

## CONTENTS

Explanatory Foreword	2
Statement of Accounting Policies	9
Statement of Responsibilities for the Statement of Accounts	18
Annual Governance Statement	19
Income and Expenditure Account	29
Statement of Movement on the General Fund Balance	30
Statement of Total Recognised Gains and Losses	32
Balance Sheet	33
Cash Flow Statement	34
Notes to the Core Financial Statements	35
Group Accounts	82
Collection Fund	83
Fire-Fighters Pension Fund	86
Isle of Wight Council Pension Fund	88
Auditor's Opinion	102

## EXPLANATORY FOREWORD

### 1. Financial Statements

This foreword provides a brief description of the financial events affecting the Council in 2009-10 and the Council's financial position generally. The final accounts are produced in the format stipulated by the Statement of Recommended Practice (SORP) published by the Chartered Institute of Public Finance and Accountancy (CIPFA), which sets out the proper accounting practices in accordance with the statutory framework. The SORP designates certain of the financial statements as 'core' and requires these to be grouped together in a specified order, to be followed by a consolidated set of notes to the accounts covering all of the core statements. Supplementary statements are presented with their own notes after the notes on the core statements.

The core financial statements are:

- *Income and Expenditure Account*  
This statement brings together the net cost of all the services provided by the Council, excluding the Collection Fund. It demonstrates how that cost has been financed from general government grants and income from local taxpayers.
- *Statement of the Movement on the General Fund Balance*  
The Income and Expenditure Account brings together all of the functions of the authority and summarises all of the resources that the authority has generated, consumed or set aside in providing services during the year. However, this accounting basis is currently out of line with the statutory provision that specify the net expenditure that authorities need to take into account when setting local taxes. In order to give a full presentation of the financial performance of an authority during the year and the actual spending power carried forward to future years, the outturn on the Income and Expenditure Account needs to be reconciled to the balance established by the relevant statutory provisions. This statement provides this reconciliation.
- *Statement of Total Recognised Gains and Losses*  
Not all gains and losses experienced by a local authority are reflected in the Income and Expenditure Account. For example, gains on revaluation of fixed assets and pension actuarial gains and losses are excluded as they are treated under UK GAAP as arising from asset and liability valuation changes rather than from the authority's operating performance. This statement brings these other gains and losses together with the outturn on the Income and Expenditure Account to show the total movement in the authority's net worth for the year.
- *Balance Sheet*  
This shows the financial position at 31<sup>st</sup> March 2010 of the Council and summarises all of its assets and liabilities.
- *Cash Flow Statement*  
This summarises the inflows and outflows of cash arising from transactions with third parties for both revenue and capital purposes.

The Collection Fund:

This statement shows the income received from Council Taxpayers and Non-Domestic Ratepayers and how the income is distributed.

The Group Accounts:

The Statement of Recommended Practice requires the preparation of a group revenue account and group balance sheet where a local authority has interests in subsidiaries, associated companies and joint ventures that are material in aggregate.

The Firefighters' Pension Fund:

The purpose of the firefighters' pension fund 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 Pension Fund Accounts:

This summarises the income and expenditure transactions of the Pension Funds in order to provide information about the financial position, performance and financial adaptability of the funds.

The Statement of Accounting Policies:

The purpose of this statement is to explain the basis for the recognition, measurement and disclosure

of transactions and other events in the accounts. In certain circumstances, where more than one accounting basis or estimation technique is acceptable, the accounting policy and/or estimation techniques followed can significantly affect an authority's reported results and financial position.

The Statement of Responsibilities for the Statement of Accounts:

The purpose of this statement is to set out the authority's responsibilities for the accounts under local government legislation and other requirements, and the chief financial officer's legal and professional responsibility for the accounts.

## 2. **Financial Summary**

The Income and Expenditure Account brings together all of the financial activities of the Council for the year. It summarises the revenue income and expenditure contributing to the provision of services and shows how it was financed from Council Tax, Government Grants, customers and service users. The statements have been produced in accordance with the Code of Practice on Local Authority Accounting and the Best Value Accounting Code of Practice.

The Council invests a significant amount of money each year in capital projects that create new assets or enhance existing assets, and which have a useful life beyond one year. Expenditure on capital projects can be financed from a combination of loans, capital receipts, grants, contributions and revenue resources.

### **Medium-Term Revenue and Capital Budget Strategy**

The Council's Medium-Term Revenue and Capital Budget Strategy for 2009-10 to 2011-12 was approved by Full Council on 25 February 2009. This outlined the Council's Revenue and Capital budget position covering a three year period and updated the previous year's Medium Term Budget Strategy and Medium-Term Financial Plan (MTFP). The MTFP for the Council sets out the projected resources from Revenue Support Grant, assumed levels of Council Tax and fees and charges and projected costs at current levels of activity plus inflation and known service charges. The overall Revenue and Capital Budget strategy set out how the Council resources the key projects, changes and improvements that flow from the Council's Vision and strategic objectives, along with the redirection of resources over time to meet those priorities, whilst balancing the budget gap.

### **Strategic Context**

The Council's Corporate Plan was agreed by Cabinet in October 2008 and updated in November 2009. It is the Council's main strategic planning document, providing a framework for the delivery of services. It represents a clear statement of the Eco-Island vision, strategic aims and priorities, and outlines the key actions which will support the delivery of these priorities. The Corporate Plan is a key component of the authority's performance management framework and sets out how the authority's priorities are translated into action plans, and how the impact of those delivers outcomes for residents. The themes in the Corporate Plan provide the basis for the setting of the Council's budget to deliver the key strategic improvement priorities that will make a difference to the way that services are delivered and improved for residents and visitors.

### **(a) Revenue Expenditure and Income**

#### **Budget**

The Revenue Support Grant (RSG) settlement from Central Government announced in 2008-09 was on a three year fixed basis. The actual 2009-10 settlement was unchanged from the figures previously announced and in overall terms provided no additional resource to councils to cope with the additional responsibility placed upon them and gave little scope for growth over the coming years. The position is made worse by the significant level of grant that is taken away through 'damping'. For this Council, this amounts to £11.656 million over the three year period. This represents resources that are rightly due to the Island based on the Government's formulae, but are taken away through a damping mechanism to help fund other Councils who would otherwise lose more grant if the formulae were rigorously applied.

Essentially the Strategic Budget choices facing the Council relate to a balancing act between a number of factors principally involving capital investment, service improvement/growth and redirecting resources to new priorities. Any resultant resource gap needs to be met through Council Tax increases, savings, efficiencies and service reductions, increase in fees and charges and the use of reserves in the short term.

The Strategic Budget also needs to consider the relative impact of these factors on residents, Council Tax payers, service users, businesses, the voluntary sector and on the outcomes that it is trying to achieve through the corporate vision.

The 2009-10 revenue budget continued to direct resources towards priority areas, funded in the main by efficiency savings and the redirection of resources away from areas which did not contribute sufficiently strongly to the delivery of key outcomes. As a result, additional net expenditure of £11.776 million was identified as being required for services. Of this increase, a total of £4.424 million resulted from the effect of the economic downturn, particularly the impact that this has had on income generation, £4.001 million for inflation and other pressures, £1.776 on additional spending on Schools and £1.575 million for the revenue impact of capital investment. The £11.776 million increase was met from £5.623 million in efficiency savings, £2.383 million in increased formula grant, a £3.094 million increase in Council Tax and a £1.776 million increase in the Dedicated Schools Grant. This was offset by a reduction of £1.1 million in the amount being withdrawn from the General Fund from £5.0 million in 2008-09 to £3.9 million in 2009-10. The Council resolved not to increase locally set fees and charges in 2009-10 in recognition of the economic downturn.

Consequently, the Council set a Council Tax increase of 3.5% in line with the medium term budget strategy.

The Council's net revenue budget for 2009-10 was £129.395 million (including parish precepts) and the estimated balance on the General Fund at 31 March 2010 was £7.101 million, after allowing for a withdrawal of £3.9 million. Subsequent to the 2009-10 budget being set, the final position on the 2008-09 net expenditure resulted in a contribution to the General Fund of £0.514 million, resulting in a revised estimated General Fund balance of £7.615 million by 31 March 2010.

### Revenue Budget Performance

There have been a number of significant in-year pressures identified in relation to the revenue budget, which have been managed through the Directors' Team and the Service Board process. Strong financial management and control across all service areas has enabled a number of overspends to be contained within the overall budget at year-end.

The final outturn position for 2009-10 is shown below. These figures relate only to the 'cash limited' management accounts which exclude accounting adjustments relating to items such as retirement benefit costs and depreciation charges.

	<b>Revised Budget</b>	<b>Actual Spend</b>	<b>Carry-overs</b>	<b>Net over/(under) spend</b>
	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>
Children & Young People	21,224	21,678	(112)	342
Community Services	45,824	47,569	274	2,019
Economy & Environment	33,200	32,200	683	(317)
Central Services	18,020	16,926	24	(1,070)
Corporate Items & Financing	13,721	10,943	2,146	(632)
<b>Total Expenditure</b>	<b>131,989</b>	<b>129,316</b>	<b>3,015</b>	<b>342</b>
<b>Financed by:</b>				
Formula Grant	(59,130)	(59,130)		
Council Tax	(68,959)	(68,959)		
Transfer from General Fund	(3,900)	(3,900)		
Carry-overs	0	3,015		
Withdrawn from General Fund balance	0	(342)		
<b>Total Financing</b>	<b>(131,989)</b>	<b>(129,316)</b>		
<b>General Fund Balance</b>				
Opening General Fund Balance	(11,515)	(11,515)		
Use of Balances	3,900	3,900		
Net overspend	0	342		
<b>Closing General Fund Balance</b>	<b>(7,615)</b>	<b>(7,273)</b>		

Details of significant variations are analysed as follows:

- Children's Services – there is a gross overspend on Children's Services budgets of £1.528 million, of which £1.270 million relates to agency placements. This overspend has been mainly offset by the use of one-off savings elsewhere within the Children's Services, leading to a net overspend of £0.342 million. The underlying overspend in agency placements will be partly offset by an increased budget allocation of £0.750 million approved as part of the 2010-11 budget strategy.
- Community Services – the final outturn at the year-end shows a gross overspend on Adult Social Care Packages of £4.763 million. This overspend has been offset by an underspend of £1.013 million in other parts of the Community Services budget, and a one-off contribution of £1.731 million from a Supporting People grant, leading to a net overspend in Adult Social Care of £2.019 million. Accordingly, there is an underlying budget problem of £4.8 million to be managed in 2010-11, which will be partly offset by an increased budget allocation of £3.5 million approved as part of the 2010-11 budget strategy.
- Economy and Environment Services - the net underspend position at year-end results principally from restructuring vacancy management savings within the Planning Service.
- Central Services – the net underspend position at year-end results principally from restructuring and vacancy management savings.
- Corporate items and Financing – the underspend is due to savings in interest paid resulting from the reappraisal of the capital programme. The carry-overs include the Local Area Agreement Grant and the Housing and Planning Delivery Grant received during the final days of the financial year.

#### **Carry-overs and Outturn position**

Carryovers from 2009-10 have been made to allow maximum flexibility in 2010-11 for delivery of the Council's strategic priorities.

The net result after carrying forward £3.015 million into 2010-11 is an overspend of £0.342 million, which has resulted in a General Fund at 31<sup>st</sup> March 2010 of £7.273 million.

The balance of earmarked reserves at 31 March 2010 is £13.042 million. Further details are contained in Note 30 to the Accounts.

#### **(b) Capital Expenditure**

In 2009-10 the Council spent £30.048 million on capital projects. This was £6.166 million less than the revised budget of £36.214 million, but a significant improvement from previous years, and resources are available to be carried forward to meet areas of slippage in the capital programme. Most capital investment is financed by borrowing which is agreed by Central Government over a period of years. At 31 March 2010, the total net borrowings were £116.4 million.

The main areas of expenditure related to road improvements, school building improvements and Transformation investment. Further details are given in Note 12 to the Accounts.

A summary of Capital expenditure by service area is as follows:-

Service Area	Revised Estimate	Actual Spend	Net Over/(under) spend
	£000's	£000's	£000's
Children's Services	8,342	7,497	(845)
Community Services	5,688	4,905	(783)
Economy & Environment	16,108	12,540	(3,568)
Resources	5,527	4,634	(893)
Chief Executive	222	145	(77)
	<b>35,887</b>	<b>29,721</b>	<b>(6,166)</b>
Isle of Wight Economic Partnership projects	327	327	0
<b>Total Expenditure</b>	<b>36,214</b>	<b>30,048</b>	<b>(6,166)</b>

**Financed by:-**

Capital Receipts	4,829
Capital Grants & Contributions	5,638
Revenue Expenditure funded by Capital under Statute	2,355
Increase in Capital Financing Requirement	17,226
<b>Total Financing</b>	<b>30,048</b>

Slippage has occurred in the delivery of certain capital projects. There are a large number of projects in each area and the principal reasons for slippage are as follows:-

- Children's Services:- Government-funded works have been delayed in agreement with individual schools, pending the detailed decisions around schools reorganisation. Significant re-profiling of schools reorganisation budgets took place to more accurately reflect the procurement process and timetables developed following the award of two High Schools as Academies. The budget for the One School Pathfinder project has also been re-profiling in conjunction with the appointment of the selected bidder.
- Economy and Environment:- Slippage relating to Highways improvements resulted from delays in access and alterations to planned works following detailed surveys which detected previously unknown issues. The scale of the public conveniences programme was reduced in light of the Council's financial position and this resulted in a saving to the capital programme. Slippage to leisure related schemes was across a variety of smaller schemes which were completed early in April 2010.
- Resources:- Improvements to council buildings and the ICT infrastructure were re-profiling in line with the development of the asset management strategy to rationalise the council's property portfolio.

**(c) Main Issues in preparing the Statement of Accounts**

- The accounting requirements for the Private Finance Initiative (PFI) and similar contracts are no longer based on the UK accounting standard FRS5 but on International Financial Reporting Standards (IFRS). The requirements are based on IFRIC 12 *Service Concession Arrangements* (which addresses concession operator accounting) interpreted for concession grantors and is consistent with the approach adopted by the Government's IFRS-based Financial Reporting Manual (the iFReM). As well as contracts entered into from 1 April 2009, the requirements apply in respect of PFI and similar contracts existing at 31 March 2009. A review of contractual arrangements which could potentially fall under the IFRIC 12 requirements was carried out during the year. In the event, the Council's PFI contract for the provision of Integrated Waste Management Facilities was the only arrangement identified which came within the category. This contract was previously accounted for as 'off Balance Sheet', but has now been recognised on the Council's Balance Sheet along with a liability for the financing provided by the PFI operator. Prior year adjustments have been made to the 2008-09 corresponding amounts.
- The 2009 SORP contains amended requirements for accounting for Council Tax. In its role as a billing authority, the Council acts as an agent, collecting Council Tax on behalf of a major preceptor (the Hampshire Police Authority) and itself. Council Tax transactions and balances are therefore required to be allocated between the billing authority and the major preceptor. The difference between the income included in the Income and Expenditure Account and the amount required by regulation to be credited to the General Fund is taken to a new Collection Fund Adjustment Account and included as a reconciling item in the Statement of Movement on the General Fund Balance. As this constitutes a change in Accounting Policy, prior year adjustments have been made to the 2008-09 corresponding amounts.
- The 2009 SORP confirms that the collection of National Non-Domestic Rates (NNDR) is carried out by local authorities as an agent activity on behalf of central government and should therefore be accounted for accordingly. Authorities continue to maintain balances for NNDR arrears, Bad Debt Provisions, prepayments and overpayments in its underlying accounting records. However, for the final accounts purposes, the balances are now consolidated into a single agency account, with the figures netting down to the debtor/creditor to the national pool. As this constitutes a change in Accounting Policy, prior year adjustments have been made to the 2008-09 corresponding amounts.
- The Accounts and Audit (Amendment No.2) (England) Regulations 2009 introduced a new legal requirement to increase transparency and accountability in Local Government for reporting remuneration of senior employees. These regulations amended the existing requirement to disclose the numbers of employees whose total remuneration was £50,000 or more in the financial year from bands of £10,000 to bands of £5,000. In addition, the regulations introduced a new requirement to disclose individually by way of job title the total payments made to senior employees whose salary exceeded £50,000 per year. Where the salary exceeded £150,000 per year, the disclosure must include the name of the senior officer. The required disclosures have been prepared with prior year comparatives.
- The 2009 SORP clarifies the position regarding interest accruals on loans and investments and requires that the long-term and current parts of individual instruments should be separated. The carrying amounts of loans and investments are required to be analysed over their short and long term elements for disclosure in the notes to the accounts on the basis of expected cash flows. The required disclosures have been prepared with prior year comparatives.
- Capital expenditure associated with Ryde Gateway amounting to £1.243 million and Undercliff Drive of £2.256 million did not result in completed fixed assets and have been classed as abortive capital expenditure. These costs are required to be charged to the Income and Expenditure Account as this expenditure does not meet the definition of capital expenditure. Capital Receipts of £2.887 million that originally funded this expenditure have been reinstated and applied to capital expenditure in 2009-10, as capital resources cannot be used to fund revenue expenditure. The relevant entries have been accounted for in 2009-10, rather than as prior year adjustments.
- The Balance Sheet includes a net pension liability which has been calculated in accordance with FRS17, as assessed by an actuary. Due to the valuation methodologies and the derivation of the main financial assumptions required, FRS17 is likely to produce volatile results from year to year. The results have been particularly volatile during the extreme fluctuations in the economic climate experienced during the last two years. The FRS17 figure is a snapshot at a given point in time and a truer reflection of a pension fund's actual position comes from the longer-term triennial actuarial valuation.

- The majority of the Council's external borrowing consists of fixed rate Public Works Loan Board (PWLB) debt. The PWLB allows debt to be rescheduled or repaid prior to maturity, although this may necessitate paying a premium. No new external borrowing arrangements or early repayment of debt were made during 2009-10. The remainder of the Council's external borrowing consists of Lender Option/Borrower Option (LOBO) loans and although the lenders have the option to increase the interest rate each year, the authority has the right to repay the loan without penalty if this were to be the case.
- For the first time in 2009-10, the responsible financial officer in English local authorities is required by regulation 10(2) to the Accounts and Audit Regulations to certify that the accounts present a 'true and fair view'. This is a change from the previous certification of 'presents fairly'.
- From 2010-11, local authority accounts will be prepared under a revised Code of Practice on Local Authority Accounting that will be based on International Reporting Standards (IFRS). The date that figures first have to be prepared under IFRS is 1 April 2009. This means that in the 2010-11 Statement of Accounts authorities will be required to prepare a Balance Sheet as at 1 April 2009 which will effectively restate the 31 March 2009 Balance Sheet.

### **Isle of Wight Council as the Accountable Body**

The authority is the accountable body for the Rural Access to Services Programme and Leader 2009-13 programmes, operated by the Isle of Wight Economic Partnership and consequently all relevant income and expenditure has been included within the Income and Expenditure Account and the assets and liabilities within the Balance Sheet.

The Isle of Wight Council is the host authority for three of the four Pooled Budgets arrangements between the Council and the Isle of Wight NHS Primary Care Trust. The elements of income and expenditure and assets and liabilities relating to the Trust have been excluded from the Council's financial statements.



## STATEMENT OF ACCOUNTING POLICIES

### 1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2009-10 financial year and its position at the year-end of 31 March 2010. It has been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice 2009* (the SORP). The accounting convention adopted is historical cost, modified by the revaluation of certain categories of tangible fixed assets.

### 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:

- Fees, charges and rents due from customers are accounted for as income at the date the council provides the relevant goods or services.
- 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 stocks on the Balance Sheet.
- Works are charged as expenditure when they are completed, before which they are carried as works in progress on the Balance Sheet.
- Interest payable on borrowings and receivable on investments is accounted for 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 income and expenditure has 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 it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

### 3. Provisions

Provisions are made where an event has taken place that gives the Council an obligation that probably requires settlement by a transfer of economic benefits, but where the timing of the transfer is uncertain. 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 revenue account in the year that the authority becomes aware of the obligation, based on the best estimate of the likely settlement. When payments are eventually made, they are charged to the provision set up in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes more likely than not that a transfer of economic benefits will not be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service revenue account.

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

### 4. Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts in the Statement of Movement on the General Fund Balance. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in that year to score against the Net Cost of Services in the Income and Expenditure Account. The reserve is then appropriated back into the General Fund Balance statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for tangible fixed assets and retirement benefits and that do not represent usable resources for the council – these reserves are explained in the relevant policies below.

## 5. Government Grants and Contributions (Revenue)

Whether paid on account, by instalments or in arrears, Government grants and third party contributions and donations are recognised as income at the date that the authority satisfies the conditions of entitlement to the grant/contribution, there is reasonable assurance that the monies will be received and the expenditure for which the grant is given has been incurred. Revenue grants are matched in service revenue accounts with the service expenditure to which they relate. Grants to cover general expenditure (eg Revenue Support Grant, Area Based Grant, Housing and Planning Delivery Grant and PFI Grant) are credited to the Income and Expenditure Account after Net Operating Expenditure.

## 6. Retirement 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 Children, Schools and Families (DCSF).
- The Fire-fighters' pension scheme, which is an unfunded scheme administered by the Council, there are no investment assets held against the liabilities.

Both the Local Government and Teachers' schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees work for the Council.

However, the arrangements for the teachers' scheme mean that liabilities for these benefits cannot be identified to the Council. The scheme is therefore accounted for as if it were a defined contributions scheme – no liability for future payments of benefits is recognised in the Balance Sheet and the Children's & Education service revenue account is charged with the employer's contributions payable to teachers' pensions in the year.

### 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 scheme attributed 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 5.5% based on the indicative rate of return on a high quality corporate bond equal to the gross redemption yield on the iboxx Sterling Corporates Index, AA over 15 years, as at the FRS17 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 Income and Expenditure Account to the revenue accounts of services for whom 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 Net Cost of Services in the Income and Expenditure Account 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 Net Operating Expenditure in the Income and Expenditure Account

## **Retirement Benefits (continued)**

- 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 Net Operating Expenditure in the Income and Expenditure Account
- 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 to the Net Cost of Services in the Income and Expenditure Account 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 – debited to the Statement of Total Recognised Gains and Losses
- contributions paid to the Isle of Wight Council pension fund – cash paid as employer’s contributions to the pension fund.

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 in the year, not the amount calculated according to the relevant accounting standards. In the Statement of Movement on the General Fund this means that there is an appropriation 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 any amounts payable to the fund but unpaid at the year-end.

## **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.

## **7. VAT**

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue and Customs and all VAT paid is recoverable from it.

## **8. 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 *Best Value Accounting Code of Practice 2008(BVACOP)*. 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 non-operational properties.

These two cost categories are defined in BVACOP and accounted for as separate headings in the Income and Expenditure Account, as part of Net Cost of Services.

## **9. Intangible Fixed Assets**

Expenditure on assets that do not have physical substance but are identifiable and controlled by the Council (eg software licences), is capitalised when it will bring benefits to the Council for more than one financial year. The balance is amortised to the relevant service revenue account over the economic life of the investment to reflect the pattern of consumption of benefits.

## 10. Tangible Fixed Assets

Tangible fixed assets are assets that have physical substance and are held for use in the provision of services or for administrative purposes on a continuing basis.

**Recognition:** expenditure on the acquisition, creation or enhancement of tangible fixed assets is capitalised on an accruals basis, provided that it yields benefits to the Council and the services that it provides for more than one financial year. Expenditure that secures but does not extend the previously assessed standards of performance of assets (eg repairs and maintenance) is charged to revenue as it is incurred.

**Measurement:** Assets are initially measured at cost, comprising all expenditure that is directly attributable to bringing the asset into working condition for its intended use. Assets are then carried in the Balance Sheet using the following measurement bases:

- Investment properties and assets surplus to requirements – lower of net current replacement cost or net realisable value.
- dwellings, other land and buildings, vehicles, plant and equipment – lower of net current replacement cost or net realisable value in existing use
- infrastructure assets and community assets - depreciated historical cost.

Net current replacement cost is assessed as:

- non-specialised operational properties – existing use value
- specialised operational properties – depreciated replacement cost
- investment properties and surplus assets – market value.

Assets included in the Balance Sheet at current value are revalued where there have been material changes in the value, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Income and Expenditure Account where they arise from the reversal of an impairment loss previously charged to a service revenue account.

