Isle of Wight Council

Statement of Accounts

2011-12

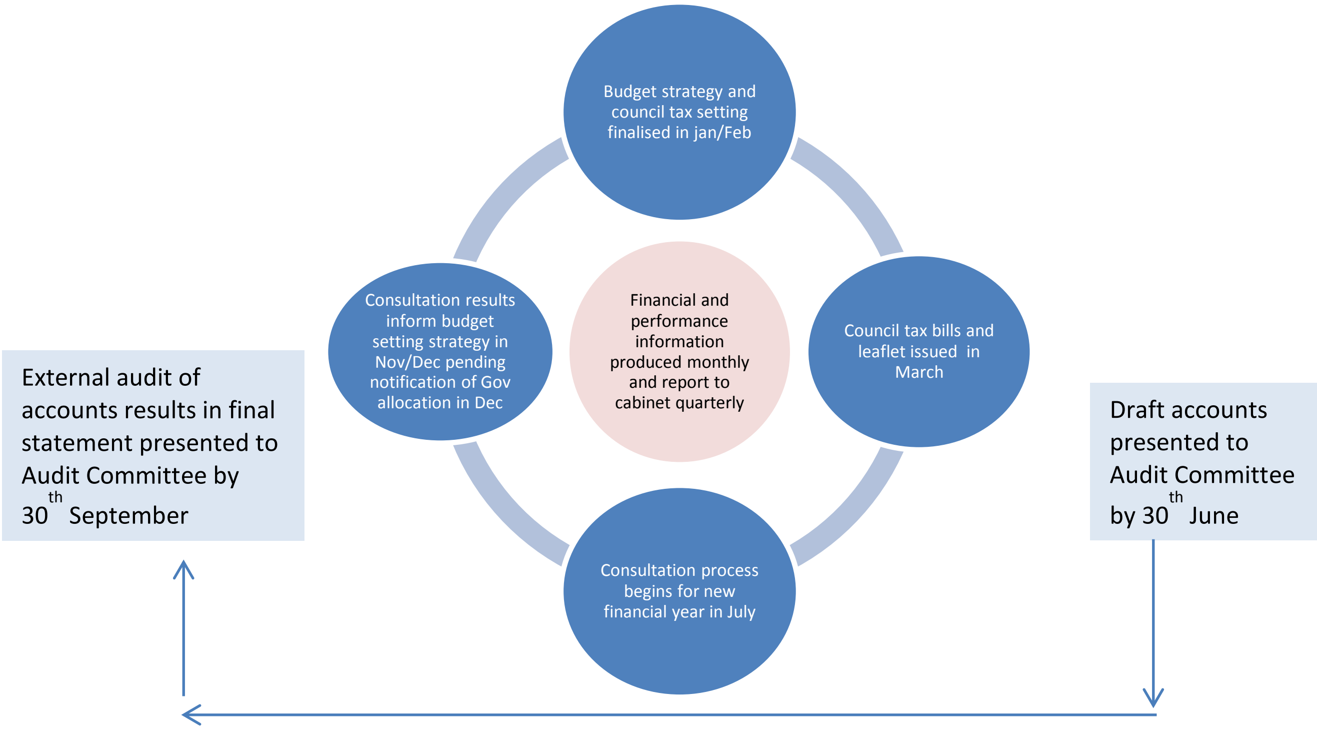
CONTENTS

Explanatory Foreword

1. Introduction

This foreword provides a general guide to the main statements that make up the full statement of accounts and a summary of the Isle of Wight Council's financial performance for 2011-12. It highlights the most significant aspects of the authority's financial performance, year-end financial position and cash flows. Its purpose is not to comment on the policies of the council, but it does give factual details of strategic objectives and spending priorities where these provide a context to reporting on financial performance.

Whilst we have tried to remove technical jargon where possible, much of the format, terminology and presentation of these accounts are prescribed by the Code of Practice on Local Authority Accounting in the United Kingdom which the council is required to follow. A detailed glossary of terms is provided at the end of the statement of accounts to assist the reader. The council also publishes a summary of the accounts each year in its annual report included in the autumn edition of the One Island magazine, and publishes details of transactions over £500, both of which are available on the council's website www.iwight.com. The accounts and other publications all form part of the councils overall annual financial reporting framework summarised below:



The Accounts and Audit (England) Regulations 2011 require the responsible financial officer to sign and date the statement of accounts by 30 June. Following the annual audit of the accounts, the statement of accounts is required to be approved by the council sitting as a whole, or by a committee with delegated powers to make such a decision, by 30 September.

The council's statutory responsibilities regarding these accounts are laid out in the section entitled 'statement of responsibilities for the statement of accounts' on page 9.

David Burbage
Strategic Director of Resources

2. Guide to the main statements included in the accounts

The statement of accounts details the financial statements as follows:

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

3. Summary of financial performance for 2011-12

Revenue income and expenditure

The table below shows a summary of the revenue outturn position for each directorate. After applying year-end carryovers, the overall net expenditure is £2.290 million lower than anticipated in the revised budget. The net saving figure below of £0.490 million shows the position after setting aside £1.800 million savings identified during the course of 2011-12 to earmarked reserves. This will be utilised to support the delivery of corporate priorities, in particular relating to regeneration and the economy and development of options for the re-procurement of the waste contract. The net saving of £0.490 million has been added to the general fund balance which at 31 March 2012 totals £8.550 million.

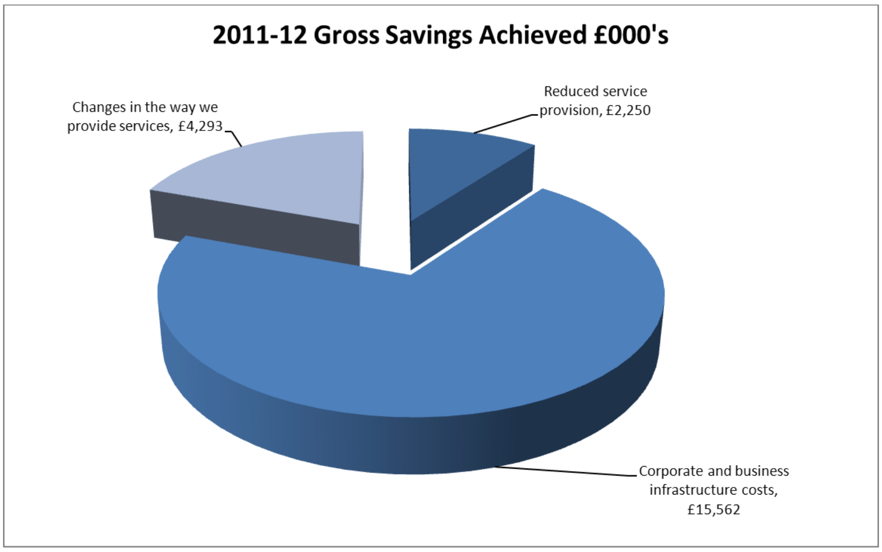
	Revised budget £000's	Net expenditure £000s	Net outturn position £000's
Chief Executive, Schools & Education	7,653	7,492	(161)
Director of Resources	12,358	11,881	(477)
Director of Economy & Environment	35,323	34,398	(925)
Director of Community Wellbeing & Social Care	64,822	64,094	(728)
Corporate accounts	14,891	14,892	1
Net revenue expenditure	**135,047**	**132,757**	**(2,290)**
Formula grant	(63,594)	(63,594)	
Council tax	(71,453)	(71,453)	
Net budget saving	**0**	**(2,290)**	
Transfer to earmarked reserve	0	1,800	
Net saving transferred to general fund	**0**	**(490)**	
Opening general fund balance	(8,060)	(8,060)	
Net saving transferred to general fund	0	(490)	
Closing general fund balance	**(8,060)**	**(8,550)**	

Strong financial management and control measures in place across all service areas, and including the Authorisation Panel, Procurement Board and Budget Review Board, have all contributed to the achievement of the net saving at the year end.

The key components of the net saving are as follows:-

- Recruitment control measures to produce vacancy management savings
- Management of our capital programme to avoid increasing our external debt
- Repaying certain short-life items of capital expenditure to generate on-going revenue savings in 2012-13 and future years.
- Savings on adult social care contracts
- Savings on payments for concessionary fares
- Savings from planning and regulatory services staff costs and the local development framework.
- Savings on Fire and rescue services turnout fees and other allowances
- Audit fees and bank charges reduced

These and other changes to the way in which the council operates and provides or commissions services have enabled achievement of £22.105 million of savings which can be analysed as follows:

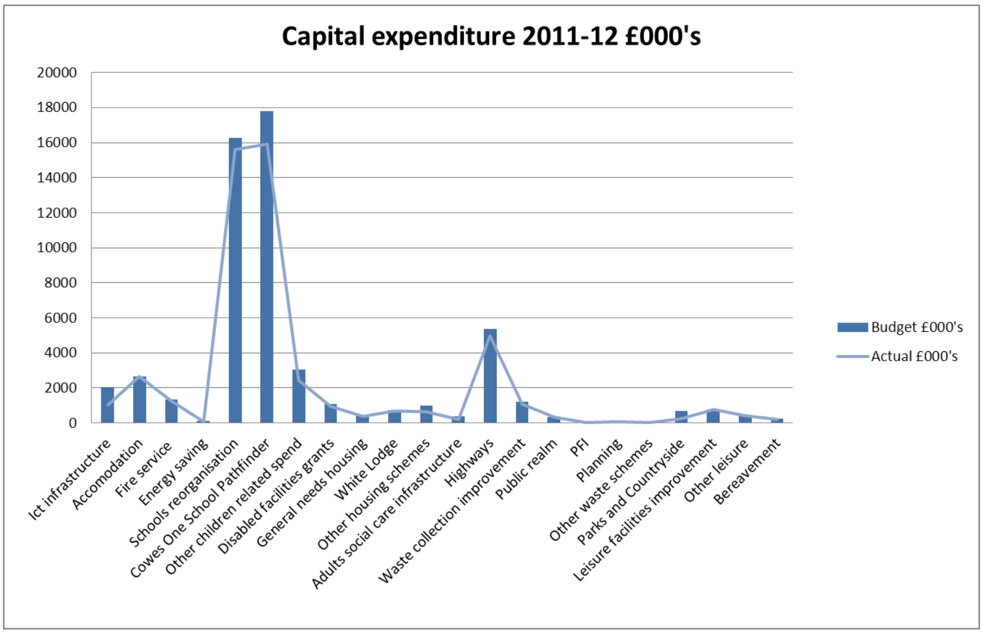


Capital income and expenditure

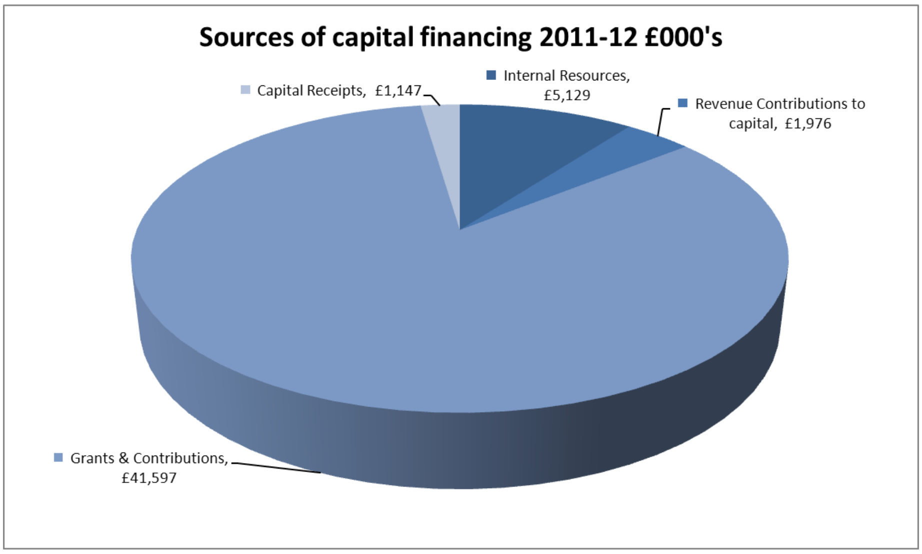
Capital spending can generally be defined as spending which creates or enhances assets that have a life of more than one year. The council began the year with an ambitious programme of capital investment projects which was subject to significant reprofiling during the year to reflect the changing position for project delivery once contractors were appointed and projects commenced. This reprofiling of capital budgets was intended to allow for more accurate monitoring of progress in delivering approved capital projects in year.

The large capital budgets associated with the One School Pathfinder project and the Schools Reorganisation programme were reprofiled as part of this process as projects took shape during 2011-12. Despite these changes we achieved in year capital expenditure of £49.849 million compared to a budget of £56.032 million, equivalent to 89% delivery of the amended programme. The remainder of the approved capital programme not spent in 2011/12 has been slipped into 2012/13.

