic conditions at 31 March 2013) arising from a commitment to pay interest to lenders above current market rates.

There are two Lender Option Borrower Option (LOBO) loans amounting to £8.000 million included in the financial liabilities figures. The lenders have the option to request a change in the interest rate which could lead the council to make an early repayment. None of the lenders have exercised their option to change the interest rate.

Assets	31 March 2012		**31 March 2013**	
	Carrying amount	Carrying amount	**Carrying amount**	**Fair value**
	£000	£000	**£000**	**£000**
Loans and receivables	18,826	18,826	**34,477**	**34,477**
Long-term debtors	97	97	**100**	**100**

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

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

Other long-term liabilities

The liability relating to the defined benefit pension schemes (Local Government Pension Scheme and the Fire-fighters' Pension Fund) is £238.814 million (£206.874 million in 2011-12). These figures include the balance due to or from the Government in respect of the top-up grant.

17. Nature and extent of risks arising from financial instruments

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

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

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

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

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

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

Credit risk

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

The credit criteria in respect of financial assets held by the council are as detailed below:

- rating of A2 or better
- stable credit rating outlook

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

The council's maximum exposure to credit risk in relation to its investments in the bank of £0.050 million cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the council's deposits, but there was no evidence as at the 31 March 2013 that this was likely to crystalise.

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

	Amount at 31 March 2013	Historical experience of default	Historical experience adjusted for market conditions at 31 March 2013	Estimated maximum exposure to default & uncollectability at 31 March 2013	Estimated maximum exposure at 31 March 2012
	A	B	C	(A x C)	
	£000	%	%	£000	£000
Deposits with banks and financial institutions	5,670	0.00	0.00	**0**	0
Customers	4,056	9.02	24.56	**996**	1,186
Other debtors	9,820	0.00	0.00	**0**	0
			Total	**996**	1,186

The other debtors figure includes £2.918 million of deferred payments made in respect of care fees for clients in residential or nursing homes under the terms of both Section 22 of the Health and Social Services and Social Security Adjudications Act 2003 and Section 55 of the Health and Social Care Act 2001. The legislation allows the council to place a legal charge or to register an interest on the client's property and consequently the debt is covered by the value of the property.

The council's exposure to credit risk is managed in accordance with its annual treasury management strategy which for 2012-13 was approved by the council in February 2012. Amongst other controls, the strategy sets out the arrangements for managing credit risk (ie the risks of borrowers defaulting). The main controls used are:

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

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

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

- The lending list is reviewed as a result of credit ratings analysis and other intelligence information.
- Borrowers' limits are changed in accordance with those reviews (in 2012-13 lending limits were revised throughout the year, depending on interest rates and security).
- During the early part of the year, the council placed most of its surplus funds in instant access/call accounts, to take advantage of higher interest rates. For the latter part of the year, the council has used the UK Debt Management Office's Debt Management Account Deposit Facility (DMADF) to deposit surplus funds, rather than be exposed to the credit risk of commercial institutions
- The strategy for treasury management activity is reviewed by the Strategic Director of Resources, Head of Financial Management 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 29 February 2012 is located on the following link to the council's website:- http://www.iwight.com/documentlibrary/view/treasury-management-strategy-2012-13

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

The authority does not generally allow credit for customers, such that £3.546 million is due for payment at 31 March 2013 from invoices raised through the council's accounts receivable system.

This amount due can be analysed by age as follows:

	31 March 2012	**31 March 2013**
	£000	**£000**
Less than two months	2,661	**2,206**
Two to four months	168	**201**
Four months to one year	835	**696**
More than one year	1,318	**443**
Total	4,982	**3,546**

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 two lender option/borrower option (LOBO) loans for a total of £8.000 million. Under the arrangement for these LOBO loans, the lenders have the option to increase the interest rate each year. If the lenders were to increase the interest rate, the authority has the right to repay the loan without penalty. In this case, it is possible that the council would have to pay higher interest if it chose to replace the loan. None of the lenders have exercised their option to change the interest rate.

With the exception of a £29.800 million temporary loan 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 2012	**31 March 2013**
	£000	**£000**
Less than one year	15,492	**39,317**
Between one and two years	0	**1,500**
Between two and five years	9,000	**15,500**
Between five and ten years	29,200	**28,200**
Between ten and fifteen years	35,688	**36,688**
Between fifteen and twenty years	20,000	**17,000**
Between twenty and twenty five years	17,000	**12,000**
More than twenty five years	1,000	**1,000**
Total external borrowing	127,380	**151,205**
Of which, Public Works Loan Board (PWLB)	112,985	**112,974**

The maturity analysis of the LOBO loans is shown below. These loans are 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
3,000	5.34	19/11/2013
5,000	4.27	25/11/2041

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

The most significant deferred liability relates to the integrated waste PFI scheme (£2.532 million at 31 March 2013). As the additional costs of this project, over and above the council's existing budgetary provision for waste management, is met through government funding (PFI credits), there is no significant risk that the authority will be unable to raise finance to meet its commitments to the PFI contractor.

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

	31 March 2012	**31 March 2013**
	£000	**£000**
Less than one year	1,739	**1,867**
Between one and two years	1,753	**1,651**
Between two and five years	1,915	**370**
More than five years	284	**228**
Total	5,691	**4,116**

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 2013, 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 £0.065 million. The impact of a 1% fall in interest rates would be as above, but with the movements being reversed. However, as investment interest rates remained below 1% for the duration of 2012-13, the impact would have been limited to the actual amount of investment income received (£0.037 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 £0.105 million. The impact of a 1% fall in interest rates would be as above, but with the movements being reversed. However, as temporary loan interest rates remained below 1% for the duration of 2012-13, the impact would have been limited to the actual amount of temporary loan interest paid (£0.046 million). Therefore, an increase or decrease in general interest rates would have had a minimal impact on the surplus or deficit on the provision of services in the comprehensive income and expenditure statement. However, such a change would increase or decrease the fair value of fixed rate borrowing liabilities.

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

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

18. Inventories

	Consumable stores		**Maintenance materials**		**Stocks for resale**		**Total**	
	2011-12 £000	**2012-13 £000**	2011-12 £000	**2012-13 £000**	2011-12 £000	**2012-13 £000**	2011-12 £000	**2012-13 £000**
Balance outstanding at start of year	106	**93**	174	**161**	269	**206**	549	**460**
Purchases	202	**184**	178	**74**	231	**189**	611	**447**
Sales	0	**0**	0	**0**	(422)	**(347)**	(422)	**(347)**
Profit transferred to CI&E statement	0	**0**	0	**0**	170	**117**	170	**117**
Recognised as an expense in the year	(201)	**(187)**	(191)	**(213)**	0	**0**	(392)	**(400)**
Written-off balances	(14)	**0**	0	**0**	(42)	**(14)**	(56)	**(14)**
Balance outstanding at year-end	93	**90**	161	**22**	206	**151**	460	**263**

There has been a reduction in the level of gift stocks following the transfer of the Ventnor Botanic Gardens to a community group and in street lighting inventories due to the commencement of the Highways PFI scheme.

19. Debtors

	31 March 2012 £000	**31 March 2013 £000**
Central Government bodies	7,285	**4,030**
Other local authorities	222	**314**
NHS bodies	0	**8**
Public Corporations	0	**35**
Other entities and individuals (see below)	15,756	**16,701**
Total	23,263	**21,088**

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

	31 March 2012 £000	**31 March 2013 £000**
Sundry debtors	8,037	**8,066**
Less: allowance for non-collection	(1,465)	**(879)**
Sundry debtors (net of allowance for non-collection)	6,572	**7,187**
Local taxpayers	3,102	**3,525**
Less: allowance for non-collection	(295)	**(314)**
Local taxpayers (net of allowance for non-collection)	2,807	**3,211**
Housing benefit overpayments	2,433	**2,715**
Less: allowance for non-collection	(1,023)	**(1,187)**
Housing benefit overpayments (net of allowance for non-collection)	1,410	**1,528**
Prepayments	4,967	**4,775**
Total Other entities and individuals	15,756	**16,701**

The Sundry debtors and Prepayments figures at 31 March 2012 have been adjusted from those presented in the 2011-12 Statement of Accounts. This is due to the re-designation of accrued payments in advance and balances outstanding from payments made under the deferred payments scheme in respect of care fees for clients in residential or nursing homes. The total balance for Other entities and individuals has not changed.

20. Cash and cash equivalents

	31 March 2012 £000	**31 March 2013 £000**
Cash held by the council	3,626	**15,020**
Short-term deposits with banks	540	**50**
Bank current accounts overdrawn	(7,994)	**(17,705)**
Total	(3,828)	**(2,635)**

21. Assets held for sale

	Current		Non Current	
	2011-12 £000	**2012-13 £000**	2011-12 £000	**2012-13 £000**
Balance at 1 April	366	**2,501**	0	**0**
Assets newly classified as held for sale:				
Property, plant & equipment	8,663	**8,013**	0	**0**
Revaluation gains	698	**155**	0	**0**
Impairment losses	(6,387)	**(4,976)**	0	**0**
Additions	131	**0**	0	**0**
Assets declassified as held for sale:				
Property, plant & equipment	0	**(616)**	0	**0**
Assets sold	(970)	**(2,796)**	0	**0**
Balance at 31 March	2,501	**2,281**	0	**0**

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. The most significant transfers in 2012-13 are St Nicholas House in Newport (£0.463 million), the former Whippingham Primary School site (£0.450 million), the former Swanmore Middle School site (£0.410 million) and the former Greenmount Primary School site £0.400 million). 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.

22. Creditors

	31 March 2012 £000	**31 March 2013 £000**
Central government bodies	3,065	**4,801**
Other local authorities	51	**355**
NHS bodies	1	**1**
Public corporations and trading funds	109	**3**
Other entities and individuals (see below)	27,894	**20,569**
Total	31,120	**25,729**

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

	31 March 2012 £000	**31 March 2013 £000**
Sundry creditors	21,606	**14,403**
Local taxpayers	1,394	**1,478**
Receipts in advance	4,894	**4,688**
Total	27,894	**20,569**

23. Provisions

	Outstanding Insurance Claims £000	Employment related & restructuring costs £000	Carbon Reduction Commitment £000	Total £000
Balance at 1 April 2012	2,660	628	165	3,453
Additional provision made in 2012-13	132	430	1	563
Amounts used in 2012-13	0	(353)	0	(353)
Unused amounts reversed in 2012-13	0	(185)	0	(185)
Balance at 31 March 2013	**2,792**	**520**	**166**	**3,478**

Analysis of Provisions between short and long term:

	2011-12 £000	**2012-13 £000**
Short-term provisions	2,033	**2,186**
Long-term provisions	1,420	**1,292**
Balance at 31 March	3,453	**3,478**

Outstanding insurance claims
The Insurance Provision at 31 March 2013 is based on an estimate of potential liabilities arising from outstanding claims. Of the total at 31 March 2013, £1.271 million relates to public and employers' liability and an assessment of the council's claims register has been made 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. Under this scheme, the council is liable to a levy based on the value of total claims payments carried forward at 31 March 2013 in order that solvent run-off can be achieved. The provision includes £1.520 million relating to total claims payments, of which 15% is treated as short-term and 85% as long-term.

Employment related and restructuring costs
There are claims outstanding at 31 March 2013 which will result in employment tribunals. Estimates have been made of the potential compensation amounts for which the council may be liable.

The Part-Time Workers (Prevention of Less Favourable Treatment) Regulations has resulted in an out of court settlement relating to retained fire-fighters and the council's potential liability has been estimated on the basis of the proposals.

Carbon reduction commitment
The 2012-13 financial year is the second year for which there is an obligation to purchase and surrender carbon reduction commitment (CRC) allowances in relation to carbon dioxide emissions. Following the end of 2012-13, participating authorities will submit an annual report on their emissions for the 2012-13 financial year. The ordering of retrospective allowances is anticipated to take place from 3 June and 31 July 2013 and payment made between 2 and 20 September 2013. Allowances are allocated to participants between 2 September 2013 and 15 October 2013. These must then be surrendered to the administrators by 31 October 2013 in proportion to their reported emissions for the preceding scheme year and in accordance with the scheme requirements. A provision has therefore been recognised for the obligation to surrender allowances for the financial year 2012-13.

It is expected that the costs relating to short-term liabilities will be incurred in 2013-14.

24. Usable reserves

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

	31 March 2012 £000	**31 March 2013 £000**
General fund balance	8,550	**9,017**
Capital receipts reserve	127	**575**
Capital grants unapplied	601	**376**
Earmarked reserves (see note 8)	20,478	**28,065**
Total usable reserves	29,756	**38,033**

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

25. Unusable reserves

	31 March 2012 £000	**31 March 2013 £000**
Revaluation reserve	56,871	**52,801**
Capital adjustment account	97,976	**104,787**
Pensions reserve	(206,874)	**(238,814)**
Deferred capital receipts reserve	50	**48**
Collection fund adjustment account	(183)	**(95)**
Accumulated absences account	(2,778)	**(2,781)**
Total unusable reserves	(54,938)	**(84,054)**

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

Revaluation reserve

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

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

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

2011-12 £000		Revaluation reserve	2012-13 £000	
	53,319	Balance at 1 April		**56,871**
14,401		Upward revaluation of assets	**6,903**	
(5,791)		Downward revaluation of assets and impairment losses not charged to the surplus/ deficit on the provision of services	**(3,985)**	
	8,610	Surplus or deficit on revaluation of non-current assets not posted to the surplus or deficit on the provision of services		**2,918**
(896)		Difference between fair value depreciation and historical cost depreciation	**(892)**	
(4,162)		Accumulated gains on assets sold or scrapped	**(6,096)**	
	(5,058)	Amount written off to the capital adjustment account		**(6,988)**
	56,871	**Balance at 31 March**		**52,801**

Capital adjustment account

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

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

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

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

2011-12 £000		Capital adjustment account	2012-13 £000	
	98,637	Balance at 1 April		**97,976**
		Reversal of items relating to capital expenditure debited or credited to the comprehensive income and expenditure statement:		
(27,848)		• Charges for depreciation and impairment of non-current assets	**(23,779)**	
(677)		• Amortisation of intangible assets	**(412)**	
(3,791)		• Revenue expenditure funded from capital under statute	**(2,619)**	
223		• Write-down of PFI deferred income	**267**	
201		• Write-down of Ryde Gateway liability	**201**	
0		• Capital loan adjustment	**13**	
(29,870)		• Amounts of non-current assets written-off on disposal or sale as part of the gain/loss on disposal to the comprehensive income and expenditure statement	**(11,084)**	
	(61,762)			**(37,413)**
	5,058	Adjusting amounts written out of the revaluation reserve		**6,988**
	41,933	Net written out amount of the cost of non-current assets consumed in the year		**67,551**
		Capital financing applied in the year:		
1,147		• Use of capital receipts reserve to finance new capital expenditure	**2,556**	
41,055		• Capital grants and contributions credited to the comprehensive income and expenditure statement that have been applied to capital financing	**24,061**	
543		• Application of grants to capital financing from the capital grants unapplied account	**225**	
11,714		• Statutory provision for the financing of capital investment charged against the general fund	**9,256**	
1,976		• Capital expenditure charged against the general fund	**717**	
	56,435			**36,815**
	(347)	Movements in the market value of investment properties debited or credited to the comprehensive income and expenditure statement		**488**
	(45)	Other movements		**(67)**
	97,976	**Balance at 31 March**		**104,787**

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.