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.

**Impairment:** the values of each category of assets and of material individual assets that are not being depreciated are reviewed at the end of each financial year for evidence of reductions in value. Where impairment is identified as part of this review or as a result of a valuation exercise, this is accounted for by:

- where attributable to the clear consumption of economic benefits – the loss is charged to the relevant service revenue account
- otherwise –written off against any revaluation gains attributable to the relevant asset in the Revaluation Reserve, with any excess charged to the relevant service revenue account.

Where an impairment loss is charged to the Income and Expenditure Account but there were accumulated revaluation gains in the Revaluation Reserve for that asset, an amount up to the value of the loss is transferred from the Revaluation Reserve to the Capital Adjustment Account.

**Disposals:** when an asset is disposed of or decommissioned, the value of the asset in the Balance Sheet is written off to the Income and Expenditure Account as part of the gain or loss on disposal. Receipts from disposals are credited to the Income and Expenditure Account 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 in the Revaluation Reserve are transferred to the Capital Adjustment Account. Amounts 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 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 Statement of Movement on the General Fund Balance.

### **Tangible Fixed Assets (continued)**

The written-off value of disposals is not a charge against 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 Statement of Movement on the General Fund Balance.

**Depreciation:** depreciation is provided for on all assets with a determinable finite life (except for investment properties), by allocating the value of the asset in the Balance Sheet over the periods expected to benefit from their use.

Depreciation is calculated on the following bases:

- dwellings and other buildings – straight-line allocation over the life of the property as estimated by the valuer
- vehicles, plant and equipment – straight-line allocation over the life of each class of assets in the Balance Sheet, as advised by a suitably qualified officer
- infrastructure –straight-line allocation over estimated life of asset.

Where an asset has major components with different estimated useful lives, the recommended practice is for these to be depreciated separately. This practice has not been adopted at present, and instead standard lives are used to depreciate assets. This policy is currently being reviewed and in future different estimated lives will be used for components of significant assets.

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.

**Grants and contributions:** where grants and contributions are received that are identifiable to fixed assets with a finite useful life, the amounts are credited to a Government Grants Deferred Account. The balance is then written down to revenue to offset depreciation charges made for the related assets in the relevant service revenue account, in line with the depreciation policy applied to them.

### **Foundation Schools**

The government's strategy for children and learners envisages a reformed school system characterised by legal and financial freedom, improved accountability and effective collaboration. The strategy sets out a range of measures aimed at giving all community and voluntary controlled secondary schools a route to greater independence by acquiring foundation status. All community schools have the option to investigate foundation status. This leads to a change to the governance of the school such that the governing body becomes the direct employer of school staff; becomes the admissions authority for the school; takes on the ownership of the school's land and assets. However, foundation schools remain local authority maintained schools in terms of receiving funding.

Two of the Island's High Schools (Medina High School and Sandown High School) have opted for foundation status. As a result of this change, the Council has adopted an accounting policy of dealing with the properties used to provide services in accordance with FRS 5 i.e. that the property continues to be recognised as an asset on the Council's Balance Sheet since the Council still has access to the risks and benefits of the assets.

### **Donated Assets**

Authorities with donated assets are required to recognise these as fixed assets on the Balance Sheet, with the corresponding entry being in the Government Grants Deferred Account as if the Council had received a cash grant to fund the purchase of the asset. The Council has three New Dimension vehicles which have been donated to the Fire and Rescue Service in recent years and has amended its accounting policy to treat these assets in accordance with the requirements of the SORP.

## **11. Charges to Revenue for Fixed Assets**

Service revenue accounts and support services are debited with the following amounts to record the real cost of holding fixed assets during the year:

- depreciation attributable to the assets used by the relevant service
- impairment losses attributable to the clear consumption of economic benefits on tangible fixed assets used by the service and other losses where there are no accumulated gains in the Revaluation Reserve against which they can be written off
- amortisation of intangible fixed assets attributable to the service.

The Council is not required to raise council tax to cover depreciation, impairment losses or amortisations. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the authority in accordance with statutory guidance. With regard to capital expenditure incurred prior to 31 March 2008, the Council has made MRP in accordance with Regulatory Method 1 (4% on opening balance of the Capital Financing Requirement). For capital expenditure incurred since 1 April 2008, the Council has made MRP in accordance with the Regulatory Method 3 (asset life equal instalment) in respect of the Capital Financing Requirement calculated to be outstanding at 31 March 2010. This has the impact of equalising the repayments with the remaining asset life with no adverse impact on the General Fund. Depreciation, impairment losses and amortisations are therefore replaced by revenue provision in the Statement of Movement on the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account for the difference between the two.

## **12. Revenue Expenditure Funded from Capital under Statute**

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of a fixed asset has been charged as expenditure to the relevant service revenue account in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer to the Capital Adjustment Account then reverses out the amounts charged to the Statement of Movement in the General Fund Balance so there is no impact on the level of council tax.

## **13. Leases**

### **Finance Leases**

The Council accounts for leases as finance leases when substantially all the risks and rewards relating to the leased assets transfer to the council. Rentals payable are apportioned between:

- a charge for the acquisition of the interest in the assets (recognised as a liability in the Balance Sheet at the start of the lease, matched with a tangible fixed asset – the liability is written down as the rent becomes payable) and
- a finance charge (debited to Net Operating Expenditure in the Income and Expenditure Account as the rent becomes payable).

Fixed assets recognised under finance leases are accounted for by using the policies applied generally to Tangible Fixed Assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life.

### **Operating Leases**

Leases that do not meet the definition of finance leases are accounted for as operating leases. Rentals payable are charged to the relevant service revenue account on a straight-line basis over the term of the lease, generally meaning that rentals are charged when they become payable.

## **14. Financial Liabilities**

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Income and Expenditure Account for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable and interest charged to the Income and Expenditure Account is the amount payable for the year in the loan agreement

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to Net Operating Expenditure in the Income and Expenditure Account in the year of repurchase/settlement.

Where premiums and discounts are charged to the Income and Expenditure Account, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain/loss over a period not exceeding 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 Income and Expenditure Account 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 Statement of Movement on the General Fund Balance.

## **15. 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

### **Loans and Receivables**

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Income and Expenditure Account 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 and interest credited to the Income and Expenditure Account is the amount receivable for the year in the loan agreement.

However, the Council has made a number of loans to voluntary organisations at less than market rates (soft loans). When soft loans are made, where material a loss is recorded in the Income and Expenditure Account for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Income and Expenditure Account to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Statement of Movement on the General Fund Balance. 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, the asset is written down and a charge made to the Income and Expenditure Account.

Any gains and losses that arise on the derecognition of the asset are credited/debited to the Income and Expenditure Account.

A review of soft loans has been undertaken and these are not considered to be material for the purposes of the 2009-10 Statement of Accounts.

## **Financial Assets (continued)**

### **Available-for-sale Assets**

Available-for-sale assets are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Income and Expenditure Account 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 Income and Expenditure Account 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 Statement of Total Recognised Gains and Losses (STRGL). The exception is where impairment losses have been incurred – these are debited to the Income and Expenditure Account, along with any net gain/loss for the asset accumulated in the 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, the asset is written down and a charge made to the Income and Expenditure Account.

Any gains and losses that arise on the derecognition of the asset are credited/debited to the Income and Expenditure Account, along with any accumulated gains/losses previously recognised in the STRGL.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

## **16. 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 accounting for Council Tax in the core 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.
- Up until 2008-09, the SORP required the Council Tax income that was included in the Income and Expenditure Account to be that which under regulation was required to be transferred from the Collection Fund to the General Fund of the billing authority.
- From the year commencing 1 April 2009, the Council Tax income included in the Income and Expenditure Account for the year is the accrued income for the year. The difference between the income included in the Income and Expenditure Account and the amount required by regulation to be credited to the Collection Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Statement of Movement on the General Fund Balance.
- 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.



## **17. Stocks and Work in Progress**

Stocks are included in the Balance Sheet at the lower of cost and net realisable value. Work in progress is subject to an interim valuation at the year-end and recorded in the Balance Sheet at cost plus any profit reasonably attributable to the works.

## **18. Pooled Budgets**

Section 75 of the National Health Service Act 2006 (previously Section 31 of the Health Act 1999 and the NHS Bodies and Local Authorities Partnership Arrangements Regulations 2000) enable 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 Primary Care Trust. All relevant income and expenditure is included in the relevant division of service in the Income and Expenditure Account and year-end balances are shared pro-rata on the basis of contributions made.

## **19. 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.

## **20. Private Finance Initiative**

PFI contracts are agreements to receive services, where the responsibility for making available the fixed assets 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 fixed assets will pass to the Council at the end of the contract for no additional charge, the Council carries the fixed assets used under the contracts on the Balance Sheet.

The original recognition of these fixed assets was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the assets.

Fixed 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 are analysed into four elements:-

- fair value of the services received during the year – debited to the relevant service in the Income and Expenditure Account
- finance cost – an interest charge of 6.1% on the outstanding Balance Sheet liability, debited to Interest Payable in the Income and Expenditure Account
- payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator
- lifecycle replacement costs – recognised as fixed assets on the Balance Sheet.

The Statement of Movement in the General Fund Balance is charged with a Revenue Provision (MRP) for Capital Financing equivalent to the payment towards the liability made in the year.

## **21. Estimation Techniques**

Estimation techniques have been chosen in order to most closely reflect the economic reality of the transactions or other events to which the relevant accounting policy refers. Where precise amounts are not known at year-end, figures are included in the accounts on an estimated basis using the best information available at the time. In particular, Housing Benefit Subsidy is included in the accounts on the basis of an estimate, as the claim form is not finalised and audited until a later date.

The Accounts and Audit Regulations (Amendment) (England) Regulations 2006 require local authorities to have the accounts approved by members on or before 30 June each year. Estimates have been used where appropriate if the approval process would be delayed by waiting for actual figures to become available.

There are no estimates in the 2009-10 accounts which would materially affect the true and fair presentation of the accounts had a different estimation technique been applied.

## 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 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 SORP).

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 SORP.

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 2010 required by the Accounts and Audit (Amendment) (England) Regulations 2006 is set out on pages 29 to 101.

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 2010.

Signed:

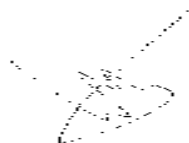


**Strategic Director of Resources**

Date: 18/6/2010

I certify that the Statement of Accounts for 2009-10 was approved at the Audit Committee meeting held on 29 June 2010.

Signed:



**Chair of Audit Committee**

Date: 30/6/2010

# Annual Governance Statement

## Scope of Responsibility

The Isle of Wight Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions and which includes arrangements for the management of risk.

This Statement outlines how the Council has complied with the principles of the CIPFA/SOLACE Framework for Delivering Good Governance in Local Government for the financial year ended 31<sup>st</sup> March 2010.

## The Purpose of the Governance Framework

The governance framework comprises the systems and processes, culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised and to manage them efficiently, effectively and economically.

The governance framework has been in place for the year ended 31<sup>st</sup> March 2010 and up to the date of approval of the published financial statements.

## The Governance Framework

The governance framework is extensive and complex but the key elements of the systems and processes that comprise the authority's governance arrangements are detailed below.

The Council's strategic direction is encapsulated in the Eco Island vision. This aims to enable the Isle of Wight to become a world renowned Eco Island, with a thriving economy, a real sense of pride and where residents and visitors enjoy healthy lifestyles, feel safe and are treated with respect. The vision is underpinned by the corporate themes comprising the One Island programme:

- A thriving island
- A safe and well kept island
- A healthy and supportive island
- An inspiring island
- Modernising the Council.

The vision is refreshed by annual opinion surveys of local citizens to determine if priorities need to be revised. An opinion survey was conducted during 2009/10 financial year and the outcomes were factored in to the One Island programme. The outcomes of the annual opinion surveys are evaluated to determine if there are any implications for the authority's governance arrangements with appropriate amendments being made as necessary.

The Council has a range of performance indicators and targets used to measure progress against key priorities. The indicators include a mixture of nationally and locally set performance measures which measure performance in achieving the Council's statutory requirements. Directors and Cabinet Members have agreed objectives/targets for which they are jointly responsible and held to account for effective delivery by the Chief Executive and the Leader. These objectives/targets derive from the Corporate Plan and percolate down through service plans and team plans into personal objectives.

The Council has a clear commitment to embedding performance management consistently through all services, collecting data to inform the process and identify any areas where further action may be needed to secure improvement. As stated previously, performance is reported on a regular basis to the Cabinet, utilising the CorVu system to identify specific issues which may have an impact on the Council's ability to deliver its principal objectives, and identifying action plans for improving performance. Reports on performance against objectives are considered on a monthly basis by directorate management teams through the mini service board process and quarterly by directorate management teams, Directors Team, Cabinet and Scrutiny Committee.

The Council has adopted a constitution which sets out the framework within which the Council operates, how decisions are made and the procedures to ensure that they are efficient, transparent and accountable. The constitution is always under review and a number of minor amendments have been made during the 2009/10 financial year.

The Cabinet is responsible for the majority of the functions of the authority, within the budget and policy framework set by Full Council. Executive decisions can be taken by the Cabinet, by cabinet members or by officers acting under delegated powers, depending upon the significance of the decision being made. A Forward Plan is published two weeks before the first day of each calendar month providing details of key member decisions to be taken in the next four months. This enables consideration by other elected members, the public and Directors, in time for advice and recommendations to be made should it prove necessary. The Overview and Scrutiny Committee has the ability to call-in decisions and seek detailed information in relation to the decision taken, during which period the decision cannot be implemented. A separately constituted Audit Committee oversees the Council's external audit, internal audit and risk management arrangements.

A Monitoring Officer has been appointed by the Council. The Monitoring Officer has a duty to report on any actual or likely decision which would result in an unlawful act or maladministration. All decisions to be taken by members are supported by a legal assessment provided by appropriately qualified officers.

The Council is required to make arrangements for the proper administration of its financial affairs and to secure that one of its senior officers has ultimate responsibility for the administration of those affairs. The Strategic Director of Resources is designated as that officer in accordance with S151 of the Local Government Act 1972. All member level executive decisions are supported by a financial assessment provided by a named financial officer.

The Council has established policies and procedures to govern its operations. Key within these are the Financial Procedure Rules, Procurement Code and Contract Standing Orders, Risk Management Policy, Codes of Conduct for Members and Officers, Anti-Fraud and Corruption Policy, a Whistleblowing Policy and Human Resources Policies. Ensuring compliance with these policies is the responsibility of all managers throughout the Council. In addition, Internal Audit carries out regular checks throughout the year to ensure policies are complied with and should instances of non-compliance be identified, relevant management action is recommended to secure future compliance.

The Members Code of Conduct is prescribed by legislation and is communicated to members through regular training. Adherence to the code is reinforced by the Ethical Standards Committee which has overview of the conduct of elected members.

The Staff Code of Conduct is communicated to staff as part of the induction process for new staff members.

Contract Standing Orders set out the rules governing the procurement process to ensure that value for money is achieved whilst meeting all legal and statutory requirements and minimising the risk of corruption. The Procurement Code provides detailed procedural guidance on how to procure within the rules and the Procurement Board, composed of senior officers, monitors compliance with the procurement rules. Financial Procedure Rules set out the standards which officers must meet when conducting financial transactions.

The scheme of delegation sets out the levels of authority for decision making ranging from decisions that can be made by the full council at the top, to the decision making powers of individual officers further down the hierarchy.

A risk management framework has been in place across the Council for some years with the objective of embedding effective risk management practices at both strategic and operational levels. During 2009/10, the Risk Management Strategy and Policy Guidelines were revised and updated.

These key controls are subject to periodic review and update to ensure that they are relevant to the needs of the organisation.

The role of the Audit Committee is to oversee the financial reporting process and provide independent assurance of the adequacy of the risk management framework and the associated control environment. It is an independent committee comprising seven members (including up to two co-opted members) selected for their interest in and knowledge of

Audit Committee business.

The Council operates a formal complaints management process which seeks to ensure that, when a service user is dissatisfied with the Council's services, that is fed back providing a valuable source of information to identify opportunities to improve services to the public.

The council also maintains a confidential reporting policy (referred to as the Whistle-Blowing at Work Policy). This aims to ensure that serious concerns about malpractice or wrongdoing are properly raised and addressed. This policy addresses the provisions that are required from the Public Interest Disclosure Act 1998.

In 2006/07, the Council adopted an Elected Member Development Policy. This aims to ensure members are properly equipped to effectively fulfil their responsibilities in the governance of the Council's operations.

The Council has established a corporate Development Review Process. This provides an annual appraisal which identifies training and development needs and an appropriate programme of training is developed and delivered.

Effective and efficient communications and consultation is regarded as a high priority for the council and it has invested in building strong and proactive teams in order to deliver that. The council consults residents each year as part of the budget setting process and feedback has enabled the authority to set annual spending programmes that address the concerns and aspirations of the local population. The council also consults residents annually in May through the residents' survey and feedback from the budget consultation and residents' survey feeds into the One Island programme and helps to improve services and influence decision-making.

The drive for joined-up government continued in 2009/10 with the aim of producing better services for the public through the exploitation of the obvious synergies available through cooperative working between different public service providers. These relationships are evidenced by partnership agreements. During the year, the council's partnership arrangements were mapped and key attributes for each partnership recorded on a central database. Significant partnership arrangements were identified by the Director's Team and risk registers were developed for these arrangements.

## **Review of Effectiveness of the Governance Framework**

The Isle of Wight Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive managers within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report and also by comments made by the external auditors and other review agencies and inspectorates.

The process that has been applied by the Council in maintaining and reviewing the effectiveness of the system of internal control during 2009/10, and in the period to publication of this statement, includes:

- The Monitoring Officer and her staff have a duty to keep under review the operation of the Constitution to ensure it is lawful, up to date and fit for purpose.
- The Cabinet, both collectively and individually through the scheme of delegation, is responsible for considering overall financial and performance management and receives comprehensive reports on a quarterly basis. Monthly reports on aspects of performance and financial management, in particular significant exceptions and progress with achieving targets, are taken to Service Boards together with action plans for dealing with corporate risks.
- There is a well resourced scrutiny function which includes an Overview and Scrutiny Committee and the following four Scrutiny Panels:
  - Children and Young People Scrutiny Panel
  - Adult Social Care, Health and Housing Scrutiny Panel
  - Economy, Environment and Transport Scrutiny Panel
  - Fire and Community Safety Scrutiny Panel.
- The Overview and Scrutiny Committee is chaired by a member of an opposition group.. This Committee and the four Scrutiny Panels is wholly independent of the Executive functions of the Council. However, in consultation with relevant Cabinet Members each has developed its own work plan, and is responsible for delivering independent scrutiny of service and financial performance, decision making processes, efficiency and effectiveness in achieving the Council's objectives.

- The Council has an established Audit Committee, also independent of the Executive functions of the Council, and responsible for overseeing internal and external audit, risk management processes, reviewing the adequacy of internal controls and the outcome of external inspections as well as reviewing performance at a corporate level.
- Internal Audit provides an independent assessment of, and assurance over, the effectiveness of the Council's internal control processes including its risk management and governance arrangements. Internal Audit's work is undertaken in accordance with the annual audit plan which is prepared by the Chief Internal Auditor using a risk assessment in order to prioritise audit coverage. The audit plan is approved by Audit Committee. Reports are issued to service managers at the conclusion of each audit; where appropriate, these reports include recommendations for improvement and a timetable for implementation. Such recommendations are subsequently reviewed to ensure effective action has been taken. The results of audit work are regularly reported to Audit Committee. The audit plan is subject to regular review and discussion with the Council's external auditors, who place reliance on internal audit work when forming their own judgements about the effectiveness of internal control arrangements across the Council's services.
- The external auditor's Annual Audit and Inspection Letter is considered by the Cabinet and by the Audit Committee. Monitoring of progress towards implementing recommendations contained in the letter takes place as required.
- The Council has a Risk Management Group which includes a 'risk champion' to represent each service area.

### **The System of Internal Audit**

The Accounts and Audit Regulations (Amendment) (England) 2006 introduced a requirement, from 2006/7 onwards, for each authority to undertake an independent review of the effectiveness of its system of internal audit and to incorporate the outcome of that review within the Annual Governance Statement. A review against the CIPFA Code of Practice for Internal Audit (2006) was undertaken in December 2009 by the Audit Commission. An action plan was put in place to address the improvement opportunities identified by that review.

Subject to the issues identified by the Audit Commission, an effective internal audit service has been provided across the Council throughout 2009/10.

#### The Assurance Process

To support the preparation of this statement, the Director of Resources has co-ordinated an assurance process. Directors and Heads of Service were required to provide assurances that key elements of the internal control framework were in place during 2009/10 in their service area and, where appropriate, to identify areas of control weakness and action to be taken to resolve the weakness including a timescale for implementation of these actions.

Once all assurance statements had been received, the Chief Internal Auditor carried out an independent review of the statements, the risk register and other supporting evidence in order to draw some conclusions about the effectiveness of internal control across the Council.

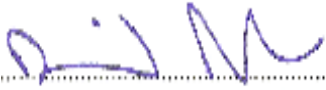
The draft AGS, background information and other supporting documents were considered at a meeting of the Risk Management Group. Suggested amendments to the draft document were recorded and those accepted have been included in the final draft.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

Signed:  .....

Date: 30 June 2010

Chief Executive

Signed:  .....