This represents both a significant increase in the amount of money invested in capital projects by the council compared to any previous financial year, and also a significant improvement in the proportion of the programme delivered compared to budget. Details are set out in the table below:



Capital investment can be financed through a number of sources including grants and contributions from Government and other organisations, capital receipts from the sale of capital assets and revenue contributions. Where capital cannot be funded from these sources the council can borrow as part of its overall treasury management programme. Once again the council has managed to avoid any increase in long term borrowing in 2011-12 but it is expected that borrowing will be needed in 2012-13. Sources of financing are analysed for 2011-12 as below:



Reserves and balances

The year end position for reserves and balances is set out in the table below. There are a number of factors which have led to the variance in the year end position compared to that assumed in the budget. A significant factor relates to the change in accounting practice for recording grants and contributions, where money will be spent in 2012-13 relating to grants and contributions received during 2011-12, in some cases during the last few weeks of the financial year (£3.749 million). Those grants and contributions are shown in the earmarked reserves. The earmarked reserves also include £1.800 million saving from 2011-12 approved by the council to support delivery of corporate priorities, in particular regeneration and the economy and preparation costs for the re-procurement of the waste contract.

In many cases spending programmes and projects span more than one financial year, and resources have been carried forward from 2011-12 to fund costs and commitments in 2012-13 (£3.328 million). However, it should be noted that the balance of earmarked reserves is net of an overspend of £5.335 million on schools budgets, funded from the Dedicated Schools Grant (DSG) and reported to the Council on 29 February 2012 as part of the budget strategy report. This represents the additional revenue costs arising from the schools reorganisation project over the 2010-11 and 2011-12 financial years, and includes deficit balances left behind by closing schools, and severance costs. Arrangements have been put in place to manage the net overspend on schools back towards a balanced position over a period of three years between 2012-13 and 2014-15 from within the DSG, but the council must have sufficient resources to cover the deficit in the meantime.

	Balance 1 April 2011 £000	Movement In Year £000	Balance 31 March 2012 £000
Earmarked Revenue Reserve	861	1,963	2,824
Earmarked Revenue Reserve - Corporate Priorities	0	1,800	1,800
Repairs & Renewals	864	18	882
Earmarked Reserves - Services	2,524	2,003	4,527
Insurance & Risk Reserve	5,730	504	6,234
Termination Costs Reserve	1,765	(1,157)	608
Section 106 Reserve	1,300	(562)	738
Total earmarked reserves	**13,044**	**4,569**	**17,613**
Insurance Provision	2,726	(67)	2,659
Doubtful Debts	2,203	580	2,783
Schools Balances	583	2,282	2,865
General Fund	8,060	490	8,550
Total	**26,616**	**7,854**	**34,470**

Isle of Wight Council Pension Scheme

The council is the administering body for the Isle of Wight Council Pension Scheme and also makes up 95% of the scheme's membership with the remainder coming from admitted bodies such as harbour commissioners and housing associations and scheduled bodies such as the Isle of Wight College and town and parish councils.

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

Borrowing and investments

The council's arrangements for borrowing as part of its treasury management activities form an important part of managing the council's resources and its ability to deliver its key priorities. In particular, borrowing supports the delivery of the council capital programme, where not funded by capital receipts or grant income.

The table below sets out the actual external debt at 31 March 2011 and 2012. Of the £127.380 million loans outstanding at 31 March 2012, £112.985 million were from the PWLB; £9.136 million were lender's option/borrower's option (LOBO) loans, £5.000 million were short term borrowings and £0.259 million other loans. The short term borrowing of £5.000 million as at 31 March 2012 was repaid on 5 April 2012.

	2010-11	2011-12
	£000	£000
Actual external debt	**124,570**	**127,380**

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

Changes to the statement of accounts

In preparing these accounts the council has complied with the Code of Practice on Local Authority Accounting in the United Kingdom 2011-12 which defines proper accounting practices for all Local Authorities. The Code of Practice is based on International Financial Reporting Standards (IFRS) which were implemented for the first time in 2010-11.

The principal change to accounting policies in 2011-12 relates to the treatment in accounting for heritage assets held by the council. These are now required to be recognised in the balance sheet at valuation. The 1 April 2010 and 31 March 2011 balance sheets and movement in reserves statement 2010-11 comparative figures have therefore been restated in the 2011-12 statement of accounts to apply the new policy.

Impact of the current climate on council structure and services

An autumn statement from the Chancellor was made on 29 November 2011. This set out the overall position on the national economy and steps that will be taken to deal with current reduced growth forecasts and to avoid going back into recession. As part of the announcement there were a number of national changes that will impact on local authorities.

It is clear that, for the foreseeable future resources will be limited and there will be additional reductions to be made in future years, as the Chancellor set out in his autumn statement. The spending limits for a further two years, 2015-16 and 2016-17 were announced which give an on-going reduction of 0.9% in real terms each year. It is likely that within these limits the reductions for local authorities and for certain services will be higher.

In preparing for this likelihood, the council is continuing to review the services it provides and how they are provided. In particular, the council is supporting more community and voluntary organisations to take control of community assets and services and provide them locally, we are moving to commission more services externally and provide better value for money and we are supporting staff to provide some services on a more commercial footing.

THE STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The authority's responsibilities

The authority is required to:

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

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

The Strategic Director of Resources' responsibilities

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

In preparing this statement of accounts, the Strategic Director of Resources has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that are reasonable and prudent;
- complied with the local authority code.

The Strategic Director of Resources has also:

- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the statement of accounts for the year ended 31 March 2012 required by the Accounts and Audit (England) Regulations 2011 is set out on pages 10 to 128.

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 2012.

D Burbage

Strategic Director of Resources Date: 18/09/2012

I certify that the Statement of Accounts for 2011-12 was approved at the Audit Committee meeting held on 24 September 2012.

Signed:

Stuart Hutchinson
Chair of Audit Committee date: 24/09/2012

MOVEMENT IN RESERVES STATEMENT

This statement shows the movement in the year on the different reserves held by the council, analysed into 'usable reserves' (ie those that can be used to fund expenditure or reduce local taxation) and other reserves. The surplus or (deficit) on the provision of services line shows the true economic cost of providing the council's services, although in 2010-11 this included a large credit adjustment in respect of a change in the basis for calculating pension increases from RPI to CPI. More details of the cost of providing the council's services are shown in the comprehensive income and expenditure statement, which are different from the statutory amounts required to be charged to the general fund balance for council tax setting. The net increase/decrease before transfers to earmarked reserves line shows the balance on the statutory general fund before any discretionary transfers to or from earmarked reserves undertaken by the council.

	General fund balance £000	Earmarked general fund Reserves £000	Capital receipts reserve £000	Capital grants unapplied £000	Total usable reserves £000	Unusable reserves £000	Total authority reserves £000
Balance at 31 March 2010 brought forward (restated)	**7,273**	**15,416**	**0**	**660**	**23,349**	**(136,851)**	**(113,502)**
Movement in reserves during 2010-11							
Surplus or (deficit) on the provision of services	51,229	0	0	0	51,229	0	51,229
Other comprehensive income & expenditure	0	0	0	0	0	68,178	68,178
Total comprehensive income & expenditure	**51,229**	**0**	**0**	**0**	**51,229**	**68,178**	**119,407**
Adjustments between accounting basis & funding basis under regulations (Note 7)	(52,231)	0	0	(29)	(52,260)	52,260	0
Net increase/decrease before transfers to earmarked reserves	**(1,002)**	**0**	**0**	**(29)**	**(1,031)**	**120,438**	**119,407**
Transfers to/from earmarked reserves (Note 8)	1,789	(1,789)	0	0	0	0	0
Increase/decrease in 2010-11	**787**	**(1,789)**	**0**	**(29)**	**(1,031)**	**120,438**	**119,407**
Balance at 31 March 2011 carried forward	**8,060**	**13,627**	**0**	**631**	**22,318**	**(16,413)**	**5,905**

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

COMPREHENSIVE INCOME & EXPENDITURE STATEMENT

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

	2010-11				**2011-12**	
Gross expenditure	Gross income	Net expenditure		**Gross expenditure**	**Gross income**	**Net expenditure**
£000	£000	£000		**£000**	**£000**	**£000**
151,213	(116,928)	34,285	Education & children's service	**137,168**	**(103,616)**	**33,552**
60,135	(11,805)	48,330	Adult social care	**57,251**	**(16,858)**	**40,393**
14,540	(4,819)	9,721	Cultural & related services	**12,215**	**(4,172)**	**8,043**
16,817	(1,883)	14,934	Environmental & regulatory services	**17,353**	**(1,755)**	**15,598**
6,707	(3,117)	3,590	Planning services	**4,990**	**(2,407)**	**2,583**
22,649	(8,036)	14,613	Highways & transport services	**21,199**	**(6,983)**	**14,216**
8,328	(302)	8,026	Fire & rescue services	**7,643**	**(659)**	**6,984**
62,806	(55,211)	7,595	Housing services (including Benefits)	**62,634**	**(56,353)**	**6,281**
16,979	(15,890)	1,089	Central services to the public	**17,701**	**(16,836)**	**865**
4,398	(24)	4,374	Corporate & democratic core	**3,282**	**(37)**	**3,245**
2,701	0	2,701	Non-distributed costs	**10,895**	**0**	**10,895**
367,273	(218,015)	149,258	**Cost of services**	**352,331**	**(209,676)**	**142,655**
(52,486)	0	(52,486)	Pensions funds:- adjustment for change to accounting assumption for CPI (Note 5)	**0**	**0**	**0**
3,125	0	3,125	Other operating expenditure (Note 9)	**30,424**	**(555)**	**29,869**
34,388	(23,074)	11,314	Financing & investment income & expenditure (Note 10)	**32,249**	**(20,506)**	**11,743**
0	(162,440)	(162,440)	Taxation & non-specific grant income (Note 11)	**0**	**(179,933)**	**(179,933)**
352,300	(403,529)	(51,229)	**(Surplus)/deficit on provision of services after pension funds CPI adjustment**	**415,004**	**(410,670)**	**4,334**
		(7,811)	Surplus on revaluation of property, plant & equipment			**(14,401)**
		1,005	Downward revaluation of assets and impairment losses on non-current assets charged to the revaluation reserve			**5,791**
		(61,372)	Actuarial gains/losses on pension assets/liabilities			**35,363**
		(68,178)	**Other comprehensive income & expenditure**			**26,753**
		(119,407)	**Total comprehensive income & expenditure**			**31,087**

BALANCE SHEET

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

1 April 2010 (restated)	31 March 2011 (restated)			**31 March 2012**
£000	£000		**Note**	**£000**
326,452	339,676	Property, plant & equipment	**12**	**334,630**
1,446	1,446	Heritage assets	**13**	**1,446**
3,814	6,607	Investment property	**14**	**5,853**
1,058	1,033	Intangible assets	**15**	**855**
11	11	Long term investments	**16**	**11**
88	64	Long term debtors	**16**	**97**
332,869	348,837	**Long term assets**		**342,892**
5,401	12,160	Short-term investments	**16**	**1,285**
450	366	Assets held for sale	**21**	**2,501**
593	549	Inventories	**18**	**460**
23,280	20,821	Short term debtors	**19**	**23,263**
29,724	33,896	**Current assets**		**27,509**
(2,045)	(1,713)	Cash and cash equivalents	**20**	**(3,828)**
(10,800)	(12,682)	Short term borrowing	**16**	**(15,492)**
(27,376)	(28,137)	Short term creditors	**22**	**(31,120)**
(2,026)	(2,732)	Short term provisions	**23**	**(2,033)**
(42,247)	(45,264)	**Current liabilities**		**(52,473)**
(6,934)	(5,601)	Long term creditors	**16**	**(3,952)**
(1,197)	(1,197)	Long term provisions	**23**	**(1,420)**
(112,888)	(111,888)	Long term borrowing	**16**	**(111,888)**
(269,664)	(165,092)	Other long term liabilities	**16**	**(206,874)**
(394)	(394)	Donated assets account	**13**	**(394)**
(42,771)	(47,392)	Capital grants receipts in advance	**39**	**(18,582)**
(433,848)	(331,564)	**Long term liabilities**		**(343,110)**
(113,502)	5,905	**Net assets**		**(25,182)**
23,349	22,318	Usable reserves	**24**	**29,756**
(136,851)	(16,413)	Unusable reserves	**25**	**(54,938)**
(113,502)	5,905	**Total reserves**		**(25,182)**

CASH FLOW STATEMENT

The cash flow statement shows the changes in cash and cash equivalents of the council during the reporting period. The statement shows how the council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the council are funded by way of taxation and grant income or from recipients of services provided by the council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (ie borrowing) to the council.

2010-11		**2011-12**
£000		**£000**
51,229	Net Surplus/(deficit) on the provision of services	**(4,334)**
(21,830)	Adjustments to net surplus or deficit on the provision of services for non-cash movements	**59,248**
(18,392)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	**(30,691)**
11,007	Net cash flows from operating activities (Note 26)	**24,223**
(10,925)	Investing activities (note 27)	**(28,635)**
250	Financing activities (note 28)	**2,297**
332	Net increase or decrease in cash & cash equivalents	**(2,115)**
(2,045)	Cash & cash equivalents at the beginning of the reporting period	**(1,713)**
(1,713)	**Cash & cash equivalents at the end of the reporting period (Note 20)**	**(3,828)**

NOTES TO THE ACCOUNTS

1. Summary of significant accounting policies

1.1 General principles

The statement of accounts summarises the council's transactions for the 2011-12 financial year and its position at the year-end of 31 March 2012. The council is required to prepare an annual statement of accounts in accordance with proper accounting practices, by the Accounts and Audit (England) Regulations 2011. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2011-12 and the Service Reporting Code of Practice 2011-12, supported by International Financial Reporting Standards (IFRS). The accounting convention adopted in the statement of accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

1.2 Accruals of income and expenditure

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

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

1.3 Cash and cash equivalents

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

1.4 Exceptional items

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

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

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

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

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

1.6 Charges to revenue for non-current assets

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

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

The council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the council in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the general fund balance (MRP) by way of an adjusting transaction with the capital adjustment account in the movement in reserves statement for the difference between the two.