There is an additional cost to the pension fund following the early release of retirement benefits without actuarial reduction to former employees following redundancy. Under regulation and local agreement, these can be paid from service budgets within a period not exceeding five years. The amounts debited or credited to the pension reserve in a particular year represent either an increase or reduction in the balance deferred. The capitalised pension cost figures below relating to 2011-12 represents a reduction in the amount owed by the council to the pension fund. This figure is also included where appropriate as part of the short-term and long-term creditors balances in 2011-12. There were no equivalent transactions in 2012-13.

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

2011-12	**Pension reserve**	**2012-13**
£000		**£000**
165,285	Balance at 1 April	**206,874**
35,363	Actuarial (gains) and losses on pensions assets and liabilities	**27,195**
20,404	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	**17,575**
(13,429)	Employer's pensions contributions and direct payments to pensioners payable in the year	**(12,857)**
(194)	Capitalised pension cost recognised in year	**0**
(555)	Fire-fighters' Pension Scheme – top-up grant repayable to/(from) Government	**27**
206,874	**Balance at 31 March**	**238,814**

Deferred capital receipts reserve

The deferred capital receipts reserve holds gains recognised on the disposal of non-current assets but for which the cash settlement has yet to take place. Under statutory arrangements, the council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the capital receipts reserve.

2011-12	**Deferred capital receipts reserve**	**2012-13**
£000		**£000**
52	Balance at 1 April	**50**
0	Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the comprehensive income and expenditure statement	**0**
(2)	Transfer to the capital receipts reserve upon receipt of cash	**(2)**
50	**Balance at 31 March**	**48**

Collection fund adjustment account

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

2011-12	Collection fund adjustment account	2012-13
£000		£000
155	Balance at 1 April	183
28	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	(88)
183	Balance at 31 March	95

Accumulated absences account

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

2011-12		Accumulated absences account	2012-13	
£000	£000		£000	£000
	2,981	Balance at 1 April		2,778
(2,981)		Settlement or cancellation of accrual made at the end of the preceding year	(2,778)	
2,778		Amounts accrued at the end of the current year	2,781	
	(203)	Amount by which officer remuneration charged to the CIE statement on an accruals basis is different from the remuneration chargeable in the year in accordance with statutory requirements		3
	2,778	Balance at 31 March		2,781

26. Cash flow statement – operating activities

The cash flow for operating activities includes the following items:

2011-12		2012-13	
£000		**£000**	**£000**
(4,334)	Net surplus or (deficit) on the provision of services		**3,438**
	Adjustment of net surplus or deficit on the provision of services for non-cash items:-		
14,173	Depreciation	**13,448**	
13,675	Impairment and downward valuations	**10,331**	
677	Amortisation	**412**	
(21)	Increase/decrease in interest creditors	**31**	
(1,622)	Increase/decrease in creditors	**(4,548)**	
10	Increase/decrease in interest debtors	**0**	
(3,700)	Increase/decrease in debtors	**1,263**	
89	Increase/decrease in inventories	**197**	
6,226	Movement in pension liability	**4,745**	
(476)	Contributions to/(from) provisions	**25**	
29,870	Carrying amount for non-current assets sold	**11,084**	
0	Carrying amount of short and long term investments	**0**	
347	Movement in investment property values	**(488)**	
59,248			**36,500**
	Adjustment for items in the net surplus or deficit on the provision of services that are investing or financing activities:-		
(41,568)	Capital grants credited to surplus or deficit on the provision of services	**(24,061)**	
12,150	Net adjustment from the sale of short & long term investments	**1,285**	
(1,273)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	**(2,927)**	
(30,691)			**(25,703)**
24,223	**Net cash flows from operating activities**		**14,235**

27. Cash flow statement – operating activities (interest)

The cash flows for operating activities include the following items:

2011-12		**2012-13**
£000's		**£000's**
20,516	Interest received	**18,317**
(32,270)	Interest paid	**(31,017)**

28. Cash flow statement – investing activities

2011-12		2012-13
£000		**£000**
(41,714)	Purchase of property, plant & equipment, investment property and intangible assets	**(46,204)**
(1,285)	Purchase of short-term and long-term investments	**(5,620)**
(35)	Other payments for investing activities	**(6)**
1,275	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	**2,929**
0	Proceeds from short-term and long-term investments	**0**
13,124	Other receipts from investing activities	**10,992**
(28,635)	**Net cash flows from investing activities**	**(37,909)**

29. Cash flow statement – financing activities

2011-12		2012-13
£000's		**£000's**
5,025	Cash receipts of short and long-term borrowing	**29,816**
864	Other receipts from financing activities	**2,558**
(2,194)	Repayments of short and long-term borrowing	**(6,022)**
138	Other payments for financing activities	**0**
(1,536)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	**(1,485)**
2,297	**Net cash flows from financing activities**	**24,867**

30. Amounts reported for resource allocation decisions

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

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

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

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

Following the council's budget setting meeting for 2012-13 in February 2012, directorate services were allocated cash limited budgets. Performance of spend against budget was monitored throughout the year with monthly reports being presented to budget managers and directorate service boards. Quarterly summary finance and performance reports were presented to cabinet and reviewed by the overview and scrutiny committee. There was also a mid-year budget review report to cabinet outlining the council's financial position. In addition, a series of regular budget review boards monitored and critically examined the progress of savings targets. Action plans were implemented to relieve in-year pressures and these were the subject of regular detailed scrutiny.

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

Directorate income & expenditure 2012-13	Chief Executive, Schools & Learning £000	Community Wellbeing & Social Care £000	Economy & Environment Services £000	Central & Resource Services £000	Total £000
Fees, charges & other service income	(5,862)	(14,267)	(12,146)	(4,540)	**(36,815)**
Government grants	(82,603)	(5,690)	(1,260)	(68,808)	**(158,361)**
Total income	(88,465)	(19,957)	(13,406)	(73,348)	**(195,176)**
Employee costs	65,395	21,662	18,755	11,559	**117,371**
Other service costs	27,199	62,672	29,236	70,952	**190,059**
Movement on reserves	3,445	4,312	2,067	(2,237)	**7,587**
Total expenditure	96,039	88,646	50,058	80,274	**315,017**
Net expenditure	7,574	68,689	36,652	6,926	**119,841**

Directorate income & expenditure Comparative year: 2011-12	**Chief Executive, Schools & Learning £000**	**Community Wellbeing & Social Care £000**	**Economy & Environment Services £000**	**Central & Resource Services £000**	**Total £000**
Fees, charges & other service income	(6,581)	(15,026)	(12,771)	(5,305)	**(39,683)**
Government grants	(91,179)	(5,794)	(2,112)	(68,078)	**(167,163)**
Total income	(97,760)	(20,820)	(14,883)	(73,383)	**(206,846)**
Employee costs	76,639	22,216	19,435	12,350	**130,640**
Other service costs	29,828	59,434	27,895	71,249	**188,406**
Movement on reserves	(1,027)	3,876	1,779	2,223	**6,851**
Total expenditure	105,440	85,526	49,109	85,822	**325,897**
Net expenditure	7,680	64,706	34,226	12,439	**119,051**

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

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

	2011-12 £000	**2012-13 £000**
Net expenditure in the directorate analysis	119,051	**119,841**
Amounts in the comprehensive income and expenditure statement not reported to management in the analysis	57,260	**48,510**
Amounts included in the analysis not included in the comprehensive income and expenditure statement	(20,280)	**(20,444)**
Allocation of recharges	(13,376)	**(12,736)**
Cost of Services in comprehensive income and expenditure statement	142,655	**135,171**

Reconciliation to subjective analysis

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

2012-13	Directorate analysis £000	Amounts not reported to management for decision making £000	Amounts not included in comprehensive I&E statement £000	Allocation of recharges £000	Cost of services £000	Corporate amounts £000	Total £000
Fees, charges & other service income	(36,815)	(15)	0	0	(36,830)	0	(36,830)
Interest and investment income	0	0	0	0	0	(18,317)	(18,317)
Income from council tax	0	0	0	0	0	(73,518)	(73,518)
Government grants and contributions	(158,361)	(1,240)	0	0	(159,601)	(87,915)	(247,516)
Total income	**(195,176)**	**(1,255)**	**0**	**0**	**(196,431)**	**(179,750)**	**(376,181)**
Employee costs	117,371	10,707	(12,857)	0	115,221	0	115,221
Other service costs	190,059	2,131	0	0	192,190	27	192,217
Movement on reserves	7,587	0	(7,587)	0	0	0	0
Support service recharges	0	12,736	0	(12,736)	0	0	0
Depreciation, amortisation and impairment	0	24,191	0	0	24,191	0	24,191
Interest payments	0	0	0	0	0	31,048	31,048
Precepts & levies	0	0	0	0	0	1,909	1,909
Payments to housing capital receipts pool	0	0	0	0	0	0	0
Gain or loss on disposal of fixed assets	0	0	0	0	0	8,157	8,157
Total expenditure	**315,017**	**49,765**	**(20,444)**	**(12,736)**	**331,602**	**41,141**	**372,743**
(Surplus) or deficit on the provision of services	**119,841**	**48,510**	**(20,444)**	**(12,736)**	**135,171**	**(138,609)**	**(3,438)**

Comparative year: 2011-12	**Directorate analysis £000**	**Amounts not reported to management for decision making £000**	**Amounts not included in comprehensive I&E statement £000**	**Allocation of recharges £000**	**Cost of services £000**	**Corporate amounts £000**	**Total £000**
Fees, charges & other service income	(39,683)	(712)	0	0	(40,395)	(555)	(40,950)
Interest and investment income	0	0	0	0	0	(20,506)	(20,506)
Income from council tax	0	0	0	0	0	(73,111)	(73,111)
Government grants and contributions	(167,163)	(2,118)	0	0	(169,281)	(106,822)	(276,103)
Total income	**(206,846)**	**(2,830)**	**0**	**0**	**(209,676)**	**(200,994)**	**(410,670)**
Employee costs	130,640	14,779	(13,429)	0	131,990	0	131,990
Other service costs	188,406	3,411	0	0	191,817	0	191,817
Movement on reserves	6,851	0	(6,851)	0	0	0	0
Support service recharges	0	13,376	0	(13,376)	0	0	0
Depreciation, amortisation and impairment	0	28,524	0	0	28,524	0	28,524
Interest payments	0	0	0	0	0	32,249	32,249
Precepts & levies	0	0	0	0	0	1,826	1,826
Payments to housing capital receipts pool	0	0	0	0	0	1	1
Gain or loss on disposal of fixed assets	0	0	0	0	0	28,597	28,597
Total expenditure	**325,897**	**60,090**	**(20,280)**	**(13,376)**	**352,331**	**62,673**	**415,004**
(Surplus) or deficit on the provision of services	**119,051**	**57,260**	**(20,280)**	**(13,376)**	**142,655**	**(138,321)**	**4,334**

31. Trading operations

The *Service Reporting Code of Practice* sets out categories of trading operations which authorities should consider disclosing and detailing in a note to the accounts. For the financial year ending 31 March 2013, all such activities are included in the total cost of the relevant services and are therefore consolidated into the cost of services in the comprehensive income & expenditure statement. The amounts include depreciation, impairment and IAS 19 retirement benefit charges attributable to the particular service where applicable. In certain instances, the council may subsidise a service in order to achieve specific service objectives.

Operation	Description		£000
Industrial units	The council let industrial units in a variety of locations.	Turnover	156
		Expenditure	59
		Agreed contribution to/(from) general fund:	
		2012-13	**97**
		2011-12	94
Cowes ferry	Cowes Floating Bridge contains the costs of providing the ferry link between East and West Cowes. Income is generated by charges for vehicles only with an estimated 1.5 million passengers carried annually.	Turnover	674
		Expenditure	564
		Agreed contribution to/(from) general fund:	
		2012-13	**110**
		2011-12	(14)
Parking services	This service covers the enforcement of all on-street waiting restrictions and the management of council controlled off-street parking areas. Income is derived from charges levied on users, in particular from ticket and permit sales together with penalty charge notices issued for contraventions. In accordance with the requirements of the Road Traffic Regulation Act 1984, as amended by the Traffic Management Act 2004, the parking account surplus is invested in highways and public transport infrastructure and environmental improvements in the local area. During 2012-13 such investment included street lighting column replacement, concessionary fares and subsidised bus services, and traffic management improvements.	Parking income:	
		Ticket machine income	2,692
		Permit income	425
		Penalty charge notice income	753
		Other sources of income	64
		Turnover	3,934
		Expenditure	1,796
		2012-13 Parking account surplus	**2,138**
		2011-12 surplus	2,226
Bereavement services	Burial service and maintenance of twelve cemeteries and eleven closed churchyards, together with provision for a Crematorium service including maintenance of site and buildings. Income derived from cremation fees, charges and sales and cemetery burial fees and charges.	Turnover	1,021
		Expenditure	1,041
		Agreed contribution to/(from) general fund:	
		2012-13	**(20)**
		2011-12	(24)
Harbours and coastal	This includes Ryde Harbour, Ventnor Haven, and Whitegates Pontoon. Further details of income, expenditure, assets and liabilities relating to Ventnor Haven are shown within a separate statement of accounts which the council is required to prepare as the statutory harbour authority.	Turnover	82
		Expenditure	200
		Agreed contribution to/(from) general fund:	
		2012-13	**(118)**
		2011-12	(110)

Operation	Description		£000
Leisure facilities	The running of Leisure facilities at Medina Leisure Centre, The Heights, Westridge Leisure Centre, Fairway and Ryde Sports Centres and Rew Valley in Ventnor. These are subsidised facilities, as is the case with many similar local authorities. The comparative year figure includes the Ryde Waterside Pool until 30 September 2011.	Turnover	1,482
		Expenditure	2,612
		Agreed contribution to/(from) general fund:	
		2012-13	**(1,130)**
		2011-12	(1,732)
Newort Harbour (including Folly Moorings)	This includes the Newport Harbour Estate and Folly Moorings. Further details of income, expenditure, assets and liabilities are shown within a separate statement of accounts which the council is required to prepare as the statutory harbour authority for Newport Harbour.	Turnover	207
		Expenditure	222
		Agreed contribution to/(from) reserve:	
		2012-13	**(15)**
		2011-12	(4)

32. Agency services

Under various statutory powers an authority may agree with other local authorities, water companies and government departments to do work on their behalf. The council, as billing authority, acts as an agent for the government in collecting national non-domestic rates (NNDR). The council received an allowance from the government for the cost of collection of £0.250 million in 2012-13 (£0.251 million in 2011-12). There was no other significant agency work carried out during 2012-13.