Date: 30 June 2010

Leader of the Council

### Annual Governance Statement - Significant Issues

A number of significant issues have been identified for inclusion in the 2009/10 Statement. These are outlined in the table below and have been identified through the assurance statements provided by Heads of Service, review of the Council's risk registers and the results of external inspection processes. For each weakness, the table incorporates planned action to be taken to resolve the identified weakness. These issues relate to either:-

- The implementation of Council strategies and policies,
- The delivery of Council services, or
- Governance framework

#### 1. Implementation of Council Strategies and Policies

No.	Issue	Progress To Mitigate Issue to Date
<b>1.1</b> <b>Procurement</b>	<p>During 2009/10, a revised management structure has been put in place with specialist procurement resource within the Highways PFI and School reorganisation projects. However, there remains a need to revise central processes and resource to support the implementation of a shared service structure and achievement of the procurement activity which will be driven by the Transformation Programme and associated cost rationalisation.</p> <p>(Lead: Strategic Director of Resources)</p>	<p>Intelligent Procurement project underway within the transformation programme which is reviewing and revising procurement processes and re-sourcing in addition to overseeing the delivery of the targeted procurement savings.</p>
<b>1.2</b> <b>Project Management</b>	<p>A project management structure has been put in place to support the five key strategic projects supported by a comprehensive training programme. The key areas for further improvement remain the approach to resource planning across all projects and ensuring consistent data quality of project and programme performance management information.</p> <p>(Lead: Strategic Director of Resources)</p>	<p>The lack of capacity and capability of project management resource across the Council puts the delivery of the Council's strategic and capital projects at risk.</p> <p>This has been identified on the AGS for the past 2 years. Whilst massive improvements have been made over this time, and the level of risk has decreased, it still exists.</p> <p><b>Major Projects:</b> The robustness of governance, planning and control around all of the major projects has improved with appropriate controls in place. Areas of weakness are raised through the governance structure.</p> <p><b>Capital Programme:</b> The governance across the capital programme has improved as a result of the quarterly Capital Challenge process and the implementation of good project management practice in some areas of the council, although delivery did not achieve the targets set at the start of the year. This appears to be driven by an over-estimation in our available resource capacity. The capital challenge for 10/11 will not release budgets until satisfactory plans are in place.</p>

		<p><b>Performance Management:</b> Implementation of the CorProject system has been delayed due to supplier issues. This will be launched in May 2010 and will be mandatory for all Capital projects.</p> <p><b>Staff Development:</b> The programme of activity focussed on improving staff capability in the project management discipline is also proving successful. This activity started in May09 with the development of a programme and project management people development framework which provides a route map and structure to develop project and programme management core skills. This framework is aligned to the Association for Project Management, to which the Council has just become a Corporate Member</p> <p>Specific activities that have been implemented over the last quarter include:</p> <ul style="list-style-type: none"> <li>Continued Internal project management (essentials) training programme led by Head of Strategic Projects (Started Nov 09 – 2 cohorts completed, 2 under way and another 2 planned)</li> <li>Association of Project Management Professional (APMP) project management qualification pilot (Jan10) – 9/12 officers passed.</li> <li>Competence self-assessment tool developed and rolled out to project managers across the council’s capital programme (Jan 10)</li> </ul> <p>Project governance self-assessment tool developed and rolled out across the council’s capital programme (Jan10)</p>
<p><b>1.3</b></p>	<p><b>Value For Money</b> The Star Chamber process has been strengthened to support control of the 2010/11 budgets. The council continues to receive a judgement by the Audit Commission (as part of its Use of Resources assessment) that it is performing only adequately in terms of Value for Money and an increased focus on achieving best value is essential to underpin successful achievement of the Transformation Programme.  (Lead: Strategic Director of Resources)</p>	<p>VFM Strategy and action plan continue to be implemented BSIP SAP – finance and procurement modules in operation and HR on track for implementation from 1.4.2010. Transformation Programme established to deliver £12m savings. Capital challenge process in place with quarterly challenge sessions. Savings plans monitored monthly against target of £9m savings in 2009/10. Star Chamber process completed to support preparation of the 2010/2011 budget. Process included review of benchmarking, VFM etc. Following implementation of the procurement module within SAP in April, plans are in place to commence the analysis of the Council’s procurement spend in the second half-year. This will aim to identify and prioritise areas of spend where potential procurement savings can be made.</p>
<p><b>1.4</b></p>	<p><b>Civil Contingency/Emergency Planning and Business Continuity Planning</b></p>	<p>The Isle of Wight Council emergency duty rota system has been amended in order to include</p>



<p><u>Civil Contingency/Emergency Planning</u>  Fire Service modernisation is a corporate strategic priority. The council's emergency response arrangements have been substantially revised in 2009/10 and a number of actions remain outstanding:-</p> <ul style="list-style-type: none"> <li>• Publication of Flood Plan – March 2010</li> <li>• Incorporation of IRF Media and Communications Emergency Response Plan into relevant Local resilience Forum Plan – March 2010</li> <li>• Rest Centre Plan amendment – May 2010</li> <li>• Production of IRF Multi-Agency Emergency Response Framework – May 2010</li> <li>• Production of IRF Mass Evacuation Plan – June 2010</li> <li>• Development of training and exercising programme to support emergency plans – June 2010</li> <li>• Emergency Response Plan command and control exercise – February 2011</li> </ul> <p>(Lead: Strategic Director of Economy and Environment)</p> <p><u>Business Continuity Planning</u></p> <p>Whilst good progress has been made in developing business continuity plans at the team level, the methodology used required review and amendment in order to align to British Standard 25999. A corporate-level business continuity plan is being developed to ensure an effective response to any large scale disruption and will be finalised in 2010/11 supported by a programme of training and testing.</p> <p>(Lead: Strategic Director of Economy and Environment)</p>	<p>Heads of Service in response arrangements. This was enabled by an amendment to Heads of Service' job descriptions and supported by training sessions run by the Cabinet Office Emergency Planning College in March 2009.</p> <p>Actions planned:</p> <p>Review and amendment of Isle of Wight Council Emergency Response Plan.</p> <p>Review and amendment of Rest Centre Plan.</p> <p>Development of service area response arrangements.</p> <p>Development of training and exercising programme to support Isle of Wight Council response plans.</p> <p>The Isle of Wight Council Business Continuity Management Strategy has been reviewed and amended in order to align with BS25999.</p> <p>Actions planned:</p> <p>Nomination and training of Resilience Leads throughout the organisation.</p> <p>Revision/production of team business continuity plans.</p> <p>Compilation of Disaster Recovery requirements from teams based on location of premises.</p> <p>Completion of the Disaster Recovery plan.</p> <p>Completion of corporate-level Business Continuity plan.</p> <p>Completion of Isle of Wight Council Pandemic Flu plan.</p> <p>Establishment of training and exercising programme to support these plans.</p>
---	---

## 2. Delivery of Council Services

No.	Issue	Progress To Mitigate Issue to Date
<p><b>2.1</b></p> <p><b>ICT</b></p> <p>Much work has been undertaken to address identified weaknesses in the council's ICT arrangements including moving towards full compliance with Government Connect Code of Connection and substantially reduced reliance on legacy systems. Implementation of revised ICT policies, completed rollout of encryption software and completion of the Information Assurance project will further mitigate the level of risk.</p> <p>(Lead: Strategic Director of Resources)</p>	<p>The risk has been significantly reduced with the following areas completed:</p> <ul style="list-style-type: none"> <li>• SAP solution implemented - Finance, (inc. Procurement, Accounts Payable/Receivable) is live. HR Payroll live on 1 April 2010. This removes all old legacy systems.</li> <li>• Information Assurance – compliant for v3.1 of code of connection and currently being assessed for v3.2. This will be an annual occurrence. However, users now have access to the Government Secure Extranet (GCSx).</li> <li>• Carried out Information Assurance training to all staff – further individual training being carried out through team briefings.</li> <li>• ICT resilience has been vastly improved. Telephony being the only area outstanding – business case produced to replace this as part of the Transformation Programme.</li> </ul> <p>The areas outstanding are:</p> <ul style="list-style-type: none"> <li>• Replace current telephone system – with fully resilient one – anticipate the core system being in place by August 2010.</li> <li>• Implementation of encryption solution to minimise loss of data – final tests being carried out. Anticipated completion September 2010.</li> </ul>	<p>Indicative reports for 2009 show modest improvement in results at Key Stage 2 and GCSE. Boys' writing at KS2 remain a concern and there are some continuing issues about performance in maths at GCSE. School inspections show that the majority of schools are 'good' with some examples of 'outstanding'; there are no schools in 'Ofsted' categories. Approval has been given for 10 of the 14 new diploma lines to be delivered through schools and the college on the Island from September 2010.</p> <p><b>Children</b></p> <p>Nationally the number of children coming into public care has been rising following the 'baby Peter' case. The number of children looked after on the Island has not increased during this period but it remains obstinately static and additional measures are being put in place to address this. The number of initial referrals and re-referrals is high. A revised structure along with some externally funded support to review practice is beginning to assist social workers in consistently applying thresholds and assessing need and risk. Protocols are now in place to ensure that new referrals of disabled children are assessed promptly in line with best practice and legislative standards. An audit process has been</p>
<p><b>2.2</b></p> <p><b>Educational Performance</b></p> <p>The Council's objective to improve the educational outcomes for the Island's children continues to present a significant challenge. This risk has increased due to the inevitable disruption caused by the schools reorganisation programme.</p> <p>(Lead: Strategic Director of Children and Young People)</p>	<p><b>Vulnerable Clients</b></p> <p>There is a need for ongoing management to ensure children and vulnerable adults are safeguarded effectively. This risk has increased due to the difficulty in recruiting and retaining qualified social workers, particularly in the field of children and families.</p> <p>(Lead: Strategic Director of Children and Young People &amp; Strategic Director of Community Services)</p>	
<p><b>2.3</b></p>		

		<p>put in place to monitor this and ensure that appropriate levels of intervention are provided in accordance with need. Beaulieu House has recently obtained its Ofsted registration as a 6 bed unit to provide respite and obtained a good rating in its recent Ofsted inspection. The Council has recently adopted a revised Safeguarding Strategy.</p> <p><b>Older Adults</b></p> <p>The Safeguarding Service started on 1 April 2009 and has five dedicated practitioners who manage the safeguarding referrals across the island. From 1 April to 31 December 2009, they have processed over 2500 pieces of information pertaining to vulnerable adults of which just over 200 have been placed into the safeguarding arena. This evidences that referral rates are high and shows a culture where people are not afraid to report abuse. Of these referrals, 87 have been high level responses to abuse where a multi-agency response has been required. The service manager has chaired 109 meetings during this period. The service has been working very proactively with providers to reduce the risk of falls for vulnerable adults and has gathered some important information about the nature of fallers which will be passed on to the Isle of Wight NHS. The service will continue this year to concentrate on the prevention of abuse by increasing awareness amongst all sectors and supporting care staff, providers and other professionals in this important agenda.</p> <p>The multi-agency Safeguarding Board continues to meet on a monthly basis and has just approved the training strategy for 2010/2011.</p>
<p><b>2.4</b></p>	<p><b>Financial Control</b></p> <p>The council's new SAP Financial system was successfully implemented on 1 April 2009. A number of issues have been experienced particularly around ordering, bank reconciliation and procurement code processes which could have had an adverse impact on the council's accounts if not resolved.</p> <p>(Lead: Strategic Director of Resources)</p>	<p>Staff have been allocated to problem areas as they have arisen to ensure robust solutions are in place prior to closure of the 2009/10 accounts.</p>

### 3. Governance Framework

No.	Issue	Progress To Mitigate Issue to Date
3.1	<p><b>Consultation</b> There remain opportunities to improve our consultation arrangements with the public in terms of improved coordination of consultation by different areas of the council and coordinated feedback to assess the wider impact of council policy and decision making.  (Lead: Chief Executive)</p>	<p>Consultative guidance review – based on coalition programme announcements decision taken to expand this to a comprehensive consultation and engagement strategy with supporting guidance. Review of existing engagement to be undertaken and JCEF findings around best practice consultation and engagement to be fed into final document. Aim for relaunch September 2010.</p> <p>400 respondents to the residents’ survey interested in taking part in a cross-partner citizens’ panel. Work now being undertaken to profile group and ensure it represents all quotas of the community. Additional funding source secured through Hampshire Economic Partnership for further research to ensure robustness of panel and to inform implementation mechanics.</p> <p>Tender for annual residents’ survey and budget consultation workshops underway. Further discussions to be held with partners within the ISP to explore how we can take a Total Place approach to budget consultation, particularly in the light of the Government’s emergency budget and autumn spending review.</p>
3.2	<p><b>Governance of Partnerships</b> A sound framework for the governance of the Council’s partnerships is now in place. Furthermore, the Council’s partnerships have been assessed for risk and value for money is now a key component for a rolling 6-monthly review programme. However, there remains a need to embed the guidance on the establishment and maintenance of partnerships across all areas of the Council.  (Lead: Chief Executive)</p>	<p><b>In Progress</b> The Joint Community Engagement Framework (JCEF - formerly Community Involvement Approach) has been formally commissioned from the Rural Community Council (RCC). The capacity issues which delayed the JCEF’s original commissioning have been further exacerbated by the commissioned consultancy being hampered by illness throughout the spring of 2010. This will inevitably push back the project and, during this time, the Council is seeking to ensure that the focus of the original brief is being kept current and relevant to public agencies on the Island. The revised schedule for the JCEF delivery is now July 2010 and additional options are now available to the Council to further enhance the benefits it may derive from the Framework and toolkit, perhaps through an EU-sponsored partnership to determine public sector best practice in public engagement.</p> <p>The Partnership Map has just undergone its most recent review, with significantly higher levels of compliance and completion. This review showed data quality issues which have been addressed. The Map is now forming the framework for a risk-based audit of the ISP by Price Waterhouse Coopers, the outcome of which was an informal assessment and the suggestion of a level 4 risk assessment for the ISP.</p> <p>The prospectus-based commissioning approach has been launched successfully.</p>

## INCOME & EXPENDITURE ACCOUNT

This account summarises the resources that have been generated and consumed in providing services and managing the Council during the last year. It includes all day-to-day expenses and related income on an accruals basis, as well as transactions measuring the value of fixed assets actually consumed and the real projected value of retirement benefits earned by employees in the year.

	<b>2009-10 Gross Expenditure</b>	<b>2009-10 Gross Income</b>	<b>2009-10 Net Expenditure</b>	<b>2008-09 Net Expenditure restated (note 1)</b>
	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>
<b>Expenditure on Services</b>				
Children's & Education Service	138,009	(105,318)	<b>32,691</b>	31,471
Adult Social Care	56,770	(11,421)	<b>45,349</b>	45,269
Cultural, Environmental, Regulatory & Planning Services	44,223	(9,863)	<b>34,360</b>	30,337
Highways & Transport Services	24,930	(6,638)	<b>18,292</b>	14,080
Fire & Rescue Services	6,954	(226)	<b>6,728</b>	6,238
Housing Services (including Benefits)	63,697	(59,084)	<b>4,613</b>	3,311
Court Services	375	0	<b>375</b>	383
Central Services	16,784	(15,719)	<b>1,065</b>	807
Corporate & Democratic Core	4,545	(81)	<b>4,464</b>	4,422
Non-Distributed costs	4,337	0	<b>4,337</b>	3,898
<b>Net Cost of Services</b>	<b>360,624</b>	<b>(208,350)</b>	<b>152,274</b>	140,216
Loss/(Gain) on disposal of fixed assets			<b>101</b>	(1,301)
Parish & Town council precepts			<b>1,307</b>	1,264
Interest payable and similar charges			<b>6,711</b>	11,307
Contribution of housing capital receipts to government pool			<b>1</b>	1
Interest and investment receivable			<b>(368)</b>	(2,496)
Pension interest cost & expected return on pension assets (see note 24)			<b>10,395</b>	6,742
Firefighters' Pension Scheme – top-up grant repayable to/(from) Government			<b>(2)</b>	(820)
<b>Net Operating Expenditure</b>			<b>170,419</b>	154,913
Income from Council Tax			<b>(70,319)</b>	(67,387)
General Government Grants (see note 2)			<b>(22,311)</b>	(16,839)
Non-domestic rates redistribution			<b>(48,041)</b>	(49,813)
<b>Deficit for the Year</b>			<b>29,748</b>	20,874

The Income and Expenditure Account shows the Council's actual financial performance for the year, measured in terms of the resources consumed and generated over the last twelve months. However, the authority is required to raise council tax on a different accounting basis, the main differences being:-

- Capital investment is accounted for as it is financed, rather than when the assets are consumed.
- The payment of a share of housing capital receipts to the Government scores as a loss in the Income and Expenditure Account, but is met from the usable capital receipts balance rather than council tax.
- Retirement benefits are charged as amounts become payable to pension funds and pensioners, rather than as future benefits are earned.

The General Fund Balance compares the Council's spending against the council tax that it raised for the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure.

The reconciliation statement summarises the differences between the outturn on the Income and Expenditure Account and the General Fund Balance.

#### Statement of Movement on the General Fund Balance

	<b>2009-10 £000's</b>	2008-09 £000's restated (note 1)
Deficit for the year on the Income & Expenditure Account	<b>29,748</b>	20,874
Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year	<b>(25,506)</b>	(16,388)
(Increase)/Reduction in General Fund Balance for the Year	<b>4,242</b>	4,486
General Fund brought forward	<b>(11,515)</b>	(16,001)
General Fund carried forward generally available for new expenditure	<b>(7,273)</b>	(11,515)

The Council's Medium-Term Revenue and Capital Budget Strategy approved in February 2009 set out the funding requirement for the following three years. This strategy included a budgeted withdrawal of £3.9 million from the General Fund to be utilised in such a way to enable the Council to deliver a coherent strategy, invest in priorities, modernise in a planned way and deliver a below-inflation Council Tax increase. In the event, a further £0.342 million was utilised and this is consistent with the figures shown above and explains the variances between the two years in the movement on the General Fund Balance.

## Note of reconciling items for the Statement of Movement on the General Fund Balance

	2009-10 £000's	2009-10 £000's	2008-09 £000's restated (note 1)
<b>Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the Year</b>			
Amortisation of intangible fixed assets	(455)		(648)
Depreciation and impairment of fixed assets	(27,312)		(17,683)
Government Grants deferred amortisation	2,606		1,890
Revenue Expenditure Funded from Capital under Statute	(4,099)		(2,309)
Capital Grants & Contributions not deferred	2,355		2,585
Net (loss)/gain on sale of fixed assets	(101)		1,301
Differences between statutory debits/credits and amounts recognised as income and expenditure in relation to financial instruments	490		(2,941)
Net charges made for retirement benefits in accordance with FRS 17	(18,546)		(19,143)
Collection Fund Adjustment Account	53		259
Waste PFI deferred income	154		0
		<b>(44,855)</b>	<b>(36,689)</b>
<b>Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the Movement on the General Fund Balance for the Year</b>			
Statutory provision for the repayment of debt	7,711		7,406
Capital expenditure charged in-year to the General Fund balance	0		0
Transfer from Usable Capital Receipts to meet payments to the Housing Capital Receipts Pool	(1)		(1)
Employers' contributions payable to the Isle of Wight Council Pension Fund and retirement benefits payable direct to pensioners	15,085		14,503
Firefighters' Pension Scheme – top-up grant repayable from/(to) Government	2		820
		<b>22,797</b>	<b>22,728</b>
<b>Transfers to or from the General fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year</b>			
Net transfers to or (from) reserves		<b>(3,448)</b>	<b>(2,427)</b>
Net additional amount required to be credited to the General Fund balance for the year		<b>(25,506)</b>	<b>(16,388)</b>

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

This statement brings together all the gains and losses of the Council for the year and shows the aggregate increase in its net worth. In addition to the deficit or surplus generated on the Income and Expenditure Account, it includes gains and losses relating to the revaluation of fixed assets and re-measurement of the net liability to cover the cost of retirement benefits.

	<b>2009-10 £000's</b>	2008-09 £000's restated (note 1)
Deficit for the year on the Income & Expenditure Account	<b>29,748</b>	20,874
Surplus arising on revaluation of fixed assets	<b>(17,986)</b>	(15,533)
Adjustments for Land & Buildings	<b>0</b>	4,254
Actuarial (gains)/losses on pension fund assets and liabilities	<b>120,716</b>	35,767
Any other (gains)/losses	<b>(16)</b>	36
<b>Total recognised (gains)/losses for the year</b>	<b>132,462</b>	45,398

The cumulative effect on reserves resulting from the restatement of the 2008-09 comparative figures is an increase of £0.072 million in reserves. This is reconciled as follows:-

Total net worth in 2008-09 published Balance Sheet		46,234
Removal of Collection Fund Balance Account	95	
Replacement of Collection Fund Balance Account with Collection Fund Adjustment Account	(85)	
		10
Pension Reserve – rounding adjustment		1
Increase in Capital Adjustment Account resulting from Waste PFI adjustment		61
Total net worth in 2008-09 restated Balance Sheet		46,306



## BALANCE SHEET

31 March 2009 restated (note 1) £000's		31 March 2010 £000's	£000's
	<b>Fixed Assets (note 12)</b>		
812	<b>Intangible Fixed Assets</b>	1,058	
	<b>Tangible Fixed Assets - Operational Assets:</b>		
268,349	Land and Building	277,476	
10,035	Vehicles, Plant, Furniture & Equipment	12,440	
69,020	Infrastructure	74,483	
1,931	Community Assets	2,476	
	<b>Non-Operational Assets:</b>		
1,198	Shared Ownership Dwellings	1,195	
7,727	Assets under construction	4,676	
5,546	Surplus assets held for disposal	2,515	
364,618	<b>Total Fixed Assets</b>		376,319
11	Long-term Investments (note 13)		11
94	Long-term Debtors (note 14)		88
364,723	<b>Total Long Term Assets</b>		376,418
	<b>Current Assets</b>		
618	Stock & Work in Progress (note 15)	689	
18,429	Debtors & Payments in Advance (note 16)	23,184	
11,847	Investments (note 18)	7,251	
4,022	Cash and bank	3,236	
34,916			34,360
399,639	<b>Total Assets</b>		410,778
	<b>Current Liabilities</b>		
(14,035)	Short-term borrowing (note 19)	(10,800)	
(21,843)	Creditors & Receipts in Advance (note 17)	(23,422)	
(884)	Short-term Deferred Liabilities (note 23)	(1,246)	
(9,008)	Bank Overdraft	(7,131)	
(45,770)			(42,599)
353,869	<b>Total Assets less Current Liabilities</b>		368,179
	<b>Long Term Liabilities</b>		
(112,888)	Long-term borrowing (note 19)		(112,888)
(4,005)	Provisions (note 20)		(3,223)
(22,758)	Capital Grants & Contributions (note 21)		(43,431)
(17,265)	Capital Grants & Contributions Deferred (note 21)		(19,686)
(5,059)	Long-term Deferred Liabilities (note 23)		(5,343)
(145,588)	Liability related to defined benefit pension schemes (note 24)		(269,764)
46,306	<b>Total assets less liabilities</b>		(86,156)
	<b>Financed By</b>		
33,758	Revaluation Reserve (note 25)		50,785
0	Available for Sale Financial Instruments Reserve (note 46)		0
133,077	Capital Adjustment Account (note 26)		114,899
(2,941)	Financial Instruments Adjustment Account (note 27)		(2,451)
(145,588)	Pensions Reserves (note 24)		(269,764)
0	Capital Receipts Reserve (note 28)		0
80	Deferred Capital Receipts (note 29)		92
11,515	General Fund Balance		7,273
(85)	Collection Fund Adjustment Account		(32)
16,490	Earmarked Reserves (note 30)		13,042
46,306	<b>Total net worth</b>		(86,156)

## CASH FLOW STATEMENT FOR YEAR ENDED 31 MARCH 2010

The Statement of Recommended Practice (SORP) takes account of FRS 1 (revised 1996) which has the objective of ensuring that the significant elements of receipts and payments of cash are highlighted in a way that facilitates comparison of cash-flow performance of different businesses and to provide information that assists in assessing their liquidity, solvency and financial adaptability. The 2008-09 comparative figures have not been restated and the impact of these changes is shown in note 41.

	2009-10	2008-09
	£000's	£000's
<b>Net Revenue Activities Cash Flow</b> (note 37)		3,882
		(1,451)
<b>Returns on Investments and Servicing of Finance</b>		
<u>Cash outflows</u>		
Interest paid	(6,420)	(11,169)
Interest element of finance lease rental payments	(357)	(24)
<u>Cash Inflows</u>		
Interest Received	368	3,092
Net cash outflow from Returns on Investments & Servicing of Finance		(6,409)
		(8,101)
<b>Capital activities</b>		
<u>Cash outflows</u>		
Purchase of fixed assets	(24,753)	(20,993)
Purchase of long-term investments	0	0
Other capital cash payments	(4,967)	(2,338)
		(29,720)
		(23,331)
<u>Cash Inflows</u>		
Sale of fixed assets	4,829	2,201
Capital grants received (note 43)	28,353	17,694
Other capital cash receipts	816	2,021
		33,998
		21,916
<b>Net Cash inflow/outflow before financing</b>		1,751
		(10,967)
<b>Management of Liquid Resources</b>		
Net increase/decrease in short term deposits	4,596	22,571
Net increase/decrease in other liquid resources	(1,505)	0
		3,091
		22,571
<b>Financing</b>		
<u>Cash outflows</u>		
Repayment of amounts borrowed	(3,169)	(18,483)
Capital element of finance lease rental payments	(582)	(43)
<u>Cash Inflows</u>		
New short-term loans raised	0	3,179
<b>Net Cash Inflow from Financing</b>		(3,751)
		(15,347)
<b>Increase/Decrease in cash</b> (note 38)		1,091
		(3,743)

## NOTES TO THE CORE FINANCIAL STATEMENTS

1. The SORP requires that material adjustments applicable to prior years arising from changes to accounting policies should be accounted for by restating the comparative figures for the preceding period in the Statement of Accounts and notes and adjusting the opening Balance Sheet figures for the cumulative effect. Comparative figures for 2008-09 have been restated in respect of the following:-

- Accounting for Council Tax. The amount showing as the Demand on the Collection Fund has been adjusted, with a corresponding entry in the Statement of Movement on the General Fund Balance. Restatements have also been made to the Debtors and Creditors figures in the Balance Sheet, together with the Collection Fund Balance which has been replaced by the Collection Fund Adjustment Account.
- Accounting for National Non-Domestic Rates (NNDR). The Debtors and Creditors figures in the Balance Sheet have been restated.
- Waste PFI contract. Various restatements within the Income and Expenditure Account and Balance Sheet have been made in order to comply with IFRIC 12. These adjustments are most significant on the Statement of Movement on the General Fund Balance for Depreciation and MRP and within the Fixed Assets, Deferred Liabilities and Capital Adjustment Account entries on the Balance Sheet.
- General Government Grants. The Housing and Planning Delivery Grant and PFI Grant were previously included as income in the Cultural, Environmental and Planning Services line in the Income and Expenditure Account. The guidance in the 2009 SORP suggests that these should be included in the total for General Government Grants in the Income and Expenditure Account and the detail shown is shown in Note 2 below.
- External Borrowing. The short-term and long-term elements of external borrowing in the Balance Sheet have been restated together with the supporting note. This is due to the year-end interest accrual now being categorised as part of the short-term element. The overall External Borrowing figure is unchanged.