1.7 Employee benefits

1.7.1 Benefits payable during employment

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

1.7.2 Termination benefits

Termination benefits are amounts payable as a result of a decision by the council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy. They are charged on an accruals basis to the relevant service line in the comprehensive income and expenditure statement when the council is demonstrably committed to the termination of the employment or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the general fund balance to be charged with the amount payable by the council to the pension fund or the pensioner in the year, not the amount calculated according to the relevant accounting standards. In the movements in reserves statement, appropriations are required to and from the pensions reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits paid to the pension fund and pensioners and any such amounts payable but unpaid at year-end.

1.7.3 Post-employment benefits

Employees of the council are members of three separate pension schemes:

- The Local Government Pension Scheme, administered by the Isle of Wight Council.
- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE).
- The Fire-fighters' Pension Scheme, which is an unfunded scheme administered by the council and there are no investment assets held against the liabilities.

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

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

1.7.4 The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Isle of Wight Council pension fund attributable to the council are included in the balance sheet on an actuarial basis using the projected unit method – ie an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates etc, and projections of projected earnings for current employees.

- Liabilities are discounted to their value at current prices, using a discount rate of 4.8% based on the yield available on long-dated UK Government bonds (as measured by the Fixed Interest Gilt Yield Index (over 15 years)), plus an allowance for the median credit spread available on this index at the IAS19 valuation date.

- The assets of the Isle of Wight Council Pension Fund attributed to the council are included in the balance sheet at their fair value:
    - quoted securities – current bid price
    - unquoted securities – professional estimate
    - unitised securities – current bid price
    - property – market value

- The change in the net pensions liability is analysed into seven components:
    - current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the comprehensive income and expenditure statement to the services for which the employees worked
    - past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the surplus or deficit on the provision of services in the comprehensive income and expenditure statement as part of non distributed costs
    - interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to financing and investment income and expenditure line in the comprehensive income and expenditure statement
    - expected return on assets – the annual investment return on the fund assets attributable to the council, based on an average of the expected long-term return – credited to financing and investment income and expenditure line in the comprehensive income and expenditure statement
    - gains/losses on settlements and curtailments – the result of actions to relieve the council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the surplus or deficit on the provision of services in the comprehensive income and expenditure statement as part of non-distributed costs

- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the pensions reserve
- contributions paid to the Isle of Wight Council pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the general fund balance to be charged with the amount payable by the council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the movement in reserves statement, this means that there are appropriations to and from the pensions reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable to the fund but unpaid at the year-end. The negative balance on the pension reserve thereby measures the beneficial impact to the general fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

1.7.5 Discretionary benefits

The council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

1.8 Events after the balance sheet date

Events after the balance sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the statement of accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the statement of accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period – the statement of accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the event and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the statement of accounts.

1.9 Financial instruments

1.9.1 Financial liabilities

Financial liabilities are recognised on the balance sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. Annual charges to the financing and investment income and expenditure line in the comprehensive income and expenditure statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the council has, this means that the amount presented in the balance sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the comprehensive income and expenditure statement is the amount payable for the year according to the loan agreement.

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

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

1.9.2 Financial assets

Financial assets are classified into two types:

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

1.9.3 Loans and receivables

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

The council made a number of loans to voluntary organisations in the past at less than market rates (soft loans). A review of soft loans has been undertaken and the amounts involved are not considered to be material for the purposes of the 2011-12 statement of accounts.

1.9.4 Available-for-sale assets

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

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

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

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

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

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

1.10. Government grants and contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the council when there is reasonable assurance that:-

- the council will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the council are not credited to the comprehensive income and expenditure statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the balance sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or taxation and non-specific grant income (non-ringfenced revenue grants and all capital grants) in the comprehensive income and expenditure statement.

Where capital grants are credited to the comprehensive income and expenditure statement, they are reversed out of the general fund balance in the movement in reserves statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the capital grants unapplied account. Where it has been applied, it is posted to the capital adjustment account. Amounts in the capital grants unapplied reserve are transferred to the capital adjustment account once they have been applied to fund capital expenditure.

1.11. Heritage assets

FRS 30 defines a heritage asset as one with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture. Heritage assets are those assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. They are held by the council in pursuit of its overall objectives in relation to the maintenance of heritage.

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

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

- **Museum social history**

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

- **Local government collection**

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

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

- **Art**

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

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

- **Archaeology**

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

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

- **Geology**

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

- **Record Office collection**

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

- **Local collection books**

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

- **Historic Environment Record (HER)**

The HER provides information on heritage assets that are not in museum collections such as heritage buildings, sites and desposits. The council considers that obtaining valuations for heritage assets associated with council land and buildings would involve a disproportionate cost in comparison to the benefits to the users of the council's financial statements. There are approximately 15,000 records on heritage assets from the whole Island, not just council-owned property or land. The majority of this type of council heritage asset are monuments situated in council cemeteries, parks and town squares with the Brading Down field system and Newport Roman Villa being of national importance. The council considers that due to the lack of any comparable market it is not possible to provide either cost or valuation information for these assets. Consequentially the council does not recognise the assets on the balance sheet.

- **Heritage assets - general**

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

Heritage asset collections are listed in museum/archive catalogues and these catalogues are made available to facilitate enquiries and requests for information. Information on heritage assets that are not in the museum's collections such as large buildings, sites and deposits are maintained on the Historic Environment Record (HER) database. The HER database is held by the Isle of Wight County Archaeology and Historic Environment Service. Information on access to heritage assets is available from the Isle of Wight Heritage Service.

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

With regards to heritage assets held in the council's cemeteries, there is a legal obligation to ensure that all council cemeteries are compliant with regards to health and safety and this includes the safety of memorial headstones. The council holds a detailed memorial safety report that can be viewed at the crematorium office along with recorded data from the many headstone checks that have been undertaken.

The council has also carried out a number of memorial restorations in Ryde cemetery with funding obtained through grant support. As a result of this funding and as a condition of the grant, there is now a ten year maintenance plan for both grounds maintenance and building maintenance which also takes into account maintenance of memorials with an historic interest. This document is held at the crematorium.

1.12. Intangible fixed assets

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

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

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

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

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

1.13 Interests in companies and other entities

The council has no material interests in companies and other entities that have the nature of subsidiaries, associates and joint ventures and that would require it to prepare group accounts.

1.14 Inventories

Inventories are included in the balance sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the first in first out costing formula.

1.15 Investment property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

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

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

1.16 Jointly controlled operations and jointly controlled assets

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

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

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

1.17 Leases

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

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

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

1.17.1 The council as lessee

Finance leases

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

Lease payments are apportioned between:

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

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

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

Operating leases

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

1.17.2 The council as lessor

Finance leases

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

Operating leases

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

1.18 Overheads and support services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2011-12 (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

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

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

1.19 Property, plant and equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as property, plant and equipment.

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

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

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

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

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

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

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

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

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

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

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

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

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

1.19.3 Impairment

Assets are assessed each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

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

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line in the comprehensive income and expenditure statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

1.19.4 Depreciation

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

Depreciation is calculated on the following bases:

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

Where an item of property, plant and equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

This is determined at the point of valuation and is estimated by the valuer.

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

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

1.19.5 Disposals and non-current assets held for sale

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

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

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

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

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

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

1.20 Private finance initiative (PFI) and similar contracts

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

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

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

The amounts payable to the PFI operators each year (unitary charge) are analysed into four elements:-

- fair value of the services received during the year – debited to the relevant service in the comprehensive income and expenditure statement
- finance cost – an interest charge of 6.1% on the outstanding balance sheet liability, debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement
- payment towards liability – applied to write down the balance sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease)
- Payment towards the excess of capital investment over planned capital investment specified in the contract. Excess of capital investment is credited to deferred income on the balance sheet and credited to the relevant service in the comprehensive income and expenditure statement

1.21 Provisions, contingent liabilities and contingent assets

1.21.1 Provisions

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

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

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

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

Provisions are treated as short-term for the purpose of balance sheet categorisation, with the exception of an estimate of the amount liable to ‘clawback’ by the Municipal Mutual Insurance scheme in respect of future mesothelioma claims. This has been categorised as a long-term liability.

1.21.2 Landfill allowance schemes

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

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

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

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

1.21.3 Contingent liabilities

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

Contingent liabilities are not recognised in the balance sheet but are disclosed in a note to the accounts.

1.22 Reserves

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

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

1.23 Revenue expenditure funded from capital under statute

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

1.24 VAT

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

1.25 Carbon reduction commitment allowances

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

1.26 Collection fund

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

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

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

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

- The year-end surplus or deficit on the collection fund relates entirely to council tax and is distributed between the billing and precepting authorities on the basis of estimates made on 15 January of the year-end balance.
- An assessment of an impairment allowance for both council tax and NNDR is carried out at each year-end and based on historical levels of write-offs of uncollectible amounts.

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

IFRS 7 Financial Instruments: Disclosures – Impact of the new standard on the 2012-13 financial statements

The Code of Practice on Local Authority accounting in the United Kingdom 2012-13 (the Code) has introduced a change in accounting policy in relation to the treatment of Financial Instruments: Disclosures (transfer of financial assets), which will need to be adopted by the council in the 2012-13 financial statements.

The amendments are intended to allow users of financial statements to improve their understanding of transfer transactions of financial assets, including the possible effects of any risks that may remain with the entity that transferred the assets. It also includes additional disclosure requirements where there is a disproportionate amount of transfer transactions around the end of the reporting period. The effective date of the standard was 1 July 2011 but the Code does not require disclosure until 1 April 2012.

Following a review of the authority's financial assets and liabilities at 31 March 2012, it is considered unlikely that the IFRS 7 accounting standard will have a material impact on the financial statements of the council.

3. <u>Critical judgements in applying accounting policies</u>

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

- **Future funding of the council**.

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

- **Asset classifications**

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

- **Lease classifications**

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

- **Contractual arrangements**

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

- **School Land and Buildings**

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

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

The statement of accounts contains estimated figures that are based on assumptions made by the council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the council's balance sheet at 31 March 2012 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Property, plant and equipment	Assets are depreciated over useful lives that are dependent on assumptions about level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets. The carrying value of property, plant and equipment at 31 March 2012 is £332.384 million.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the asset falls. It is estimated that the annual depreciation charge for buildings would increase by £0.138 million for every year that useful lives had to be reduced.
Local Government Pension Scheme – Pensions Liability	The estimation of the net liability to pay retirement benefits depends on a number of complex judgements. In particular these judgement relate to the discount rate used, the rate at which salaries are projected to increase, changes to the age at which retirement benefits can be taken, mortality rates and the expected returns on pension fund assets. The council engages an actuary to provide expert advice about the assumptions to be applied and the sensitivity of the results. The carrying value of the Local Government Pension Scheme at 31 March 2012 is £155.222 million.	The impact on the net pensions liability of changes in individual assumptions can be measured in approximate terms. For example, a 0.5% decrease in the real discount rate would result in an increase of 9% to the employer liability for which the monetary value would be £43.279 million. A one year increase in member life expectancy would result in an increase of 3% to the employer liability for which the monetary value would be £13.796 million. A 0.5% increase in the salary increase rate would result in an increase of 3% to the employer liability for which the monetary value would be £11.917 million. A 0.5% increase in the pension increase rate would result in an increase of 7% to the employer liability for which the monetary value would be £31.095 million.
Fire-fighters' Pension Scheme – Pensions Liability	As with the Local Government Pension Scheme, the estimation of the net liability to pay retirement benefits depends on a number of complex judgements. The carrying value of the Fire-fighters' Pension Scheme at 31 March 2012 is £52.000 million (excluding the Top-up grant repayable).	The impact on the net pension liability of changes in individual assumptions can be measured in approximate terms. For example, a 0.1% decrease in the real discount rate would result in an increase of 2% to the employer liability for which the monetary value would be £0.800 million. A one year increase in member life expectancy would result in an increase of 3% to the employer liability for which the monetary value would be £1.500 million. A 0.5% increase in the salary increase rate would result in an increase of 1% to the employer liability for which the monetary value would be £0.600 million. A 0.5% increase in the pension increase rate would result in an increase of 9% to the employer liability for which the monetary value would be £3.800 million.