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

Section 75 of the National Health Service Act 2006 enables the establishment of joint working arrangements between NHS bodies and local authorities. Pooled funds enable health bodies and local authorities to work collaboratively to address specific local health issues. Memorandum accounts have been prepared relating to pooled budget agreements between the Isle of Wight Council, the Isle of Wight NHS Trust or the Isle of Wight Primary Care Trust (PCT) during 2012-13. All relevant income and expenditure has been included in the adult social care division of service in the comprehensive income and expenditure statement, excluding the element relating to the Isle of Wight NHS Trust or the Isle of Wight PCT.

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

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

	2011-12	**2012-13**	
Amounts received from partners	£000	**%**	**£000**
Contribution from IW Council	2,833	**73.8**	**3,667**
Contribution from IW PCT	1,450	**26.2**	**1,300**
Total income	4,283		**4,967**
Amount spent from pool		**£000**	
IWC funded island clients	3,594	**4,719**	
IWC funded mainland clients	252	**154**	
RNCC island placed self-funders	535	**702**	
RNCC island self-funders placed by mainland authorities	37	**42**	
Other items	38	**47**	
Total expenditure	4,456		**5,664**
Amount remaining in pool	(173)		**(697)**
To be shared between partners based on agreed split (based on actual spend attributable to each partner)		**%**	
I W Council	(394)	**64.0**	**(446)**
I W PCT	221	**36.0**	**(251)**
Total	(173)		**(697)**

Substance misuse
This agreement is to provide a pooled budget and lead commissioning arrangement for substance misuse services. This pooled budget arrangement is hosted by the Isle of Wight Council. The following shows the pool income, expenditure and balance as at 31 March.

	2011-12	**2012-13**	
Amounts received from partners	£000	**%**	**£000**
Contribution from IW Council	284	**15.2**	**481**
Contribution from IW PCT	2,824	**84.8**	**2,682**
Total income	3,108		**3,163**
Amount spent from pool		**£000**	
Actual expenditure incurred	3,108	**2,782**	
Total expenditure	3,108		**2,782**
Amount remaining in pool	0		**381**
To be shared between partners pro rata to contributions made		**%**	
I W Council	0	**15.2**	**58**
I W PCT	0	**84.8**	**323**
Total	0		**381**

Occupational therapy pooled budget

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

	2011-12	**2012-13**	
Amounts received from partners	£000	**%**	**£000**
Contribution from IW Council	570	**34.8**	**576**
Contribution from IW NHS Trust	965	**65.2**	**1,080**
Total income	1,535		**1,656**
Amount spent from pool		**£000**	
Actual expenditure incurred	1,478	**1,610**	
Total expenditure	1,478		**1,610**
Amount remaining in pool	57		**46**
To be shared between partners pro rata to contributions made		**%**	**£000**
I W Council	21	**34.8**	**16**
I W NHS Trust	36	**65.2**	**30**
Total	57		**46**

Integrated community equipment store pooled budget

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

	2011-12	**2012-13**	
Amounts received from partners	£000	**%**	**£000**
Contribution from IW Council	391	**37.0**	**395**
Contribution from IW PCT	653	**63.0**	**672**
Total income	1,044		**1,067**
Amount spent from pool		**£000**	
Actual expenditure incurred	1,017	**1,052**	
Total expenditure	1,017		**1,052**
Amount remaining in pool	27		**15**
To be shared between partners pro rata to contributions made		**%**	
I W Council	10	**37.0**	**6**
I W PCT	17	**63.0**	**9**
Total	27		**15**

34. Members' allowances

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

	2011-12 £000	**2012-13 £000**
Basic allowance & special responsibility allowances	452	**458**
Employers' national insurance & pension contributions paid on behalf of members	52	**54**
Travelling & subsistence allowance and reimbursements	27	**29**
Co-opted members	10	**4**
Total	541	**545**

35. Officers' remuneration

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

Post	Year	Salary	Expense Allowance	Compensation of loss of office	Remuneration excluding pension contributions	Pension contributions	Remuneration including pension contributions
		£	£	£	£	£	£
Chief Executive (i)	2012-13 2011-12	149,997 149,997	1,021 757	38,049 0	189,067 150,754	32,999 32,999	222,066 183,753
Deputy Director – Schools & Education Services (ii)	2012-13 2011-12	100,070 101,460	0 0	11,250 0	111,320 101,460	22,015 22,321	133,335 123,781
Strategic Director of Community Services	2012-13 2011-12	125,982 125,982	0 0	0 0	125,982 125,982	27,716 27,716	153,698 153,698
Deputy Director of Children's Social Care Services (iii)	2012-13 2011-12	91,229 90,348	0 0	15,058 0	106,287 90,348	18,220 19,877	124,507 110,225
PFI Programme Director	2012-13 2011-12	145,834 148,680	0 29	0 0	145,834 148,709	31,900 31,900	177,734 180,609
Director of Economy & Environment (iv)	2012-13 2011-12	110,367 110,235	0 0	0 0	110,367 110,235	24,252 24,252	134,619 134,487
Deputy Director of Resources (v)	2012-13 2011-12	80,194 94,766	882 662	0 0	81,076 95,428	17,531 19,973	98,607 115,401
Strategic Director of Resources (vi)	2012-13 2011-12	90,543 112,258	0 0	0 0	90,543 112,258	N/A N/A	110,462 136,955

Post	Year	Salary	Expense allowance	Compensation of loss of office	Remuneration excluding pension contributions	Pension contributions	Remuneration including pension contributions
		£	£	£	£	£	£
Chief Fire Officer (vii)	2012-13 2011-12	98,459 40,468	1,262 635	0 0	99,721 41,103	20,880 8,510	120,601 49,613
Assistant Director of Economic Development Tourism & Leisure	2012-13 2011-12	90,348 90,348	0 0	0 0	90,348 90,348	19,877 19,877	110,225 110,225

Notes to officers' remuneration

Note (i)	The post of Chief Executive became redundant on 31 March 2013. The compensation for loss of office includes £24,999 as pay in lieu of the remaining period of notice and redundancy pay of £13,050. The expense allowances are taxable benefits paid to the postholder relating to election returning officer fees.
Note (ii)	During 2011-12, the postholder was the Project Director - Schools Reorganisation. The post of Deputy Director – Schools & Children's services became redundant on 31 March 2013. The compensation for loss of office of £11,250 is redundancy pay.
Note (iii)	The Deputy Director of Children's Social Care Services left the post on 28 February 2013. The compensation for loss of office of £15,058 is pay in lieu of notice.
Note (iv)	From 1 April to 30 June 2012, the council shared the post of Director of Economy & Environment with Southampton City Council. A total of £14,798 was recharged to Southampton City Council towards the salary and on-costs. The costs above are shown gross of this recharge.
Note (v)	During 2011-12, the postholder was the Director of Corporate Services. The Deputy Director of Resources works 4 days per week. The whole time equivalent salary is £99,606 (£118,107 in 2011-12). The expense allowances are taxable benefits paid to the postholder relating to election returning officer fees.
Note (vi)	The Strategic Director of Resources is paid under the terms of a contract for services arrangement which covers total employment costs including employers' national insurance and pension contributions and sickness. The total contract sum in 2012-13 was £123,500 (£153,625 in 2011-12) and the equivalent costs are commensurate with a direct employee are shown in the table. Full council ratified a recommendation by the employment committee to move to a contract of employment effective from 1 July 2013.
Note (vii)	The Chief Fire Officer commenced employment on 1 November 2011 at an annualised salary of £94,699. The amounts shown above for 2011-12 exclude any pay received by the postholder in undertaking a previous role within the authority.

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	2011-12			**2012-13**		
	Schools based employees	Other employees	Total number of employees	**Schools based employees**	**Other employees**	**Total number of employees**
£50,000 to £54,999	31	17	48	**25**	**14**	**39**
£55,000 to £59,999	20	12	32	**16**	**9**	**25**
£60,000 to £64,999	7	7	14	**13**	**1**	**14**
£65,000 to £69,999	3	1	4	**3**	**5**	**8**
£70,000 to £74,999	3	2	5	**2**	**2**	**4**
£75,000 to £79,999	0	2	2	**2**	**2**	**4**
£80,000 to £84,999	2	1	3	**1**	**1**	**2**
£85,000 to £89,999	0	1	1	**0**	**1**	**1**
£90,000 to £94,999	2	0	2	**1**	**0**	**1**
£115,000 to £119,999	1	0	1	**0**	**0**	**0**
£145,000 to £149,999	0	0	0	**1**	**0**	**1**
Totals	69	43	112	**64**	**35**	**99**

36. Termination benefits

The council terminated the contracts of a number of employees in 2012-13, incurring liabilities of £1.004 million. (£3.795 million in 2011-12).

The level of termination benefit costs in 2011-12 resulted from the reduction in the amount of Central Government grant allocated to the council arising from the 2010 comprehensive spending review. The council's 2011-12 budget strategy identified savings from posts which would be the subject of voluntary or compulsory redundancy. The 2011-12 figures represented the impact of the budget strategy together with a substantial number of teaching and support posts which were made redundant following schools reorganisation. The 2012-13 figures include the on-going impact of the 2010 spending review.

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 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	
	2011-12	**2012-13**	2011-12	**2012-13**	2011-12	**2012-13**	2011-12 £	**2012-13 £**
£0 to £20,000	192	**39**	88	**32**	280	**71**	1,376,285	**392,816**
£20,001 to £40,000	43	**2**	11	**1**	54	**3**	1,491,453	**83,230**
£40,001 to £60,000	11	**0**	2	**1**	13	**1**	614,322	**49,703**
£60,001 to £80,000	2	**1**	0	**0**	2	**1**	132,473	**74,639**
£80,001 to £100,000	1	**0**	1	**0**	2	**0**	180,860	**0**
£400,001 to £450,000	0	**1**	0	**0**	0	**1**	0	**403,332**
Total	249	**43**	102	**34**	351	**77**	3,795,393	**1,003,720**

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.

	2011-12 £000	**2012-13 £000**
Fees payable with regard to external audit services carried out by the appointed auditor for the year	271	**181**
Fees payable to the appointed auditor for certification of grant claims and returns for the year	50	**66**
Fees payable in respect of other services provided by the appointed auditor during the year	0	**2**
Rebate of fees previously paid to the Audit Commission	0	**(15)**
Total	321	**234**

The fees for 2011-12 were paid to the Audit Commission. The council's auditor for 2012-13 is Ernst & Young.

The fees paid for the certification of grant claims in 2011-12 related to grants received in 2010-11. The corresponding figure in 2012-13 includes fees paid relating to grants received in both 2011-12 and 2012-13 following a change in the billing arrangements from a daily rate system to an estimated annual fee basis.

The fees paid for other services relate to a contribution to the National Fraud Initiative.

38. Dedicated schools grant

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

Details of the deployment of DSG receivable for 2012-13 are as follows:

Deployment of dedicated schools grant 2012-13	**Central expenditure £000**	**Individual schools budget £000**	**Total £000**
Final DSG for 2012-13 before Academy recoupment			**86,249**
Academy figure recouped for 2012-13			**(13,450)**
Total DSG after Academy recoupment for 2012-13			**72,799**
Brought forward from 2011-12			**(5,335)**
Carry-forward to 2013-14 agreed in advance			**4**

The figures in the above table reflect the final DSG distribution as announced by the Department for Education.

Agreed initial budget distribution in 2012-13	**6,660**	**64,935**	**71,595**
In-year adjustments	**0**	**0**	**0**
Final budget distribution for 2012-13	**6,660**	**64,935**	**71,595**
Less: Actual central expenditure	**6,180**		
Less: Actual ISB deployed to schools		**64,916**	
Plus: Local authority contribution for 2012-13	**(1,800)**	**0**	**(1,800)**
Carry forward of overspend to 2013-14	**(1,320)**	**19**	**(1,301)**

The figures in the above table reflect the final outturn position as reported by the council to the Department for Education on the section 251 return.

A deficit of £5.335 million on the DSG budget was carried forward from 2011-12 to 2012-13. Following a Secretary of State for Education determination, the council was responsible for the redundancy costs element of the deficit, amounting to £2.335 million. Of the balance of £3.000 million, £1.200 million was offset against the initial DSG allocation in 2012-13 and £0.499 million funded from the in-year surplus. The remaining £1.301 million has been carried forward to be met from the DSG in 2013-14.

Details of the deployment of DSG receivable for 2011-12 are as follows:

Deployment of dedicated schools grant 2011-12	**Central expenditure £000**	**Individual schools budget £000**	**Total £000**
Final DSG for 2011-12			80,637
Brought forward from 2010-11			(1,235)
Carry-forward to 2012-13 agreed in advance			0
Agreed budget distribution in 2011-12	14,782	64,620	79,402
In-year adjustments	(2,564)	2,564	0
Final budget distribution 2011-12	12,218	67,184	79,402
Less: Actual central expenditure	17,547		
Less: Actual ISB deployed to schools		67,190	
Plus: Local authority contribution for 2011-12	0	0	0
Carry forward of overspend to 2012-13	(5,329)	(6)	(5,335)

39. Grant income

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

Credited to taxation and non-specific grant income	2011-12 £000	**2012-13 £000**
Revenue grants:		
Formula grant	(63,595)	**(60,197)**
Local services support grant	(847)	**(615)**
Waste PFI grant	(1,248)	**(1,248)**
Council tax freeze grant	(1,788)	**(1,795)**
New homes bonus	(577)	**(1,050)**
Housing benefit reforms transitional funding	(30)	**0**
Community Right to Challenge	0	**(9)**
Community Right to Bid	0	**(5)**
Town Team Partners	0	**(10)**
Local Authorities Central Spend Equivalent Grant	0	**(180)**
Capital grants:		
Department for Education grants	(32,502)	**(17,587)**
Local transport plan & local sustainable transport grant	(4,092)	**(3,844)**
Fire service grant	(1,128)	**(627)**
Other capital grants	(1,015)	**(748)**
Total	(106,822)	**(87,915)**

The reduction in the Department for Education capital grants principally relates to the Cowes High School 'one school pathfinder' scheme, together with projects in connection with schools reorganisation.