Where applicable, the Statement of Total Recognised Gains and Losses has been restated to reflect the change to the Balance Sheet Net Worth of the 2008-09 comparative figures.

2. The General Government Grants figure comprises the following grants which are not service specific:-

	<b>2009-10</b>	2008-09
	<b>£000's</b>	restated (note 1) £000's
Revenue Support Grant	<b>(11,088)</b>	(6,934)
Area Based Grants	<b>(8,489)</b>	(8,076)
Local Authority Business Growth Incentive Grant	<b>(103)</b>	(267)
Local Area Agreement Performance Reward Grant	<b>(584)</b>	0
Housing & Planning Delivery Grant	<b>(799)</b>	(314)
PFI Grant	<b>(1,248)</b>	(1,248)
<b>Total</b>	<b>(22,311)</b>	(16,839)

3. Trading Operations

The Best Value Accounting 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<sup>st</sup> March 2010, all such activities are included in the total cost of the relevant services and are therefore consolidated into the net cost of services. The amounts include depreciation, impairment or FRS 17 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.

Trading Operations (continued)

<b>Operation</b>	<b>Description</b>		<b>£000's</b>
Industrial Units	The Council let industrial units in a variety of locations.	Turnover	132
		Expenditure	112
		Agreed contribution to/(from) General Fund:	
		2009-10	20
		2008-09	(22)
Markets	The Council runs Newport market and provides supervisory support for other local markets	Turnover	23
		Expenditure	17
		Agreed contribution to/(from) General Fund:	
		2009-10	6
		2008-09	5
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	531
		Expenditure	484
		Agreed contribution to/(from) General Fund:	
		2009-10	47
		2008-09	(17)
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 2009-10 such investment included street lighting column replacement, concessionary fares and subsidised bus services, and traffic management improvements.	Parking Income:	
		Ticket Machine Income	2,358
		Permit Income	828
		Penalty Charge Notice Income	814
		Other Sources of Income	50
		Turnover	4,050
		Expenditure	2,319
		2009-10 Parking Account Surplus	1,731
		2008-09 Surplus	1,773
Wightbus	Wightbus is the Council's in-house bus operation and provides home-to-school transport, adult day care transport, local bus services and private hires.	Turnover	184
		Expenditure	291
		Agreed contribution to/(from) General Fund:	
		2009-10	(107)
		2008-09	(126)

Trading Operations (continued)

Operation	Description		£000's
School Buy-Backs	LEA/LA Central Services purchased by schools. Schools are free to choose whether they purchase these services from the authority or from an external provider. Some service contracts, eg School meals, contain a minimum notice to terminate period. Charges are estimated in October and assumptions are made about rate of buy-back. Schools decide whether to buy-back when they receive their budgets in the following March, hence the potential for a deficit when the buy-back rate does not match that assumed in October.	Turnover	2,673
		Expenditure	2,783
		Agreed contribution to/(from) General Fund:	
		2009-10	(110)
		2008-09	(128)
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. The 2008-09 expenditure figure includes £0.089 million of impairment charges.	Turnover	916
		Expenditure	897
		Agreed contribution to/(from) General Fund:	
		2009-10	19
		2008-09	23
Harbours and Coastal	This includes Newport and Ryde Harbours, Ventnor Haven, Folly Moorings and Whitegates Pontoon. The 2009-10 expenditure includes an impairment charge of £0.075 million in respect of Ryde Harbour.	Turnover	253
		Expenditure	368
		Agreed contribution to/(from) General Fund:	
		2009-10	(115)
		2008-09	(95)
Leisure Facilities	The running of Leisure facilities at Waterside Pool, Medina Leisure Centre, The Heights, Rew Valley and the squash courts at Westridge. These are subsidised facilities, as is the case with many similar local authorities.	Turnover	1,578
		Expenditure	3,443
		Agreed contribution to/(from) General Fund:	
		2009-10	(1,865)
		2008-09	(1,867)
Seasonal Sites	The running of tourism related sites including Browns and Shanklin Lift. The 2008-09 expenditure figure includes an impairment charge of £0.203 million in respect of the Apply Play Area.	Turnover	438
		Expenditure	447
		Agreed contribution to/(from) General Fund:	
		2009-10	(9)
		2008-09	(233)

4. 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. This Council did not carry out any significant agency work during 2009-10.

5. 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 and Isle of Wight NHS Primary Care Trust during 2009-10. All relevant income and expenditure has been included in the Adult Social Care division of service in the Income and Expenditure Account, excluding the element relating to the Isle of Wight NHS Primary Care Trust.

**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<sup>st</sup> March.

	<b>2009-10</b>	2008-09
<b>Amounts Received from Partners</b>	<b>%</b>	<b>£000's</b>
Contribution from IW Council	<b>69.5</b>	3,792
Contribution from IW NHS Primary Care Trust	<b>30.5</b>	1,700
<b>Total Income</b>		<b>3,934</b>
<b>Amount Spent from Pool</b>		
IWC Funded Island Clients	<b>3,287</b>	3,490
IWC Funded Mainland Clients	<b>193</b>	206
RNCC Island Placed Self Funders	<b>524</b>	527
RNCC Island Self Funders Placed by Mainland Authorities	<b>64</b>	54
Other items	<b>42</b>	48
<b>Total Expenditure</b>		<b>4,110</b>
<b>Amount Remaining in Pool</b>		<b>(176)</b>
	<b>2009-10</b>	2008-09
<b>Free Nursing Care (RNCC)</b>	<b>£000's</b>	<b>£000's</b>
To be shared between partners based on agreed split (actuals basis to take account of continuing care charges)		
I W Council	<b>(197)</b>	679
I W NHS Primary Care Trust	<b>21</b>	488
<b>Total</b>	<b>(176)</b>	<b>1,167</b>

National Health Service Act 2006 Section 75 Pooled Funds (continued)

**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<sup>st</sup> March.

	<b>2009-10</b>	2008-09
<b>Amounts Received from Partners</b>	%	£000's
Contribution from IW Council	<b>19.1</b>	349
Contribution from IW NHS Primary Care Trust	<b>80.9</b>	1,522
Total Income		<b>1,933</b>
		1,871
<b>Amount Spent from Pool</b>	<b>£000's</b>	
Actual expenditure incurred	<b>1,933</b>	1,871
Total Expenditure	<b>1,933</b>	1,871
		<b>0</b>
		0
<b>Amount Remaining in Pool</b>		
To be shared between partners pro rata to contributions made	<b>£000's</b>	£000's
I W Council	<b>0</b>	0
I W NHS Primary Care Trust	<b>0</b>	0
<b>Total</b>	<b>0</b>	0

**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 Primary Care Trust. The following shows the pool income, expenditure and balance as at 31 March.

	<b>2009-10</b>	2008-09
<b>Amounts Received from Partners</b>	%	£000's
Contribution from IW Council	<b>36.0</b>	476
Contribution from IW NHS Primary Care Trust	<b>64.0</b>	778
Total Income		<b>1,344</b>
		1,254
<b>Amount Spent from Pool</b>	<b>£000's</b>	
Actual Expenditure incurred	<b>1,295</b>	1,218
Total Expenditure	<b>1,295</b>	1,218
		<b>49</b>
		36
<b>Amount Remaining in Pool</b>		
To be shared between partners pro rata to contributions made	%	
I W Council	<b>36.0</b>	14
I W NHS Primary Care Trust	<b>64.0</b>	22
<b>Total</b>	<b>49</b>	36

National Health Service Act 2006 Section 75 Pooled Funds (continued)

**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<sup>st</sup> March.

		<b>2009-10</b>	2008-09
<b>Amounts Received from Partners</b>	%	<b>£000's</b>	£000's
Contribution from IW Council	<b>42.0</b>	<b>361</b>	377
Contribution from IW NHS Primary Care Trust	<b>58.0</b>	<b>498</b>	419
Income		<hr/> <b>859</b>	796
<b>Amount Spent from Pool</b>	<b>£000's</b>		
Actual expenditure incurred		<b>854</b>	772
Total Expenditure		<hr/> <b>854</b>	<hr/> 772
<b>Amount remaining in Pool</b>		<hr/> <b>5</b>	24
To be shared between partners pro rata to contributions made	%		
I W Council	<b>42.0</b>	<b>2</b>	11
I W NHS Primary Care Trust	<b>58.0</b>	<b>3</b>	13
<b>Total</b>		<hr/> <b>5</b>	<hr/> 24

6. Members' Allowances

The Local Authorities (Members' Allowances) (England) Regulations 2003 provide the circumstances in which allowances are payable to members and to the maximum amounts payable in respect of certain allowances. At the June 2009 elections, the number of elected members was reduced from 48 to 40. The following amounts have been paid to and on behalf of members:-

	<b>2009-10</b>	2008-09
	<b>£000's</b>	£000's
Basic Allowance	<b>318</b>	369
Special Responsibility Allowance	<b>163</b>	179
Employers' National Insurance & Pension Contributions paid on behalf of members	<b>54</b>	55
Travelling & Subsistence allowance and reimbursements	<b>32</b>	33
Co-opted members	<b>17</b>	12
<b>Total</b>	<hr/> <b>584</b>	<hr/> 648



7. Senior Employees Remuneration

The Accounts and Audit (Amendment No.2) (England) Regulations 2009 have introduced a new legal requirement for reporting remuneration of senior employees.

The following tables sets out the remuneration disclosures for Senior Employees whose salary exceeded £50,000 per year. A Senior Employee has been defined as an authority's Chief Executive, their direct reports, statutory chief officers and any other employee that the authority considers to have responsibility for management to the extent that that person has power to direct or control the major activities of the authority. Where the 'salary' exceeds £150,000, the authority is obliged to disclose the name of the postholder, otherwise the post name is sufficient for disclosure.

<b>2009-10</b>						
<b>Post</b>	<b>Note</b>	<b>Salary</b>	<b>Expense Allowance</b>	<b>Remuneration excluding pension contributions</b>	<b>Pension contributions</b>	<b>Remuneration including pension contributions</b>
		<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Chief Executive		149,997	2,441	152,438	31,499	183,937
Director of Children's & Young Peoples Service	(i)	27,559	586	28,145	5,787	33,932
Project Director – Schools Re-organisation	(ii)	20,728	3,500	24,228	4,343	28,571
PFI Programme Director		140,403	15,517	155,920	29,485	185,405
Director of Economy & Environment		110,235	0	110,235	23,149	133,384
Director of Corporate Services	(iii)	100,786	2,441	103,227	21,165	124,392
Chief Fire Officer	(iv)	95,715	1,278	96,993	10,206	107,199
Acting Director of Community Services		92,352	0	92,352	19,362	111,714
Assistant Director of Economic Development Tourism & Leisure		90,348	302	90,650	18,973	109,623
		<b>828,123</b>	<b>26,065</b>	<b>854,188</b>	<b>163,969</b>	<b>1,018,157</b>

During 2009-10, the senior posts listed below were filled by a contractual arrangement where the postholder was not a direct employee of the Council. The contractual payments will include employers' National Insurance and Pension contributions where appropriate. Employers' National Insurance contributions do not form part of direct senior employee remuneration.

<b>Post</b>	<b>Note</b>	<b>Contractual Payment</b>
Director of Resources		166,725
Interim Director of Children's Services	(v)	27,151
Interim Deputy Director of Children's Services (Safeguarding)	(vi)	85,307
Interim Deputy Director of Children's Services (Learning & Achievement)	(vii)	68,495
Interim Head of Children's Services (Deputy Director Safeguarding)	(viii)	50,464
<b>Total of direct senior employees and contractor senior postholders 2009-10</b>		<b>1,416,299</b>

#### Notes to Senior Employees Remuneration 2009-10

- Note (i) The Director of Children's & Young Peoples Services commenced employment on 1 January 2010 at an annualised salary of £110,235.
- Note (ii) The Project Director - Schools Reorganisation commenced employment on 18 January 2010 at an annualised salary of £101,460.
- Note (iii) The Director of Corporate Services works 4 days per week. The whole time equivalent salary is £125,982.
- Note (iv) The Chief Fire Officer's pension contributions ceased from 1 October 2009.
- Note (v) The contract for the Interim Director of Children's Services ended on 31 May 2009.
- Note (vi) The contract for the Interim Deputy Director of Children's Services (Safeguarding) commenced on 1 June 2009 and ended on 31 January 2010.
- Note (vii) The contract for the Interim Deputy Director of Children's Services (Learning & Achievement) commenced on 20 July 2009 and ended on 31 December 2009.
- Note (viii) The contract for the Interim Head of Children's Services (Deputy Director Safeguarding) commenced on 4 January 2010.

2008-09							
Post/Post holder (where applicable)	Note	Salary	Expense Allowance	Benefits in kind	Remuneration excluding pension contributions	Pension contributions	Remuneration including pension contributions
		£	£	£	£	£	£
Chief Executive – J Duckworth	(ix)	29,620	244	1,018	30,882	5,924	36,806
Chief Executive – S Beynon	(x)	105,000	0	0	105,000	21,000	126,000
PFI Programme Director	(xi)	25,510	3,772	0	29,282	5,102	34,384
Director of Community Services	(xii)	122,935	1,365	0	124,300	24,587	148,887
Director of Children's & Young Peoples Services	(xiii)	43,865	0	0	43,865	8,773	52,638
Director of Economy & Environment		110,235	0	0	110,235	22,047	132,282
Director of Customer Services	(xiv)	67,640	0	0	67,640	13,528	81,168
Director of Corporate Services	(xv)	100,786	26,270	0	127,056	20,157	147,213
Chief Fire Officer		93,371	1,170	0	94,541	19,689	114,230
Acting Director of Community Services	(xvi)	2,273	0	0	2,273	455	2,728
Assistant Director of Economic & Tourism Development		85,418	849	0	86,267	17,084	103,351
		<b>786,653</b>	<b>33,670</b>	<b>1,018</b>	<b>821,341</b>	<b>158,346</b>	<b>979,687</b>

During 2008-09, the senior posts listed below were filled by a contractual arrangement where the postholder was not a direct employee of the Council. The contractual payments will include employers' National Insurance and Pension contributions where appropriate. Employers' National Insurance contributions do not form part of direct senior employee remuneration.

Post	Note	Contractual Payment
Director of Resources	(xvii)	169,475
Interim Director of Children's services	(xviii)	76,538
Interim Director of Regeneration	(xix)	68,703
<b>Total of direct senior employees and contractor senior postholders 2008-09</b>		<b>1,294,403</b>

## Notes to Senior Employees Remuneration 2008-09

- Note (ix) Mr J Duckworth resigned as Chief Executive on 6 June 2008. His annualised salary was £161,553.
- Note (x) Mr S Beynon commenced employment as Chief Executive on 28 July 2008. The annualised salary was £155,000.
- Note (xi) The PFI Programme Director commenced employment on 21 January 2009. The annualised salary was £130,000.
- Note (xii) The Director of Community Services resigned on 22 March 2009. The annualised salary was £125,962.
- Note (xiii) The Director of Children's & Young Peoples Services became Chief Executive on 28 July 2008. The annualised salary in this post was £135,982.
- Note (xiv) The Director of Customer Services resigned on 30 November 2008. The annualised salary was £101,460.
- Note (xv) The Director of Corporate services works for 4 days per week. The whole time equivalent salary is £125,982.
- Note (xvi) The Acting Director of Community Services commenced employment in that role on 23 March 2009. The annualised salary was £92,202.
- Note (xvii) For the period 7 June to 27 July 2008, the Director of Resources acted as interim Chief Executive.
- Note (xviii) The contract for the Interim Director of Children's Services commenced on 1 October 2008.
- Note (xix) The contract for the Interim Director of Regeneration ended on 30 September 2008.

## 8. Disclosure of Employees' Emoluments

The number of officers, teachers and other staff whose remuneration, excluding employer's pension contributions, was £50,000 or more in bands of £5,000 were:-

Remuneration Band	2009-10		2008-09	
	Total	Left during year	Total	Left during year
£50,000 to £54,999	51	2	41	3
£55,000 to £59,999	29	1	24	0
£60,000 to £64,999	15	0	14	2
£65,000 to £69,999	12	1	13	1
£70,000 to £74,999	8	0	3	1
£75,000 to £79,999	2	0	4	0
£80,000 to £84,999	5	0	3	0
£85,000 to £89,999	1	0	3	0
£90,000 to £94,999	4	0	2	0

The remuneration of senior employees which have been disclosed individually in Note 7 are excluded from the above bandings.

## 9. 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 has effective control 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 housing benefits). Details of transactions with government departments are set out in a note relating to the Cash Flow Statement.

Transactions with the Isle of Wight NHS Primary Care Trust in respect of the Pooled Budget arrangements are shown in Note 5 to the Accounts.

Members of the Council have direct control over the Council's financial and operating policies. During 2009-10, works and services to the value of £0.258 million were commissioned from companies in which three members had an interest. Contracts were entered into in full compliance with the Council's standing orders. In addition, members are nominated to represent the Council on various outside bodies. Payments amounting to £0.080 million were made to an organisation to which the Council nominates a trustee. All such relationships are disclosed in the Register of Members' Interest, open for public inspection at County Hall, Newport, Isle of Wight. PO30 1UD.

Elected members disclosures also include positions of interest with Parish or Town Councils, voluntary bodies and as school governors.

Senior officers were requested to disclose any related party transactions during 2009-10. Whilst there have been no specific disclosures in respect of related party transactions, during the course of the financial year there have been a number of arrangements relating to certain senior posts. These by their nature could imply an involvement in related party transactions and the Council has been careful to ensure that robust arrangements are in place and that correct procurement and recruitment procedures have been followed in each case.

During the financial year, the pension fund had an average balance of £0.300 million of surplus cash deposited with the Council. The Council paid the fund a total of £0.001 million interest on these deposits. The Council charged the fund £0.401 million for expenses incurred in administering the fund.

10. Audit Costs

Fees relating to external audit and inspection have been incurred as follows:

	<b>2009-10</b> <b>£000's</b>	2008-09 £000's
Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor	<b>344</b>	357
Fees payable to the Audit Commission in respect of statutory inspection	<b>18</b>	32
Fees payable to the Audit Commission for certification of grant claims and returns	<b>49</b>	57
Fees payable in respect of other services provided by the appointed auditor	<b>0</b>	0
<b>Total</b>	<b>411</b>	446

The payments made for the certification of grant claims relates to work carried out during the year of account, but is in respect of claims made in the previous financial year.

11. Government Grants

Central Government and European Community revenue grants towards specific services were received during the year totalling £173.635 million (£157.886 million in 2008-09). These are included as income which offsets service expenditure in the Income and Expenditure Account. The grants shown in Note 2 are excluded from this figure as they are not service specific and are instead included with General Government Grants shown on the face of the Income and Expenditure Account. The significant increase in the grants received principally due to Housing Benefit subsidy and Supporting People grant.

12. Movement on Fixed Assets

**Operational Assets**

	<b>Land and Buildings £000's</b>	<b>Vehicles Plant Furniture &amp; Equipment £000's</b>	<b>Infrastructure £000's</b>	<b>Community Assets £000's</b>	<b>Total £000's</b>
<b>Cost or valuation</b>					
At 1 April 2009 restated (note 1)	299,121	21,803	84,887	2,111	407,922
Additions	6,789	5,247	9,879	16	21,931
Disposals	0	(20)	0	0	(20)
Reclassifications	(1,157)	2,393	293	(119)	1,410
Revaluations	3,576	0	0	645	4,221
Downward Revaluations (Impairments)	(6,674)	0	0	0	(6,674)
At 31 March 2010	301,655	29,423	95,059	2,653	428,790
<b>Depreciation and impairments</b>					
At 1 April 2009	(30,772)	(11,768)	(15,867)	(180)	(58,587)
Depreciation charge for 2009-10	(5,419)	(5,062)	(4,709)	0	(15,190)
Impairment charge for 2009-10	(1,918)	0	0	0	(1,918)
Disposals	0	20	0	0	20
Reclassifications	227	(173)	0	0	54
Revaluations	13,703	0	0	3	13,706
At 31 March 2010	(24,179)	(16,983)	(20,576)	(177)	(61,915)
<b>Balance Sheet amount at 31 March 2010</b>					
	<b>277,476</b>	<b>12,440</b>	<b>74,483</b>	<b>2,476</b>	<b>366,875</b>
Balance Sheet amount at 1 April 2009 restated (note 1)	268,349	10,035	69,020	1,931	349,335
<b>Nature of Asset holding</b>					
Owned	275,534	10,115	74,483	2,476	362,608
Finance lease	0	343	0	0	343
PFI	1,942	1,982	0	0	3,924
At 31 March 2010	<b>277,476</b>	<b>12,440</b>	<b>74,483</b>	<b>2,476</b>	<b>366,875</b>

<b>Non-Operational Assets</b>	<b>Shared Ownership Dwellings £000's</b>	<b>Assets under construction £000's</b>	<b>Surplus assets held for disposal £000's</b>	<b>Total £000's</b>
<b>Cost or valuation</b>				
At 1 April 2009	1,204	7,727	5,641	14,572
Additions	0	3,927	690	4,617
Disposals	0	0	(2,056)	(2,056)
Reclassifications	(60)	(3,479)	2,089	(1,450)
Revaluations	51	0	(226)	(175)
Downward Revaluations (Impairments)	0	0	(3,529)	(3,529)
Abortive Capital Expenditure	0	(3,499)	0	(3,499)
At 31 March 2010	1,195	4,676	2,609	8,480
<b>Depreciation and impairments</b>				
At 1 April 2009	(6)	0	(95)	(101)
Disposals	0	0	17	17
Reclassifications	0	0	(244)	(244)
Revaluations	6	0	228	234
At 31 March 2010	0	0	(94)	(94)
<b>Balance Sheet amount at 31 March 2010</b>	<b>1,195</b>	<b>4,676</b>	<b>2,515</b>	<b>8,386</b>
Balance Sheet amount at 1 April 2009	1,198	7,727	5,546	14,471
<b>Nature of Asset holding</b>				
Owned	1,195	4,676	2,515	8,386
Finance lease	0	0	0	0
PFI	0	0	0	0
<b>At 31 March 2010</b>	<b>1,195</b>	<b>4,676</b>	<b>2,515</b>	<b>8,386</b>

Non-operational assets are tangible fixed assets held by a local authority but not directly occupied, used or consumed in the delivery of services. The Council has an interest in 65 shared ownership dwellings, the asset values have been calculated by reference to the rental income received and an expected rental return of 8%.

The following statement shows the progress of the council's rolling programme for the revaluation of fixed assets. The valuations of properties were undertaken by Ms A Jenkins MRICS an officer of the Council, John E Prince FRICS, IRRV of Principal Chartered Surveyors and Peter J Dewey FRICS of Lambournes Chartered Surveyors. The basis for valuation is set out in the statement of accounting policies.



	<b>Land and Buildings £000's</b>	<b>Vehicles Plant Furniture &amp; Equipment £000's</b>	<b>Infrastructure £000's</b>	<b>Community Assets £000's</b>	<b>Non- Operational Assets £000's</b>	<b>Total £000's</b>
Valued at historical cost	0	12,440	74,483	2,476	4,727	94,126
Valued at current value in:						
2009/10	65,015	-	-	-	2,956	67,971
2008/09	55,098	-	-	-	703	55,801
2007/08	105,389	-	-	-	0	105,389
2006/07	33,286	-	-	-	0	33,286
2005/06	18,688	-	-	-	0	18,688
<b>Total</b>	<b>277,476</b>	<b>12,440</b>	<b>74,483</b>	<b>2,476</b>	<b>8,386</b>	<b>375,261</b>

#### Information about Depreciation Methodologies

The Council employs the straight-line method of depreciation which depreciates the value over the useful life of the asset. The expected useful life applied to different types of assets is assessed individually for assets based either on date of valuation or acquisition.