Item	Uncertainties	Effect if actual results differ from assumptions
Allowance for non-payment of debtors (provision for bad debts)	The council has made allowances for the non-collection of outstanding debts of £2.783 million at 31 March 2012. The allowance for council tax arrears (£0.295 million) is based on an average of historic levels of write-off. The allowances for the remaining sundry debts (including housing benefit overpayments) are calculated on a sliding scale of percentages applied to the outstanding amounts based on an age profile and nature of the debts.	For council tax arrears, variances between estimated and actual write-offs will have an impact on the surplus or deficit on the collection fund. A higher than anticipated collection fund deficit or surplus will need to be taken into account when setting future council tax levels. For the remaining sundry debts (including housing benefit overpayments) a 5% increase in the percentage applied would require an adjustment to the allowance of £0.099 million.
Insurance provision	A provision for outstanding insurance liabilities of £2.659 million has been made at 31 March 2012. This has been based on information contained within the council's in-house claims recording database and an estimate of the amount liable to 'clawback' by the Municipal Mutual Insurance scheme in respect of future mesothelioma claims. The services of a claims handling company is used to process claims made against the council. As significant claims can often take many years to be settled, outcomes cannot always be predicted with any great level of certainty.	The insurance provision is being maintained at a level considered to be prudent in view of the information currently available. The impact of a significant claim paid from the provision would require a reassessment of the adequacy of the Provision and additional contributions may need to be made from the general fund if the provision was found to be insufficient to absorb such a claim.
Accumulated absences account	An accrual in respect of non-teaching staff annual leave entitlement carried forward at 31 March 2012 has been based on 100% of staff as systems have been implemented to ensure that adequate records are maintained. The accrual in respect of teaching staff is calculated by using a formula which is based on the school holiday year. Differences between years can arise as a result of the dates of the Easter holidays. The carrying value at 31 March 2012 is £2.779 million.	Both current assets and unusable reserves on the balance sheet would be under or over stated if the estimate was proved not to be robust. The net worth on the balance sheet would therefore be under or over stated. The impact on the comprehensive income & expenditure statement is the movement between the balance sheet figures between the two years. However, the entries in the comprehensive income & expenditure statement are reversed out through the movement in reserves statement, so that there is no impact on the general fund balance.
Heritage assets	The council has valued a large number of heritage assets at historic cost of £0.446 million as current values cannot be obtained without significant expense.	The asset values could be understated or overstated in the balance sheet compared to the amounts if current value were to be available. A 20% change in asset values would equate to a change of £0.089 million in the value of these assets.

5. Material items of income and expense

5.1 2010-11 comparative figures

The Chancellor's emergency budget on 22 June 2010 announced that pension increases would in future be based on CPI rather than RPI. This has resulted in past service credits of £46.786 million for the local government scheme and £5.700 million for the Fire-fighters' Pension Scheme appearing below the cost of services line in the comprehensive income & expenditure statement. These credits were treated as one-off adjustments in 2010-11, in line with CIPFA/Audit Commission recommendations.

5.2 2011-12 Disposals

The other operating expenditure line in the comprehensive income & expenditure statement includes £28.597 million relating to losses on disposal of non-current assets. These losses primarily relate to the freehold transfer of the former Carisbrooke High School as a foundation school (£14.100 million) and the transfer of the former Ryde High School to academy status (£11.300 million). In addition, a number of 125 year leases have been granted on property, the most significant being Ryde Waterside Pool (£1.700 million).

The former Sandown High School previously transferred as a foundation school and was derecognised in the 2010-11 financial statements.

The carrying value of property, plant and equipment in the balance sheet has been reduced by £28.597 million as a result of these disposals.

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

5.3. Impairments

During 2011-12, the council has recognised an impairment loss of £7.115 million in relation to land and buildings within property, plant and equipment. The most significant impairment losses relate to building assets at Ventnor Middle School (£2.120 million), Downside Middle School (£0.788 million), the Barrack Block at Sandown (£0.607 million) and Cowes Solent Middle School (£0.569 million). These have been charged to the relevant service line in the comprehensive income & expenditure statement and then reversed through the movement in reserves statement with the result that there is no impact on the council tax.

The carrying value of property, plant and equipment in the balance sheet has been reduced by £7.115 million as a result of these impairments.

Impairment losses of £6.387 million have also been recognised in relation to assets held for sale. The most significant impairment losses relate to Shanklin Theatre (£2.099 million), Ryde Theatre (£1.418 million), Gurnard Primary School (£0.978 million) and Greenmount Primary School (£0.748 million). These have been charged to non-distributed costs in the comprehensive income & expenditure statement and then reversed through the movement in reserves statement with the result that there is no impact on the council tax.

The carrying value of assets held for sale in the balance sheet has been reduced by £6.387 million as a result of these impairments.

5.4 Pension assets/liabilities

The pension reserve at 31 March 2012 includes an actuarial loss of £35.363 million for 2011-12 which has resulted in a negative pension reserve of £206.874 million. The actuarial loss of £35.363 is included with other comprehensive income and expenditure in the comprehensive income and expenditure statement. The notes to the Pension Reserve in note 25 and note 47 Defined benefit pensions schemes give further details of the impact on the council's finances.

6. Events after the balance sheet date

There has been one school (Weston Primary School) which has transferred to academy status with effect from 1 April 2012. The carrying value of land and buildings for this school at 31 March 2012 was £0.8 million. Academy status involves the granting of a statutory 125 year lease and the removal of the asset from the council's balance sheet. This will be disclosed as a loss on disposal in the 2012-13 accounts as no cash proceeds have been received upon this lease being granted.

There are no other post balance sheet events recorded prior to the authorised for issue date and any events that occurred after this date have not been recognised in the statement of accounts.

7. Adjustments between accounting basis and funding basis under regulations

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

2011-12 Adjustments	**General fund balance £000**	**Capital receipts reserve reserves £000**	**Capital grants unapplied £000**	**Movement in unusable reserves £000**
Adjustments primarily involving the capital adjustment account:				
Reversal of items debited or credited to the comprehensive income & expenditure statement:				
Charges for depreciation and impairment of non-current assets and current assets held for sale	**(27,848)**	-	-	**27,848**
Movements in the market value of investment properties	**(347)**	-	-	**347**
Amortisation of intangible assets	**(677)**	-	-	**677**
Capital grants and contributions applied	**41,055**	-	**-**	**(41,055)**
Revenue expenditure funded from capital under statute	**(3,791)**	-	-	**3,791**
Waste PFI deferred income	**223**	-	-	**(223)**
Ryde Gateway liability	**201**	-	-	**(201)**
Prior year adjustment	**(45)**	-	-	**45**
Amounts of non-current assets and current assets held for sale written off on disposal or sale as part of the gain/loss on disposal to the comprehensive income & expenditure statement	**(28,597)**	**(1,273)**		**29,870**
Insertion of items not debited or credited to the comprehensive income & expenditure statement:				
Statutory provision for the financing of capital investment	**9,214**	**-**	**-**	**(9,214)**
Voluntary provision for the financing of capital investment	**2,500**	**-**	**-**	**(2,500)**
Capital expenditure charged against the general fund	**1,976**	**-**	**-**	**(1,976)**
Adjustments primarily involving the capital grants unapplied account:				
Capital grants and contributions unapplied credited to the comprehensive income & expenditure statement	**513**	-	**(513)**	**-**
Application of grants to capital financing transferred to the capital adjustment account	**-**	-	**543**	**(543)**
Adjustments primarily involving the capital receipts reserve				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the comprehensive income & expenditure statement	**0**	**0**	-	**-**
Use of the capital receipts reserves to finance new capital expenditure	**-**	**1,147**	-	**(1,147)**
Contribution from the capital receipts reserve towards administrative costs of non-current asset disposals	**0**	**0**	-	**-**
Contribution from the capital receipts to finance the payments to the Government housing capital receipts pool	**(1)**	**1**	-	**-**
Transfer from deferred capital receipts reserve upon receipt of cash	**-**	**(2)**	-	**2**

2011-12 Adjustments	General fund balance £000	Capital receipts reserve reserves £000	Capital grants unapplied £000	Movement in unusable reserves £000
Adjustments primarily involving the deferred capital receipts reserve:				
Transfer of deferred sale proceeds credited as part of the of the gain/loss on disposal to the comprehensive income & expenditure statement	**0**	**-**	**-**	**0**
Adjustment primarily involving the financial instruments adjustment account:				
Amount by which finance costs charged to the comprehensive income & expenditure statement are different from finance costs chargeable in the year in accordance with statutory requirements	**0**	**-**	**-**	**0**
Adjustments primarily involving the pensions reserve:				
Reversal of items relating to retirement benefits debited or credited to the comprehensive income & expenditure statement (see Note 45)	**(20,404)**	**-**	**-**	**20,404**
Employers' pension contributions and direct payments to pensioners in the year	**13,429**	**-**	**-**	**(13,429)**
'Capitalised' pension costs	**194**	**-**	**-**	**(194)**
Firefighters' pension scheme – movement on top-up grant repayable (to)/from Government	**555**	**-**	**-**	**(555)**
Adjustments primarily involving the collection fund adjustment account:				
Amount by which council tax income credited to the comprehensive income & expenditure statement is different from council tax income calculated for the year in accordance with statutory requirements	**(28)**	**-**	**-**	**28**
Adjustments primarily involving the accumulated absences account:				
Amount by which officer remuneration charged to the comprehensive income & expenditure statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	**203**	**-**	**-**	**(203)**
Total adjustments	**(11,675)**	**(127)**	**30**	**11,772**

2010-11 Comparative figures	**General fund balance £000**	**Capital receipts reserve reserves £000**	**Capital grants unapplied £000**	**Movement in unusable reserves £000**
Adjustments primarily involving the capital adjustment account:				
Reversal of items debited or credited to the comprehensive income & expenditure statement:				
Charges for depreciation and impairment of non-current assets	**(18,296)**	**-**	**-**	**18,296**
Movements in the market value of investment properties	**3,422**	**-**	**-**	**(3,422)**
Amortisation of intangible assets	**(416)**	**-**	**-**	**416**
Capital grants and contributions applied	**16,658**	**-**	**-**	**(16,658)**
Revenue expenditure funded from capital under statute	**(5,297)**	**-**	**-**	**5,297**
Waste PFI deferred income	**154**	**-**	**-**	**(154)**
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the comprehensive income & expenditure statement	**(676)**	**(1,432)**	**-**	**2,108**
Insertion of items not debited or credited to the comprehensive income & expenditure statement:				
Statutory provision for the financing of capital investment	**8,554**	**-**	**-**	**(8,554)**
Adjustments primarily involving the capital grants unapplied account:				
Capital grants and contributions unapplied credited to the comprehensive income & expenditure statement	**300**	**-**	**(300)**	**-**
Application of grants to capital financing transferred to the capital adjustment account	**-**	**-**	**329**	**(329)**
Adjustments primarily involving the capital receipts reserve				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the comprehensive income & expenditure statement	**0**	**0**	**-**	**-**
Use of the capital receipts reserves to finance new capital expenditure	**-**	**1,454**	**-**	**(1,454)**
Contribution from the capital receipts reserve towards administrative costs of non-current asset disposals	**0**	**0**	**-**	**-**
Contribution from the capital receipts to finance the payments to the Government housing capital receipts pool	**(1)**	**1**	**-**	**-**
Transfer from deferred capital receipts reserve upon receipt of cash	**-**	**(23)**	**-**	**23**
Adjustments primarily involving the deferred capital receipts reserve:				
Transfer of deferred sale proceeds credited as part of the of the gain/loss on disposal to the comprehensive income & expenditure statement	**0**	**-**	**-**	**0**

Adjustment primarily involving the financial instruments adjustment account:				
Amount by which finance costs charged to the comprehensive income & expenditure statement are different from finance costs chargeable in the year in accordance with statutory requirements	**2,451**	**-**	**-**	**(2,451)**
Adjustments primarily involving the pensions reserve:				
Reversal of items relating to retirement benefits debited or credited to the comprehensive income & expenditure statement (see Note 46)	**29,458**	**-**	**-**	**(29,458)**
Employers' pension contributions and direct payments to pensioners in the year	**14,650**	**-**	**-**	**(14,650)**
'Capitalised' pension costs	**902**	**-**	**-**	**(902)**
Firefighters' pension scheme – movement on top-up grant repayable (to)/from Government	**(908)**	**-**	**-**	**908**
Adjustments primarily involving the collection fund adjustment account:				
Amount by which council tax income credited to the comprehensive income & expenditure statement is different from council tax income calculated for the year in accordance with statutory requirements	**(123)**	**-**	**-**	**123**
Adjustments primarily involving the accumulated absences account:				
Amount by which officer remuneration charged to the comprehensive income & expenditure statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	**1,399**	**-**	**-**	**(1,399)**
Total Adjustments	**52,231**	**0**	**29**	**(52,260)**

8. Transfers to/from earmarked reserves

This note sets out the amounts set aside from the general fund balance in earmarked reserves to provide financing for future expenditure plans and the amounts transferred from earmarked reserves to meet general fund expenditure in 2011-12.

General Fund:	Balance at 1 April 2010 £000	Transfer out 2010/11 £000	Transfer in 2010/11 £000	Balance at 31 March 2011 £000	Transfer out 2011/12 £000	Transfer in 2011/12 £000	Balance at 31 March 2012 £000
Balances held by schools under scheme of delegation	780	(197)	0	583	(848)	3,130	**2,865**
Earmarked revenue reserve	3,015	(3,158)	1,004	861	(7,431)	9,393	**2,823**
Corporate priorities earmarked reserve	0	0	0	0	0	1,800	**1,800**
Repairs & renewal funds	979	(170)	55	864	(23)	42	**883**
Earmarked reserves – services	4,499	(2,633)	658	2,524	(142)	2,145	**4,527**
Insurance & risk funds	4,943	(261)	1,048	5,730	(48)	552	**6,234**
Organisational change reserve	0	0	1,765	1,765	(1,157)	0	**608**
Section 106 contributions reserve	1,200	(219)	319	1,300	(928)	366	**738**
Total	15,416	(6,638)	4,849	13,627	(10,577)	17,428	**20,478**

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

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

The corporate priorities earmarked reserve represents the amount approved by the council at the budget meeting on 29 February 2012 from budget savings in 2011-12.