Credited to services	2011-12 £000	**2012-13 £000**
Dedicated schools grant	(80,759)	**(72,799)**
Schools standards grant & schools standard fund	(204)	**0**
Sixth form funding grant	(5,685)	**(4,539)**
Rent allowance & rent rebates subsidy	(53,105)	**(53,918)**
Council tax benefit subsidy	(13,496)	**(13,397)**
Housing benefit & council tax benefit administration grant	(1,471)	**(1,486)**
Early intervention grant	(5,296)	**(5,619)**
Pupil premium grant	(1,196)	**(2,419)**
Learning disability & health reform grant	(1,492)	**(1,542)**
Other revenue grants	(4,459)	**(2,642)**
Revenue expenditure funded by capital under statute (REFCUS):		
Disabled facilities grant	(843)	**(940)**
Department for Education REFCUS grants	(1,228)	**(200)**
Other REFCUS grants	(47)	**(100)**
Total	(169,281)	**(159,601)**

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 liabilities in the balance sheet and are as follows:

Capital grants & contributions receipts in advance	2011-12 £000	**2012-13 £000**
Department for Education grants	(18,084)	**(4,051)**
Other grants	(451)	**(302)**
Contributions	(47)	**(1,035)**
Total	(18,582)	**(5,388)**

Revenue grants & contributions receipts in advance	2011-12 £000	**2012-13 £000**
Housing benefit subsidy	0	**(230)**
Schools standards grant & schools standard fund	(163)	**0**
Other schools grants	(107)	**(83)**
Other grants	0	**(38)**
Section 106 contributions	(1,219)	**(1,044)**
Total	(1,489)	**(1,395)**

40. Related parties transactions

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

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

Members
Members of the council have direct control over the council's financial and operating policies. The total of members' allowances paid in 2012-13 is shown in note 34. During 2012-13, payments to the value of £0.486 million were made to organisations where members had declared an interest. In addition, the council paid £21.853 million to organisations where members had been nominated by the council to hold positions on the governing body. Payments were also made to parish or town councils where councillors are also members and as delegated funding to schools, where councillors are governors. In all instances, contracts were entered into in full compliance with the council's procurement code and standards. Details of elected members' interests can be found on the council's website: www.iwight.com/councillor/azCouncillors.aspx

Officers
The Strategic Director of Resources is contracted to the council through a limited company.

One member of the senior management team has declared a family member who is appointed by Nautilus Ltd, a company owned by RPS Ltd. No payments were made to either company during 2012-13.

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

Entities controlled or significantly influenced by the council
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 £0.257 million for expenses incurred in administering the fund. The council does not own shares in any trusts or companies that would constitute significant control or influence. Where representatives are appointed to trusts or company boards, they are in the minority and have limited ability to significantly influence or control decisions on policy or operations by that trust or company. All nominations of councillors are approved annually through Full Council and a regular review of the approach to nominations is undertaken through Full Council and a regular review is undertaken. There are no relationships with other organisations that would suggest that related parties exist.

41. Group accounts

For the 2012-13 financial year, there are no 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/PPP 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.

The opening capital financing requirement at 1 April 2011 and the closing capital financing requirement at 31 March 2012 have been restated from the figures disclosed in the 2011-12 Statement of Accounts. These restatements have resulted in an increase of £6.870 million in the capital financing requirement and are primarily due to the previous exclusion of the Waste management PFI scheme from the statement.

	2011-12 £000 (restated)	**2012-13 £000**
Opening capital financing requirement	197,143	**190,412**
Capital investment:		
Property, plant and equipment	45,504	**43,063**
Investment properties	35	**0**
Intangible assets	388	**228**
Assets held for sale	131	**0**
Revenue expenditure funded from capital under statute	3,791	**2,619**
Waste PFI assets brought onto balance sheet	278	**133**
Sources of finance:		
Capital receipts	(1,147)	**(2,556)**
Government grants and other contributions	(41,597)	**(24,286)**
Sums set-aside from revenue:		

Revenue contributions to capital	(1,976)	**(717)**
Ryde Gateway	(201)	**(201)**
Waste PFI deferred income	(223)	**(267)**
Statutory charge to revenue	(11,714)	**(9,256)**
Closing capital financing requirement	190,412	**199,172**
Explanation of movements in year		
Increase in underlying need to borrow (supported by government financial assistance)	0	**3,574**
Increase in underlying need to borrow (unsupported by government financial assistance)	(7,009)	**5,053**
Assets acquired under PFI contracts	278	**133**
Increase/decrease in capital financing requirement	(6,731)	**8,760**

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 2012-13 were £0.366 million (£0.504 million in 2011-12), charged to the comprehensive income and expenditure account as £0.086 million finance costs (charged to interest payable) and £0.281 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. Contingent rentals are expensed in the year and in 2012-13 the rental was £0.007 million (£0.000 million in 2011-12). Financial resources for contingent rentals are provided through a budget based upon estimated demand and approved as part of the council's annual budget process.

Carrying amount of assets	31 March 2012 £000	**31 March 2013 £000**
Balance at 1 April	1,481	**1,152**
Additions	0	**0**
Depreciation	(292)	**(267)**
Disposal	(37)	**(53)**
Balance at 31 March	1,152	**832**

Liability	**Minimum lease payments**		**Present value of minimum lease payments**	
	31 March 2012 £000	**31 March 2013 £000**	31 March 2012 £000	**31 March 2013 £000**
Not later than one year	362	**347**	276	**280**
Later than one year and not later than five years	990	**707**	814	**584**
Later than five years	830	**762**	231	**176**
	2,182	**1,816**	1,321	**1,040**
Less: future finance charges	(861)	**(776)**	-	**-**
Total	1,321	**1,040**	1,321	**1,040**

Included in:	31 March 2012 £000	**31 March 2013 £000**
Current borrowings	276	**280**
non-current borrowings	1,045	**760**
Total	1,321	**1,040**

<u>Operating leases</u>

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 2012-13 were £1.950 million (£2.073 million in 2011-12), 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 2012-13 amounted to £0.691 million (£0.760 million on 2011-12).

The balance at 31 March 2012 has been restated from that reported in the 2011-12 Statement of Accounts due principally to the inclusion of Waste PFI operating lease assets. The increased value arising from this restatement is £1.009 million. This restatement does not have an impact on the balance sheet.

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

Leases expiring	31 March 2012 £000 Restated	**31 March 2013 £000**
Not later than one year	1,298	**1,185**
Later than one year and not later than five years	2,669	**1,827**
Later than five years	859	**681**
Total	4,826	**3,693**

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

	2011-12 £000 (restated)	**2012-13 £000**
Minimum lease payments	2,067	**1,926**
Contingent rents	6	**25**
Total	2,073	**1,951**
Sub-lease income receivable	(706)	**(691)**
Total	1,367	**1,260**

The balance at 31 March 2012 has been restated from that reported in the 2011-12 Statement of Accounts due principally to the inclusion of Waste PFI operating lease assets. The increased value arising from this restatement is £0.071 million. This restatement does not have an impact on the comprehensive income and expenditure statement.

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 2012-13 was £0.846 million (£0.740 million in 2011-12), credited to the comprehensive income and expenditure statement. Lease agreements on a weekly, monthly and annual basis are excluded from minimum lease payments.

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

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

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

	Minimum lease payments	
	31 March 2012 £000	**31 March 2013 £000**
Not later than one year	566	**617**
Later than one year and not later than five years	1,832	**1,932**
Later than five years	18,238	**17,013**
Total	20,636	**19,562**

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 2012-13 £0.047 million in contingent rents were received by the council (2011-12 £0.012 million).

44. Private finance initiatives and similar contracts

Waste PFI contract

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

Within the waste PFI contract, the council has acquired fixed assets under a finance lease arrangement. The rentals payable under these arrangements in 2012-13 were £1.174 million (£1.174 million in 2011-12), charged to the comprehensive income and expenditure statement as £0.192 million finance cost (charged to interest payable) and £0.982 million relating to the write-down of obligations to the lessor which has been charged as part of the appropriation to the capital adjustment account in the movement in reserves statement.

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

	2011-12 £000	**2012-13 £000**
Value at 1 April	3,039	**2,541**
Additions	278	**133**
Revaluations	0	**66**
Depreciation	(776)	**(351)**
Impairment	0	**0**
Disposals	0	**(154)**
Total assets at 31 March	2,541	**2,235**

Since 2009-10, Island Waste has invested £1.181 million in excess of the planned capital investment within the PFI contract. This is accounted for as deferred income and amortised over the remainder of the contract. The balance of the deferred income at 31 March 2013 is £0.383 million (£0.517 million in 2011-12) and this is treated as an asset, with the corresponding entry credited to deferred income and written-down to the comprehensive income and expenditure statement over the remainder of the contract. The profile of this deferred income at 31 March 2013 accounted for as short or long-term liabilities are as follows:-

	2011-12 £000	**2012-13 £000**
Not later than one year	223	**267**
Later than one year and not later than five years	294	**116**
Total	517	**383**

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

	2011-12 £000	**2012-13 £000**
Value at 1 April	4,057	**3,131**
Finance additions	0	**0**
Finance charge	248	**192**
Finance lease rental	(1,174)	**(1,174)**
Finance lease outstanding at 31 March	3,131	**2,149**

Outstanding obligations to make payments under the Waste PFI scheme at 31 March 2013, separated into repayments of liability, interest, service and operating lease charges are as follows:-

	Repayment of liability £000	Interest £000	Service Charges £000	Operating lease £000	**Total £000**
Not later than one year	1,043	132	5,434	272	**6,881**
Later than one year and not later than five years	1,106	68	9,621	431	**11,226**
Total	**2,149**	**200**	**15,055**	**703**	**18,107**

The waste PFI contract ends in October 2015 and will not be extended. The council's waste contract procurement team are now in the process of procuring a new contract. The three sites currently leased to the service provider will return to the council at the termination of the current contract. It is intended that these sites will be offered to the potential new service provider as part of the new contract. There are also a number of plant, equipment and vehicle assets that may be returned to the council at the end of the contract, although the majority of these assets are at 'end of life' or will be by 2015.

45. Impairment losses

During 2012-13, the council has recognised an impairment loss of £4.821 million in relation to land and buildings within property, plant and equipment. The most significant impairment losses relate to building assets at Ventnor St Francis Primary School (£2.137 million) and Haylands Primary School (£1.339 million).

During 2012-13, the council has recognised an impairment loss of £4.976 million in relation to assets held for sale. The most significant impairment losses relate to the former Swanmore Middle School site (£2.092 million), the former West Wight Middle School site (£1.743 million) and the former Whippingham Primary School site (£0.818 million).

Asset valuations are based upon a number of factors such as the condition of buildings, likely useful life and income generation estimates from the use of land based assets. The recoverable amount of these assets has been reduced to their current value as estimated by a professional valuer. This is based on fair value in existing use to the council where there is an active market. Where there is no active market for assets, such as schools, the valuation is based on depreciated replacement cost. As there were no balances of revaluation gains in the revaluation reserve for assets impaired, the resultant impairment 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 2012-13, the council paid £4.237 million to teachers' pensions in respect of teachers' retirement benefits, representing 14.1% of pensionable pay. (2011-12 £4.854 million and 14.1%). There were no contributions remaining payable at year-end.

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

47. Defined benefit pension schemes

Participation in pension schemes

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

The authority participates in two post-employment schemes:

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

Transactions relating to post-employment benefits

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

	Local Government Pension Scheme £000		Fire-fighters' Pension Scheme £000		Total £000	
	2011-12	**2012-13**	2011-12	**2012-13**	2011-12	**2012-13**
Cost of services:						
Current service cost	(9,808)	**(9,204)**	(1,100)	**(1,200)**	(10,908)	**(10,404)**
Past service costs	(1,798)	**(66)**	(400)	**0**	(2,198)	**(66)**
Fire Service injury pensions	-	**-**	300	**300**	300	**300**
Settlements and curtailments	(2,369)	**(535)**	0	**0**	(2,369)	**(535)**
Financing and investment income and expenditure						
Interest cost	(22,890)	**(21,993)**	(2,600)	**(2,500)**	(25,490)	**(24,493)**
Expected return on assets	20,261	**17,623**	-	**-**	20,261	**17,623**
Movement on top-up grant repayable (to)/from Government	-	**-**	555	**27**	555	**27**
Total post-employment benefit charged to the surplus or deficit on the provision of services	(16,604)	**(14,175)**	(3,245)	**(3,373)**	(19,849)	**(17,548)**

Other post-employment benefit charged to the comprehensive income and expenditure statement						
Actuarial gains and losses	(33,463)	**(20,995)**	(1,900)	**(6,200)**	(35,363)	**(27,195)**
Total post-employment benefit charged to the comprehensive income and expenditure statement	(50,067)	**(35,170)**	(5,145)	**(9,573)**	(55,212)	**(44,743)**
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	4,475	**2,618**	2,500	**2,100**	6,975	**4,718**
Movement on top-up grant repayable to/(from) Government	-	**-**	(555)	**(27)**	(555)	**(27)**
Actual amount charged against the general fund balance for pensions in the year:						
Employers' contributions payable to the scheme (including unfunded benefits)	12,129	**11,557**	-	**-**	12,129	**11,557**
Retirement benefits payable to pensioners (net of member contributions)	**-**	**-**	1,300	**1,300**	1,300	**1,300**

The cumulative amount of actuarial losses recognised in the comprehensive income and expenditure statement at 31 March 2013 is £151.701 million (£124.506 million at 31 March 2012).

<u>Assets and liabilities in relation to post-employment benefits</u>

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

	Funded liabilities: Local Government Pension Scheme		**Unfunded liabilities: Fire-fighters' Pension Scheme**		**Total**	
	£000		**£000**		**£000**	
	2011-12	**2012-13**	2011-12	**2012-13**	2011-12	**2012-13**
Opening balance at 1 April	(415,374)	**(459,870)**	(47,807)	**(52,000)**	(463,181)	**(511,870)**
Current service cost	(9,808)	**(9,204)**	(1,100)	**(1,200)**	(10,908)	**(10,404)**
Interest cost	(22,890)	**(21,993)**	(2,600)	**(2,500)**	(25,490)	**(24,493)**
Contributions by scheme participants	(3,134)	**(2,830)**	(300)	**(300)**	(3,434)	**(3,130)**
Actuarial gains and (losses)	(19,974)	**(56,426)**	(1,900)	**(6,200)**	(21,874)	**(62,626)**
Estimated unfunded benefits paid	1,337	**1,391**	-	**-**	1,337	**1,391**
Benefits paid	14,140	**14,640**	-	**-**	14,140	**14,640**
Pensions and lump sum expenditure	-	**-**	1,600	**1,600**	1,600	**1,600**
Transfers in from other schemes	-	**-**	0	**0**	0	**0**
Injury award expenditure	-	**-**	300	**300**	300	**300**

Past service costs	(1,798)	**(66)**	(400)	**0**	(2,198)	**(66)**
Losses on curtailment	(2,369)	**(535)**	-	**-**	(2,369)	**(535)**
Sub total	(459,870)	**(534,893)**	(52,207)	**(60,300)**	(512,077)	**(595,193)**
Movement on top-up grant creditor	-	**-**	207	**0**	207	**0**
Closing balance at 31 March	(459,870)	**(534,893)**	(52,000)	**(60,300)**	(511,870)	**(595,193)**

Reconciliation of fair value of the scheme assets:-

	Local Government Pension Scheme		**Fire-fighters' Pension Scheme**		**Total**	
	£000		**£000**		**£000**	
	2011-12	**2012-13**	2011-12	**2012-13**	2011-12	**2012-13**
Opening balance at 1 April	298,090	**304,648**	0	**348**	298,090	**304,996**
Expected rate of return	20,261	**17,623**	-	**-**	20,261	**17,623**
Actuarial gains and losses	(13,489)	**35,431**	-	**-**	(13,489)	**35,431**
Contributions by scheme participants	3,134	**2,830**	300	**300**	3,434	**3,130**
Employer contributions	10,792	**10,166**	1,300	**1,300**	12,092	**11,466**
Transfers in from other schemes	-	**-**	0	**0**	0	**0**
Contributions towards injury pensions	-	**-**	300	**300**	300	**300**
Contributions in respect of unfunded benefits paid	1,337	**1,391**	-	**-**	1,337	**1,391**
Unfunded benefits paid	(1,337)	**(1,391)**	-	**-**	(1,337)	**(1,391)**
Benefits paid	(14,140)	**(14,640)**	-	**-**	(14,140)	**(14,640)**
Pensions and lump sum expenditure	-	**-**	(1,600)	**(1,600)**	(1,600)	**(1,600)**
Injury award expenditure	-	**-**	(300)	**(300)**	(300)	**(300)**
Sub total	304,648	**356,058**	0	**348**	304,648	**356,406**
Movement on top-up grant debtor	-	**-**	348	**(27)**	348	**(27)**
Closing balance at 31 March	304,648	**356,058**	348	**321**	304,996	**356,379**

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual return on scheme assets in the year was £53.055 million (2011-12: £6.826 million).