The main items of capital expenditure were:-

	<b>£000's</b>
Highways improvements	9,916
Business Systems Improvement Project	2,262
Schools Devolved Capital	1,935
Christ the King School	1,601
Disabled Facilities (part grant funded)	1,013
Improvements to Council Properties	891
ICT investment	834
Housing Renewal Assistance	831
Public Conveniences	742
Pan Development	681

In addition, major contracts had been entered into with the following outstanding sums at 31 March 2010:-

	<b>£000's</b>
Ryde Cemetery HLF Project	420
Public Conveniences - Eastern Gardens, Shanklin	100
Batts Copse Shanklin – new play space	80
Medina Leisure Facility Improvement	47
Cowes High School – One School Pathfinder – design fees	41

Capital Expenditure was financed as follows:-

	<b>2009-10</b> <b>£000's</b>	2008-09 £000's
Capital Receipts	<b>4,829</b>	2,200
Capital Grants & Contributions	<b>5,638</b>	5,950
Revenue Expenditure funded from Capital Resources under Statute	<b>2,355</b>	1,546
Increase in Capital Financing Requirement (CFR)	<b>17,226</b>	12,842
<b>Total</b>	<b>30,048</b>	22,538

The Capital Financing Requirement forms part of the Prudential Code for Capital Finance and represents the Council's underlying need to borrow for capital expenditure purposes.

**Capital Financing Requirement (memorandum account)**

	<b>2009-10</b> <b>£000's</b>	2008-09 £000's restated (note 1)
Balance at 1 April	<b>174,894</b>	169,458
<b>Capital Investment:</b>		
Waste PFI assets brought onto Balance Sheet	<b>1,072</b>	646
Operational Assets	<b>20,859</b>	14,694
Non-Operational Assets	<b>4,617</b>	4,158
Intangible Assets	<b>473</b>	1,377
Revenue Expenditure funded from Capital under Statute	<b>4,099</b>	2,309
<b>Sources of Finance:</b>		
Application of Capital Receipts	<b>(4,829)</b>	(2,200)
Application of Capital Grants	<b>(7,993)</b>	(7,496)
Finance lease	<b>(302)</b>	(646)
Deferred Income	<b>(770)</b>	0
Statutory Charge to Revenue:- past expenditure	<b>(6,872)</b>	(6,578)
Statutory Charge to Revenue:- Waste PFI	<b>(839)</b>	(828)
<b>Balance at 31 March</b>	<b>184,409</b>	174,894
<b>Explanation of Movements in Year</b>		
Increase in underlying need to borrow (supported by government financial assistance)	<b>5,722</b>	3,257
Increase in underlying need to borrow (unsupported by government financial assistance)	<b>3,793</b>	2,179
<b>Increase/decrease in Capital Financing Requirement</b>	<b>9,515</b>	5,436

## Information on Fixed Assets

An analysis of fixed assets at 31 March is:

	<b>2010</b>	2009
Libraries	<b>11</b>	11
Museums	<b>4</b>	4
Tourist Information Centres	<b>3</b>	3
Allotment sites	<b>21</b>	21
Park areas & amenity sites	<b>209</b>	209
Theatres	<b>2</b>	2
Shanklin Lift	<b>1</b>	1
Leisure facilities	<b>3</b>	3
Schools *	<b>69</b>	69
with a - sports centre	<b>3</b>	3
- theatre	<b>1</b>	1
- swimming pool	<b>1</b>	1
Other Educational properties	<b>18</b>	18
Fire Stations	<b>10</b>	10
Crematorium	<b>1</b>	1
Cemeteries	<b>12</b>	12
Guildhall	<b>1</b>	1
Waste Derived Fuel Plant	<b>1</b>	1
Refuse Disposal Sites	<b>2</b>	2
Toilet Blocks	<b>81</b>	81
Car Parks	<b>78</b>	78
Harbours	<b>3</b>	3
Residential Homes for the Elderly	<b>0</b>	2
Resource Centres for the Elderly	<b>0</b>	2
Group Homes	<b>6</b>	6
Family Centre	<b>1</b>	1
Day/Community Centres	<b>12</b>	12
Other Social Services Properties	<b>13</b>	13
Hostels	<b>1</b>	1
Highways Depots and Other Premises	<b>10</b>	10
Chain Ferry and Terminals	<b>1</b>	1
Industrial Estates	<b>8</b>	8
Council Dwellings	<b>5</b>	5
Garage Sites	<b>2</b>	2
County Hall	<b>1</b>	1
Other Office Premises	<b>21</b>	22
Other Premises & Land Sites	<b>35</b>	36
Vehicles and Major Plant - owned	<b>168</b>	165
- leased	<b>134</b>	134
Roads and Bridges (Km)	<b>791.8</b>	791.8
Cycleways (km)	<b>36.3</b>	36.3
Coastal Defences (km)	<b>41</b>	41

\* Including 18 church schools not owned by Isle of Wight Council and 2 foundation schools where the Council retains ownership. Due to amalgamation, there are 67 schools operating from 69 sites.

Movement in intangible assets

	Purchased software licences £000's
<b>Cost</b>	
At 1 April 2009	1,930
Additions	472
Reclassifications	229
At 31 March 2010	2,631
<b>Amortisation</b>	
At 1 April 2009	(1,118)
Charge for 2009-10	(455)
At 31 March 2010	(1,573)
<b>Balance Sheet amount at 31 March 2010</b>	<b>1,058</b>
Balance Sheet amount at 31 March 2009	812

Software licences are held for a variety of computer systems, mainly within the Children's & Young People's Service and Central Support Services. The costs are being written-off to the appropriate service within the Income & Expenditure Account over a period consistent with the expected economic life.

13. Long-term Investments

These comprise £0.011 million in Government and other stocks (2008-09 £0.011 million).

14. Long-term Debtors

Long term debtors consist mainly of capital loans made to external organisations and mortgages to private householders. These loans are repayable over varying periods, interest being charged at nationally determined rates. At 31 March 2010 the total balance of Long-term debtors amounted to £0.088 million (2008-09 £0.094 million).

15. Stocks and Work-in-Progress

	<b>31 March 2010 £000's</b>	31 March 2009 £000's
Works-in-Progress	<b>96</b>	43
Stocks	<b>593</b>	575
Balance at end of year	<b>689</b>	618

16. Debtors and Payments in Advance

	<b>31 March 2010 £000's</b>	31 March 2009 £000's restated (note 1)
Government Departments	<b>7,504</b>	4,085
Local Taxpayers	<b>2,274</b>	1,949
Other Organisations and Individuals	<b>15,195</b>	14,399
	<b>24,973</b>	20,433
less Provision for Bad Debts	<b>(1,789)</b>	(2,004)
Balance at end of year	<b>23,184</b>	18,429

The Provision for Bad Debts is reviewed annually and is a cumulative figure to cover all outstanding debtors.

17. Creditors and Receipts in Advance

	<b>31 March 2010 £000's</b>	31 March 2009 £000's restated (note 1)
Government Departments	<b>6,155</b>	7,918
Local Taxpayers	<b>1,520</b>	1,448
Other Organisations & Individuals	<b>15,747</b>	12,478
Balance at end of year	<b>23,422</b>	21,844

18. Investments

This involves the temporary investment of surplus cash flows and internal funds in accordance with the Council's Treasury Management Strategy. At 31<sup>st</sup> March 2010 £6.151 million was invested with Banks, £0.350 million with other Local authorities and £0.750 million with the Debt Management Account Deposit Facility (DMADF), which is a deposit account offered by the Debt Management Office, guaranteed by the UK government.

19. External Borrowing

	<b>31 March 2010 £000's</b>	31 March 2009 £000's restated (note 1)
	£	£
Repayable in 1 - 2 years	<b>1,000</b>	0
Repayable in 2 - 5 years	<b>1,500</b>	1,000
Repayable in 5 - 10 years	<b>24,500</b>	21,000
Repayable in 10 - 15 years	<b>29,700</b>	30,200
Repayable in 15 - 20 years	<b>33,188</b>	37,688
Repayable in 20 - 25 years	<b>22,000</b>	17,000
Repayable in more than 25 years	<b>1,000</b>	6,000
	<hr/>	<hr/>
Repayable in more than one year	<b>112,888</b>	112,888
Repayable within one year	<b>10,800</b>	14,035
	<hr/>	<hr/>
Total External Borrowing	<b>123,688</b>	126,923
	<hr/>	<hr/>
Of which, Public Works Loan Board (PWLB)	<b>114,007</b>	117,073
	<hr/>	<hr/>

There are three Lender Option Borrower Option (LOBO) loans amounting to £9 million included in the 'Repayable within one year' category. 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.

Amount (£000's)	Interest Rate (%)	Final Maturity Date
1,000	6.65	24/09/2012
3,000	5.34	19/11/2013
5,000	4.27	25/11/2041

20. Provisions

	Balance 1 April £000's	Receipts £000's	Payments £000's	<b>Balance 31 March £000's</b>
Insurance Liabilities Fund	2,722	22	0	<b>2,744</b>
Off-Street Car Parking VAT	1,283	0	(1,142)	<b>141</b>
Employee Related Provision	0	200	0	<b>200</b>
Retained Fire-fighters Provision	0	138	0	<b>138</b>
	<hr/>	<hr/>	<hr/>	<hr/>
Total	<b>4,005</b>	<b>360</b>	<b>(1,142)</b>	<b>3,223</b>
	<hr/>	<hr/>	<hr/>	<hr/>

The Insurance Liabilities Fund represents the estimated potential liabilities identified which have resulted from outstanding insurance claims. The principal sources of claims are related to Public and Employers' Liability and an assessment of the Council's claims register has been made to establish the Council's likely exposure.

The Council is currently involved in on-going litigation with HM Revenues and Customs concerning the VAT treatment of off-street car parking charges. The case has been argued through a succession of Tribunals and Courts since February 2004. The case was referred to the European Court of Justice who in turn referred specific elements of the case back to the Tribunal service. A Directions hearing was set for May 2010 and this will precede a full Appeal on those specific points to be heard later in 2010. The majority of the VAT previously withheld was collected by HM Revenues and Customs during 2009-10 and the remainder will be held as a provision until the full Appeal has been held.

## Provisions (continued)

The Employee Related Provision relates to a number of claims for unfair dismissal which will result in Employment Tribunals. Estimates have been made of the potential compensation amounts for which the Council may be liable.

The Retained Fire-Fighters provision relates to an Employment Tribunal resulting from the Part-Time workers (Prevention of Less Favourable Treatment) Regulations. An out of court settlement has been proposed and the Council's potential liability has been estimated on the basis of the proposals.

### 21. Capital Grants & Contributions

Capital Grants towards the cost of capital projects are generally applied as expenditure is incurred. The balance at 31 March 2010 includes £23.763 million of capital grant from Partnership for Schools for the targeted capital fund. This is grant funding for the Cowes High School Pathfinder scheme which is currently in progress. These grants will be applied in future financial years to match expenditure on schemes.

	<b>31 March 2010 £000's</b>	31 March 2009 £000's
Balance at beginning of year	22,758	10,440
Adjustment:- Capital Grants & Contributions Deferred	0	148
Adjustment:- Income & Expenditure Account	0	78
Capital Grants & Contributions Received	<b>28,666</b>	19,588
	<b>51,424</b>	30,254
Capital Grants & Contributions not deferred	<b>(2,354)</b>	(2,585)
Capital Grants & Contributions applied	<b>(5,639)</b>	(4,911)
Balance at end of year	<b>43,431</b>	22,758

### Capital Grants & Contributions Deferred

The Capital Grants and Contributions Deferred Account represents amounts received to fund expenditure which will be released to offset depreciation in respect of those assets to which they relate. The adjustment of £0.612 million relates to the Ryde Gateway Scheme which has been aborted by the Council. This balance is due to be repaid to the Department of Transport over a three year period.

	<b>31 March 2010 £000's</b>	31 March 2009 £000's
Balance at beginning of year	17,265	13,888
Adjustment	<b>(612)</b>	(148)
Donated Fire Vehicles	0	582
Capital Grants & Contributions Applied	<b>5,639</b>	4,911
	<b>22,292</b>	19,233
Less: Amortised to Income & Expenditure Account	<b>(2,606)</b>	(1,890)
Adjustment:- Income & Expenditure Account	0	(78)
Balance at end of year	<b>19,686</b>	17,265

22. Operating Leases

Vehicles, plant, furniture and equipment – the authority uses fire tenders, buses, various other commercial vehicles, car park meters, IT equipment and miscellaneous equipment financed under the terms of an operating lease.

The amount paid under these arrangements in 2009-10 was £0.308 million (£0.358 million in 2008-09). The authority was committed at 31<sup>st</sup> March 2010 to making payments of £0.818 million in 2010-11, comprising the following elements:-

Leases expiring	Future liability £000's
In 2010-11	0
Between 2011-12 and 2015-16	665
After 2015-16	153

23. Deferred Liabilities

The Council has deferred liabilities arising from an obligation to repay capital grant which could not be applied to the contract for which it was awarded, the Waste PFI scheme and the acquisition of fire service vehicles under finance leases. The total liability is categorised below and the entries on the Balance Sheet are divided between current and long-term liabilities.

2009-10	Ryde Gateway £000's	Waste PFI £000's	PFI Deferred Income £000's	Finance leases £000's	Total £000's
Obligations payable in 2010-11	204	872	123	47	1,246
Obligations payable between 2011-12 and 2015-16	408	4,057	493	267	5,225
Obligations payable after 2015-16	0	0	0	118	118
<b>Total</b>	<b>612</b>	<b>4,929</b>	<b>616</b>	<b>432</b>	<b>6,589</b>

Ryde Gateway

The Council has received £0.612 million from the Department for Transport (DFT) that has been applied as capital grant and would have been anticipated to have been written down over the life of the asset once completed. Following the cessation of this project, the Council is required to repay this grant to the DFT over a three year period in accordance with the grant conditions.

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 through government funding (PFI credits).



### Deferred Liabilities (continued)

Within the Waste PFI contract, the Council has acquired fixed assets under a finance lease arrangement. The rentals payable under these arrangements in 2009-10 was £1.174 million (£1.174 million in 2008-09), charged to the Income and Expenditure Account as £0.335 million finance cost (charged to Interest Payable) and £0.839 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 Statement of Movement on the General Fund Balance.

During 2009-10, Island Waste invested more than the contract profile. The excess of this expenditure is treated as an asset with the corresponding entry credited to deferred income (£0.616 million).

The following values of assets are held under finance leases by the authority, accounted for as part of Tangible Fixed Assets:-

	<b>PFI Assets</b>
	<b>£000's</b>
Value at 1 April 2009	8,161
Additions	1,072
Revaluations	787
Depreciation	(1,215)
Impairment	(4,861)
Disposals	(20)
<b>Total assets at 31 March 2010</b>	<b>3,924</b>

The movement in the finance rental at 31 March 2010, accounted for as long-term liabilities are as follows:-

	<b>£000's</b>
Value at 1 April 2009	5,466
Finance additions	302
Finance charge	335
Finance lease rental	(1,174)
<b>Finance lease outstanding at 31 March 2010</b>	<b>4,929</b>

Outstanding obligations to make payments under the Waste PFI scheme at 31 March 2010, separated into repayments of liability, interest and service charges are as follows:-

	Repayment of liability £000's	Interest £000's	Service Charges £000's	<b>Total</b> <b>£000's</b>
Within one year	872	302	5,126	<b>6,300</b>
Within two to five years	4,057	640	22,443	<b>27,140</b>
<b>Total</b>	<b>4,929</b>	<b>942</b>	<b>27,569</b>	<b>33,440</b>

### Other Finance Leases

Vehicles, plant, furniture and equipment – the authority has acquired fire service vehicle assets under finance leases. The rentals payable under these arrangements in 2009-10 was £0.066 million (£0.066 million in 2008-09), charged to the Income and Expenditure Account as £0.022 million finance costs (debited to interest payable) and £0.044 million relating to the write-down of obligations to the lessor (debited as part of the appropriation to Capital Adjustment Account in the Statement of Movement on the General Fund Balance).

The following values of assets are held under finance leases by the authority, accounted for as part of Tangible Fixed Assets:

	<b>Vehicles, Plant &amp; Equipment</b>	
	<b>2010 £000's</b>	<b>2009 £000's</b>
Value at 1 April	<b>407</b>	472
Additions	<b>0</b>	0
Revaluations	<b>0</b>	0
Depreciation	<b>(64)</b>	(65)
Disposals	<b>0</b>	0
<b>Value at 31 March</b>	<b>343</b>	407

## 24. Retirement Benefits

### Participation in pension schemes

As part of the terms and conditions of employment of its officers and other employees, the authority offers retirement benefits. Although these benefits will not actually be payable until after employees retire, the authority 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 three pension schemes:

- the Local Government Pension Scheme is administered by the Council and is a funded defined benefit final salary scheme, meaning that the authority 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 Firefighters' Pension Scheme (Amendment)(England) Order 2006, the fund is topped up by Government grant if the contributions are insufficient to meet the cost of pension payment, while any surplus in the fund is repayable to Central Government. Regular firefighters employed before 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. For the purpose of the disclosures shown on the following pages, these two schemes have been combined.
- teachers employed by the authority are members of the Teachers' Pension Scheme, which is administered by the Teachers' Pension Agency.

### Transactions relating to retirement benefits

The cost of retirement benefits are recognised in the Net 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 retirement benefits is reversed out in the Statement of Movement in the General Fund Balance. The transactions that have been made in the Income and Expenditure Account and Statement of Movement in the General Fund Balance during the year relating to both the Local Government and Firefighters' Pension Schemes are as follows:-

Retirement Benefits (continued)

	Local Government Pension Scheme £000's		Firefighters' Pension Scheme £000's		Total £000's	
	2009-10	2008-09	2009-10	2008-09	2009-10	2008-09
<i>Net cost of services:</i>						
Current Service cost	<b>(6,644)</b>	(7,809)	<b>(700)</b>	(700)	<b>(7,344)</b>	(8,509)
Past service costs	<b>(669)</b>	(3,116)	<b>(300)</b>	0	<b>(969)</b>	(3,116)
Settlements and Curtailments	<b>(438)</b>	(776)	<b>0</b>	0	<b>(438)</b>	(776)
<i>Net Operating Expenditure</i>						
Interest cost	<b>(20,848)</b>	(21,214)	<b>(2,400)</b>	(2,300)	<b>(23,248)</b>	(23,514)
Expected return on assets	<b>12,853</b>	16,772	-	-	<b>12,853</b>	16,772
Top-up grant repayable (to)/from Government	-	-	<b>2</b>	820	<b>2</b>	820
<i>Net Charge to the Income and Expenditure Account</i>						
	<b>(15,746)</b>	(16,143)	<b>(3,398)</b>	(2,180)	<b>(19,144)</b>	(18,323)
<i>Statement of Movement in the General Fund Balance</i>						
Reversal of net charges made for retirement benefits in accordance with FRS 17	<b>2,261</b>	3,440	<b>1,800</b>	1,200	<b>4,061</b>	4,640
Top-up grant repayable to/(from) Government	-	-	<b>(2)</b>	(820)	<b>(2)</b>	(820)
<i>Actual amount charged against the General Fund Balance for pensions in the year:</i>						
Employers' contributions payable to the scheme (including unfunded benefits)	<b>13,485</b>	12,703	-	-	<b>13,485</b>	12,703
Retirement benefits payable to pensioners (net of member contributions)	-	-	<b>1,600</b>	1,800	<b>1,600</b>	1,800

In addition to the recognised gains and losses included in the Income and Expenditure Account, actuarial losses of £120.716 million (£35.767 million loss in 2008-09) were included in the Statement of Total Recognised Gains and Losses. The cumulative amount of actuarial losses recognised in the Statement of Recognised Gains and Losses is £151.715 million.

Retirement Benefits (continued)Assets and Liabilities in Relation to Retirement Benefits

Reconciliation of present value of the scheme liabilities:

	<b>Funded liabilities: Local Government Pension Scheme £000's</b>		<b>Unfunded liabilities: Fire-fighters' Pension Scheme £000's</b>		<b>Total £000's</b>	
	<b>2009-10</b>	2008-09	<b>2009-10</b>	2008-09	<b>2009-10</b>	2008-09
	1 April	<b>(303,106)</b>	(305,970)	<b>(36,100)</b>	(33,821)	<b>(339,206)</b>
Current service cost	<b>(6,644)</b>	(7,809)	<b>(700)</b>	(700)	<b>(7,344)</b>	(8,509)
Interest cost	<b>(20,848)</b>	(21,214)	<b>(2,400)</b>	(2,300)	<b>(23,248)</b>	(23,514)
Contributions by scheme participants	<b>(3,753)</b>	(3,705)	<b>(200)</b>	(200)	<b>(3,953)</b>	(3,905)
Actuarial gains and losses	<b>(167,732)</b>	27,079	<b>(15,000)</b>	(1,200)	<b>(182,732)</b>	25,879
Estimated Unfunded Benefits paid	<b>1,255</b>	1,200	-	-	<b>1,255</b>	1,200
Estimated Benefits paid	<b>12,217</b>	11,204	-	-	<b>12,217</b>	11,204
Pensions and lump sum expenditure	-	-	<b>1,800</b>	1,700	<b>1,800</b>	1,700
Injury Award expenditure	-	-	<b>300</b>	300	<b>300</b>	300
Past service costs	<b>(669)</b>	(3,115)	-	-	<b>(669)</b>	(3,115)
Losses on curtailment	<b>(438)</b>	(776)	-	-	<b>(438)</b>	(776)
Movement on Top-up grant creditor	-	-	<b>0</b>	121	<b>0</b>	121
<b>31 March</b>	<b>(489,718)</b>	(303,106)	<b>(52,300)</b>	(36,100)	<b>(542,018)</b>	(339,206)

Retirement Benefits (continued)

Reconciliation of fair value of the scheme assets:-

	Local Government Pension Scheme		Fire-fighters' Pension Scheme		Total	
	£000's		£000's		£000's	
	2009-10	2008-09	2009-10	2008-09	2009-10	2008-09
1 April	<b>192,919</b>	233,789	<b>699</b>	0	<b>193,618</b>	233,789
Expected rate of return	<b>12,853</b>	16,772	-	-	<b>12,853</b>	16,772
Actuarial gains and losses	<b>62,016</b>	(61,646)	-	-	<b>62,016</b>	(61,646)
Contributions by scheme participants	<b>3,753</b>	3,705	<b>200</b>	200	<b>3,953</b>	3,905
Employer contributions	<b>12,230</b>	11,503	<b>1,600</b>	1,800	<b>13,830</b>	13,303
Contributions in respect of Unfunded Benefits paid	<b>1,255</b>	1,200	-	-	<b>1,255</b>	1,200
Unfunded Benefits paid	<b>(1,255)</b>	(1,200)	-	-	<b>(1,255)</b>	(1,200)
Estimated Benefits paid	<b>(12,217)</b>	(11,204)	-	-	<b>(12,217)</b>	(11,204)
Pensions and lump sum expenditure	-	-	<b>(1,800)</b>	(2,000)	<b>(1,800)</b>	(2,000)
Movement on Top-up grant debtor	-	-	<b>2</b>	699	<b>2</b>	699
<b>31 March</b>	<b>271,554</b>	192,919	<b>701</b>	699	<b>272,255</b>	193,618

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 £74.927 million (2008-09: -£44.956 million).

## Retirement Benefits (continued)

### Scheme History (of actuarial valuations excluding top-up grants)

	2005-06 £000's	2006-07 £000's	2007-08 £000's	2008-09 £000's	2009-10 £000's
Present value of liabilities:					
Local Government Pension Scheme	(324,300)	(327,422)	(305,970)	(303,106)	<b>(489,718)</b>
Firefighters' Pension Scheme	(39,300)	(38,600)	(33,700)	(36,100)	<b>(52,300)</b>
Fair value of assets in the Local Government Pension Scheme	211,875	232,097	233,789	192,919	<b>271,554</b>
Surplus/(deficit) in the scheme:					
Local Government Pension Scheme	(112,425)	(95,325)	(72,181)	(110,187)	<b>(218,164)</b>
Firefighters' Pension Scheme	(39,300)	(38,600)	(33,700)	(36,100)	<b>(52,300)</b>
Total	<b>(151,725)</b>	<b>(133,925)</b>	<b>(105,881)</b>	<b>(146,287)</b>	<b>(270,464)</b>

The above totals exclude the Fire-fighters' Scheme Top-up grant repayable by central government. At 31 March 2010 £0.701 million has been included within the preceding assets statement as a debtor (2008-09 debtor of £0.699 million).

The liabilities show the underlying commitments that the authority has in the long run to pay retirement benefits. The total liability of £270.464 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 £86.156 million.