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

The earmarked reserves - services represent specific sums set aside to meet future requirements, specifically in relation to restructuring, the waste management strategy, economic regeneration initiatives as well as individual service project funds.

Insurance and risk funds provide the means to take categories of insurance risk in-house in the future and to meet various contingencies. These funds also recognise that the council faces a number of non-insurable risks that fall outside the scope of normal insurance cover including litigation, contract disputes and natural disasters. Rather than provide for these individually, with subsequent volatility within the revenue budget, the non-insurable risk element within these reserves currently provides for these potential liabilities.

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

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

9. Other operating expenditure

2010-11 £000		2011-12 £000
1,414	Parish & Town Council precepts	**1,686**
126	Levies	**140**
1	Payments to government housing capital receipts pool	**1**
908	Fire-fighters' Pension Scheme – movement in top-up grant repayable to/(from) Government	**(555)**
676	(Gains)/losses on the disposal of non-current assets and current assets held for sale	**28,597**
3,125	**Total**	**29,869**

A levy of £0.105 million (£0.091 million in 2010-11) was paid to the Southern Inshore Fisheries and Conservation Authority and £0.035 million (£0.035 million in 2010-11) was paid as a flood defence levy to the Environment Agency.

10. Financing and investment income & expenditure

2010-11 £000		2011-12 £000
6,747	Interest payable	**6,399**
8,261	Pension interest cost and expected return on pension assets	**5,229**
(165)	Interest receivable	**(117)**
(3,529)	Income & expenditure in relation to investment properties and changes in fair value	**232**
11,314	**Total**	**11,743**

11. Taxation and non specific grant incomes

2010-11 £000		2011-12 £000	
72,358	Council tax income		**73,111**
53,612	Non domestic rates distribution	**48,579**	
22,038	Non-ringfenced government grants	**19,506**	
14,432	Capital grants & contributions	**38,737**	
90,082	Total grant income (see note 39)		**106,822**
162,440	**Total**		**179,933**

12. Property, plant & equipment

Movements on balances in 2011-12	Shared ownership £000	Other land & buildings £000	Vehicles, plant, furniture & equipment £000	Infrastructure assets £000	Community assets £000	Surplus assets £000	Assets under construction £000	Total property, plant & equipment £000	PFI assets included in property, plant & equipment £000
Cost or valuation									
At 1 April 2011	1,173	271,100	38,592	101,233	2,053	210	12,838	**427,199**	21,072
Additions	0	8,814	3,738	4,776	44	69	28,341	**45,782**	278
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	550	5,759	30	2,500	54	894	0	**9,787**	0
Derecognition	0	(29,767)	(586)	0	(18)	(1,721)	0	**(32,092)**	(6)
Assets reclassified (to)/from held for sale	(62)	(9,248)	(838)	0	0	0	0	**(10,148)**	0
Other movements	0	0	0	1	0	0	(48)	**(47)**	(1)
Reclassification	0	(6,415)	2,098	690	(985)	8,376	(3,584)	**180**	0
At 31 March 2012	**1,661**	**240,243**	**43,034**	**109,200**	**1,148**	**7,828**	**37,547**	**440,661**	**21,343**

Accumulated depreciation & impairment **2011-12**	**Shared ownership £000**	**other land & buildings £000**	**Vehicles, plant, furniture & equipment £000**	**Infrastructure assets £000**	**Community assets £000**	**Surplus assets £000**	**Assets under construction £000**	**Total property, plant & equipment £000**	**PFI assets included in property, plant & equipment £000**
Cost or valuation									
At 1 April 2011	0	(37,849)	(23,542)	(25,539)	(391)	(202)	0	**(87,523)**	(18,032)
Depreciation charge	0	(3,847)	(5,040)	(5,189)	0	(97)	0	**(14,173)**	(776)
Depreciation written out to the revaluation reserve	0	2,655	0	(254)	11	164	0	**2,576**	0
Impairment losses or (reversals) written out to the revaluation reserve	0	(4,398)	0	0	(52)	(1)	0	**(4,451)**	0
Impairment losses or (reversals) recognised in the surplus/deficit on the provision of services	0	(7,115)	0	0	(172)	0	0	**(7,287)**	0
Derecognition	0	2,883	416	0	0	44	0	**3,343**	6
Assets reclassified (to)/from held for sale	0	895	589	0	0	0	0	**1,484**	0
Reclassification	0	(28)	0	0	258	(230)	0	**0**	0
At 31 March 2012	**0**	**(46,804)**	**(27,577)**	**(30,982)**	**(346)**	**(322)**	**0**	**(106,031)**	**(18,802)**

Net book value at 31 March 2012	**1,661**	**193,439**	**15,457**	**78,218**	**802**	**7,506**	**37,547**	**334,630**	**2,542**
Net book value at 31 March 2011	1,173	233,251	15,050	75,694	1,662	8	12,838	339,676	3,040

Comparative movements in 2010-11	**Shared ownership £000**	**Other land & buildings £000**	**Vehicles, plant, furniture & equipment £000**	**Infrastructure assets £000**	**Community assets £000**	**Surplus assets £000**	**Assets under construction £000**	**Total property, plant & equipment £000**	**PFI assets included in property, plant & equipment £000**
Cost or valuation									
At 1 April 2010	1,195	263,740	32,759	95,060	2,652	300	4,677	**400,383**	21,037
Additions	0	3,486	5,064	6,008	456	0	10,979	**25,993**	0
Revaluation increases/ (decreases) recognised in the revaluation reserve	6	4,993	0	0	0	99	0	**5,098**	47
Derecognition	0	(271)	(1,208)	0	(439)	0	0	**(1,918)**	(13)
Assets reclassified (to)/from held for sale	(28)	(1,806)	(313)	0	0	(195)	0	**(2,342)**	0
Abortive capital expenditure	0	0	0	0	0	0	(15)	**(15)**	0
Reclassification	0	958	2,290	165	(616)	6	(2,803)	**0**	0
At 31 March 2011	**1,173**	**271,100**	**38,592**	**101,233**	**2,053**	**210**	**12,838**	**427,199**	**21,072**

Accumulated depreciation & impairment **2010-11**	**Shared ownership £000**	**Other land & buildings £000**	**Vehicles, plant, furniture & equipment £000**	**Infrastructure assets £000**	**Community assets £000**	**Surplus assets £000**	**Assets under construction £000**	**Total property, plant & equipment £000**	**PFI assets included in property, plant & equipment £000**
Cost or valuation									
At 1 April 2010	0	(33,478)	(19,603)	(20,577)	(176)	(97)	0	**(73,931)**	(17,113)
Depreciation charge	0	(4,320)	(5,301)	(4,962)	0	0	0	**(14,583)**	(932)
Depreciation written out to the revaluation reserve	0	1,849	0	0	0	0	0	**1,849**	0
Impairment losses or (reversals) written out to the revaluation reserve	0	52	0	0	(95)	(100)	0	**(143)**	0
Impairment losses or (reversals) recognised in the surplus/deficit on the provision of services	0	(2,182)	0	0	(160)	(100)	0	**(2,442)**	0
Derecognition	0	64	1,072	0	42	0	0	**1,178**	13
Assets reclassified (to)/from held for sale	0	164	290	0	0	95	0	**549**	0
Reclassification	0	2	0	0	(2)	0	0	**0**	0
At 31 March 2011	**0**	**(37,849)**	**(23,542)**	**(25,539)**	**(391)**	**(202)**	**0**	**(87,523)**	**(18,032)**

Net book value at 31 March 2011	**1,173**	**233,251**	**15,050**	**75,694**	**1,662**	**8**	**12,838**	**339,676**	**3,040**
Net book value at 31 March 2010	1,195	230,262	13,156	74,483	2,476	203	4,677	326,452	3,924

Depreciation

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

- Other land and buildings – straight-line allocation over the life of the property as estimated by the valuer (between 5 and 999 years. Based on depreciated value, 82% of properties fall within the 50 to 65 years range).
- Vehicles, plant, furniture and equipment - straight-line allocation over the life of each class of assets in the balance sheet, as advised by a suitably qualified officer (between 3 and 20 years)
- Infrastructure - straight-line allocation over estimated life of the asset (between 10 and 120 years).

Capital commitments

At 31 March 2012, the council has entered into a number of contracts for the construction or enhancement of property, plant and equipment in 2012-13 and future years budgeted to cost £27.037 million. The major commitments are:

- Schools reorganisation programme - £8.884 million
- Cowes high school one school pathfinder - £7.609 million
- Leisure facilities improvements - £4.879 million
- County Hall refurbishment - £2.496 million
- Highways schemes - £1.366 million

Similar commitments at 31 March 2011 were £53.703 million and were principally related to Cowes High School one school pathfinder and the schools reorganisation programme.

Effects of changes in estimates

In 2011-12, there have been no material changes to its accounting estimates for property, plant and equipment.

Revaluations

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

The valuations of properties were undertaken by 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. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations of vehicles, plant, furniture and equipment are based on historic cost.

The significant assumptions applied in estimating the fair values are:

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

	Land and buildings £000s	Vehicles plant furniture & equipment £000s	Surplus assets £000s	Total £000s
Carried at historical cost	0	15,457	0	15,457
Valued at fair value as at:				
31 March 2012	77,042	0	5,758	82,800
31 March 2011	27,003	0	259	27,262
31 March 2010	31,236	0	942	32,178
31 March 2009	33,513	0	119	33,632
31 March 2008	24,645	0	428	25,073
Total	**193,439**	**15,457**	**7,506**	**216,402**

13. Heritage assets

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

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

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

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

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

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

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

Art collection
The collection includes a collection of Rowlandsons paintings which are valued at £1.000 million based on an insurance valuation made at 31 March 2012. The collection was purchased for £0.825 million.

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

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

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

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

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

Heritage assets: Five year summary of transactions
The Code of Practice for Local Authority Accounting in the United Kingdom 2011-12 requires that a five year summary of transactions relating to heritage assets be disclosed. However, this information need not be given where it is not practicable to do so. As there are no reliable records relating to the period from 2007-08 to 2009-10, it is not practicable to provide the information for the period before 1 April 2010.

Heritage Assets: Change in Accounting Policy Required by the Code of Practice for Local Authority Accounting in the United Kingdom

The Code of Practice on Local Authority Accounting in the United Kingdom 2011-12 has introduced a change to the treatment in accounting for heritage assets held by the council. As set out in the summary of significant accounting policies, the council now requires heritage assets to be carried in the balance sheet at valuation.

For 2011-12, the council is required to change its accounting policy for heritage assets and recognise them at valuation. Previously, heritage assets were not recognised in the balance sheet as it was not possible to obtain cost information on the assets. The council's accounting policies for recognition and measurement of heritage assets are set out in the summary of significant accounting policies (see note 1).

The council has recognised heritage assets of £1.446 million which were not previously recognised in the balance sheet. The 1 April 2010 and 31 March 2011 balance sheets and 2010-11 comparative figures in the movement in reserves statement have therefore been restated in the 2011-12 statement of accounts to apply the new policy.

The effects of the restatement are as follows:

- At 1 April 2010 the carrying amount of the heritage assets is presented at its valuation at £1.446 million. The donated assets account is presented at the valuation of those assets which have been donated (£0.394 million) and the revaluation reserve has increased by £1.052 million.
- The balance sheet shows the fully restated 1 April 2010 position. The adjustments that have been made to that balance sheet over the version published in the 2010-11 statement of accounts are as follows:

Effect on opening balance sheet 1 April 2010

	Opening balances at 1 April 2010 £000s	Restatement £000s	Restatement required to opening balances as at 1 April 2010 £000s
Heritage assets	0	1,446	1,446
Long-term assets	331,423	332,869	1,446
Donated assets account	0	(394)	(394)
Long-term liabilities	(432,257)	(432,651)	(394)
Unusable reserves	(137,903)	(136,851)	1,052
Net worth/total reserves	(114,554)	(113,502)	1,052

Movement in reserves statement - unusable reserves 2010-11

The restatement of the relevant lines of the movement in reserves statement as of 31 March 2011, as a result of the application of this new accounting policy is presented in the table below:

	As previously stated 31 March 2011 £000s	As restated 31 March 2011 £000s	Restatement 2011 £000s
Balance as at the end of the previous reporting period – 31 March 2010	(137,903)	(136,851)	1,052
Surplus or deficit on the provision of services	**0**	**0**	**0**
Other comprehensive income & expenditure	68,178	68,178	0
Adjustments between the accounting basis and the funding basis under regulations	**52,260**	**52,260**	**0**
Increase/(decrease) in 2010-11	120,438	120,438	0
Balance as at the end of the current reporting period – 31 March 2011	**(17,465)**	**(16,413)**	**1,052**

The balance sheet shows the fully restated 31 March 2011 position. The adjustments that have been made to that balance sheet over the version published in the 2010-11 statement of accounts are as follows:

Effect on opening balance sheet 31 March 2011

	Opening balances at 31 March 2011 £000s	Restatement £000s	Restatement required to opening balances as at 31 March 2011 £000s
Heritage assets	0	1,446	1,446
Long-term assets	**347,391**	**348,837**	**1,446**
Donated assets account	0	(394)	(394)
Long-term liabilities	**(329,973)**	**(330,367)**	**(394)**
Unusable reserves	(17,465)	(16,413)	1,052
Net worth/total reserves	**4,853**	**5,905**	**1,052**

The effect of the change in accounting policy in 2010-11 has been that heritage assets are recognised at £1.446 million on the balance sheet, donated assets at £0.394 million and the revaluation reserve increased by £1.052 million.