Scheme history (of actuarial valuations excluding top-up grant)

	2008-09 £000	2009-10 £000	2010-11 £000	2011-12 £000	**2012-13 £000**
Present value of liabilities:					
Local Government Pension Scheme	(303,107)	(489,718)	(415,373)	(459,869)	**(534,892)**
Fire-fighters' Pension Scheme	(37,100)	(53,800)	(47,600)	(52,000)	**(60,300)**
Fair value of assets in the Local Government Pension Scheme	192,919	271,554	298,089	304,647	**356,057**
Surplus/(deficit) in the scheme:					
Local Government Pension Scheme	(110,188)	(218,164)	(117,284)	(155,222)	**(178,835)**
Fire-fighters' Pension Scheme	(37,100)	(53,800)	(47,600)	(52,000)	**(60,300)**
Total	(147,288)	(271,964)	(164,884)	(207,222)	**(239,135)**

The present value of liabilities for the Fire-fighters' Pension Scheme for 2008-09 and 2009-10 has been restated from the figures disclosed in the 2011-12 Statement of Accounts to include an allowance for contingent injury pensions. This has increased the liability by £1.100 million in 2008-09 and £1.600 million in 2009-10. The equivalent figures from 2010-11 already include this allowance. As a result of this restatement, a restatement has also been made to the History of experience gains and losses figures below for the same periods. This has reduced the experience gains and losses on liabilities from 6.67% to 6.47% in 2008-09 and from 3.64% to 3.53% in 2009-10.

The above totals exclude the Fire-fighters' Scheme top-up grant repayable by central government. At 31 March 2013 £0.321 million has been included within the preceding assets statement as a debtor (2011-12 debtor of £0.348 million).

The liabilities show the underlying commitments that the authority has in the long run to pay post-employment (retirement) benefits. The total liability of £239.135 million has a substantial impact on the net worth of the authority as recorded in the balance sheet, resulting in an overall negative balance of £46.021 million.

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

- the deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees (ie before payments fall due), as assessed by the scheme actuary.

- finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

- in-year deficits on the Fire-fighters' pension fund are reimbursed by Government grant.

The total contributions expected to be made to the Local Government Pension Scheme by the council in the year to 31 March 2014 is £9.935 million. Due to the unfunded nature of the Fire-fighters' Pension Scheme, the contributions in the year to 31 March 2014 made by the council will be dependent on the benefits paid in the year, the employee contributions and transfers-in received.

Basis for estimating assets and liabilities

Liabilities have been assessed on the actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Both fund liabilities have been assessed by Hymans Robertson, an independent firm of actuaries, estimates for the Local Government Scheme being based on the latest full valuation of the scheme as at 31 March 2010.

The principal assumptions used the actuary have been:

	Local Government Pension Scheme		**Fire-fighters' Pension Scheme**	
	2011-12	**2012-13**	2011-12	**2012-13**
Long-term expected rate of return on assets in the scheme:				
Equity investments	6.3%	**4.5%**	-	**-**
Bonds	4.6%	**4.5%**	-	**-**
Property	4.4%	**4.5%**	-	**-**
Cash	3.5%	**4.5%**	-	**-**
Mortality assumptions: (at age 65 for Local Government Scheme and at age 60 for Fire-fighters' scheme):				
Longevity for current pensioners (years):				
Men	22.9	**22.9**	27.9	**28.1**
Women	25.7	**25.7**	30.8	**31.0**
Longevity for future pensioners (years):				
Men	24.9	**24.9**	29.5	**29.7**
Women	27.7	**27.7**	32.3	**32.5**
Pension increase rate (CPI)	2.5%	**2.8%**	2.5%	**2.8%**
Market derived RPI	3.3%	**3.6%**	3.3%	**3.6%**
Rate of increase in salaries	4.8%	**5.1%**	3.5%	**3.8%**
Expected return on assets	5.8%	**4.5%**	-	**-**
Rate for discounting scheme liabilities	4.8%	**4.5%**	4.8%	**4.5%**
Commutation assumptions:-				
Take-up of option to convert annual pension into retirement lump sum – pre April 2008 service	25%	**25%**	-	**-**
Take-up of option to convert annual pension into retirement lump sum – post April 2008 service	63%	**63%**	-	**-**
Take-up of option to convert annual pension into retirement lump sum	-	**-**	90%	**90%**

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

The Local Government Pension Scheme's assets consist of the following categories, by proportion of the total assets held:

	31 March 2012 %	**31 March 2013 %**
Equity investments	70	**73**
Bonds	23	**21**
Property	6	**5**
Cash	1	**1**
Total	100	**100**

History of experience gains and losses

The actuarial gains identified as movements on the pension reserve in 2012-13 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31st March of each year.

Local Government Pension Scheme

	2008-09	2009-10	2010-11	2011-12	**2012-13**
	%	%	%	%	%
Differences between the expected and actual return on assets	(24.22)	29.60	1.39	(4.24)	**11.05**
Experience gains and losses on liabilities	0.00	0.12	(5.16)	1.46	**(0.01)**

Fire-fighters' Pension Scheme

	2008-09 (restated)	2009-10 (restated)	2010-11	2011-12	**2012-13**
	%	%	%	%	%
Differences between the expected and actual return on assets	-	-	-	-	**-**
Experience gains and losses on liabilities	6.47	3.53	(0.63)	(0.77)	**0.33**

48. Contingent liabilities

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

49. Trust funds and other balances

The council administers a number of trust funds and balances on behalf of others which are not included in the balance sheet. These include cash held in safekeeping for residents of old peoples' homes and amenities 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 £0.088 million at 31 March 2013 (£0.091 million on 31 March 2012).

- 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 £0.041 million at 31 March 2013 (£0.038 million on 31 March 2012).

	31 March 2012	**31 March 2013**
	£000s	**£000s**
Trust Funds etc	137	**134**
Cash in Safekeeping	40	**55**
Amenity Funds	122	**103**
Total	299	**292**

50. Authorisation of accounts for issue

The Strategic Director of Resources (as Chief Financial Officer during 2012-13) and the Head of Financial Management (section 151 officer at the date of signing) authorised the draft financial statements for issue on 28 June 2013 and re-authorised them following completion of the audit on 18 September 2013.

THE COLLECTION FUND

2011-12		2012-13	
£000		**£000**	**£000**
	Income		
(67,989)	Council tax (note 3)		**(68,530)**
	Transfers from general fund:-		
(13,355)	Council tax benefits	**(13,275)**	
(71)	Contribution re: discretionary relief (business rates)	**(71)**	
(13,426)			**(13,346)**
(31,376)	Income collectable from business ratepayers (note 1)		**(34,010)**
	Contribution towards previous year's collection fund deficit		
(58)	Isle of Wight Council	**(158)**	
(6)	Hampshire Police Authority	**(18)**	
(64)			**(176)**
(112,855)			**(116,062)**
	Expenditure		
73,196	Isle of Wight Council precept (including Parish & Town Councils) (note 3)		**73,588**
8,109	Police precept		**8,144**
	Business rate:-		
30,771	Payment to national pool	**33,460**	
251	Costs of collection	**250**	
31,022			**33,710**
	Bad and doubtful debts:-		
	Council tax:		
127	Write-offs	**143**	
7	Provisions	**9**	
134			**152**
	Business rates:		
336	Write-offs	**259**	
89	Provisions	**112**	
425			**371**
112,886			**115,965**
	Collection fund balance at 31st March		
172	Deficit on fund at start of year		**203**
31	(Surplus)/deficit for year		**(97)**
203	Deficit on fund carried forward (note 3)		**106**

Notes to the collection fund

1. Business rates (National Non-Domestic Rates)

The total non-domestic rateable value at 31 March 2013 was £92.071 million (£91.067 million at 31 March 2012) and the non-domestic rate multiplier for the year was 45.8p (43.3p in 2011-12). A reduced multiplier of 45.0p (42.6p in 2011-12) was applicable where there was eligibility for small business rate relief. The gross yield for the year was £41.589 million (£38.227 million in 2011-12) and the net yield was £34.010 million (£31.376 million in 2011-12). Several nationally defined adjustments and reliefs contribute towards this reduction as shown below:-

	2011-12		**2012-13**	
	£000	£000	**£000**	**£000**
Gross Non-domestic rate yield at 31 March		38,227		**41,589**
Less:-				
Mandatory relief to charities etc	(1,994)		**(2,277)**	
Empty rate relief	(671)		**(1,064)**	
Small Business Rate relief	(3,344)		**(4,043)**	
Transitional relief	(839)		**(195)**	
Interest on refunds	(3)		**0**	
		(6,851)		**(7,579)**
Net Non-domestic rate yield at 31 March		31,376		**34,010**

2. Council tax

The following details the number of properties in each valuation band of the tax base for 2012-13:-

Band	Net chargeable dwellings	Relevant Proportion	Band D equivalents
Band A (disabled)	11	5/9	6
Band A	7,829	6/9	5,219
Band B	15,120	7/9	11,760
Band C	14,922	8/9	13,264
Band D	11,783	9/9	11,783
Band E	6,323	11/9	7,728
Band F	2,827	13/9	4,083
Band G	1,327	15/9	2,212
Band H	95	18/9	189
Total	**60,237**		**56,244**
Less reduction for bad debts & valuation changes (1%)			(562)
2012-13 Council tax base			**55,682**
Council tax per Band D property (£)			1,289.80
Isle of Wight Council: Council tax precept (£000)			71,819

3. Precepts made on the fund in 2012-13

	2011-12		2012-13	
	£000	£000	£000	£000
Isle of Wight Council: Council tax requirement	71,510		**71,819**	
Parish & Town Council precepts	1,686		**1,769**	
Isle of Wight Council precept (including Parish & Town Councils)		73,196		**73,588**
Share of estimated collection fund deficit as 31 March in previous year		(58)		**(158)**
Isle of Wight Council: budget requirement		73,138		**73,430**
Hampshire Police Authority: Council tax requirement	8,109		**8,144**	
Share of estimated collection fund deficit as 31 March in previous year	(6)		**(18)**	
Hampshire Police Authority: budget requirement		8,103		**8,126**
Total precepts		81,241		**81,556**
Council Tax income analysis				
Council Tax gross debit	92,644		**93,126**	
Discounts	(8,351)		**(8,260)**	
Exemptions	(2,949)		**(3,061)**	
Net debit		81,344		**81,805**
Council Tax Benefits		(13,355)		**(13,275)**
Council Tax income		67,989		**68,530**
Collection Fund deficit analysis				
Net debit (actual)	81,344		**81,805**	
Less: Net debit (estimated)	81,241		**81,556**	
Reduction in net debit		103		**249**
Contribution to allowance for bad debts		(134)		**(152)**
Collection Fund deficit brought forward		(172)		**(203)**
Collection Fund deficit carried forward		(203)		**(106)**

4. Reconciliation with Isle of Wight Council's note 11 to the comprehensive income and expenditure statement and note 25 to the balance sheet

2011-12	Precepts/ demands £000	Share of 31 March deficit £000	Total 2011-12 £000	Share of deficit carried forward £000
Isle of Wight Council (including Parish & Town Councils)	73,138	(28)	73,110	183
Hampshire Police Authority	8,103	(3)	8,100	20
Total	81,241	(31)	81,210	203

2012-13	Precepts/ demands £000	Share of 31 March surplus £000	Total 2012-13 £000	Share of deficit carried forward £000
Isle of Wight Council (including Parish & Town Councils)	73,430	88	73,518	95
Hampshire Police Authority	8,126	9	8,135	11
Total	**81,556**	**97**	**81,653**	**106**

ISLE OF WIGHT COUNCIL FIREFIGHTERS' PENSION FUND

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

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

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

<u>Accounting Policies</u>

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

2011-12	FIREFIGHTERS' PENSION FUND ACCOUNT	2012-13	
£000		£000	£000
	Contributions receivable:		
	Fire authority:		
(502)	Employers' contributions in relation to pensionable pay	**(506)**	
(283)	Firefighters' contributions	**(306)**	
(785)			**(812)**
	Benefits payable:		
1,317	Pensions	**1,413**	
243	Commutations and lump sum retirement benefits	**170**	
1,560			**1,583**
	Transfers out:		
0	Individual transfers out to other schemes	**34**	
0			**34**
775	**Net amount payable for the year**		**805**
(775)	**Top-up grant payable by the Government**		**(805)**
0			**0**

2011-12	NET ASSETS STATEMENT	2012-13
£000		£000
	Current assets	
348	Debtors - top-up receivable from the Government	**321**
	Current liabilities	
(348)	Amount owing to general fund	**(321)**
0		**0**

ISLE OF WIGHT COUNCIL PENSION FUND

2011-12 £000	FUND ACCOUNT	Notes	2012-13 £000
	Dealings with members, employers and others directly involved in the fund		
17,766	Contributions	7	15,691
1,751	Transfers in from other pension funds	8	506
12	Other income	9	16
19,529			16,213
(18,894)	Benefits	10	(18,307)
(1,418)	Payments to and on account of leavers:	11	(1,247)
(352)	Administrative expenses	12	(422)
(20,664)			(19,976)
(1,135)	Net withdrawals from dealings with members		**(3,763)**
	Returns on investments		
9,717	Investment income	13	9,738
(578)	Taxes on income	14	(517)
(1,703)	Profit and losses on disposal of investments and changes in the market value of investments	17	49,465
(1,002)	Investment management expenses	15	(1,177)
(4)	Interest payable	16	(6)
6,430	Net returns on investments		57.503
5,295	**Net increase in the net assets available for benefits during the year**		**53,740**

ISLE OF WIGHT COUNCIL PENSION FUND

2012 £000	NET ASSETS STATEMENT AS AT 31 MARCH	Notes	2013 £000
330,646	Investment assets	17	386,669
4,335	Cash deposits	17	4,364
334,981			391,033
(66)	Investment liabilities	17	(15)
(1,285)	Borrowings	18	(2,020)
1,022	Current assets	22	337
(562)	Current liabilities	23	(1,505)
334,090	**Net assets of the fund available to fund benefits at the period end**		**387,830**

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

Isle of Wight Council Pension Fund

Notes to the accounts

1. Description of the fund

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

The following description of the fund is a summary. For more detail, reference should be made to the Isle of Wight Council Pension Fund Annual Report 2012-13 and the underlying statutory powers underpinning the scheme, namely the Superannuation Act 1972 and the Local Government Pension Scheme Regulations.

a) General

The fund is governed by the Superannuation Act 1972. The fund is administered in accordance with the following secondary legislation:

- the LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended)
- the LGPS (Administration) Regulations 2008 (as amended)
- the LGPS (Management and Investment of Funds) Regulations 2009.