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

- the deficit on the local government scheme will be made good by increased contributions over the remaining life of employees, as assessed by the scheme actuary
- 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 2011 is £12.860 million. Due to the unfunded nature of the Fire-fighters' Pension Scheme, the contributions in the year to 31 March 2011 made by the council will be dependant 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.

Retirement Benefits (continued)

The principal assumptions used the actuary have been:

	<b>Local Government Pension Scheme</b>		<b>Fire-fighters' Pension Scheme</b>	
	<b>2009-10</b>	2008-09	<b>2009-10</b>	2008-09
Long-term expected rate of return on assets in the scheme:				
Equity investments	<b>7.8%</b>	7.0%	-	-
Bonds	<b>5.0%</b>	5.6%	-	-
Property	<b>5.8%</b>	4.9%	-	-
Cash	<b>4.8%</b>	4.0%	-	-
Mortality assumptions: (at age 65 for Local Government Scheme and at age 60 for Fire-fighters' scheme):				
Longevity for current pensioners (years):				
Men	<b>20.8</b>	19.6	<b>27.6</b>	27.6
Women	<b>24.1</b>	22.5	<b>31.0</b>	31.0
Longevity for future pensioners (years):				
Men	<b>22.3</b>	20.7	<b>29.2</b>	29.2
Women	<b>25.7</b>	23.6	<b>32.7</b>	32.7
Rate of inflation	<b>3.8%</b>	3.1%	<b>3.8%</b>	3.1%
Rate of increase in salaries	<b>5.3%</b>	4.6%	<b>5.3%</b>	4.6%
Rate of increase in pensions	<b>3.8%</b>	3.1%	<b>3.8%</b>	3.1%
Rate for discounting scheme liabilities	<b>5.5%</b>	6.9%	<b>5.5%</b>	6.9%
Commutation assumptions:-				
Take-up of option to convert annual pension into retirement lump sum – pre April 2008 service	<b>25%</b>	25%	-	-
Take-up of option to convert annual pension into retirement lump sum – post April 2008 service	<b>63%</b>	-	-	-
Take-up of option to convert annual pension into retirement lump sum	-	-	<b>90%</b>	-

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.

	<b>31 March 2010</b>	31 March 2009
	<b>%</b>	<b>%</b>
Equity investments	<b>72.0</b>	73.0
Bonds	<b>22.0</b>	20.0
Property	<b>5.0</b>	5.0
Cash	<b>1.0</b>	2.0
<b>Total</b>	<b>100.0</b>	100.0



## Retirement Benefits (continued)

### History of experience gains and losses

The actuarial gains identified as movements on the Pension Reserve in 2009-10 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31<sup>st</sup> March of each year.

#### **Local Government Pension Scheme**

	2005-06	2006-07	2007-08	2008-09	2009-10
	%	%	%	%	%
Differences between the expected and actual return on assets	17.64	0.98	(7.10)	(24.22)	<b>29.60</b>
Experience gains and losses on liabilities	0.31	(0.16)	2.59	0.00	<b>0.12</b>

#### **Fire-Fighters' Pension Scheme**

	2005-06	2006-07	2007-08	2008-09	2009-10
	%	%	%	%	%
Differences between the expected and actual return on assets	-	-	-	-	-
Experience gains and losses on liabilities	3.31	(0.52)	(0.30)	6.65	<b>3.63</b>

#### **Teachers' Pension Scheme**

Teachers employed by the authority are members of the Teachers' Pension Scheme, administered by the Department for Children, Schools and Families. It provides teachers with defined benefits upon their retirement, and the authority contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

In 2009-10, the council paid £5.678 million to Teachers' Pensions in respect of teachers' retirement benefits, representing 14.1% of pensionable pay (£5.629 million in 2008-09). There were no contributions remaining payable at year-end.

The scheme is a defined benefit scheme. Although the scheme is unfunded, Teachers' Pensions use a notional fund as the basis for calculating the employers' contribution rate paid by local education authorities. However, it is not possible for the authority to identify a share of the underlying liabilities in the scheme attributable to its own employees. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

The authority is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These benefits are fully accrued in the pensions liability reported in the Balance Sheet.

25. Revaluation Reserve

This reserve records the accumulated gains on the fixed assets held by the authority arising from increases in value, as a result of inflation or other factors, but only to the extent that these gains have not been consumed by subsequent downward movement in value. The reserve is also debited with amounts equal to the part of depreciation charges on assets that have been incurred only because the asset has been revalued. On disposal, the Revaluation Reserve balance for the asset disposed of is written out to the Capital Adjustment Account. The overall balance on the Reserve thus represents the amount by which the current value of fixed assets carried in the Balance Sheet is greater because they are carried at revalued amounts rather than depreciated historical cost. Whilst these gains arising from revaluations increase the net worth of the authority, they would only result in an increase in spending power if the relevant assets were sold and capital receipts generated. It does not therefore represent resources available to support capital financing. The Reserve was introduced with a zero balance on 1 April 2007 and so the closing position at 31 March 2010 shows only revaluation gains accumulated since that date.

	<b>31 March 2010 £000's</b>	31 March 2009 £000's
Balance at beginning of year	<b>33,758</b>	19,199
Revaluation gains	<b>17,986</b>	15,533
Adjustment	<b>0</b>	(2)
Disposals	<b>(236)</b>	(688)
Historical Cost Depreciation Adjustment	<b>(723)</b>	(284)
Balance at end of year	<b>50,785</b>	33,758

26. Capital Adjustment Account

This account accumulates the write-down of the historical cost of fixed assets as they are consumed by depreciation and impairments or written-off on disposal. It also accumulates the resources that have been set-aside to finance capital expenditure. The same process applies to capital expenditure that is only capital by statutory definition (Revenue Expenditure Funded from Capital under Statute). The balance on the account thus represents timing differences between the amount of the historical cost of fixed assets that have been consumed and the amount that has been financed in accordance with statutory requirements.

	<b>31 March 2010</b>	31 March 2009 restated (note 1)
	<b>£000's</b>	£000's
Balance at beginning of year	<b>133,077</b>	143,363
Depreciation & Impairment	<b>(27,312)</b>	(16,100)
Amortisation of Intangible Assets	<b>(455)</b>	(648)
Minimum Revenue Provision	<b>7,711</b>	6,578
Capital Grants & Contributions deferred	<b>2,606</b>	1,890
Capital Grants & Contributions not deferred	<b>2,355</b>	2,585
Revenue Expenditure Funded from Capital under Statute	<b>(4,099)</b>	(2,309)
Fixed Asset Disposals	<b>(2,039)</b>	(889)
Balance of Disposals on Revaluation Reserve	<b>236</b>	688
Usable Receipts Applied	<b>4,829</b>	2,200
Deferred Consideration	<b>0</b>	(372)
Waste PFI adjustments	<b>0</b>	61
Waste PFI Deferred income	<b>154</b>	0
Historical Cost Depreciation Adjustment	<b>723</b>	284
Reinstatement of abortive capital expenditure – capital receipts	<b>(2,887)</b>	0
Asset Register correction	<b>0</b>	(4,254)
Balance at end of year	<b>114,899</b>	133,077

27. Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account provides a balancing mechanism between the different rates at which gains and losses (such as the premiums on the early repayment of debt) are recognised under the SORP and are required by statute to be met from the General Fund. During the financial year ended 31 March 2009, the Council made early repayment of long-term debt to the Public Works Loan Board (PWLB) of £15.4 million and incurred a premium of £3.375 million. Under Capital Financing and Accounting Regulations, authorities can spread the impact of premiums on Council Tax over future financial years, subject to maximum periods. The full amount of the premium is included with the Interest Payable figure in the Income and Expenditure Account, but the amount to be carried forward is then reversed out in the Statement of Movement on the General Fund Balance and shown on the Balance Sheet. This balance will be written-down through the Statement of Movement on the General Fund Balance until 31 March 2015.

	<b>31 March 2010 £000's</b>	31 March 2009 £000's
Balance at beginning of year	2,941	0
Premium on early repayment of debt (charged to Income & Expenditure Account)	0	3,375
Charge to the General Fund	(490)	(434)
<b>Balance at end of year</b>	<b>2,451</b>	<b>2,941</b>

28. Capital Receipts Reserve

Capital Receipts are generated mainly from the sale of fixed assets and are used to support the Council's capital investment programme. All accumulated receipts were utilised in the year.

	<b>31 March 2010 £000's</b>	31 March 2009 £000's
Balance at beginning of year	0	0
Adjustment – reinstated balance from previous year	2,887	0
Sale of Capital Assets	1,942	2,201
	<b>4,829</b>	2,201
Less: applied to capital	(4,828)	(2,200)
to meet payments to the Housing Capital Receipts Pool	(1)	(1)
Balance at end of year	<b>0</b>	<b>0</b>

29. Deferred Capital Receipts

This item comprises outstanding balances on mortgages made to private householders (former Council tenants) amounting to £0.002 million (2008-09 £0.004 million), other sundry loans of £0.072 million (2008-09 £0.076 million) and a deferred receipt of income arising from the sale of land in 2009-10 amounting to £0.018 million.

30. Earmarked Reserves

	Balance 1 April £000's	Contributions £000's	Payments £000's	Total Movements £000's	Balance 31 March £000's
Earmarked Revenue	2,260	3,015	(2,260)	755	<b>3,015</b>
Repairs & Renewals Funds	1,037	349	(407)	(58)	<b>979</b>
Earmarked Reserves – Children's Services	298	0	(52)	(52)	<b>246</b>
Earmarked Reserves – Adult Social Care Services	242	85	(44)	41	<b>283</b>
Highways Maintenance PFI Preliminary Costs Reserve	3,012	0	(1,902)	(1,902)	<b>1,110</b>
Earmarked Reserves – Other Services	2,054	319	(687)	(368)	<b>1,686</b>
School Balances	2,688	75	(1,983)	(1,908)	<b>780</b>
Insurance & Risk Funds	4,899	402	(358)	44	<b>4,943</b>
<b>Total</b>	<b>16,490</b>	<b>4,245</b>	<b>(7,693)</b>	<b>(3,448)</b>	<b>13,042</b>

The Earmarked Revenue Reserve provides the finance for slipped expenditure to be carried forward into the next financial year.

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

The Children's Services earmarked reserves include a Health and Safety fund, an ICT reserve and a general contingency set aside to meet future requirements.

The Adult Social Care earmarked reserves relate to a computer development project, the Wightcare Services equipment renewals fund and a sum set-aside to provide future financing for the Find-a-Home scheme.

The Highways Maintenance PFI Preliminary Costs reserve represents funds that have been set-aside to provide funding for the initial preparation costs which are necessary for the project to be delivered.

Other Services earmarked reserves represent specific sums set aside to meet future requirements, specifically in relation to restructuring costs, computer systems developments and asset reviews, as well as individual service project funds.

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.

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.

31. Detail of Movement on Reserves

The Council keeps a number of reserves in the Balance Sheet. Some are required to be held for statutory reasons, some are needed to comply with proper accounting practice, and others have been set up voluntarily to earmark resources for future spending plans.

	Balance 1 April restated (note 1)	Net Movement in Year	<b>Balance 31 March</b>	Purpose of Reserve	Further Detail of Movements
	£000's	£000's	<b>£000's</b>		
Revaluation Reserve	33,758	17,027	<b>50,785</b>	Store of gains on revaluation of fixed assets not yet realised through sales	Note 25
Capital Adjustment Account	133,077	(18,178)	<b>114,899</b>	Store of capital resources set aside to meet past expenditure	Note 26
Financial Instruments Adjustment Account	(2,941)	490	<b>(2,451)</b>	Balancing account to allow for differences in statutory requirements and proper accounting practices for borrowings and investments	Note 27
Capital Receipts Reserve	0	0	<b>0</b>	Proceeds from asset sales applied in-year to meet the cost of capital investment	Note 28
Pensions Reserve	(145,588)	(124,176)	<b>(269,764)</b>	Balancing account to allow inclusion of Pensions Liability in the Balance Sheet	Note 24
General Fund	11,515	(4,242)	<b>7,273</b>	Resources available to meet future running costs	Statement of Movement on the General Fund Balance
Earmarked Reserves	16,490	(3,448)	<b>13,042</b>	Resources set-aside to fund known and potential future liabilities	Note 30
Other Reserves	(5)	65	<b>60</b>	Deferred credits and Collection Fund Adjustment Account balance	Note 29 & Collection Fund statement
<b>Total</b>	<b>46,306</b>	<b>(132,462)</b>	<b>(86,156)</b>		

32. Interests in other entities

The Council does not have, in aggregate, a material interest in any subsidiary companies, associated companies or joint ventures. Group Accounts have therefore not been prepared. The Council has an interest in the following entities, the accounts of which have not been consolidated into the financial statements of the Council.

**Island 2000 Trust Ltd** coordinates and runs projects that preserve and enhance the landscape of the Island. It is a company limited by guarantee in which the Council holds 18.75% of the voting rights. The Council contracts a minor amount of work to the Trust for 'Eco Island' related activities, but this is in a client/contractor capacity and does not constitute access to economic benefit or service potential. Further information can be obtained from the registered office:- Cowes Waterfront, Venture Quays, Castle Street, East Cowes, Isle of Wight, PO32 6EZ.

**Hampshire and Wight Trust for Maritime Archaeology** is a registered charity established to preserve maritime archaeology sites in the Solent. It is a company limited by guarantee with a Management Board of no less than five and up to twelve members. Although the Council is a member of the Trust, no appointments were made during 2009-10. Further information can be obtained from the registered office:- Room W1/95, Southampton Oceanography Centre, Southampton, SO14 3ZH.

**OSEL Enterprises Ltd** provides employment for people with learning difficulties. It is a registered charity and a company limited by guarantee in which the Council has no voting rights. Although a significant proportion of the company's income is derived from contracts with the Council, the relationship is in a client/contractor capacity and does not constitute access to economic benefit or service potential. Further information can be obtained from the registered office:- Sunnycrest Nursery, Wacklands Lane, Newchurch, Sandown, Isle of Wight, PO36 0NB.

**Riverside Centre Ltd** operates the multi-purpose Centre at Newport Quay. It is a company limited by guarantee and although the Council can appoint three of the Centre's ten trustees, no appointments were made during 2009-10. The company rents the Centre from the Council and the Council generates a significant proportion of the Centre's income. The Council does not have access to any economic benefit or service potential other than that experienced in any landlord/tenant relationship. Further information can be obtained from the registered office:- The Quay, Newport, Isle of Wight, PO30 2QR.

**The Isle of Wight Economic Partnership Ltd** aims to attract new investment and new businesses to the Island. It is a company limited by guarantee and although the Council has a right to make appointments to the Board, no appointments were made during 2009-10. The company rents its premises from the Council and acts on a contractual basis as the agent for the distribution of SEEDA grants. The Council remains the accountable body for these grants, but not for IWEP as an organisation. Further information can be obtained from the registered office:- The Innovation Centre, St Cross Business Park, Monks Brook, Newport, Isle of Wight, PO30 5WB.

**Island Youth Water Activities Centre (Isle of Wight) Ltd** operates the Cowes Watersports Centre. It is a company limited by guarantee and although the Council has a right to make appointments to the Board, no appointments were made during 2009-10. The Centre's core funding comes from the Council, but this does not equate to the Council having any control over its operating or financial policies. Further information can be obtained from the registered office:- Whitegates, Artic Road, Cowes, Isle of Wight, PO31 7PG.

**Cowes Yacht Haven Ltd** is a company limited by shares. The Council owns a minority interest of 2% of the share capital, the remaining 98% being owned by Cowes Town Waterfront Trust Ltd (CTWT). The Council therefore does not have any control or influence over the company and the Council has no rights to any income, profits or dividends as any taxable profit is covenanted to the CTWT Ltd. Further information can be obtained from the registered office:- Vectis Yard, High Street, Cowes, Isle of Wight, PO31 7BD.

**Isle of Wight Maritime Heritage Partnership Ltd** was a company limited by guarantee with no share capital. The company was dissolved in June 2009 and was not active during 2009-10. Further information can be obtained from the registered office:- County Hall, Newport, Isle of Wight, PO30 1UD.

Interests in other entities (continued)

**Challenge & Adventure Ltd** is a registered charity and a company limited by guarantee with the principal activity of providing the relief and education of young persons who are in need by reason of their social, health or economic circumstances. The Board members include representatives from the Isle of Wight Council's Children's Services, Police, Youth Offending Scheme, Duke of Edinburgh's Award, Local Businesses and the Health Service. The net assets of the company are not material to the Council. Further

information can be obtained from the registered office:- Shorwell Youth & Community Centre, Fine Lane, Shorwell, Isle of Wight, PO30 3JY.

33. 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 now nineteen years, there is a diminishing probability of a claim against the Council.

In addition, there are a number of legal matters pending which could potentially incur costs of up to £4.180 million. A total of £3.350 million arises from claims against the Council while the remaining amount is due mainly to Planning, Highways and Transport issues. However, these sums have been included as part of the risk assessment of the fund held against non-insurable risks.

34. Authorisation of Accounts for Issue

The Strategic Director of Resources authorised the financial statements for issue on 27 September 2010.

35. Events after the Balance Sheet Date

The Chancellor of the Exchequer announced in his Emergency Budget on 22 June 2010 that the consumer prices index rather than the retail prices index will be the basis for future public sector pension increases. In accordance with paragraph 21 of Financial Reporting Standard 21 (Events after the balance sheet date), this change is deemed to be a non-adjusting post balance sheet event. It is estimated that this change will reduce the value of an average employer's FRS17 liabilities in the Funds by around 6% to 8%. The impact of this estimate on the Isle of Wight Council Balance Sheet based on the position as at 31 March 2010 will be a reduction in liabilities relating to defined benefit pension schemes (the Local Government and Fire-fighters' Pension Schemes) of between £32.521 million and £43.361 million.

There were no further 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.

36. 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 £0.102 million at 31<sup>st</sup> March 2010 (£0.104 million on 31<sup>st</sup> March 2009).
- 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 £0.038 million at 31<sup>st</sup> March 2010 (£0.036 million on 31<sup>st</sup> March 2009).

Trust Funds and Other Balances (continued)

	<b>31 March 2010 £000's</b>	31 March 2009 £000's
Trust Funds Etc	147	146
Cash in Safekeeping	19	17
Amenity Funds	70	101
Total	<b>236</b>	264



37. Reconciliation of the deficit on the Income and Expenditure Account and the Collection Fund to the Net Revenue Activities Cash Flow

	2009-10 £000's	2009-10 £000's	2008-09 £000's
Deficit on Income & Expenditure Account	(29,748)		(20,750)
Surplus/(Deficit) on Collection Fund	-		285
		(29,748)	(20,465)
<b>Non-Cash Transactions</b>			
Depreciation and Impairment	27,767		16,748
Deferred Grants amortised in year	(2,606)		(1,890)
Capital grants & contributions not deferred	(2,355)		(2,585)
Net PFI debtor adjustment	-		372
Pension Fund adjustments	3,461		3,820
Contributions to Provisions	(782)		1,025
		25,485	17,490
<b>Adjustment for items reported separately on Cashflow</b>			
Interest and Investment income	(368)		(2,496)
Interest payable and similar charges	6,354		10,937
Interest element of finance lease rental payments	357		24
Revenue Expenditure funded from Capital Resources under Statute	4,099		2,309
Gain or loss on the disposal of Fixed Assets	101		(1,301)
		10,543	9,473
<b>Items on an Accrual Basis</b>			
(Increase)/Decrease in Stock	(71)		(9)
(Increase)/Decrease in Debtors	(3,716)		(2,655)
Increase/(Decrease in Creditors)	1,389		(5,285)
		(2,398)	(7,949)
<b>Net Cash Inflow/(outflow) from Operating activities</b>		<b>3,882</b>	<b>(1,451)</b>

38. Analysis of Net Debt (Reconciliation of Net Debt to related items in the Balance Sheet)

	Cash	Temporary Investments & Short Term Deposits	Amounts relating to major preceptors	Total	Loans due within one year	Loans due after more than one year	Deferred Liabilities	Net Debt
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Balance at 1 April 2009	(4,986)	11,847	(640)	6,221	(14,035)	(112,888)	(5,943)	(126,645)
Cashflow/changes in year	1,091	(4,596)	(1,505)	(5,010)	4,489	0	582	61
Other non-cash changes	-	-	-	-	(1,254)	-	(616)	(1,870)
Balance at 31 March 2010	(3,895)	7,251	(2,145)	1,211	(10,800)	(112,888)	(5,977)	(128,454)

39. Reconciliation of changes in cash to movement in net debt

	2009-10 £000's	2009-10 £000's	2008-09 £000's
Increase/(Decrease) in cash in year		1,091	(3,743)
Cash inflow/(outflow) from management of Liquid Resources		(6,101)	(22,571)
Cash inflow from new loans raised		0	(3,179)
Cash outflow from loans repaid	3,169		18,483
Payment of interest accrued at last Balance Sheet date	1,320		1,552
Deferred Liabilities repaid	582		43
		<hr/> 5,071	<hr/> 20,078
<b>Change in net debt resulting from cash flows</b>		<b>61</b>	<b>(9,415)</b>
Other Non-Cash Changes:			
Interest accrued at year end on loans and finance leases	(1,254)		(1,320)
New Deferred liabilities	(616)		0
		<hr/> (1,870)	<hr/> (1,320)
		<b>(1,809)</b>	<b>(10,735)</b>
<b>Net Debt brought forward</b>		<b>(126,645)</b>	<b>(109,804)</b>
<b>Net Debt carried forward</b>		<b>(128,454)</b>	<b>(120,539)</b>

40. Analysis of changes in cash and liquid resources during the year

	2009-10 £000's	2008-09 £000's
Short-term Deposits	(4,596)	(22,571)
Amounts relating to Council Tax and NNDR	(1,505)	-
Cash	(786)	2,006
Bank overdraft	1,877	(5,749)
Increase/(Decrease) in year	<hr/> (5,010)	<hr/> (26,314)

41. Analysis of changes to 2008-09 comparative figures

The 2008-09 comparative figures on the Cash Flow statement have not been restated. This has resulted in some differences between the carry forward and brought forward 2008-09 figures in the 2009-10 statements.

There is a difference of £6.106 million between the Net Debt carried forward on 31 March 2009 in note 39 and the opening balance at 1 April 2009 of the Net Debt shown on this note and also on note 38. This is due to the restatements made in respect of the accounting for Council Tax/NNDR (£0.640 million) and the additional deferred liabilities (£5.466 million) arising principally from the Waste PFI contract.

There is also a difference of £0.124 million between the Deficit for the Year on the Income and Expenditure Account and the equivalent figure on note 37. This difference results from an additional charge of £0.382 million (principally interest payable) arising from the Waste PFI contract, offset by additional income of £0.259 million being the adjustment made to Council Tax income.

42. Management of Liquid Resources

The Council's liquid resources in 2009-10 consisted of short-term investments to banks, building societies and the Debt Management Account Deposit Facility (DMADF), which could be realised in a relatively short time. These investments were made in accordance with the Council's Treasury Management Strategy. Details of the Council's Treasury Management Strategy are shown in Note 46.

43. Analysis of Government Grants

	2009-10 £000's	2008-09 £000's	2009-10 £000's	2008-09 £000's
	Revenue Grants		Capital Grants	
Department for Children, Schools & Families (DCSF) (see note below)	99,010	95,276	23,132	15,827
Department of Health	890	555	544	227
Home Office	166	26	33	33
Dept of Works and Pensions – Housing Benefit	45,881	40,866	0	0
Dept of Works and Pensions – Other	14,906	13,477	0	0
Department of Transport	958	903	948	1,181
Department for Communities & Local Government	10,157	9,243	2,244	167
Other (including European Grants)	935	1,058	1,452	259
	<b>172,903</b>	<b>161,404</b>	<b>28,353</b>	<b>17,694</b>

The responsibilities of DCSF have now been taken over by the Department of Education. Grants received from the Learning and Skills Council and the Training and Development Agency have also been included in this category.