14. Investment property

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

	2010-11 £000s	**2011-12 £000s**
Rental income from investment property	115	**127**
Direct operating expenses arising from investment property	(8)	**(13)**
Net gain/(loss)	107	**114**

There are no restrictions on the council’s ability to realise the value inherent in its investment property or on the council’s right to the remittance of income and the proceeds of disposal. The council has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

The following table summarises the movement in the fair value of investment properties over the year:

	2010-11 £000s	**2011-12 £000s**
Balance at 1 April	3,814	**6,607**
Additions: Subsequent expenditure	120	**35**
Disposals	(748)	**(150)**
Net gains/losses from fair value adjustments	3,421	**(347)**
Transfer to property, plant & equipment	0	**(292)**
Balance at 31 March	6,607	**5,853**

15. Intangible assets

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

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

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

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £0.677 million was charged to the comprehensive income and expenditure statement in 2011-12. The majority of this was charged to children and education services (£0.430 million) and support services (£0.243 million). The support services charge is absorbed as an overhead across all the service headings in the cost of services. It is not possible to quantify exactly how much of the amortisation is attributable to each service heading.

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

	2010-11			**2011-12**		
	Internally generated assets £000s	Other assets £000s	Total £000s	**Internally generated assets £000s**	**Other assets £000s**	**Total £000s**
Balance at 1 April						
Gross carrying amounts	0	2,441	2,441	**135**	**2,698**	**2,833**
Accumulated amortisation	0	(1,383)	(1,383)	**(34)**	**(1,766)**	**(1,800)**
Net carrying amount at 1 April	0	1,058	1,058	**101**	**932**	**1,033**
Additions:						
Internal development	135	0	135	**172**	**0**	**172**
Purchases	0	256	256	**0**	**216**	**216**
Assets reclassified from property, plant & equipment	0	0	0	**0**	**111**	**111**
Amortisation for the period	(34)	(382)	(416)	**(77)**	**(600)**	**(677)**
Disposals gross value	0	0	0	**0**	**(14)**	**(14)**
Disposals amortisation	0	0	0	**0**	**14**	**14**
Net carrying amount at 31 March	101	932	1,033	**196**	**659**	**855**
Comprising:						
Gross carrying amounts	135	2,698	2,833	**307**	**3,011**	**3,318**
Accumulated amortisation	(34)	(1,766)	(1,800)	**(111)**	**(2,352)**	**(2,463)**
Balance at 31 March	101	932	1,033	**196**	**659**	**855**

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

	Carrying amount		
	31 March 2011 £000	**31 March 2012 £000**	**Remaining amortisation period at 31 March 2012**
SAP system	463	405	7 years

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

16. Financial instruments

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

	Long-Term			**Current**		
	31 March 2010	31 March 2011	**31 March 2012**	31 March 2010	31 March 2011	**31 March 2012**
	£000	£000	**£000**	**£000**	£000	**£000**
Investments						
Short-term Investments	-	-	**-**	5,401	12,160	**1,285**
Cash equivalents	-	-	**-**	1,850	5,002	**540**
Available-for-sale financial assets	11	11	**11**	-	-	**-**
Total investments	11	11	**11**	7,251	17,162	**1,825**
Debtors						
Loans and receivables	88	64	**97**	-	-	**-**
Financial assets carried at contract amounts	-	**-**	**-**	16,211	17,167	**16,522**
Total debtors	88	64	**97**	16,211	17,167	**16,522**
Borrowings						
Financial liabilities at amortised cost	(112,888)	(111,888)	**(111,888)**	(10,800)	(12,682)	**(15,492)**
Total borrowings	(112,888)	(111,888)	**(111,888)**	(10,800)	(12,682)	**(15,492)**
Creditors						
PFI and finance lease liabilities	(5,240)	(4,533)	**(3,194)**	-	-	**-**
Other financial liabilities at amortised cost	(1,694)	(1,068)	**(758)**	-	-	**-**
Financial liabilities carried at contract amount	-	-	**-**	(20,397)	(25,689)	**(29,963)**
Total creditors	(6,934)	(5,601)	**(3,952)**	(20,397)	(25,689)	**(29,963)**

Income, expense, gains and losses

	2010-11 £000	**2011-12 £000**
Interest expense from financial liabilities measures at amortised cost	(6,747)	**(6,399)**
Total expense in surplus or deficit on the provision of services	(6,747)	**(6,399)**
Interest income from financial assets: loans and receivables	165	**117**
Total expense in surplus or deficit on the provision of services	165	**117**
Net loss for the year	(6,582)	**(6,282)**

Financial liabilities, financial assets represented by loans and receivables and long-term debtors and creditors are carried in the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- estimated ranges of interest rates at 31 March 2012 of 1.59% to 4.40% for loans from the PWLB, based on new lending rates for equivalent loans at that date
- no early repayment or impairment is recognised
- where an instrument will mature in the next 12 months, carrying amount is assumed to approximate fair value
- the fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

Liabilities	31 March 2011 (restated)		**31 March 2012**	
	Carrying amount	Fair value	**Carrying amount**	**Fair value**
	£000	£000	**£000**	**£000**
Financial liabilities	150,259	163,213	**157,343**	**189,194**
Long-term creditors	5,601	5,601	**3,952**	**3,952**

The fair value of the liabilities is more than the carrying amount because the council's PWLB portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the prevailing rates at the balance sheet date. This shows a notional future loss (based on economic conditions at 31 March 2012) arising from a commitment to pay interest to lenders above current market rates.

There are three Lender Option Borrower Option (LOBO) loans amounting to £9 million included in the financial liabilities figures. The lenders have the option to request a change in the interest rate which could lead the council to make an early repayment. None of the lenders have exercised their option to change the interest rate.

Assets	31 March 2011		**31 March 2012**	
	Carrying amount	Carrying amount	**Carrying amount**	**Fair value**
	£000	£000	**£000**	**£000**
Loans and receivables	34,340	34,340	**18,826**	**18,826**
Long-term debtors	64	64	**97**	**97**

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

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

Other long-term liabilities
The liability relating to the defined benefit pension schemes (Local Government Pension Scheme and the Fire-fighters' Pension Fund) is £206.874 million (£165.092 million in 2010-11). These figures include the balance due to or from the Government in respect of the top-up grant.

17. Nature and extent of risks arising from financial instruments

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

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

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

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

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

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

Credit risk

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

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

- rating of A2 or better
- stable credit rating outlook

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

The council's maximum exposure to credit risk in relation to its investments in the bank of £0.540 million cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the council's deposits, but there was no evidence at the 31 March 2012 that this was likely to crystalise.

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

	Amount at 31 March 2012	**Historical experience of default**	**Historical experience adjusted for market conditions at 31 March 2012**	**Estimated maximum exposure to default & uncollectability at 31 March 2012**	Estimated maximum exposure at 31 March 2011
	A	**B**	**C**	**(A x C)**	
	£000	**%**	**%**	**£000**	£000
Deposits with banks and financial institutions	1,825	0.00	0.00	0	0
Customers	4,591	4.95	25.83	1,186	920
Other debtors	8,402	0.00	0.00	0	0
			Total	**1,186**	920

The other debtors figure includes £2.229 million of deferred payments made in respect of care fees for clients in residential or nursing homes under the terms of both Section 22 of the Health and Social Services and Social Security Adjudications Act 2003 and Section 55 of the Health and Social Care Act 2001. The legislation allows the council to place a legal charge or to register an interest on the client's property and consequently the debt is covered by the value of the property.

The council's exposure to credit risk is managed in accordance with its annual treasury management strategy which for 2011-12 was approved by the council in February 2011. 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 2011-12 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 Strategic Director of Resources, Head of Financial Management and other senior finance officers on a monthly basis. Appropriate actions have been taken as a result of those reviews
- A 'weekly loans report' is produced and reported to the Strategic Director of Resources.

The council's treasury management strategy approved on 23 February 2011 is located on the following link to the council's website:- http://www.iwight.com/council/committees/mod-council/23-2-11/Paper%20B%20-%20Appendices.pdf

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

The authority does not generally allow credit for customers, such that £4.982 million is due for payment at 31 March 2012 from invoices raised through the council's accounts receivable system. This amount due can be analysed by age as follows:

	31 March 2011	**31 March 2012**
	£000	**£000**
Less than two months	3,080	**2,661**
Two to four months	395	**168**
Four months to one year	683	**835**
More than one year	960	**1,318**
Total	5,118	**4,982**

Liquidity risk

The council has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements occur, the council has ready access to borrowings from the money market and the Public Works Loan Board (PWLB). There is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the council will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The council sets limits on the proportion of its fixed rate borrowing during specified periods. The strategy is to ensure the careful planning of new loans taken out and (where it is economic to do so) making early repayments.

The council has three lender option/borrower option (LOBO) loans for a total of £9 million. Under the arrangement for these LOBO loans, the lenders have the option to increase the interest rate each year. If the lenders were to increase the interest rate, the authority has the right to repay the loan without penalty. In this case, it is possible that the council would have to pay higher interest if it chose to replace the loan. None of the lenders have exercised their option to change the interest rate.

With the exception of a £5.000 million temporary loan and money held on behalf of various Trust Funds, the remainder of the council's borrowing consists of fixed rate PWLB debt. The PWLB allows debt to be rescheduled prior to maturity, although this may necessitate paying a premium to PWLB. The maturity analysis of financial liabilities for external borrowing is as follows:

	31 March 2011	**31 March 2012**
	£000	**£000**
Less than one year	12,682	**15,492**
Between one and two years	0	**0**
Between two and five years	4,000	**9,000**
Between five and ten years	28,000	**29,200**
Between ten and fifteen years	29,288	**35,688**
Between fifteen and twenty years	32,600	**20,000**
Between twenty and twenty five years	17,000	**17,000**
More than twenty five years	1,000	**1,000**
Total external borrowing	124,570	**127,380**
Of which, Public Works Loan Board (PWLB)	114,007	**112,985**

The maturity analysis of the LOBO loans is shown below. These loans are included in the 'Less than one year' category above, together with accrued interest at 31 March and some other temporary loans held for internal cash management purposes.

Amount (£000)	Interest rate (%)	Final maturity date
1,000	6.65	24/09/2012
3,000	5.34	19/11/2013
5,000	4.27	25/11/2041

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

The most significant deferred liability relates to the integrated waste PFI scheme (£3.649 million at 31 March 2012). As the additional costs of this project, over and above the council's existing budgetary provision for waste management, is met through government funding (PFI credits), there is no significant risk that the authority will be unable to raise finance to meet its commitments to the PFI contractor.

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

	31 March 2011	**31 March 2012**
	£000	**£000**
Less than one year	1,585	**1,739**
Between one and two years	1,633	**1,753**
Between two and five years	3,445	**1,915**
More than five years	368	**284**
Total	7,031	**5,691**

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

Market risk

Interest rate risk – the council is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the council. For instance, a rise in interest rates would have the following effects:

- borrowings at variable rates – the interest expense charged to the surplus or deficit on the provision of services will rise.
- borrowings at fixed rates – the fair value of the liability borrowing will fall
- investments at variable rates – the interest income credited to the surplus or deficit on the provision of services will rise
- investments at fixed rates – the fair value of the assets will fall.

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the surplus or deficit on the provision of services or other comprehensive income and expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the surplus or deficit on the provision of services and affect the general fund balance. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in other comprehensive income and expenditure.

The council has a number of strategies for managing interest rate risk. The annual treasury management strategy draws together the council's prudential indicators and its expected treasury operations, including an expectation of interest rate movements. From this strategy, a prudential indicator is set which provides minimum and maximum limits for fixed and variable rate exposure. There is an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and market and forecast interest rates are monitored within the year to allow any adverse changes to be accommodated by adjusting exposures appropriately. The analysis will also advise whether new borrowing taken out is fixed or variable. During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses. The risk of loss is ameliorated by the fact that a proportion of government grants payable on financing costs will normally move with prevailing interest rates or the council's cost of borrowing and provide compensation for a proportion of any higher costs.

According to this assessment strategy, at 31 March 2012, 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 £0.220 million. The impact of a 1% fall in interest would be as above, but with the movements being reversed. However, as investment interest rates remained below 1% for the duration of 2011-12, the impact would have been limited to the actual amount of investment income received (£0.118 million). Apart from the minimal use of temporary borrowing, external borrowing is at fixed rates through the PWLB or LOBO loans and so an increase or decrease in general interest rates would have had a minimal impact on the surplus or deficit on the provision of services in the comprehensive income and expenditure statement. However, such a change would increase or decrease the fair value of fixed rate borrowing liabilities.