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

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

b) Membership

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

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

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

The scheduled bodies of the fund at 31 March 2013 are:

Chale Parish Council	Ryde Town Council
Cowes Town Council	Sandown Bay Academy
Isle of Wight College	Weston Primary Academy (NEW)
Newport Parish Council	Wootton Bridge Parish Council
Northwood Parish Council	Yarmouth Town Council
Ryde Academy	

The admitted bodies of the fund at 31 March 2013 are:

The Childrens Society	Southern Vectis
Cowes Harbour Commissioners	Spurgeons
Isle of Wight Society for the Blind	St Catherine's School Ltd
Medina Housing Association Ltd (Spectrum Housing)	Trustees of Carisbrooke Castle Museum
Planet Ice (IOW) Ltd	Ventnor Botanic Gardens (NEW)
Riverside Centre Ltd	Visit IOW Limited (NEW)
South Wight Housing Association Ltd (Southern Housing)	Yarmouth (IW) Harbour Commissioners

The membership of the scheme is shown below:
Year ended 31 March 2013

	Administering Authority	Scheduled Bodies	Admitted Bodies	Total
Number of employers with active members	1	11	14	**26**
Number of contributors (Active members)	3,344	404	135	**3,883**
Number of frozen refunds [1]	607	10	4	**621**
Number of deferred pensioners [2]	4,326	227	91	**4,644**
Number of pensioners	2,866	112	108	**3,086**
Number of widows/dependant pensioners	439	16	17	**472**
	11,582	769	355	**12,706**

Year ended 31 March 2012

	Administering Authority	Scheduled Bodies	Admitted Bodies	Total
Number of employers with active members	1	10	13	**24**
Number of contributors (Active members)	3,470	385	122	**3,977**
Number of frozen refunds [1]	623	-	-	**623**
Number of deferred pensioners [2]	4,190	204	80	**4,474**
Number of pensioners	2,734	106	120	**2,960**
Number of widows/dependant pensioners	455	6	10	**471**
	11,472	701	332	**12,505**

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

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

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007. The pay bands and rates applicable for the year ended 31 March 2013 are detailed below.

Range (Annual full-time equivalent pay)	Contribution rate
Up to £13,500	5.5%
£13,501 – £15,800	5.8%
£15,801 – £20,400	5.9%
£20,401 – £34,000	6.5%
£34,001 – £45,500	6.8%
£45,501 – £85,300	7.2%
More than £85,300	7.5%

Employee contributions are matched by employers' contributions which are set based on triennial actuarial valuations. The last such valuation was at 31 March 2010. The current and future employer contribution rates as determined by that valuation are detailed in note 20.

d) Benefits

Pension benefits under the LGPS are based on 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.

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

Benefits are index-linked in order to keep pace with inflation. In June 2010, the Government announced that the method of indexation would change from the retail prices index to the consumer prices index. This change took effect from 1 April 2011.

LGPS2014

New regulations have been issued setting out the details of the new LGPS scheme effective from 1 April 2014. In summary:

- All pensions in payment or built up before April 2014 will be fully protected. If you are currently in receipt of a pension or have left with a deferred pension these changes do not affect you. If you are currently a contributing scheme member your pre April 2014 pension will still be based on final salary at retirement, and current Normal Pension Age.
- For service accruing after April 2014, pensions will be based on Career Average Revalued Earnings (CARE), rather than final salary.
- Each year worked will be worth 1/49 x CARE.
- There will continue to be no automatic lump sum, but (as currently) a lump sum of £12 will be paid for each £1 of pension given up.
- The normal pension age, at which benefits will be payable without reduction, will change from 65 to the individual member's State Retirement Age.

Further details on the new LGPS scheme can be found here: http://lgps2014.org/

2. Basis of preparation

The Statement of Accounts summarises the fund's transactions for the 2012-13 financial year and its position at year-end as at 31 March 2013. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2012/13* which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

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

3. Summary of significant accounting policies

Fund account – revenue recognition

a) Contribution income

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

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

b) Transfers to and from other schemes

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

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

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

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

c) Investment income

i) Interest income

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

ii) Dividend income

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

iii) Distributions from pooled funds

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

iv) Movements in the net market value of investments

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

Fund account – expense items

d) Benefits payable

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

e) Taxation

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

f) Administrative expenses

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

g) Investment management expenses

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

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

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

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

Performance-related fees were £58.0 thousand in 2012-13 (2011-12: nil)

Where an investment manager's fee note has not been received by the balance sheet date, an estimate based on the market value of their mandate as at the end of the year is used for inclusion in the fund account. In 2012-13 no fees are based on such estimates (2011-12: nil)

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

The costs of the council's in-house fund management team are charged direct to the fund and a proportion of the council's costs representing management time spent by officers on investment management is also charged to the fund.

h) 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

i) Financial assets

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

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

i) Market-quoted investments

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

ii) Pooled investment vehicles

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

j) Foreign currency transactions

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

k) Cash and cash equivalents

Cash comprises cash in hand and demand deposits.

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

l) Financial liabilities

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

m) 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 IAS 26, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (note 21).

n) Additional Voluntary Contributions

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

AVCs are not included in the accounts in accordance with section 4(2)(b) of the Local Government Pension Scheme (Management and Investment Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (note 24).

o) Events After the Balance Sheet Date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the 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 events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

p) Provisions, Contingent Liabilities and Contingent Assets

i) Provisions

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

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

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

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

ii) Contingent Liabilities

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

Contingent liabilities are not recognised in the net assets statement but disclosed in note 26 to the accounts.

iii) Contingent Assets

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

Contingent assets are not recognised in the net assets statement but disclosed in note 26 to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

4. Critical judgements in applying accounting policies

Pension fund liability

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

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

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for the revenues and expenses during the year. 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 items in the notes to the accounts within the next financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be provided.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance: A 0.5% increase in the discount rate assumption would result in a decrease in the pension fund deficit of £34m. A 0.5% increase in assumed earnings inflation would increase the deficit by approximately £9m. A one-year increase in assumed life expectancy would increase the deficit by approximately £9m

6. Events after the balance sheet date

<u>Change in membership of committee</u>

Following the local elections on 3 May 2013, there were significant changes to the membership of the pension fund committee.

Members at 31 March 2013 were Councillors Bingham (chair), Abraham, Barry, Churchman, Hutchinson, Ward and Whittle.

Members at 21 June 2013 were Councillors Blezzard (chair), Barry, Hutchinson, Jones-Evans, Kendall, Pitcher and Warlow.

Asset allocation

At its meeting on 15 May 2013, the committee agreed to progress with a change in asset allocation, disinvesting the portion of its UK Equity allocation managed by Schroder Investment Management in favour of a Diversified Growth Fund. The decision on the appointment of the fund manager to manage this element of the portfolio will be taken in July 2013. The transition is expected to be complete by September 2013.

There are no other 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:

2011-12 £000		2012-13 £000
	Employers	
12,197	Normal	11,761
1,775	Special (Capitalisation)	192
249	Additional (deficit funding and cessations)	384
14,221		12,337
	Members	
3,514	Normal	3,332
31	Additional	22
3,545		3,354
17,766		**15,691**

By authority:

2011-12 £000		2012-13 £000
15,560	Administering authority	12,922
1,221	Scheduled bodies	1,532
985	Admitted bodies	1,237
17,766		**15,691**

8. Transfers in from other pension funds

2011-12 £000		2012-13 £000
-	Group transfers	-
1,751	Individual transfers	506
1,751		**506**

9. Other income

2011-12 £000		2012-13 £000
12	Miscellaneous income	16
-	Contribution Equivalent Premiums	-
12		**16**

Contribution Equivalent Premiums (CEPs) are sums relating to National Insurance Contributions payable when an employee leaves the pension fund without entitlement to benefits. Sums are held as a contingent asset and/or liability and these amounts remain so until the relevant employee requests a refund of contributions payable, a transfer is made to another pension fund or the employee returns to the employ of the Isle of Wight Council (see note 26).

10. Benefits payable

By category:

2011-12 £000		2012-13 £000
13,482	Pensions	14,585
5,109	Commutation of pension and lump sum retirement benefits	3,440
303	Lump sum death benefits	282
18,894		**18,307**

By authority:

2011-12 £000		2012-13 £000
17,377	Administering authority	16,711
519	Scheduled bodies	547
998	Admitted bodies	1,049
18,894		**18,307**

11. Payments to and on account of leavers

2011-12 £000		2012-13 £000
1	Refund of contributions	-
-	Group transfers	-
1,417	Individual transfers	1,247
1,418		**1,247**

12. Administrative expenses

2011-12 £000		2012-13 £000
254	Administering authority	257
52	IT costs	77
-	External audit fees	19
43	Actuarial fees	61
3	Other expenses	8
352		**422**

In 2012-13, external audit fees have been charged directly to the fund, and are disclosed separately above. In previous years, external audit fees in respect of the pension fund were paid by the Isle of Wight Council and recharged to the fund. In 2011-12, external audit fees of £32.2 thousand were included in administering authority expenses.

13. Investment income

2011-12 £000		2012-13 £000
5,629	Equity dividends	5,340
	Income from pooled investment vehicles:	
785	- Property	763
3,247	- Bonds	3,492
46	- Unit Trusts	35
10	Interest on cash deposits	6
-	Other	102
9,717		**9,738**

14. Taxation

2011-12 £000		2012-13 £000
578	Withholding tax - equities	517
578		**517**

15. Investment management

2011-12 £000		2012-13 £000
972	Management fees	1,123
16	Custodian fees	16
9	Performance monitoring fees	9
5	Investment consultancy	29
1,002		**1,177**

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

16. Interest payable

2011-12 £000		2012-13 £000
4	Interest on short term borrowing	6
4		**6**

17. Investments

Market value 31 March 2012 £000		Market value 31 March 2013 £000
	Investment assets	
117,935	Equities	140,671
212,056	Pooled Investment Vehicles	245,182
4,335	Cash deposits	4,364
512	Investment income due	668
42	Amounts receivable for sales	72
101	Recoverable withholding tax	76
334,981	**Total investment assets**	**391,033**
	Investment liabilities	
(66)	Amounts payable for purchases	(15)
(66)	**Total investment liabilities**	**(15)**
334,915	**Net investment assets**	**391,018**

In 2011-12, and in previous years, the Newton Global Equities portfolio was classed as "Overseas Equities" in notes 17 (investments) and 18 (financial instruments). The fund has not directly held these individual stocks, rather has always invested in units of a pooled fund. Accordingly, the Newton portfolio should always have been classed as a pooled investment vehicle.

The 31 March 2012 comparative figures in both notes have been adjusted to reflect the correct disclosure of this part of the investment portfolio from Equities into Pooled Investment Vehicles.

17a) Reconciliation of movements in investments

	Market value 1 April 2012	Purchases during the year	Sales during the year	Change in market value during the year	**Market value 31 March 2013**
	£000	£000	£000	£000	**£000**
Equities	117,935	48,793	(46,132)	20,075	**140,671**
Pooled Investment Vehicles					
Global Equities	106,962	-	-	25,622	**132,584**
Property	18,888	402	-	(414)	**18,876**
Bonds	77,103	3,492	-	3,334	**83,929**
Unit Trusts	9,103	114	(283)	859	**9,793**
	329,991	52,801	(46,415)	49,476	**385,853**
Cash with custodian	4,335			(11)	**4,364**
Amounts receivable for sales of investments	42				**72**
Investment income due	512				**668**
Recoverable withholding tax	101				**76**
Amounts payable for purchases of investments	(66)				**(15)**
Net investment assets	334,915			49,465	**391,018**

	Market value 1 April 2011	Purchases during the year	Sales during the year	Change in market value during the year	**Market value 31 March 2012**
	£000	£000	£000	£000	**£000**
Equities	113,753	42,240	(36,263)	(1,795)	**117,935**
Pooled Investment Vehicles					
Global Equities	111,810	-	-	(4,848)	**106,962**
Property	17,818	704	-	366	**18,888**
Bonds	68,491	4,046	-	4,566	**77,103**
Unit Trusts	9,353	168	(426)	8	**9,103**
	321,225	47,158	(36,689)	(1,703)	**329,991**
Cash with custodian	4,671			-	**4,335**
Amounts receivable for sales of investments	630				**42**
Investment income due	469				**512**
Recoverable withholding tax	176				**101**
Amounts payable for purchases of investments	(477)				**(66)**
Net investment assets	326,694			(1,703)	**334,915**

17b) Analysis of investments

31 March 2012 £000		31 March 2013 £000
	EQUITIES	
	UK	
117,759	Quoted	130,806
	Overseas	
176	Quoted	9,865
117,935		**140,671**
	POOLED FUNDS – ADDITIONAL ANALYSIS	
	UK	
212,056	Quoted	245,182
212,056		**245,182**
329,991		**385,853**

Investments analysed by fund manager

Market value 31 March 2012			Market value 31 March 2013	
£000	%		£000	%
77,103	23.0	Schroder Investment Management – Bonds	83,929	21.5
51,564	15.4	Schroder Investment Management – UK Equities	59,842	15.3
19,215	5.7	Schroder Investment Management – Property	19,618	5.0
106,962	32.0	Newton Investment Management – Overseas Equities	132,584	33.9
79,970	23.9	Majedie Asset Management – UK Equities	94,969	24.3
334,814			**390,942**	
101	0.0	Recoverable withholding tax	76	0.0
334,915			**391,018**	

All the above companies are registered in the United Kingdom.