44. Dedicated Schools Grant

The council's expenditure on schools is funded by grant monies provided by the Department for Children, Schools and Families, 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 2008. 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 2009-10 are as follows:

	Central Expenditure £000's	Individual Schools Budget (ISB) £000's	Total £000's
Final DSG for 2009-10	-	-	74,162
Brought forward from 2008-09	-	-	(182)
Carry-forward to 2010-11 agreed in advance	-	-	0
Agreed budget distribution in 2009-10	10,314	63,666	73,980
Actual central expenditure	10,729	-	-
Actual ISB deployed to schools	-	63,394	-
Local authority contribution for 2009-10	0	0	0
Carry forward to 2010-11	(415)	272	(143)

45. Section 106 receipts

Section 106 receipts are monies paid to the Council by developers as a result of the grant of planning permission where works are required to be carried out or new facilities provided as a result of that permission. The sums are restricted to being spent only in accordance with the agreement concluded with the developer. These amounts are included in the Creditors and Receipts in Advance figure on the Balance Sheet. The major balances of Section 106 receipts held by the Council during the year were as follows:-

	<b>31 March 2009 £000's</b>	<b>Income £000's</b>	<b>Expenditure £000's</b>	<b>31 March 2010 £000's</b>
B & Q Dodnor Lane/Medina Way – Public Transport in Newport	139	0	(1)	<b>138</b>
Kingston, East Cowes	275	0	0	<b>275</b>
Tesco Store, Ryde	222	0	0	<b>222</b>
Former Dairy Crest site, Old Westminster Lane, Newport	278	0	0	<b>278</b>
Honeycross Project	136	0	0	<b>136</b>
Coppins Bridge Project	136	0	0	<b>136</b>
Other	843	91	(90)	<b>844</b>
<b>Total</b>	<b>2,029</b>	<b>91</b>	<b>(91)</b>	<b>2,029</b>

46. Financial Instruments

The Balance Sheet includes the following financial liabilities and financial assets:-

	<b>Long-Term</b>		<b>Current</b>	
	<b>31 March 2010 £000's</b>	31 March 2009 £000's	<b>31 March 2010 £000's</b>	31 March 2009 £000's
Financial liabilities at amortised cost	<b>(118,231)</b>	(117,947)	<b>(31,010)</b>	(31,217)
Total financial liabilities	<b>(118,231)</b>	(117,947)	<b>(31,010)</b>	(31,217)
Loans and receivables	<b>88</b>	94	<b>23,462</b>	20,136
Available-for-sale financial assets	<b>11</b>	11	<b>0</b>	0
Total financial assets	<b>99</b>	105	<b>23,462</b>	20,136

## Financial Instruments (continued)

The gains and losses recognised in the Income and Expenditure Account and the Statement of Total Recognised Gains and Losses in relation to financial instruments are made up as follows:

	<b>31 March 2010</b>	31 March 2009 (note 1)
	<b>£000's</b>	£000's
<b>Financial Liabilities</b>		
Interest from Financial Liabilities measured at amortised cost	<b>(6,711)</b>	(11,307)
<b>Financial Assets</b>		
Interest from Loans and Receivables	<b>368</b>	2,496
Interest from Available-for-sale assets	<b>0</b>	0
Interest and Investment income	<b>368</b>	2,496
Net loss for the year	<b>(6,343)</b>	(8,811)

Financial liabilities and financial assets represented by loans and receivables 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:

- the fair value of loans from the PWLB has been calculated by reference to the 'premature repayment' rates in force on 31 March
- 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 value of long-term PWLB loans is calculated as follows:

	<b>31 March 2010</b>		31 March 2009	
	<b>Carrying amount</b>	<b>Fair value</b>	Carrying amount	Fair value
	<b>£000's</b>	<b>£000's</b>	£000's	£000's
Financial liabilities	<b>114,007</b>	<b>125,157</b>	117,073	136,495

The fair value is more than the carrying amount because the Authority's PWLB portfolio comprises fixed rate loans where the interest rate payable is higher than the premature repayment rates available for similar loans at the Balance Sheet date. The commitment to pay interest above these rates increases the amount that the Authority would have to pay if the lender requested or agreed to early repayment of these loans.

There are three Lender Option Borrower Option (LOBO) loan amounting to £9 million included in the 'Repayable within one year' category. 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.

<b>Amount (£000's)</b>	<b>Interest Rate (%)</b>	<b>Final Maturity Date</b>
1,000	6.65	24/09/2012
3,000	5.34	19/11/2013
5,000	4.27	25/11/2041

## Disclosure of nature and extent of risks arising from financial instruments

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

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

The authority'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 authority's customers. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above.

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

	<b>Amount at 31 March 2010</b>	<b>Historical experience of default</b>	<b>Historical experience adjusted for market conditions at 31 March 2010</b>	<b>Estimated maximum exposure to default &amp; uncollectability</b>	<b>Estimated maximum exposure at 31 March 2009</b>
	<b>A £000's</b>	<b>B %</b>	<b>C %</b>	<b>(A x C) £000's</b>	<b>£000's</b>
Deposits with banks and financial institutions	10,498	0.00	0.00	0	0
Customers	4,208	3.70	16.58	698	599
Other Debtors	8,855	0.00	0.00	0	0
<b>Total</b>				<b>698</b>	<b>599</b>

## Financial Instruments (continued)

The Other Debtors figure includes £1.769 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.

As reported above, the Council's exposure to credit risk is managed in accordance with its annual Treasury Management Strategy which for 2009-10 was approved by the Council in February 2009. 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 weekly 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 2009-10 some borrowers have been removed from the list, whilst others have had their limits reduced).
- 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 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
- A 'weekly loans report' is produced and reported to the Director of Resources.

The Council's Treasury Management Strategy approved on 10 February 2009 is located on the following link to the Council's website:-

<http://www.iwight.com/council/committees/cabinet/10-2-09/Paper%20B%20-%20Appendix%209.pdf>

The authority does not expect any losses from non-performance by any of its counterparties in relation to deposits. The amount shown as the exposure due to default and uncollectability is covered by the Provision for Bad Debts.

The authority does not generally allow credit for customers, the amount due can be analysed by age as follows:

	<b>31 March 2010</b>	31 March 2009
	<b>£000's</b>	£000's
Less than two months	<b>3,408</b>	828
Two to six months	<b>236</b>	495
Six months to one year	<b>588</b>	536
More than one year	<b>803</b>	959
<b>Total</b>	<b>5,035</b>	2,818

## Financial Instruments (continued)

### **Liquidity Risk**

As the authority has ready access to borrowings from the Public Works Loan Board, 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 authority will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates.

Under the arrangement for the £9 million of the authority's borrowing which is through three 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.

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:

	<b>31 March 2010</b>	31 March 2009
	<b>£000's</b>	£000's
Less than one year	<b>10,800</b>	14,035
Between one and two years	<b>1,000</b>	0
Between two and five years	<b>1,500</b>	1,000
More than five years	<b>110,388</b>	111,888
<b>Total</b>	<b>123,688</b>	126,923

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 (£5.545 million at 31 March 2010). 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:

	<b>31 March 2010</b>	31 March 2009
	<b>£000's</b>	£000's
Less than one year	<b>1,246</b>	884
Between one and two years	<b>1,301</b>	1,893
Between two and five years	<b>3,865</b>	2,989
More than five years	<b>177</b>	167
<b>Total</b>	<b>6,589</b>	5,933

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



## Financial Instruments (continued)

### **Market Risk**

**Interest rate risk** – the authority is exposed to significant 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 authority. For instance, a rise in interest rates would have the following effects:

- borrowings at variable rates – the interest expense charged to the Income and Expenditure Account would rise.
- borrowings at fixed rates – the fair value of the borrowing will fall
- investments at variable rates – the interest income credited to the Income and Expenditure Account 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 Income and Expenditure Account or the STRGL. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Income and Expenditure Account and affect the General Fund balance £ for £.

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. Market and forecast interest rates are monitored within the year to adjust exposures appropriately. The analysis will also advise whether new borrowing taken out is fixed or variable.

According to this assessment strategy, at 31 March 2010, 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 £0.271 million. The impact of a 1% fall in interest rates does not apply as the average rate of interest was 0.48%.

### **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.

### **Balance Sheet Disclosures**

All of the above borrowings, investments, interest payable and interest receivable are disclosed in the Balance Sheet or Income and Expenditure Accounts, as appropriate. Two reserves have been included in the Balance Sheet that help to manage the accounting requirements of Financial Instruments:

- the Available-for-Sale Financial Instruments Reserve – records unrealised revaluation gains arising from holding available-for-sale investments, plus any unrealised losses that have not arisen from impairment of the assets. Due to the nature of the Council's financial instruments, there are no entries to be made under this heading in respect of the 2009-10 financial year.
- the Financial Instruments Adjustment Account – provides a balancing mechanism between the different rates at which gains and losses (such as premiums on the early repayment of debt) are recognised under the SORP and are required by statute to be met from the General Fund.

## Group Accounts

The 2009 Statement of Recommended Practice (SORP) requires local authorities to consider all their interests and to prepare a full set of group financial statements where they have material interests in subsidiaries, associates or joint ventures. The financial statements will include:-

- group income and expenditure account
- group balance sheet
- group cash flow statement
- group statement of total movements on reserves

In order to assess whether this authority has interests relevant to group accounts, consideration has been given to involvement with companies, partnerships, voluntary organisations and other public bodies to determine whether:-

- the authority has a formal interest in a body which gives it access to economic benefits or service potential and that the body is an identifiable entity carrying on a trade or business of its own.
- the interest constitutes control over the majority of equity capital or voting rights or over rights to appoint the majority of the governing body or the interest involves it exercising, or having the right to exercise, dominant influence over the entity, such that the entity is classified as a subsidiary of the authority.
- if the authority does not have control, whether its interests involves it being able to exercise a significant influence over the entity without support from other participants, such that the entity is classified as an associate of the authority.
- if the authority does not have control, whether its interest allows it to direct the operating and financial policies in conjunction and with the consent of the other participants in the entity, such that the entity is classified as a joint venture for the authority.

Consideration has been given to the relationship with all potential entities and the following disclosures have been made:-

- Entities included in the accounts of the Isle of Wight Council as shown in Note 2(c) to the Explanatory Foreword.
- Interests in other entities as shown in Note 32 to the Accounts

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.

## THE COLLECTION FUND

	£000's	2009-10 £000's	2008-09 £000's
<b>Income</b>			
Council Tax (note 2)		(65,497)	(63,656)
Transfers from General Fund:-			
Council Tax Benefits	(12,672)		(11,151)
Contribution re: Discretionary Relief	(84)		(78)
		(12,756)	(11,229)
Income collectable from business ratepayers (note 1)		(29,904)	(28,953)
Contribution towards previous year's Collection Fund deficit			
Isle of Wight Council	(115)		(377)
Hampshire Police Authority	(13)		(40)
		(128)	(417)
		<b>(108,285)</b>	<b>(104,255)</b>
<b>Expenditure</b>			
Isle of Wight Council Precept (note 3)		70,381	67,506
Police Precept		7,801	7,385
Business Rate:-			
Payment to National Pool	29,568		28,692
Costs of Collection	252		250
		29,820	28,942
Bad and doubtful debts:-			
Council Tax:			
Write-offs	67		(17)
Provisions	(11)		65
		56	48
Business Rates:			
Write-offs	141		31
Provisions	27		58
		168	89
		<b>108,226</b>	<b>103,970</b>
<b>Collection Fund Balance at 31st March</b>			
		2009-10 £000's	2008-09 £000's
Balance on Fund at start of year		95	380
(Surplus)/Deficit for Year		(59)	(285)
Balance on Fund Carried Forward		36	95

## Notes to the Collection Fund

1. The total non-domestic rateable value at 31 March 2010 was £72.451 million and the non-domestic rate multiplier for the year was 48.5p. A reduced multiplier of 48.1p was applicable where there was eligibility for Small Business Rate Relief. The gross yield for the year was £33.899 million and the net yield was £29.904 million. Several nationally defined adjustments and reliefs contribute towards this reduction as shown below:-

	<b>£000's</b>	<b>£000's</b>
Gross Non-domestic rate yield at 31 March 2010		33,899
Less:-		
Mandatory relief to charities etc	(1,648)	
Empty rate relief	(1,121)	
Small Business Rate relief	(1,541)	
Interest on refunds	(40)	
Add:- Transitional relief adjustment	355	
		(3,995)
Net Non-domestic rate yield at 31 March 2010		29,904

2. The following details the number of properties in each valuation band of the tax base for 2009-10:-

<b>Band</b>	<b>Net Chargeable Dwellings</b>	<b>Relevant Proportion</b>	<b>Band D equivalents</b>
Band A (disabled)	11	5/9	6
Band A	7,709	6/9	5,140
Band B	14,726	7/9	11,454
Band C	14,723	8/9	13,087
Band D	11,756	9/9	11,756
Band E	6,292	11/9	7,690
Band F	2,744	13/9	3,963
Band G	1,306	15/9	2,177
Band H	87	18/9	174
<b>Total</b>	<b>59,354</b>		<b>55,447</b>
Less reduction for bad debts & valuation changes (1%)			(555)
2009-10 Council Tax Base			<b>54,892</b>
Council Tax per Band D property (£)			1,258.35

The Council Tax income figure as shown in the accounts is net of discounts, exemptions and benefits.

**Notes to the Collection Fund (continued)**

3. The following precepts were made on the fund in 2009-10:-

	<b>£000's</b>
Isle of Wight Council Precept	68,959
Estimated Collection Fund deficit	115
Parish & Town Council Precepts	1,307
Demand on the Collection Fund	70,381
Hampshire Police Authority	7,801
<b>Total Precepts</b>	<b>78,182</b>

4. Reconciliation with Isle of Wight Council's Income & Expenditure Account and Balance Sheet

	<b>Precepts/Demands £000's</b>	<b>Share of 31 March 2010 surplus £000's</b>	<b>Total 2009-10 £000's</b>	<b>Share of Deficit carried forward £000's</b>
Isle of Wight Council	70,266	53	70,319	32
Hampshire Police Authority	7,801	6	7,807	4
<b>Total</b>	<b>78,067</b>	<b>59</b>	<b>78,126</b>	<b>36</b>

## 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.

### Accounting Policies

1. As the Pension Fund has no investment assets and does not account for benefits payable in the future, there are no accounting policies that diverge from those set out in the main Statement of Accounting Policies.
2. The Net Assets Statement does not include liabilities to pay pensions and other benefits after the Balance Sheet date. The Authority's liability calculated under FRS17 is disclosed in Note 24 to the Core Financial Statements.

## FIREFIGHTERS' PENSION FUND ACCOUNT

	2009-10	2008-09
	£000's	£000's
<b>Contributions receivable:</b>		
Fire authority:		
Employers' contributions in relation to pensionable pay	(453)	(470)
Early retirements	0	0
Firefighters' contributions	(245)	(253)
	(698)	(723)
Transfers in from other authorities	0	0
<b>Benefits payable:</b>		
Pensions	1,252	1,136
Commutations and lump sum retirement benefits	470	519
Lump sum death benefits	60	0
	1,782	1,655
<b>Payments to and on account of leavers:</b>		
Transfers out to other authorities	2	0
Refunds of contributions	0	0
	2	0
<b>Net amount payable for the year</b>	<b>1,086</b>	932
<b>Top-up grant payable by the Government</b>	<b>(1,086)</b>	(932)
	<b>0</b>	0

## NET ASSETS STATEMENT

	2009-10	2008-09
	£000's	£000's
<b>Current Assets</b>		
Debtors - Top-up receivable from the Government	701	699
<b>Current Liabilities</b>		
Amount owing to General Fund	(701)	(699)
	<b>0</b>	0

## ISLE OF WIGHT COUNCIL PENSION FUND

### Fund Account for year ended 31 March 2010

	<u>Note</u>	<b>£000</b>	<b>2009-10</b>	<b>2008-09</b>
			<b>£000</b>	<b>£000</b>
<b>Contributions and Benefits</b>				
Contributions receivable:				
From Employers	2	14,276		13,163
From Employees or Members	2	4,093		4,049
Transfers in	3	3,927		1,990
Other Income	4	12		16
			<b>22,308</b>	19,218
Benefits Payable				
Pensions	5	12,095		11,186
Lump Sums (including retirement & death benefits)	5	3,336		3,382
Payments to and on account of leavers:				
Refunds of contributions		1		15
Transfers out		1,438		1,958
Administrative and other expenses	6	384		420
			<b>17,254</b>	16,961
Sub total – Net additions from dealings with members			<b>5,054</b>	2,257
<b>Returns on Investments</b>				
Investment income (see analysis below)	7		<b>6,347</b>	8,354
Change in market value of investments (realised & unrealised)	8		<b>75,504</b>	(57,451)
Irrecoverable withholding tax	9		<b>(409)</b>	(508)
Investment management expenses	10		<b>(859)</b>	(597)
Costs of transition to new fund managers	8		<b>(677)</b>	-
Sub total – Net returns on investments			<b>79,906</b>	(50,202)
Net increase (decrease) in the fund during the year			<b>84,960</b>	(47,945)
Opening Net assets of the scheme			<b>209,917</b>	257,862
Closing Net assets of the scheme			<b>294,877</b>	209,917



## ISLE OF WIGHT COUNCIL PENSION FUND

### Net Assets Statement as at 31 March 2010

	2009-10	2008-09
	£000	£000
<b>Investments Assets</b>		
Fixed Interest – Treasury Bonds	0	5,291
Equities	104,100	112,566
Unit Trusts – Property	15,127	10,933
Unit Trusts – Other	0	76,551
Unit Trusts – Bonds	63,852	0
Unit Trusts – Overseas	107,655	0
Margin Account	0	81
Cash Backing Offset	0	531
Cash – JP Morgan	3,909	3,325
	294,642	209,278
<b>Other Investment balances</b>		
Interest	0	67
Security sales	8	509
Dividends	322	512
	330	1,088
<b>Investment Liabilities</b>		
Futures	0	(544)
Security purchases	(322)	(258)
	(322)	(802)
	294,651	209,564
Temporary Advance – Isle of Wight Council	311	413
<b>Current assets</b>		
Debtors - Government	21	80
- admitted bodies	136	155
	157	235
<b>Current liabilities</b>		
- investment management and administration expenses	(242)	(295)
Net Assets	294,877	209,917

## ISLE OF WIGHT COUNCIL PENSION FUND

### Accounting Policies

- 1 The accounts have been prepared in accordance with the CIPFA Local Government SORP 2009-10 and the Financial Reports of Pension Schemes SORP (revised 2007). They do not take account of liabilities to pay pensions and other benefits in the future. The actuarial position of the Scheme which takes account of such liabilities is dealt with in Notes 12 and 14.
- 2 Benefits and Withholding tax are accounted for on a payments basis. Contributions and investment income are accounted for on an accruals basis. Income from UK equities is accounted for on the date when the stocks are quotes ex dividend.
- 3 As required by the SORP for financial years commencing on or after 6 April 2007, investments held by all fund managers have been valued on the bid market quotation on the relevant Stock Exchange on 31 March 2010.
- 4 Additional Voluntary Contributions (AVCs) are separately invested for the benefit of individual members. To comply with the Pension SORP and Regulation 5(2)(b) of the Local Government Pension Scheme (Management and Investment Funds) Regulations 1998, AVC's are accounted for and disclosed separately from the net assets statement and fund account of the pension fund see note 21 for details. AVC assets and returns on these assets are based on figures supplied by the Prudential Life and Pensions. Deductions are made from members salaries during the year and invested on an accruals basis.
- 5 The Isle of Wight Council administration costs represent the operating costs of the pension department plus recharges made by other departments for services provided to the pension fund.  
  
The investment management fees payable to Schroder Investment Management, Newton Investment Management and Majedie Asset Management are calculated on the performance of the portfolio chargeable on a quarterly basis. In addition, for Majedie and Newton, an additional sum computed on performance against an agreed benchmark is payable. These fees are accounted for on an accruals basis.  
  
Monthly custody fees are payable to JP Morgan Chase and are accounted for on an accruals basis.
- 6 Transfer values to and from other pension funds have been included in the accounts on the basis of the actual amounts received and paid out in the year.
- 7 As required by the Local Government Pension Scheme (Amendment) (No 3) Regulations 2007 a separate additional detailed Pension Fund Annual Report and Accounts has been produced.
- 8 **Currency translation**  
Assets and liabilities in foreign currency are translated into Sterling at exchange rates ruling at the financial year-end. Any gains or losses arising are treated as part of the change in market value of the funds assets.
- 9 The pension fund accounts have been prepared on the basis of a going concern.

## 1. Operation and Membership

The Fund is administered by the Council to provide retirement benefits for the majority of local government employees throughout the Isle of Wight, with the exception of Teachers and Fire-fighters. Membership of the Local Government Scheme is available to most employees between the ages of 16 and 65.

Employees have a right to 'opt out' of the Scheme and rely on alternative schemes such as the State Earnings Related Scheme (SERPS) or a Personal Pension Scheme.

In addition to the employees and councillors of the Isle of Wight Council, some of the employees of other bodies participate in the Fund.

Cowes Harbour Commissioners  
 Yarmouth (IW) Harbour Commissioners  
 St Catherines School Ltd  
 Trustees of Carisbrooke Castle Museum  
 IW Society for the Blind  
 Isle of Wight Rural Community Council  
 South Wight Housing Association Ltd  
 Medina Housing Association Ltd  
 Isle of Wight College  
 Riverside Centre Ltd  
 Osel Enterprises Ltd  
 Planet Ice (IOW) Ltd  
 Island 2000 Trust Ltd  
 Wootton Bridge Parish Council  
 Yarmouth Town Council  
 Northwood Parish Council  
 Newport Parish Council  
 Chale Parish Council  
 Ryde Town Council

At 31 March 2010

	<b>Administering Authority</b>	<b>Scheduled Bodies</b>	<b>Admitted Bodies</b>	<b>Total</b>
Number of Contributors	4,425	195	93	<b>4,713</b>
	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>
Employees Contributions	3,762	184	140	<b>4,086</b>
Pensions paid	13,687	439	1,303	<b>15,429</b>
Employers Contributions	12,290	559	587	<b>13,436</b>

A deficit-funding sum of £0.107 million was paid by South Wight Housing Association, as required by the actuarial valuation 31.3.2007 and is included in the above admitted bodies employers contributions.

New Regulations came into force on 1 April 2008 and one of the major changes was in respect of employee contributions which are banded. From 1 April 2009 the bandings and contribution rates are set out in the following table:-

<b>Band</b>	<b>Range (Annual full-time equivalent pay)</b>	<b>Contribution rate</b>
1	£0 - £12,600	5.5%
2	More than £12,601 up to £14,700	5.8%
3	More than £14,701 up to £18,900	5.9%
4	More than £18,901 up to £31,500	6.5%
5	More than £31,501 up to £42,000	6.8%
6	More than £42,001 up to £78,700	7.2%
7	More than £78,700	7.5%

The contribution rate for each employee is based on their annual full-time equivalent pay as at 1 April, or commencement of employment if later, and that contribution rate is applicable throughout the year. The salary bandings are to be increased each April in line with rises in the Retail Prices Index.

If an employee has more than one employment, each employment will be assessed and treated separately.

Those employees paying the protected rate of 5% will be increased as follows

<b>Year commencing</b>	<b>Contribution rate</b>
1 April 2008	5.25%
1 April 2009	5.5%
1 April 2010	6.5%
1 April 2011 onwards	See general table above

If the protected contribution rate is higher than it would have been but for the protection, the lower rate from the general table will apply.

The rate at which the employers contribute to the Fund is determined by the actuarial valuations of the Fund (See Notes 12, to 14).

The decision was taken at a meeting of the pension fund committee on 22 May 2009 to appoint two new managers, namely Majedie Asset Management and Newton Investment Management, with the existing manager Schroder Investment Management being retained to manage some of the portfolio.

Nomura International were appointed to act as transition managers and their brief was to reallocate the total investment portfolio as follows:-

<b>Manager</b>	<b>Asset Type</b>	<b>%</b>
Schroders	UK Equity	15.00
Majedie	UK Equity	22.50
Newton	Global Equity	32.50
Schroders	Bonds	25.96
Schroders	Property	4.04
		100.00

This process commenced on 19th August 2009 and was completed on 25 August 2009 when the investments were allocated as follows:-

<b>Manager</b>	<b>Asset Type</b>	<b>Value</b>	<b>%</b>
Schroders	UK Equity	38,442,852	15.33
Majedie	UK Equity	57,079,198	22.77
Newton	Global Equity	81,447,407	32.49
Schroders	Bonds	63,464,808	25.31
Schroders	Property	10,274,580	4.10
		<b>250,708,845</b>	

During 2009-10, 1,096 purchases and 907 sales of investments took place following broad guidelines accepted by the Pension Fund Committee

The cost of purchases amounted to £53.3 million and the net proceeds received from the sales totalled £42.6 million.