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

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

18. Inventories

	Consumable stores		**Maintenance materials**		**Stocks for resale**		**Total**	
	2010-11 £000	**2011-12 £000**	2010-11 £000	**2011-12 £000**	2010-11 £000	**2011-12 £000**	2010-11 £000	**2011-12 £000**
Balance outstanding at start of year	148	**106**	155	**174**	290	**269**	593	**549**
Purchases	449	**202**	174	**178**	386	**231**	1,009	**611**
Sales	0	**0**	0	**0**	(741)	**(422)**	(741)	**(422)**
Profit transferred to CI&E statement	0	**0**	0	**0**	357	**170**	357	**170**
Recognised as an expense in the year	(452)	**(201)**	(155)	**(191)**	0	**0**	(607)	**(392)**
Written-off balances	(39)	**(14)**	0	**0**	(23)	**(42)**	(62)	**(56)**
Balance outstanding at year-end	106	**93**	174	**161**	269	**206**	549	**460**

19. Debtors

	31 March 2010 £000	31 March 2011 £000	**31 March 2012 £000**
Central Government bodies	7,505	5,796	**7,285**
Other local authorities	37	228	**222**
Other entities and individuals (see below)	15,738	14,797	**15,756**
Total	23,280	20,821	**23,263**

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

	31 March 2010 £000	31 March 2011 £000	**31 March 2012 £000**
Sundry debtors	11,569	9,826	**9,982**
Less: allowance for non-collection	(1,064)	(1,195)	**(1,465)**
Sundry debtors (net of allowance for non-collection)	10,505	8,631	**8,517**
Local taxpayers	2,274	2,674	**3,102**
Less: allowance for non-collection	(273)	(274)	**(295)**
Local taxpayers (net of allowance for non-collection)	2,001	2,400	**2,807**
Housing benefit overpayments	1,337	1,986	**2,433**
Less: allowance for non-collection	(452)	(734)	**(1,023)**
Housing benefit overpayments (net of allowance for non-collection)	885	1,252	**1,410**
Prepayments	2,347	2,514	**3,022**
Total Other entities and individuals	15,738	14,797	**15,756**

20. Cash and cash equivalents

	31 March 2010 £000	31 March 2011 £000	**31 March 2012 £000**
Cash held by the council	3,236	4,249	**3,626**
Short-term deposits with banks	1,850	5,002	**540**
Bank current accounts overdrawn	(7,131)	(10,964)	**(7,994)**
Total	(2,045)	(1,713)	**(3,828)**

In the 2010-11 Statement of Accounts, the Bank current accounts overdrawn figure was disclosed separately from Cash and Cash equivalents in the balance sheet. The total of cash and cash equivalents as shown above is now disclosed as a current liability and the balance sheet as at 31 March 2010 and 31 March 2011 has been restated.

21. Assets held for sale

	Current		**Non Current**	
	2010-11 £000	**2011-12 £000**	2010-11 £000	**2011-12 £000**
Balance at 1 April	450	**366**	0	**0**
Assets newly classified as held for sale:				
Property, plant & equipment	1,793	**8,663**	0	**0**
Revaluation gains	0	**698**	0	**0**
Impairment losses	(1,271)	**(6,387)**	0	**0**
Other movements	14	**131**	0	**0**
Assets sold	(620)	**(970)**	0	**0**
Balance at 31 March	366	**2,501**	0	**0**

Assets are reclassified from property, plant and equipment as assets held for sale where a sale is highly probable, the asset is being actively marketed, the sale is likely to be completed within one year from classification and the decision to sell is unlikely to be withdrawn. The most significant transfers in 2011-12 are Shanklin Theatre (£2.0 million), Ryde Theatre (£1.6 million), Gurnard Primary School (£1.5 million) and Greenmount Primary School (£1.1 million).

Valuation of assets in this class are the lower of carrying value prior to reclassification and net proceeds. The CIPFA Code of Practice requires impairments to be charged to the comprehensive income and expenditure statement even if there is a retained balance on the revaluation reserve relating to the asset. Revaluation reserve balances are written-out upon disposal of the asset.

22. Creditors

	31 March 2010 £000	31 March 2011 £000	**31 March 2012 £000**
Central government bodies	5,185	6,862	**3,065**
Other local authorities	16	40	**51**
NHS bodies	0	0	**1**
Public corporations and trading funds	126	121	**109**
Other entities and individuals (see below)	22,049	21,114	**27,894**
Total	27,376	28,137	**31,120**

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

	31 March 2010 £000	31 March 2011 £000	**31 March 2012 £000**
Sundry creditors	17,494	14,469	**21,606**
Local taxpayers	1,520	1,493	**1,394**
Receipts in advance	3,035	5,152	**4,894**
Total	22,049	21,114	**27,894**

23. Provisions

	Outstanding Insurance Claims £000	**Employment related & restructuring costs £000**	**Carbon Reduction Commitment £000**	**Total £000**
Balance at 1 April 2011	2,726	1,203	0	3,929
Additional provision made in 2011-12	0	390	165	555
Amounts used in 2011-12	(66)	(752)	0	(818)
Unused amounts reversed in 2011-12	0	(213)	0	(213)
Balance at 31 March 2012	**2,660**	**628**	**165**	**3,453**

Outstanding insurance claims
An estimate has been made of potential liabilities arising 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 likely exposure. This provision also includes an estimate of the amount liable to 'clawback' by the Municipal Mutual Insurance scheme in respect of future mesothelioma claims.

Employment related and restructuring costs
There are a number of claims outstanding at 31 March 2012 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 Part-Time Workers (Prevention of Less Favourable Treatment) Regulations has resulted in an out of court settlement relating to retained fire-fighters and the council's potential liability has been estimated on the basis of the proposals.

An estimate has been made for the costs of ICT and infrastructure for phases 1 and 2 of the fire control improvement scheme, including the relocation project to Surrey.

Carbon reduction commitment
The 2011-12 financial year is the first year for which there is an obligation to purchase and surrender carbon reduction commitment (CRC) Allowances in relation to carbon dioxide emissions. Following the end of 2011-12, participating authorities will submit an annual report on their emissions for the 2011-12 financial year. The retrospective purchase of allowances is anticipated to take place from 1 June 2012. Participating authorities are then required to surrender allowances to the scheme by the last working day of July 2012 in proportion to their reported emissions for the preceding scheme year and in accordance with the scheme requirements. A provision has therefore been recognised for the obligation to surrender allowances for the financial year 2011-12.

Presentation in the balance sheet
The total amount of provisions has been divided between current and long term liabilities in the balance sheet. The £1.420 million (£1.197 million in 2010-11) categorised as a long-term provision relates to a potential liability in the event of Municipal Mutual Insurance (the council's insurers until 1992) becoming insolvent as a result of future mesothelioma claims. As this amount was previously included with short-term liabilities in the 2010-11 statement of accounts, the comparative balance sheet figures as at 1 April 2010 and 31 March 2011 have been restated. The effect of this change is that for both the 1 April 2010 and 31 March 2011 balance sheets the short-term provisions have reduced by £1.197 million and at the same dates, the long-term provisions have increased by £1.197 million.

It is expected that the costs relating to short-term liabilities will be incurred in 2011-12.

24. Usable reserves

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

	31 March 2010 £000	31 March 2011 £000	**31 March 2012 £000**
General fund balance	7,273	8,060	**8,550**
Capital receipts reserve	0	0	**127**
Capital grants unapplied	660	631	**601**
Earmarked reserves (see note 8)	15,416	13,627	**20,478**
Total usable reserves	23,349	22,318	**29,756**

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

25. Unusable reserves

	31 March 2010 £000 (restated)	31 March 2011 £000 (restated)	**31 March 2012 £000**
Revaluation reserve	47,713	53,319	**56,871**
Capital adjustment account	92,982	98,637	**97,976**
Financial instruments adjustment account	(2,451)	0	**0**
Pensions reserve	(270,758)	(165,285)	**(206,874)**
Deferred capital receipts reserve	75	52	**50**
Collection fund adjustment account	(32)	(155)	**(183)**
Accumulated absences account	(4,380)	(2,981)	**(2,778)**
Total unusable reserves	(136,851)	(16,413)	**(54,938)**

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

Revaluation reserve

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

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

The reserve contains only revaluation gains accumulated since 1 April 2007, the date that the reserve was created. Accumulated gains arising before that date are consolidated into the balance on the capital adjustment account. The 2010-11 comparative figures have been restated to include revaluation gains on heritage assets. This has increased the brought forward balance at 1 April 2010 by £1.052 million.

2010-11 £000 (restated)		**Revaluation reserve**	**2011-12 £000**	
	47,713	Balance at 1 April		**53,319**
7,811		Upward revaluation of assets	**14,401**	
(1,005)		Downward revaluation of assets and impairment losses not charged to the surplus/ deficit on the provision of services	**(5,791)**	
	6,806	Surplus or deficit on revaluation of non-current assets not posted to the surplus or deficit on the provision of services		**8,610**
(858)		Difference between fair value depreciation and historical cost depreciation	**(896)**	
(342)		Accumulated gains on assets sold or scrapped	**(4,162)**	
	(1,200)	Amount written off to the capital adjustment account		**(5,058)**
	53,319	**Balance at 31 March**		**56,871**

Capital adjustment account

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

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

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

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

2010-11 £000		Capital adjustment account	2011-12 £000	
	92,982	Balance at 1 April		**98,637**
		Reversal of items relating to capital expenditure debited or credited to the comprehensive income and expenditure statement:		
(18,296)		• Charges for depreciation and impairment of non-current assets	**(27,848)**	
(416)		• Amortisation of intangible assets	**(677)**	
(5,297)		• Revenue expenditure funded from capital under statute	**(3,791)**	
154		• Write-down of PFI deferred income	**223**	
0		• Write-down of Ryde Gateway liability	**201**	
(2,108)		• Amounts of non-current assets written-off on disposal or sale as part of the gain/loss on disposal to the comprehensive income and expenditure statement	**(29,870)**	
	(25,963)			**(61,762)**
	1,200	Adjusting amounts written out of the revaluation reserve		**5,058**
	68,219	Net written out amount of the cost of non-current assets consumed in the year		**41,933**
		Capital financing applied in the year:		
1,454		• Use of capital receipts reserve to finance new capital expenditure	**1,147**	
16,658		• Capital grants and contributions credited to the comprehensive income and expenditure statement that have been applied to capital financing	**41,055**	
330		• Application of grants to capital financing from the capital grants unapplied account	**543**	
8,554		• Statutory provision for the financing of capital investment charged against the general fund	**11,714**	
		• Capital expenditure charged against the general fund	**1,976**	
	26,996			**56,435**
	3,422	Movements in the market value of investment properties debited or credited to the comprehensive income and expenditure statement		**(347)**
	0	Other movements		**(45)**
	98,637	**Balance at 31 March**		**97,976**

Financial instruments adjustment account

The financial instruments adjustment account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefitting from gains per statutory provisions. The council uses the account to manage premiums paid on early redemption of loans. Premiums are debited to the comprehensive income and expenditure statement when they are incurred, but reversed out of the general fund balance to the account in the movement in reserves statement. Over time, the expense is posted back to the general fund balance in accordance with statutory arrangements for spreading the burden on council tax. In the council's case, the original period was the unexpired term that was outstanding on the loans when they were redeemed. In order to release budget savings in 2011-12 and future years, the balance was written-down to zero during 2010-11.

2010-11		Financial instruments adjustment account	2011-12	
£000	£000		**£000**	**£000**
	2,451	Balance at 1 April		**0**
(2,451)		Proportion of premiums incurred in previous financial years to be charged against the general fund balance in accordance with statutory requirements	**0**	
	(2,451)	Amount by which finance costs charged to the comprehensive income and expenditure statement are different from finance costs chargeable in the year in accordance with statutory requirements		**0**
	0	**Balance at 31 March**		**0**

Pension reserve

The pensions reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The council accounts for post-employment benefits in the comprehensive income and expenditure statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits to be financed as the council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the pensions reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

There is an additional cost to the pension fund following the early release of retirement benefits without actuarial reduction to former employees following redundancy. Under regulation and local agreement, these can be paid from service budgets within a period not exceeding five years. The amounts debited or credited to the pension reserve in a particular year represent either an increase or reduction in the balance deferred. The capitalised pension cost figures below for both years represent a reduction in the amount owed by the council to the pension fund. These figures are also included as part of the short-term and long-term creditors balances in the respective years, where appropriate.