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

Market value 31 March 2012			Market value 31 March 2013	
£000	% of total fund		£000	% of total fund
106,962	32.02	Newton International Growth X Account	132,584	34.19
77,103	23.08	Schroder Institutional Sterling Broad Market X Account	83,929	21.64
18,888	5.65	Schroder Exempt Property Unit Trust	-	0.0
-	0.0	Schroder UK Property Fund	18,876	4.87

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

Market value 31 March 2012			Market value 31 March 2013	
£000	% of asset class		£000	% of asset class
		Equities		
8,328	7.07	Vodafone Group	8,547	6.07
7,211	6.11	BP plc	7,898	5.61
8,004	6.79	GlaxoSmithKline plc	6,308	4.48
6,829	5.79	Royal Dutch Shell	5,793	4.11

Market value 31 March 2012			Market value 31 March 2013	
£000	% of asset class		£000	% of asset class
		Pooled Investment Vehicles		
		Global Equities		
106,962	100.00	Newton International Growth X Account	132,584	100.00
		Bonds		
77,103	100.00	Schroder Institutional Sterling Broad Market X Account	83,929	100.00
		Property		
18,888	100.00	Schroder Exempt Property Unit Trust	-	0.0
-	0.0	Schroder UK Property Fund	18,876	100.00
		Unit Trusts		
7,495	82.33	Majedie Asset Management Special Situations Investment Fund	7,977	81.46
1,121	12.31	Schroder Recovery Fund A Inc	1,218	12.44
487	5.36	Schroder Institutional UK Smaller Companies Fund	598	6.10

18. Financial instruments

18a) Classification of financial instruments

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

31 March 2012				31 March 2013		
Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost		Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost
£000	£000	£000		£000	£000	£000
			Financial assets			
117,935			Equities	140,671		
212,056			Pooled investment vehicles	245,182		
	4,335		Cash		4,364	
655			Other investment balances	816		
	2		Debtors		6	
330,646	**4,337**	**-**		**386,669**	**4,370**	**-**
			Financial liabilities			
(66)			Other investment balances	(15)		
		(138)	Bank overdraft			-
		(266)	Creditors			(414)
		(1,285)	Borrowings			(2,020)
(66)	**-**	**(1,689)**		**(15)**	**-**	**(2,434)**
330,580	**4,337**	**(1,689)**		**386,654**	**4,370**	**(2,434)**

18b) Net gains and losses on financial instruments

31 March 2012 £000		31 March 2013 £000
	Financial assets	
(1,703)	Fair value through profit and loss	49,476
-	Loans and receivables	(11)
	Financial liabilities	
-	Fair value through profit and loss	-
-	Financial liabilities measured at amortised cost	-
(1,703)	**Total**	**49,465**

18c) Fair value of financial instruments

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

31 March 2012			31 March 2013	
Carrying value	Fair value		Carrying value	Fair value
£000	£000		£000	£000
		Financial assets		
330,646	330,646	Fair value through profit and loss	386,669	386,669
4,337	4,337	Loans and receivables	4,370	4,370
334,983	**334,983**	**Total financial assets**	**391,039**	**391,039**
		Financial liabilities		
(66)	(66)	Fair value through profit and loss	(15)	(15)
(1,689)	(1,689)	Financial liabilities measured at amortised cost	(2,434)	(2,434)
(1,755)	**(1,755)**	**Total financial liabilities**	**(2,449)**	**(2,449)**

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

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

18d) Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information available to determine fair values.

Level 1

Financial instruments quoted at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant impact on the instrument's valuation is not based on observable market data.

Such instruments would include unquoted equity investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

At 31 March 2013, the fund does not have any investments which should be classified as Level 3.

The following table provides an analysis of the fund's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy:

At 31 March 2013			
Type of Asset	Level 1	Level 2	Level 3
	£000	£000	£000
Equities	140,671	-	-
Pooled Investment Vehicles:			
Global Equities	132,584	-	-
Property	-	18,876	-
Bonds	83,929	-	-
Unit Trusts	9,793	-	-
Cash and Cash Equivalents	4,364	-	-
TOTAL	**371,341**	**18,876**	**-**

At 31 March 2012			
Type of Asset	Level 1	Level 2	Level 3
	£000	£000	£000
Equities	117,935	-	-
Pooled Investment Vehicles:			
Global Equities	106,962	-	-
Property	-	18,888	-
Bonds	77,103	-	-
Unit Trusts	9,103	-	-
Cash and Cash Equivalents	4,335	-	-
TOTAL	**315,438**	**18,888**	**-**

19. Nature and extent of risks arising from financial instruments

Risk and risk management

The fund's objective is to generate positive investment returns for a given level of risk. Therefore the fund holds financial instruments such as securities (equities, bonds), collective investment schemes (or pooled funds) and cash and cash equivalents. In addition debtors and creditors arise as a result of its operations. The value of these financial instruments in the financial statements approximates to their fair value.

The main risks from the fund's holding of financial instruments are market risk, credit risk and liquidity risk. Market risk includes price risk, interest rate risk and foreign currency risk.

Responsibility for the fund's risk management strategy rests with the pension fund committee. Risk management policies are established to identify and analyse the risks faced by the council's pensions operations, Policies are reviewed regularly to reflect changes in activity and market conditions.

The Fund's investments are held by J P Morgan Chase Bank NA, who act as custodian on behalf of the Fund.

Because the fund adopts a long term investment strategy, the high level risks described below will not alter significantly during the year unless there are significant strategic or tactical changes in the portfolio.

a) Market risk

Market risk represents the risk that the fair value of a financial instrument will fluctuate because of changes in market prices, interest rates or currencies. The fund is exposed through its investments in equities, bonds and investment funds, to all these market risks. The aim of the investment strategy is to manage and control market risk within acceptable parameters, while optimising the return from the investment portfolio.

In general, excessive volatility in market risk is managed through the diversification of the investments held by asset class, investment mandate guidelines and investment managers. The risk arising from exposure to specific markets is limited by the strategic asset allocation, which is regularly monitored by the committee.

The fund's investments are managed on behalf of the fund by the appointed investment managers. Each investment manager is required to invest the assets managed by them in accordance with the terms of their investment guidelines or pooled fund prospectus. The committee has determined that the investment management structure is appropriate and is in accordance with its investment strategy. The committee regularly monitors each investment manager and considers and takes advice on the nature of the investments made and associated risks.

Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of factors other than interest rate or foreign currency movements, whether those changes are caused by factors specific to the individual instrument, its issuer or factors affecting the market in general.

Other price risk arises from uncertainty about the future value of the financial instruments that the fund holds. All investments present a risk of loss of capital, the maximum risk being determined by the fair value of the financial instruments. The investment managers mitigate this risk through diversification in line with their own investment strategies and mandate guidelines.

Other price risk - sensitivity analysis

The sensitivity of the fund's investments to changes in market prices has been analysed using the volatility of return experienced by each investment portfolio during the reporting period. The volatility data is broadly consistent with a one-standard deviation movement in the value of the assets. The analysis assumes that all other variables remain constant.

Movements in market prices would have increased or decreased the net assets, as held by the fund's custodian, by the amounts shown below.

	Value as at 31 March 2013	Volatility of return	Value on increase	Value on decrease
	£000	%	£000	£000
Cash & cash equivalents	4,364	0.0	4,364	4,364
Investment portfolio assets				
Equities – UK	130,806	5.0	137,342	124,271
Equities – overseas	9,865	34.7	13,290	6,441
Pooled investment vehicles:				
Global equities	132,584	6.9	141,785	123,383
Property	18,876	0.3	18,941	18,810
Bonds	83,929	2.3	85,836	82,022
Unit Trusts	9,793	5.3	10,314	9,271
Amounts receivable for sales	72	0.0	72	72
Investment income due	668	0.0	668	668
Recoverable withholding tax	76	0.0	76	76
Amounts payable for purchases	(15)	0.0	(15)	(15)
Total	391,018		412,673	369,363

	Value as at 31 March 2012	Volatility of return	Value on increase	Value on decrease
	£000	%	£000	£000
Cash & cash equivalents	4,335	0.0	4,335	4,335
Investment portfolio assets				
Equities – UK	117,759	3.6	121,959	113,559
Equities – overseas	176	38.2	244	109
Pooled investment vehicles:				
Global equities	106,962	5.8	113,114	100,810
Property	18,888	2.0	19,266	18,510
Bonds	77,103	3.4	79,722	74,485
Unit Trusts	9,103	7.5	9,787	8,419
Amounts receivable for sales	42	0.0	42	42
Investment income due	512	0.0	512	512
Recoverable withholding tax	101	0.0	101	101
Amounts payable for purchases	(65)	0.0	(65)	(65)
Total	334,916		349,017	320,817

b) Interest rate risk

Interest rate risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market interest rates which will affect the value of fixed interest and index linked securities. The amount of income receivable from cash balances will be affected by fluctuations in interest rates.

Interest rate risk - sensitivity analysis

The fund does not directly hold any fixed interest securities; hence a change in interest rates will not impact on the fair value of assets.

Changes in interest rates do not impact on the fair value of cash balances, but they will impact on the interest income earned.

c) Currency risk

Currency risk represents the risk that the fair value of financial instruments when expressed in sterling, the fund's base currency, will fluctuate because of changes in foreign exchange rates. The fund is exposed to currency risk on investments denominated in a currency other than sterling. For a sterling based investor, when sterling weakens, the sterling value of foreign currency denominated investments rises. As sterling strengthens, the sterling value of foreign currency denominated investment falls.

The following table summarises the fund's currency exposure as at 31 March 2013, and as at the previous period end:

	Asset value as at 31 March 2013	Asset value as at 31 March 2012
	£'000	£'000
Equities	9,865	-
Investment income due	80	-
	9,945	**-**

Currency risk – sensitivity analysis

Following analysis of historical data, the council considers the likely volatility associated with foreign exchange movements to be 3.44% (as measured by one standard deviation), based on historical movements on the month-end exchange rates over a rolling 36-month period.

This analysis assumes that all other variables, in particular interest rates, remain constant.

A 3.44% 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 2013	Value on increase +3.44%	Value on decrease -3.44%
	£'000	£'000	£'000
Equities	9,865	10,205	9,526
Investment income due	80	83	78
	9,945	**10,288**	**9,604**

The fund did not have any investments denominated in foreign currencies as at 31 March 2012; hence no sensitivity analysis table is produced.

d) Credit Risk

Credit risk represents the risk that the counterparty to a transaction or financial instrument will fail to meet an obligation and cause the fund to incur a financial loss. This is often referred to as counterparty risk.

The fund is exposed to credit risk through its underlying investments (including cash balances) and the transactions it undertakes to manage its investments. The careful selection and monitoring of counterparties including brokers, custodian and investment managers minimises credit risk that may occur though the failure to settle transactions in a timely manner.

Contractual credit risk is represented by the net payment or receipt that remains outstanding, and the cost of replacing the position in the event of a counterparty default. Bankruptcy or insolvency of the custodian may affect the fund's access to its assets. However, all assets held by the custodian are ring-fenced as "client assets" and therefore cannot be claimed by creditors of the custodian. The fund manages its risk by monitoring the credit quality and financial position of the custodian.

The fund does not hold any fixed interest securities directly, hence has limited credit risk through its underlying investments in bonds.

Another source of credit risk is the cash balances held to meet operational requirements or by the managers at their discretion. Internally held cash is managed on the fund's behalf by the council's treasury management team in line with the council's Treasury Management Strategy which sets out the permitted counterparties and limits. The fund invests surplus cash held with the custodian in diversified money market funds.

The fund does not engage in securities lending activities, hence is not exposed to the counterparty risk of the collateral provided by borrowers against the securities lent.

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

The council believes it has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits over the past five financial years.

e) Liquidity Risk

Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as they fall due.

A substantial portion of the fund's investments consist of readily realisable securities, in particular equities and fixed income investments, even though a significant proportion is held in pooled funds. However, the main liability of the fund is the benefits payable which fall due over a long period and the investment strategy reflects the long term nature of these liabilities. Therefore the fund is able to manage the liquidity risk that arises from its investments in less liquid asset classes such as property which are subject to longer redemption periods and cannot be considered as liquid as the other investments.

The fund maintains a cash balance to meet working requirements, which is supported by an available credit line from the Isle of Wight Council. Note 25 includes details of borrowing from the council for this purpose.

Management prepares periodic cash flow forecasts to understand and manage the timing of the fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the fund investment strategy.

All financial liabilities at 31 March 2013 are due within one year.

Refinancing risk

The key risk is that the council will be bound to replenish a significant proportion of its pension fund financial instruments at a time of unfavourable interest rates. The council does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategies.

20. Funding arrangements

In line with the Local Government Pension Scheme (Administration) Regulations 2008, 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 fund's most recent triennial actuarial valuation was undertaken as at 31 March 2010. The next valuation will take place as at 31 March 2013.

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

- To ensure the long term solvency of the Pension fund and of the share of the Pension Funds attributable to individual employers;
- To ensure that sufficient funds are available to meet all benefits as they fall due for payment;
- 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 help employers recognise and manage pension liabilities as they accrue with consideration to the effect on the operation of their business where the Administering Authority considers this appropriate;
- To minimize the degree of short term change in the level of each employer's contributions where the Administering Authority considers it reasonable to do so;
- To use reasonable measures to reduce the risk to other employers and ultimately to the Council taxpayer from and employer defaulting on its pension obligations;
- To address the different characteristics of the disparate employers to the extent that this is practical and cost-effective; and
- To minimise the cost of the Scheme to employers.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised below the theoretical rate required to return their portion of the Fund to full funding over 21 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the modelling, there is still as sufficiently high likelihood that the Fund will return to full funding over 21 years.

At the March 2010 valuation, the fund was assessed as 75.3% funded, compared to the previous valuation of 80.2%. The resulting deficit at the 2010 valuation was £97 million (2007: £64.9 million deficit).

Individual employer's contributions for the period 1 April 2011 to 31 March 2014 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		
	2012	2013	2014
	% of pay	% of pay	% of pay
Isle of Wight Council	22.0	22.0	22.0
Isle of Wight College (from 1 August)	20.2	21.7	22.8
Spectrum Housing Group (Medina HA)	24.6	26.6	28.6
Southern Housing Group (South Wight HA)	20.8	20.8	20.8
Yarmouth Harbour Commissioners	21.6	21.6	21.6
Cowes Harbour Commissioners	24.3	24.3	24.3
St Catherine’s School Ltd	40.0	45.0	50.6
IOW Society for the Blind	45.1	45.1	45.1
Riverside Centre Ltd	15.9	15.9	15.9
Trustees of Carisbrooke Castle Museum	25.0	25.0	25.0
Planet Ice (IOW) Ltd	15.1	15.1	15.1
Osel Enterprises Ltd	22.0	22.0	22.0

In addition, certain employers make a lump sum contribution:

Employer Name	Minimum Contributions for the Year Ending 31 March		
	2012	2013	2014
	Lump sum £000	Lump sum £000	Lump sum £000
Southern Housing Group (South Wight HA)	132	132	132
Yarmouth Harbour Commissioners	42	44	47

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

Financial Assumptions

Assumption	Derivation	Rate at 31 March 2010	
		Nominal	Real
Price Inflation (CPI)	Market expectation of long term future inflation as measured by the difference between yields on fixed and index linked Government bonds as at the valuation date, less 0.5% p.a.	3.3%	-
Pay Increases*	CPI plus 2.0% p.a.	5.3%	2.0%
Gilt Based Discount Rate	The yield on fixed interest (nominal) and index linked (real) Government bonds	4.5%	1.2%
Funding basis discount rate	“Gilt based” discount rate plus an asset out-performance assumption of 1.6% p.a.	6.1%	2.8%

* 1% p.a. for 2010-11 and 2011-12, reverting to 5.3% thereafter. Plus an allowance for promotional pay increases.