The Custody of the fund investments (including cash) was undertaken by JP Morgan Chase.

At 31 March 2010 the number of individual holdings was as follows:

UK Equities	114
Overseas Equities - Unit Trust	1
Unit Trust - Bonds	1
Unit Trusts	3
Unit Trust - Property	1
	120

Net new money coming into the Fund in 2009-10, that is to say the excess of contributions and investment income over benefit payments and expenses, amounted to £8.3 million compared to £9.5 million in 2008-09.

The net assets of the fund at 31 March 2010 totalled £294.8 million, an increase of 40.4% on the 2008-09 valuation of £209.9 million.

Notes relating to Fund Account and net assets statement

2	<u>Contributions receivable</u>	<b>2009-10</b>	2008-09
	<u>Employers</u>	<b>£000's</b>	£000's
	Normal	<b>13,329</b>	12,531
	Special (Capitalisations)	<b>840</b>	530
	Additional (deficit funding and cessations)	<b>107</b>	102
		<b>14,276</b>	13,163
	<u>Members</u>		
	Normal	<b>4,087</b>	4,042
	Additional	<b>6</b>	7
		<b>4,093</b>	4,049

The special (capitalisation) contributions are payable to the pension fund over a maximum 5 year period to augment benefits for specific pension fund members on retirement.

Deficit funding was payable as required by the actuarial valuation dated 31 March 2007 by the South Wight Housing Association for 2009-10 £0.107 million (2008-09 £0.102 million).

3	<u>Transfers in</u>	<b>2009-10</b>	2008-09
		<b>£000's</b>	£000's
	Payments in relation to individual fund members	<b>3,927</b>	1,990
4	<u>Other income</u>	<b>2009-10</b>	2008-09
		<b>£000's</b>	£000's
	Miscellaneous income	<b>12</b>	9
	Contribution Equivalent Premiums	<b>0</b>	7
		<b>12</b>	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/liability and these amounts remain so until the relevant employee request a refund of contributions payable, a transfer is made to another pension fund or returns to the employ of the Isle of Wight Council.

5	<u>Benefits payable</u>	<b>2009-10</b>	2008-09
		<b>£000's</b>	£000's
	Annual retirement pension	<b>8,490</b>	7,946
	Pension increase on annual pension	<b>3,605</b>	3,240
		<b>12,095</b>	11,186
	Commutation of pension	<b>1</b>	0
	Retirement allowance lump sum	<b>2,990</b>	3,050
	Death Grants	<b>214</b>	135
	Pension increase on lump sum	<b>131</b>	197
		<b>3,336</b>	3,382
6	<u>Administrative expenses</u>	<b>2009-10</b>	2008-09
		<b>£000's</b>	£000's
	Administering authority	<b>319</b>	347
	IT Costs	<b>48</b>	53
	Other expenses	<b>17</b>	20
		<b>384</b>	420
7	<u>Investment income</u>	<b>2009-10</b>	2008-09
		<b>£000's</b>	£000's
	Fixed interest	<b>35</b>	655
	Equities	<b>5,762</b>	5,964
	Unit trusts – property	<b>460</b>	474
	Unit trust – other	<b>58</b>	1,002
	Interest	<b>10</b>	157
	Currency trade net	<b>0</b>	(227)
	Other	<b>22</b>	329
		<b>6,347</b>	8,354

The Newton Overseas Unit Trust, which represents 34% of the market value of the fund, does not go ex-dividend until June 2010, hence resulting in a reduction in income for the current year.

<b>8. Change in Market value of assets</b>	<b>Value at 1.4.09</b>	<b>Purchases at Cost</b>	<b>Sales Proceeds</b>	<b>Transition</b>	<b>MID to BID in year adjustment</b>	<b>Change in Market Value</b>	<b>Value at 31.3.10</b>
	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>
Fixed Interest Treasury Bonds	5,291	-	-	(5,360)	4	65	<b>0</b>
Equities	112,566	36,681	(28,996)	(59,164)	1	43,012	<b>104,100</b>
Unit Trusts – Property	10,933	4,103	-	-	365	(274)	<b>15,127</b>
Unit Trust - Other	76,551	2,411	(3,649)	2,202	29	30,111	<b>107,655</b>
Unit trust- Bonds	0	1,598	(4,000)	63,518	-	2,736	<b>63,852</b>
Futures Cash Backing Offset	531	672	(1,282)	-	-	79	<b>0</b>
Futures	(544)	2,065	(1,296)	-	-	(225)	<b>0</b>
Futures Margin Account	81	224	(305)	-	-	-	<b>0</b>
	205,409	47,754	(39,528)	1,196	399	75,504	<b>290,734</b>
Cash	3,325	5,545	(3,088)	(1,873)	0	0	<b>3,909</b>
<b>Totals</b>	<b>208,734</b>	<b>53,299</b>	<b>(42,616)</b>	<b>(677)</b>	<b>399</b>	<b>75,504</b>	<b>294,643</b>

The cost of transition of the fund assets to three new fund managers during August 2009 amounted to £0.676 million, as reported by the Transition Managers, Nomura.

- 9 The Isle of Wight Council Pension Scheme is an Exempt Approved Scheme under Chapter 1 Part XIV of the Income and Corporation Taxes Act 1988.

Income arising from deposits or investments held for the purpose of the scheme is exempt from tax.

This exemption no longer entitles the pension fund to repayment of tax paid on UK dividends. The sum of UK withholding tax, which was irrecoverable in the year 2009-10, amounted to £0.409 million.

10	<u>Investment management</u>	<b>2009-10</b>	2008-09
		<b>£000's</b>	£000's
	Investment management expenses	<b>(753)</b>	(432)
	Fees to appoint new investment managers	<b>(52)</b>	(91)
	Actuary fees	<b>(54)</b>	(74)
		<b>(859)</b>	(597)

11. Status of the Scheme

11.1 The Local Government Pension Scheme is 'contracted out' of SERPS.

11.2 The Scheme is a 'final salary scheme'. This means that benefits do not depend on investment performance, but generally on the level of salary during the last 12 months before retirement and the length of total Local Government service during which contributions have been paid in to the Fund.

12 Actuarial position of the fund

The funds most recent triennial actuarial valuation was undertaken by its independent actuarial advisors Hymans Robertson and based on the position as at 31 March 2007. The position at that time showed an improvement in the funding position relative to the previous valuation, which was undertaken as at 31 March 2004. This latest valuation shows that the assets of the Fund equated to 80% compared to the previous valuation of only 71%.

13 Actuarial Valuation provided by Hymans Robertson

The last valuation relevant to the year 2009-10 was completed at 31 March 2007.

Reference to this particular valuation can be found in the Pension Fund Annual Report and Accounts.

14 Valuation 31 March 2007

This valuation was carried out to calculate employer's contribution rates for the years 2008-9, 2009-10 and 2010-11.

14.1 Statement provided by the actuary

As required by regulation 77 of the Local Government Pension Scheme Regulations 1997, the last actuarial valuation of the Isle of Wight Council Pension Fund's assets and liabilities was carried out as at 31 March 2007.

14.2 Security of Prospective Rights

In the actuary's opinion, the resources of the Fund are likely in the normal course of events to meet the liabilities of the Fund as required by the Regulations. In giving this opinion it has been assumed that the following amounts will be paid to the Fund.

Contributions by the members in accordance with the Local Government Pension Scheme Regulations 1997 until 31 March 2008, then in accordance with the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007.

Contributions by employers in accordance with the Rates and Adjustments certificate dated 23 March 2005 for the year ending 31 March 2008. Thereafter for the three years commencing 1 April 2008 as specified in the Rates and Adjustments certificate dated 25 March 2008 (see below).

14.3 Summary of Methods and Assumptions Used

Full details of the method and assumptions are described in the actuary's valuation report dated 25 March 2008 and the Rates and Adjustments certificate contained therein.

Copies of these documents are available on request from the Finance Department of the Isle of Wight Council. The actuary's opinion on the security of the prospective rights is based on:

- the projected unit valuation method where there is an expectation that new employees will be allowed to an employer; or
- the attained age valuation method for employers who are closed to new entrants.

These methods assess the cost of benefits accruing to existing members during

- the year following the valuation; or
- the remaining working lifetime, respectively

allowing for future salary increases. The resulting contribution rate is adjusted to allow for any difference in the value of accrued liabilities and the assessed value of assets.



#### 14.4 Valuation of Assets

A “market related” valuation method has been used. This is consistent with the methodology adopted at the 2004 valuation.

#### 14.5 Valuation assumptions

The key financial assumptions adopted at the 2007 valuation are set out in the table below.

Assumption	Derivation	Rate at 31 March 2007	
		Nominal	Real
Price Inflation (RPI)	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	3.2%	-
Pay Increases ‘Gilt Based’	Assumed to be 1.5% p.a. in excess of price inflation	4.7%	1.5%
Discount Rate Funding Basis	The yield on fixed interest (nominal) and index linked (real) Government bonds	4.5%	1.3%
Discount Rate	Assumed to be 1.6% p.a. above the yield on fixed interest Government bonds	6.1%	2.9%

The 2007 valuation revealed that the Fund’s assets, which at 31 March 2007 were valued at £261.9million, were sufficient to meet approximately 80.2% of the liabilities accrued to that date. There was a shortfall of assets to the assessed cost of members’ benefits of £64.9 million.

#### 14.6 The next actuarial valuation

The next valuation of the Fund will be carried out as at 31 March 2010 and the results known later that year. This valuation will allow for the experience of the Fund from 31 March 2007 and up-to-date financial assumptions at that time.

The actuary is aware that some employers may pay contributions in excess of the minimum amounts shown in the Rates and Adjustments certificate. These extra payments will be taken into account in the 2010 valuation and will act to reduce the contributions that would otherwise have been payable.

Minimum Total contribution Rates expressed as a percentage of pensionable pay are as set out below:-

<b>Agreed Employer Contributions</b>	<b>Minimum Contribution for the year ending</b>		
	<b>31 March</b>		
	<b>2009</b>	<b>2010</b>	<b>2011</b>
Isle of Wight Council	20.0%	21.0%	22.0%
Isle of Wight College	18.7%	18.7%	18.7%
Yarmouth Harbour Commissioners	23.0%	25.0%	27.0%
Cowes Harbour Commissioners	23.0%	25.0%	27.0%
St Catherine's School Ltd	23.0%	25.0%	27.0%
Trustees of Carisbrooke Castle Museum	23.0%	25.0%	27.0%
IW Society for the Blind	23.0%	25.0%	27.0%
Isle of Wight Rural Community Council	23.0%	25.0%	27.0%
South Wight Housing Association Ltd	18.7%	18.7%	18.7%
Additional lump sum deficit contribution	£102,000	£106,794	£111,813
Medina Housing Association Ltd	20.9%	22.1%	23.3%
Riverside Centre Ltd	17.4%	18.0%	18.5%
Osel Enterprises Ltd	17.4%	18.0%	18.5%
Planet Ice (IOW) Ltd	12.2%	12.2%	12.2%
Island 2000 Trust Ltd	12.2%	12.2%	12.2%
Isle of Wight Council Councillors	20.0%	21.0%	22.0%

During 2008-09, three of the admitted bodies requested that they should no longer be considered with others in a pool, but should be considered as separate employers for the purposes of contribution rates.

As a result a revised schedule of employers contributions were calculated for the following employers:-

<b>Agreed Employer Contributions</b>	<b>Minimum Contribution for the year ending</b>		
	<b>31 March</b>		
	<b>2009</b>	<b>2010</b>	<b>2011</b>
Yarmouth Harbour Commissioners	23.5%	26.0%	28.5%
Cowes Harbour Commissioners	21.3%	21.6%	21.9%
St Catherine's School Ltd	25.1%	29.2%	33.3%
Trustees of Carisbrooke Castle Museum	21.7%	22.4%	23.1%
IW Society for the Blind	25.1%	29.2%	33.3%
Isle of Wight Rural Community Council	25.1%	29.2%	33.3%

15 An analysis of the market value at 31 March 2010 by industrial sector can be found in the Pension Fund Annual Report and Accounts.

An analysis of the market value of investments by fund manager is shown below:

<b>Market Value and Management of Assets</b>	<b>2009-</b>	<b>%</b>	<b>2008-</b>	<b>%</b>
	<b>108</b>		<b>097</b>	
	<b>£000</b>		<b>£000</b>	
Schroder Investment Management - Pre Transition	-	-	205,409	98.4
Schroder Investment Management - Bonds	63,852	21.7	0	0.0
Schroder Investment Management - UK Equities	45,321	15.4	0	0.0
Schroder Investment Management - Property	15,127	5.1	0	0.0
Newton Investment Management - Overseas	100,647	34.1	0	0.0
Majedie Asset Management – UK Equities	65,787	22.4	0	0.0
JP Morgan Custodian (Cash)	3,909	1.3	3,325	1.62

## 16 Related Party Transactions

No Members or Chief Officers have disclosed any Related Party Transactions with the Pension Fund, other than by virtue of normal membership. During the financial year, the Pension Fund had an average balance of £0.3 million of excess cash invested with the Isle of Wight Council and the Pension Fund received £0.001 million as interest on this investment.

The Isle of Wight Council provided an administration service to the Pension Fund in the year for which the fund paid a sum of £0.4 million. This sum is analysed at note 6. Council members named in note 23 form the pension fund committee as trustees.

## 17 Contingencies

17.1 At 31 March 2010 there were contingencies relating to Contribution Equivalent Premiums (CEPs) amounting to a net sum of £0.142 million due to the Pension Fund. Assets amounted to £0.046 million and Liabilities totalled £0.188 million. 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.

17.2 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 £0.880 million has been estimated as the possible Benefit to the pension fund. This case is ongoing. The sums do not form part of the net assets of the fund.

18 The Statement of Investment Principles of the Isle of Wight Council Pension Fund is published in the Pension Fund Annual Report and Accounts.

19 The Funding Strategy Statement of the Isle of Wight Council Pension Fund is published in the Pension Fund Annual Report and Accounts.

## 20 Notes to the Accounts

20.1 Capital Commitments: - There were no capital commitments as at 31 March 2010.

### 20.2 Investments Transaction Costs

Transaction costs payable by the pension fund investment manager to brokers in 2009-10

Purchases	£30,444
Sales	£26,940
Total	£57,384

### 20.3 Post Balance Sheet Events

There are no post balance sheet events

## 21 Additional Voluntary Contributions (AVCs)

These are separately invested for the benefit of individual members.

Money purchase assets are allocated to provide benefits to individuals on whose behalf the contributions were paid, and in total £1.2million were invested on this basis at 31 March 2010; these do not form a common pool of assets available for members generally. AVCs are excluded from the Fund Accounts in accordance with Regulation 5(2)(c) of the Pension Scheme (Management and Investments of Funds) Regulations 1998. Members receive an annual statement confirming the contributions paid on their behalf and the value of their money purchase rights.

The Contributions can be made via the Isle of Wight Council to Prudential Life and Pensions to purchase enhanced pension benefits and in the case of the Prudential, term life cover.

During 2009-10 AVCs of £0.2million were separately invested with Prudential Life and Pensions. Of this amount, £0.0005 million was for the purchase of death in service cover, no value accrues on death cover; this sum is not included in the following statement:-

	<b>Prudential Deposit</b>	<b>Prudential with Profits</b>	<b>Prudential Discretionary</b>	<b>Total</b>
	£000's	£000's	£000's	£000's
Opening Value 1.4.09	111	856	110	<b>1,077</b>
Purchase of Investments	67	93	7	<b>167</b>
Returns on Investments	1	35	48	<b>84</b>
Change in Market Value Realised and Unrealised	(16)	(72)	(1)	<b>(89)</b>
<b>Closing Value 31.3.10</b>	<b>163</b>	<b>912</b>	<b>164</b>	<b>1,239</b>

22 Analysis of market value, excluding cash, at 31 March 2010:-

	UK £000's	Foreign £000's	<b>Total £000's</b>
Listed	189,444	101,290	<b>290,734</b>
Unlisted	-	-	-
<b>Total</b>	<b>189,444</b>	<b>101,290</b>	<b>290,734</b>

The pension fund investment panel agreed in February 2006 to allow the investment manager to use futures and foreign exchange contracts to implement asset allocation changes.

Futures are used to reduce the transaction costs involved in allocating monies between asset classes, allowing asset allocation policy changes to be implemented more rapidly, enabling more precise management of views, preventing the need to make forced purchase or sales of individual stocks at inopportune times and managing cashflows more effectively.

At the time of transition when the Pension Fund investments were spilt all derivatives were matured.

Analysis of Market value at 31 March 2010 can be found in the Pension Fund Annual Report and Accounts.

Provided below is a list of the investments at 31 March 2010 which each exceeded 5% of the total market value of the fund:-

<b>Stock</b>	<b>Value £000</b>	<b>%</b>
Newton International Growth 'X' Account	100,648	34.61
Schroder Institutional Sterling Broad Market X Account	63,852	21.96
Schroder Exempt Property Unit Trust	15,127	5.20

	<b>31 March 2010</b>	<b>31 March 2009</b>	<b>% Change</b>
FT Actuaries – All Share Index UK	<b>2910.19</b>	1984.20	46.66

## 23. Trustees Report

### Trustees Report 2009-10

The Trustees of the Pension Fund are the members for the time being of the Pension Fund Committee, who at 31 March 2010 were Councillors Abraham, Barry, Bingham, Bulwer, Joyce, Mazillius, Whittle and the Director of Resources. In addition a non voting representative of both the admitted bodies and staff union attend the investment panel meetings.

#### Investment Performance

The net assets of the fund at 31<sup>st</sup> March 2010 were £294.8 million, a rise of 40.4% on the 31 March 2009 valuation of £209.9 million. This reflects the recovery of the world's stock markets, from a very low base.

During the year, the Fund appointed two additional managers (Newton and Majedie) to join the existing manager, Schroders in managing the Fund's assets. It has therefore been a year of transition, and it is too early to judge the relative performance of each manager. Each manager has been appointed on the basis that they are best placed to manage a particular part of the investment portfolio, and each has a specific benchmark against which to perform.

#### Funding Level

The Fund's last triennial actuarial valuation was undertaken in 2007. The latest assessment undertaken by the actuarial advisors shows that the ratio of assets to the liabilities of the Fund equated to 68% at 31 March 2010 compared to the assessment at 31 March 2008 of 55%. The actuarial valuation of the Fund is currently underway and its results, in terms of revised contribution rates, will be implemented with effect from April 2011.

#### Governance

The Committee continues to keep its governance arrangements under review. It has agreed that the Committee needs to ensure that it considers all aspects of the Fund's performance, not just its asset performance. This acknowledgement has been formalised by a change to the Committee's terms of reference and including a wider remit in the Committee's forward plan.

## **Independent auditor's report to the Members of Isle of Wight Council**

### **Opinion on the Authority accounting statements**

I have audited the Authority accounting statements, the firefighters' pension fund accounting statements and related notes of Isle of Wight Council for the year ended 31 March 2010 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement and the related notes. The firefighters' pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. The accounting statements and the firefighters' pension fund accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

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 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

### **Respective responsibilities of the Strategic Director of Resources and auditor**

The Strategic Director of Resources' responsibilities for preparing the accounting statements, including the firefighters' pension fund accounting statements, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the Authority accounting statements and the firefighters' pension fund accounting statements and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the Authority accounting statements and the firefighters' pension fund accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of:

- the financial position of the Authority and its income and expenditure for the year;
- the financial transactions of the firefighters' pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

I review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the accounting statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures

I read other information published with the Authority accounting statements, firefighters' pension fund accounting statements and related notes and consider whether it is consistent with the audited Authority accounting statements, firefighters' pension fund accounting statements and related notes. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the Authority accounting statements, firefighters' pension fund accounting statements and related notes. My responsibilities do not extend to any other information.

### **Basis of audit opinion**

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Authority accounting statements, firefighters' pension fund accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the Authority accounting statements, firefighters' pension fund accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the Authority accounting statements, firefighters' pension fund accounting statements and related notes are free from material misstatement,

whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the Authority accounting statements, firefighters' pension fund accounting statements and related notes.

## **Opinion**

In my opinion:

- The Authority accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority as at 31 March 2010 and its income and expenditure for the year then ended; and
- The firefighters' pension fund accounting statements give a true and fair view, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial transactions of the firefighters' pension fund during the year ended 31 March 2010 and the amount and disposition of the fund's assets and liabilities as at 31 March 2010, other than liabilities to pay pensions and other benefits after the end of the scheme year.

### **Opinion on the pension fund accounting statements**

I have audited the pension fund accounting statements for the year ended 31 March 2010 under the Audit Commission Act 1998. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. The pension fund accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

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 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

### **Respective responsibilities of the Strategic Director of Resources and auditor**

The Strategic Director of Resources' responsibilities for preparing the pension fund accounting statements, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the pension fund accounting statements and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the pension fund accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial transactions of the pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

I read other information published with the pension fund accounting statements and related notes and consider whether it is consistent with the audited pension fund accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the pension fund accounting statements and related notes. My responsibilities do not extend to any other information.

### **Basis of audit opinion**

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the pension fund accounts and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the pension fund accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the pension fund accounts and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming

my opinion I also evaluated the overall adequacy of the presentation of information in the pension fund accounting statements and related notes.

## **Opinion**

In my opinion the pension fund accounting statements and related notes give a true and fair view, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial transactions of the Pension Fund during the year ended 31 March 2010, and the amount and disposition of the fund's assets and liabilities as at 31 March 2010, other than liabilities to pay pensions and other benefits after the end of the scheme year.

## **Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources**

### **Authority's Responsibilities**

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 regularly to review the adequacy and effectiveness of these arrangements.

### **Auditor's Responsibilities**

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities and fire and rescue authorities published in May 2008 and updated in October 2009. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

## **Conclusion**

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities and fire and rescue authorities specified by the Audit Commission and published in May 2008 and updated in October 2009, I am satisfied that, in all significant respects, Isle of Wight Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2010.

## **Delay in certification of completion of the audit**

The audit cannot be formally concluded and an audit certificate issued until I have completed my consideration of matters brought to my attention by local authority electors. I am satisfied that these matters do not have a material effect on the financial statements.

***K L Handy***

K L Handy  
**District Auditor**

**Collins House  
Bishopstoke Road  
Eastleigh  
SO50 6AD**

**28 September 2010**



## **Independent auditor's report to the Members of Isle of Wight Council**

### **Issue of audit opinion on the accounting statements**

In my audit report for the year ended 31 March 2010 issued on 28 September 2010 I reported that, in my opinion:

- The Authority accounting statements gave a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority as at 31 March 2010 and its income and expenditure for the year then ended; and
- The firefighters' pension fund accounting statements gave a true and fair view, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial transactions of the firefighters' pension fund during the year ended 31 March 2010 and the amount and disposition of the fund's assets and liabilities as at 31 March 2010, other than liabilities to pay pensions and other benefits after the end of the scheme year.

### **Issue of audit opinion on the pension fund's accounting statements**

In my audit report for the year ended 31 March 2010 issued on 28 September 2010 I reported that, in my opinion, the pension fund accounting statements and related notes gave a true and fair view, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009: a Statement of Recommended Practice, of the financial statements of the Pension Fund during the year ended 31 March 2010, and the amount and disposition of the fund's assets and liabilities as at 31 March 2010, other than liabilities to pay pensions and other benefits after the end of the scheme year.

### **Issue of value for money conclusion**

In my audit report for the year ended 31 March 2010 issued on 28 September 2010, I reported that in my opinion, in all significant respects, Isle of Wight Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2010.

### **Certificate**

In my report dated 28 September 2010 I explained that the audit could not be formally concluded on that date until consideration of matters brought to my attention by local authority electors had been completed. These matters have now been dealt with. No other matters have come to my attention since that date that would have a material impact on the financial statements on which I gave an unqualified opinion and value for money conclusion.

I certify that I 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 Practice issued by the Audit Commission.

**K.L. Handy**

**Officer of the Audit Commission**

**Audit Commission  
Collins House  
Bishopstoke Road  
Eastleigh  
Hampshire  
SO50 6AD**

**21 September 2011**