(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.)

Mortality assumptions

Future life expectancy based on the actuary's fund-specific mortality review was:

	Males	Females
Current Pensioners	22.9 years	25.7 years
Future Pensioners	24.9 years	27.7 years

* based on members aged 45 at the valuation date.

Copies of the 2010 valuation report and the Funding Strategy Statement are available on request from the Finance Department of the Isle of Wight Council, administering authority to the fund.

21. 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 IAS19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year.

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 20). The actuary has also valued ill health and death benefits in line with IAS19.

The actuarial present value of promised retirement benefits at 31 March 2013 was £564 million (31 March 2012: £480 million). The fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

The liabilities above are calculated on an IAS19 basis and therefore differ from the results of the 2010 triennial valuation (see note 18) because IAS19 stipulates a discount rate rather than a rate which reflects market rates.

Financial assumptions

Year ended	31 March 2013 % p.a.	31 March 2012 % p.a.
Pension Increase Rate	2.8%	2.5%
Salary Increase Rate *	5.1%	4.8%
Discount Rate	4.5%	4.8%

* Salary increases are 1% p.a. nominal until 31 March 2015 reverting to the long term rate thereafter.

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

Longevity assumption

	Males	Females
Current Pensioners	22.9 years	25.7 years
Future Pensioners *	24.9 years	27.7 years

* Future pensioners are assumed to be currently aged 45

This assumption is the same as at 31 March 2012.

Commutation assumption

An allowance is included for future retirements to elect to take 25% of the maximum additional tax-fee cash up to HMRC limits for pre-April 2008 service and 63% of the maximum tax-free cash for post-April 2008 service.

22. Current assets

31 March 2012 £000		31 March 2013 £000
	Debtors	
38	• Contributions due - employees	43
945	• Contributions due - employers	228
37	• Taxation	60
2	• Sundry debtors	6
-	Cash balances	-
1,022		**337**

Analysis of debtors

31 March 2012 £000		31 March 2013 £000
37	Central government bodies	60
781	Local authorities	58
204	Other entities and individuals	219
1,022		**337**

23. Current liabilities

31 March 2012 £000		31 March 2013 £000
138	Bank overdraft	-
	Creditors	
158	• Taxation	169
259	• Accruals	1,013
7	• Sundry creditors	37
-	Short term provisions	286
562		**1,505**

Analysis of creditors

31 March 2012 £000		31 March 2013 £000
158	Central government bodies	169
-	Local authorities	66
266	Other entities and individuals	984
424		**1,219**

24. Additional voluntary contributions (AVCS)

Market value 31 March 2012 £000		Market value 31 March 2013 £000
1,086	Prudential Life and Pensions	1,115

AVCs of £100 thousand were separately invested with Prudential Life and Pensions (2011-12: £118 thousand).

25. Related party transactions

Isle of Wight Council
The Isle of Wight Council Pension Fund is administered by Isle of Wight Council. Consequently there is a strong relationship between the council and the pension fund.

The council incurred costs of £257 thousand (2011-12: £254 thousand) in relation to the administration of the fund and was subsequently reimbursed by the fund for these expenses. The council is also the single largest employer of members of the pension fund and contributed £10.1

million (2011-12: £12.5 million) to the fund in 2012-13. All monies owing to the fund, with the exception of deferred balances in respect of pension strain costs totalling £58 thousand (2012: £780 thousand), were paid during the year.

During the year, the pension fund borrowed funds from the council to support its working cash flow requirements; interest was charged on these borrowings at the broker local authority interest rate relevant to the amount and duration of the borrowing at the time it was made. The maximum amount borrowed during 2012-13 was £2.1 million (2011-12: £2.0 million). The balance due to the council at 31 March 2013 is £2.02 million (2012: £1.285 million), repayable within 1 month. Interest of £5.6 thousand (2011-12: £4.3 thousand) was paid on these borrowings (see note 16).

Governance
There are three members of the pension fund committee who are in receipt of pension benefits from the Isle of Wight Council Pension Fund (Cllrs Barry, Blezzard and Kendall). In addition committee members Cllrs Barry, Jones-Evans, Warlow and Whittle are active members of the pension fund.

Each member of the pension fund committee is required to declare their interests at each meeting.

Council members named in note 28 form the Pension Fund Committee as trustees.

Key Management Personnel
Paragraph 3.9.4.3 of the Code exempts local authorities from the key management personnel disclosure requirements of IAS 24, on the basis that the disclosure requirements for officer remuneration and members allowances detailed in section 3.4 of the Code (which are derived from the requirements of Regulation 7(2)-(4) of the Accounts and Audit (England) Regulations 2011) satisfy the key management personnel disclosure requirements of paragraph 16 of IAS24. This applies in equal measure to the accounts of the Isle of Wight Council Pension Fund.

The disclosures required by Regulation 7(2)-(4) of the Accounts and Audit (England) Regulations 2011 can be found in the main accounts of Isle of Wight Council.

IAS 24 defines key management personnel as those persons having authority and responsibility for planning, directing, and controlling the activities of the entity, directly or indirectly, including any directors (whether executive or otherwise) of the entity.

The fund is advised by the Strategic Director of Resources. As he is not a member of the Isle of Wight Council Pension Fund, no separate disclosures are made in the fund accounts.

26. Contingent assets and liabilities
At 31 March 2013 there were contingencies relating to Contribution Equivalent Premiums (CEPs) amounting to a net sum of £142 thousand (2012: £142 thousand) due to the Pension Fund. Assets amounted to £186 thousand and liabilities totalled £44 thousand (2012: £186 thousand and £44 thousand respectively). The sums do not form part of the net assets of the fund. Refunds and payments will only be made on application by the employee.

In 2006 a decision was taken by the Investment Panel to join in a Class Action against the HMRC to recover tax credits on overseas dividends. A sum of £880 thousand has been estimated as the possible benefit to the pension fund. This case is on-going. The sums do not form part of the net assets of the fund.

27. Capital commitments
There were no capital commitments as at 31 March 2013 (2012: nil)

28. Trustees report 2012-13
The trustees of the pension fund are the members for the time being of the Pension Fund Committee, who at 31 March 2013 were Councillors Bingham (chair), Abraham, Barry, Churchman, Hutchinson, Ward and Whittle. Changes to committee membership after the year end, following the local elections, are detailed in note 6.

The committee is advised by the Strategic Director of Resources, Mercer Limited, the fund's investment consultants, and Hymans Robertson LLP, the fund's actuaries. In addition, non-voting representatives from the admitted bodies and the staff union attend the committee.

Investment Performance
The net assets of the fund at 31 March 2013 were £387.8 million, a rise of 16.1% on the 31 March 2012 valuation of £334.1 million. The fund's total investments out-performed the agreed benchmarks by 3.3% during the year, due to particularly strong performance by Majedie in UK equities and Newton's global equity fund.

Funding Level
The fund's last triennial actuarial valuation was undertaken at 31 March 2010, showing a funding level of 75.3%, compared to 80.2% at the previous valuation at 31 March 2007. The results of this latest valuation, in terms of revised contribution rates, were implemented with effect from April 2011.

The actuary's funding projection report at 31 March 2013 showed that the notional funding level had declined to 71.6% (2012: 67.3%). The increase in the notional funding value from last year is as a result of higher than expected asset returns during the year. However since the last full valuation this has been negated by reductions in bond yields throughout the period, leading to increases in the future cost of liabilities.

The next triennial valuation will be undertaken as at 31 March 2013, with the results being known during the autumn of 2013.

Governance
The committee continues to keep its governance arrangements under review. It created and regularly reviewed a risk register to identify, monitor and control, as far as possible, the risks to the fund. It also considered an internal audit report on the administration of the pension scheme. In accordance with the training plan developed in the previous year, training sessions were held before each committee meeting, including benchmarking (delivered by State Street), asset allocation models, fund manager performance reviews and current investment issues.

In 2012-13, the committee considered the strategic asset allocation of the fund, and the performance of the fund managers after the third year of the current investment management arrangements. As a result, the committee agreed to pursue a Diversified Growth Fund allocation, and reduce the fund's exposure to UK equities during 2013-14.
It also received reports on, and agreed, the Statement of Investment Principles, Funding Strategy Statement and Governance Compliance Statement; and received regular updates on proposed changes to the Local Government Pension Scheme following the Hutton review of public service pensions, including LGPS 2014 and the Public Services Pension Act, which received Royal Assent in April 2013.

In addition, the committee continues to receive presentations from its fund managers on the pension fund performance as well as performance benchmarking and advice from its independent adviser, Mercer Limited.

Glossary of terms

Accounting policies
The principles, bases, conventions, rules and practices that specify how the effect of transactions and other events are to be reflected in the financial statements.

Accruals concept
Income and expenditure are recognised as they are earned or incurred, not as money is paid or received.

Amortisation
An accounting technique of recognising a cost or item of income in the comprehensive income and expenditure statement over a period of years rather than when the initial payment is made. Its purpose is to charge/credit the cost/income over the accounting periods that gain benefit for the respective item.

Capital charge
A charge to service revenue accounts to reflect the cost of fixed assets used in the provision of services (eg depreciation).

Capital expenditure
Expenditure that is incurred to create or add value to a fixed asset.

Capitalised pension cost
An additional amount payable by a service to the pension fund where an employee who is below pensionable age has taken early retirement following redundancy without any actuarial reduction being made to their pension. Minimum age limits apply and granting is at the discretion of the employer. Under statute and local arrangement, the amounts payable to the pension fund can be spread over a period not exceeding five years.

Capital receipt
The proceeds from the sale of capital asset which, subject to various limitations, can be used to finance capital expenditure, be invested, or repay outstanding debt on assets originally financed through borrowing.

Cash and cash equivalents
Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature within 24 hours from the date of acquisition.

Collection fund
A fund administered by the council which records receipts from council tax and national non-domestic rates, and payments to the precepting bodies (Isle of Wight Council and the Hampshire Police Authority).

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 deterioratation, consumption or other reduction in a fixed asset either as a result of its use, ageing or obsolescence.

Depreciated replacement cost
A valuation measure where insufficient market-based evidence of fair value is available because an asset is specialised and/or rarely sold.

Fair value
The amount that would be paid for an asset in its existing use. This is defined as the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arms-length transaction, after proper marketing.

Finance lease
An agreement that transfers all the risks and rewards of ownership of an asset. The payments usually cover the full cost of the asset together with a return for the cost of finance. Property, plant and equipment held under finance leases are recognised on the balance sheet at the commencement of the lease and are matched by a liability for the obligation.

Financial instrument
A contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. The term covers both financial assets and financial liabilities and includes both the most straightforward financial assets such as trade receivables (debtors) and trade payables (creditors) and the most complex ones such as derivatives.

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.

Impairment
A reduction in the value of a non-current asset below its carrying amount on the balance sheet.

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.

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.

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.

National non-domestic rates (business rates)
A levy on business properties based on a Government determined rate in the pound which is applied to a rateable value of the property. Local authorities collect the sums due, but the proceeds are paid into a national pool and sums are redistributed back to authorities as part of the formula grant calculations.

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 Hampshire Police Authority, that is collected by the council on their behalf.

Private finance initiative
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.

Public Works Loan Board (PWLB)
A government agency which provides loans to authorities at favourable rates.

Reserves
Specific amounts can be set-aside as earmarked reserves for future policy purposes or to over contingencies. Certain reserves are maintained to manage the accounting process for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources.

Remuneration
All sums paid to or receivable by an employee and sums due by way of expenses allowances (as far as those sums are chargeable to UK income tax) and the money value of any other benefits received other than cash. Pension contributions payable by either the employer or employee are excluded.

Revenue expenditure
The cost of running local authority services within the financial year, for example staffing costs, supplies and transport.

Revenue support grant (RSG)
This a Government grant paid to the council to finance general expenditure. It is based on the Government's assessment of how much an authority needs to spend in order to provide a standard level of service. It is calculated along-side the non-domestic rate redistribution and is collectively referred to as formula grant.

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).

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ISLE OF WIGHT COUNCIL

Opinion on the Authority and firefighters' pension fund financial statements

We have audited the financial statements of Isle of Wight Council for the year ended 31 March 2013 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 50, the Collection Fund and the related notes 1 to 4, and include the firefighters' pension fund financial statements comprising the Fund Account and the Net Assets Statement. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of Isle of Wight Council as a body, in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Isle of Wight Council and the authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Strategic Director of Resources and auditor

As explained more fully in the Statement of Responsibilities set out on page 15, the Strategic Director of Resources is responsible for the preparation of the Authority's Statement of Accounts, which include the Authority financial statements and the firefighters' pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority and Pension Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Strategic Director of Resources and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Statement of Accounts 2012/13 to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Isle of Wight Council as at 31 March 2013 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Opinion on other matters

In our opinion, the information given in the Statement of Accounts 2012/13 for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in November 2012, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, we are satisfied that, in all significant respects, Isle of Wight Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

Report by exception

The Audit Commission's guidance also requires us to report by exception on any other significant additional matters that come to our attention and which we consider to be relevant to proper arrangements to secure economy, efficiency and effectiveness in the use of resources. Such matters have come to our attention relating to significant weaknesses in the Council's arrangements for

- producing relevant and reliable data and information to support decision making and manage performance; and
- managing risks and maintaining a sound system of internal control.

The Council has had two Ofsted inspections. Ofsted judged the overall effectiveness of the Council's arrangements to protect children to be inadequate; and the arrangements for supporting school improvement to be ineffective. Both Ofsted reports contain common themes of a lack of good quality information for decision making and performance management; and weaknesses in the Council's risk management arrangements.

Our conclusion above, that we are satisfied that in all significant respects Isle of Wight Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013, is not modified by this finding.

Certificate

We certify that we have completed the audit of the accounts of Isle of Wight Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Kate Handy
for and on behalf of Ernst & Young LLP, Appointed Auditor
Southampton
30 September 2013

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ISLE OF WIGHT COUNCIL

Opinion on the pension fund financial statements

We have audited the pension fund financial statements for the year ended 31 March 2013 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 28. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of Isle of Wight Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the authority and the authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Strategic Director of Resources and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 15, the Strategic Director of Resources is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Strategic Director of Resources and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Statement of Accounts 2012-13 to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2013 and the amount and disposition of the fund's assets and liabilities as at 31 March 2013; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Opinion on other matters

In our opinion, the information given in the Statement of Accounts 2012-13 for the financial year for which the financial statements are prepared is consistent with the financial statements.

Peter O'Neill
for and on behalf of Ernst & Young LLP, Appointed Auditor
Reading

30 September 2013