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

2010-11	Pension reserve	2011-12
£000		**£000**
270,758	Balance at 1 April	**165,285**
(61,372)	Actuarial (gains) and losses on pensions assets and liabilities	**35,363**
(29,458)	Reversal of items relating to retirement benefits debited or credited to the surplus or deficit on the provision of services in the comprehensive income and expenditure statement	**20,404**
(14,650)	Employer's pensions contributions and direct payments to pensioners payable in the year	**(13,429)**
(901)	Capitalised pension cost recognised in year	**(194)**
908	Fire-fighters' Pension Scheme – top-up grant repayable to/(from) Government	**(555)**
165,285	**Balance at 31 March**	**206,874**

Deferred capital receipts reserve

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

2010-11	Deferred capital receipts reserve	2011-12
£000		**£000**
75	Balance at 1 April	**52**
0	Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the comprehensive income and expenditure statement	**0**
(23)	Transfer to the capital receipts reserve upon receipt of cash	**(2)**
52	**Balance at 31 March**	**50**

Collection fund adjustment account

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

2010-11	Collection fund adjustment account	2011-12
£000		**£000**
32	Balance at 1 April	**155**
123	Amount by which council tax income credited to the comprehensive income and expenditure statement is different from council tax income calculated for the year in accordance with statutory requirements	**28**
155	**Balance at 31 March**	**183**

Accumulated absences account

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

2010-11		Accumulated absences account	2011-12	
£000	£000		£000	£000
	4,380	Balance at 1 April		2,981
(4,380)		Settlement or cancellation of accrual made at the end of the preceding year	(2,981)	
2,981		Amounts accrued at the end of the current year	2,778	
	(1,399)	Amount by which officer remuneration charged to the CIE statement on an accruals basis is different from the remuneration chargeable in the year in accordance with statutory requirements		(203)
	2,981	**Balance at 31 March**		2,778

26. Cash flow statement – operating activities

The cash flow for operating activities includes the following items:

2010-11		2011-12	
£000		£000	£000
51,229	Net surplus or (deficit) on the provision of services		(4,334)
	Adjustment of net surplus or deficit on the provision of services for non-cash items:-		
18,296	Depreciation	14,173	
0	Impairment and downward valuations	13,675	
416	Amortisation	677	
0	Increase/decrease in interest creditors	(21)	
1,598	Increase/decrease in creditors	(1,622)	
(9)	Increase/decrease in interest debtors	10	
2,541	Increase/decrease in debtors	(3,700)	
44	Increase/decrease in inventories	89	
(44,108)	Pension liability	6,226	
706	Contributions to/(from) provisions	(476)	
2,108	Carrying amount for non-current assets sold	29,870	
0	Carrying amount of short and long term investments	0	
(3,422)	Movement in investment property values	347	
(21,830)			59,248
	Adjustment for items in the net surplus or deficit on the provision of services that are investing or financing activities:-		
(16,959)	Capital grants credited to surplus or deficit on the provision of services	(41,568)	
0	Net adjustment from the sale of short & long term investments	12,150	
(1,433)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(1,273)	
(18,392)			(30,691)
11,007	**Net cash flows from operating activities**		24,223

27. Cash flow statement – investing activities

2010-11		2011-12
£000		£000
(26,845)	Purchase of property, plant & equipment, investment property and intangible assets	**(41,714)**
(6,750)	Purchase of short-term and long-term investments	**(1,285)**
0	Other payments for investing activities	**(35)**
1,455	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	**1,275**
0	Proceeds from short-term and long-term investments	**0**
21,215	Other receipts from investing activities	**13,124**
(10,925)	**Net cash flows from investing activities**	**(28,635)**

28. Cash flow statement – financing activities

2010-11		2011-12
£000's		£000's
920	Cash receipts of short and long-term borrowing	**5,025**
406	Other receipts from financing activities	**864**
(41)	Repayments of short and long-term borrowing	**(2,194)**
253	Other payments for financing activities	**138**
(1,288)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	**(1,536)**
250	**Net cash flows from financing activities**	**2,297**

29. Cash flow statement – operating activities (interest)

The cash flows for operating activities include the following items:

2010-11		2011-12
£000's		£000's
23,065	Interest received	**20,516**
(34,388)	Interest paid	**(32,270)**

30. Amounts reported for resource allocation decisions

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

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

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

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

Following the council's budget setting meeting for 2011-12 in February 2011, directorate services were allocated cash limited budgets. Performance of spend against budget was monitored throughout the year with monthly reports being presented to budget managers and directorate service boards. In addition, quarterly summary reports were presented to cabinet. During 2011-12, a series of regular budget review boards were initiated to monitor and critically examine the progress of savings targets. Action plans were implemented to relieve in-year pressures and these were the subject of regular detailed scrutiny.

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

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

The council's directorate management arrangements were restructured with effect from April 2011. In order to match the revised structure, the following income and expenditure analysis for the prior year has been restated from that presented in the 2010-11 statement of accounts:

Directorate income & expenditure 2010-11 comparative figures (restated)	**Chief Executive, Schools & Learning £000**	**Community Wellbeing & Social Care £000**	**Economy & Environment Services £000**	**Central & Resource Services £000**	**Total £000**
Fees, charges & other service income	(8,321)	(13,686)	(13,776)	(2,780)	**(38,563)**
Government grants	(103,591)	(4,753)	(2,677)	(65,906)	**(176,927)**
Total income	(111,912)	(18,439)	(16,453)	(68,686)	**(215,490)**
Employee costs	89,379	25,801	22,713	14,725	**152,618**
Other service costs	34,445	63,012	26,495	69,031	**192,983**
Movement on reserves	(1,428)	570	(207)	(724)	**(1,789)**
Total expenditure	122,396	89,383	49,001	83,032	**343,812**
Net expenditure	10,484	70,944	32,548	14,346	**128,322**

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

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

	2010-11 £000	**2011-12 £000**
Net expenditure in the directorate analysis	128,322	**119,051**
Net expenditure of services and support services not included in the analysis	(15,622)	**(13,376)**
Amounts in the comprehensive income and expenditure statement not reported to management in the analysis	49,419	**57,260**
Amounts included in the analysis not included in the comprehensive income and expenditure statement	(12,861)	**(20,280)**
Cost of Services in comprehensive income and expenditure statement	149,258	**142,655**

Reconciliation to subjective analysis

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

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

2010-11 Comparative figures	**Directorate analysis £000**	**Amounts not reported to management for decision making £000**	**Amounts not included in comprehensive I&E statement £000**	**Allocation of recharges £000**	**Cost of services £000**	**Corporate amounts £000**	**Total £000**
Fees, charges & other service income	(38,563)	(274)	0	0	(38,837)	0	(38,837)
Interest and investment income	0	0	0	0	0	(23,073)	(23,073)
Income from council tax	0	0	0	0	0	(72,358)	(72,358)
Government grants and contributions	(176,927)	(2,252)	0	0	(179,179)	(90,082)	(269,261)
Total income	**(215,490)**	**(2,526)**	**0**	**0**	**(218,016)**	**(185,513)**	**(403,529)**
Employee costs	152,618	12,467	(14,650)	0	150,435	(52,486)	97,949
Other service costs	192,983	5,143	0	0	198,126	907	199,033
Movement on reserves	(1,789)	0	1,789	0	0	0	0
Support service recharges	0	15,622	0	(15,622)	0	0	0
Depreciation, amortisation and impairment	0	18,713	0	0	18,713	0	18,713
Interest payments	0	0	0	0	0	34,388	34,388
Precepts & levies	0	0	0	0	0	1,540	1,540
Payments to housing capital receipts pool	0	0	0	0	0	1	1
Gain or loss on disposal of fixed assets	0	0	0	0	0	676	676
Total expenditure	**343,812**	**51,945**	**(12,861)**	**(15,622)**	**367,274**	**(14,974)**	**352,300**
(Surplus) or deficit on the provision of services	**128,322**	**49,419**	**(12,861)**	**(15,622)**	**149,258**	**(200,487)**	**(51,229)**

31. Trading operations

The *Service Reporting Code of Practice* sets out categories of trading operations which authorities should consider disclosing and detailing in a note to the accounts. For the financial year ending 31 March 2012, all such activities are included in the total cost of the relevant services and are therefore consolidated into the cost of services in the comprehensive income & expenditure statement. The amounts include depreciation, impairment and IAS 19 retirement benefit charges attributable to the particular service where applicable. In certain instances, the council may subsidise a service in order to achieve specific service objectives.

Operation	Description		£000
Industrial units	The council let industrial units in a variety of locations.	Turnover	137
		Expenditure	43
		Agreed contribution to/(from) general fund:	
		2011-12	**94**
		2010-11	20
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	625
		Expenditure	639
		Agreed contribution to/(from) general fund:	
		2011-12	**(14)**
		2010-11	62
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 2011-12 such investment included street lighting column replacement, concessionary fares and subsidised bus services, and traffic management improvements. The 2010-11 comparative figure includes £0.666 million impairment charges.	Parking income:	
		Ticket machine income	2,814
		Permit income	500
		Penalty charge notice income	823
		Other sources of income	63
		Turnover	4,200
		Expenditure	1,974
		2011-12 Parking account surplus	**2,226**
		2010-11 surplus	1,698
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	3,082
		Expenditure	2,685
		Agreed contribution to/(from) general fund:	
		2011-12	**397**
		2010-11	(144)
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 2010-11 expenditure figure included £0.160 million of impairment charges.	Turnover	940
		Expenditure	964
		Agreed contribution to/(from) general fund:	
		2011-12	**(24)**
		2010-11	71

Operation	Description		£000
Harbours and coastal	This includes Ryde Harbour, Ventnor Haven, and Whitegates Pontoon.	Turnover	86
		Expenditure	196
		Agreed contribution to/(from) general fund:	
		2011-12	**(110)**
		2010-11	(115)
Leisure facilities	The running of Leisure facilities at Waterside Pool (until 30 September 2011), Medina Leisure Centre, The Heights, Westridge Leisure Centre, Fairway and Ryde Sports Centres and Rew Valley in Ventnor. These are subsidised facilities, as is the case with many similar local authorities.	Turnover	1,331
		Expenditure	3,063
		Agreed contribution to/(from) general fund:	
		2011-12	**(1,732)**
		2010-11	(1,876)
Seasonal sites	The running of tourism related sites including Browns, Sandham Amusements and Appley Pitch & Putt were operated by the council during 2010-11, but were operated as concession agreements during 2011-12. The 2011-12 figures relate to Shanklin Cliff Lift.	Turnover	72
		Expenditure	65
		Agreed contribution to/(from) general fund:	
		2011-12	**7**
		2010-11	60
Newport Harbour (including Folly Moorings)	This includes the Newport Harbour Estate and Folly Moorings. The balance of the Newport Harbour earmarked reserve at 31 March 2012 is £0.016 million. The value of assets included with property, plant and equipment in the council's balance sheet at 31 March 2012 is £1.122 million.	Turnover	192
		Expenditure:	
		Employee costs	76
		Premises	22
		Vehicles & transport	3
		Other supplies & services	47
		Depreciation	22
		Management & support services	26
		Total expenditure	196
		Net contribution to/(from) reserve:	
		2011-12	**(4)**
		2010-11	40

32. Agency services

Under various statutory powers an authority may agree with other local authorities, water companies and government departments to do work on their behalf. This council did not carry out any significant agency work during 2011-12.

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

Section 75 of the National Health Service Act 2006 enables the establishment of joint working arrangements between NHS bodies and local authorities. Pooled funds enable health bodies and local authorities to work collaboratively to address specific local health issues. Memorandum accounts have been prepared relating to pooled budget agreements between the Isle of Wight Council and Isle of Wight NHS Primary Care Trust during 2011-12. All relevant income and expenditure has been included in the adult social care division of service in the comprehensive income and expenditure statement, excluding the element relating to the Isle of Wight NHS 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 March.

	2010-11	**2011-12**	
Amounts received from partners	£000	**%**	**£000**
Contribution from IW Council	2,734	**66.1**	**2,833**
Contribution from IW NHS Primary Care Trust	1,212	**33.9**	**1,450**
Total income	3,946		**4,283**
Amount spent from pool		**£000**	
IWC funded island clients	3,430	**3,594**	
IWC funded mainland clients	198	**252**	
RNCC island placed self funders	626	**535**	
RNCC island self funders placed by mainland authorities	59	**37**	
Other items	39	**38**	
Total expenditure	4,352		**4,456**
Amount remaining in pool	(406)		**(173)**
To be shared between partners based on agreed split (actuals basis to take account of continuing care charges)			
I W Council	(311)	**(394)**	
I W NHS Primary Care Trust	(95)	**221**	
Total	(406)		**(173)**

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

	2010-11	**2011-12**	
Amounts received from partners	£000	**%**	**£000**
Contribution from IW Council	337	**9.1**	**284**
Contribution from IW NHS Primary Care Trust	1,510	**90.9**	**2,824**
Total income	1,847		**3,108**
Amount spent from pool		**£000**	
Actual expenditure incurred	1,847	**3,108**	
Total expenditure	1,847		**3,108**
Amount remaining in pool	0		**0**
To be shared between partners pro rata to contributions made			
I W Council	0	**0**	
I W NHS Primary Care Trust	0	**0**	
Total	0		**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.

	2010-11	**2011-12**	
Amounts received from partners	£000	**%**	**£000**
Contribution from IW Council	476	**37.1**	**570**
Contribution from IW NHS Primary Care Trust	901	**62.9**	**965**
Total income	1,377		**1,535**
Amount spent from pool		**£000**	
Actual expenditure incurred	1,345	**1,478**	
Total expenditure	1,345		**1,478**
Amount remaining in pool	32		**57**
To be shared between partners pro rata to contributions made			**£000**
I W Council	11	**21**	
I W NHS Primary Care Trust	21	**36**	
Total	32		**57**

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

	2010-11	**2011-12**	
Amounts received from partners	£000	**%**	**£000**
Contribution from IW Council	354	**37.5**	**391**
Contribution from IW NHS Primary Care Trust	499	**62.5**	**653**
Total income	853		**1,044**
Amount spent from pool		**£000**	
Actual expenditure incurred	843	**1,017**	
Total expenditure	843		**1,017**
Amount remaining in pool	10		**27**
To be shared between partners pro rata to contributions made			
I W Council	4	**10**	
I W NHS Primary Care Trust	6	**17**	
Total	10		**27**

34. Members' allowances

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

	2010-11 £000	**2011-12 £000**
Basic allowance & special responsibility allowances	464	**452**
Employers' national insurance & pension contributions paid on behalf of members	57	**52**
Travelling & subsistence allowance and reimbursements	26	**27**
Co-opted members	12	**10**
Total	559	**541**

35. Officers' remuneration

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

Post	Year	Salary	Expense Allowance	Compensation of loss of office	Remuneration excluding pension contributions	Pension contributions	Remuneration including pension contributions
		£	£	£	£	£	£
Chief Executive	2011-12 2010-11	149,997 149,997	757 1,120	0 0	150,754 151,117	32,999 32,999	183,753 184,116
Project Director – Schools Re-organisation	2011-12 2010-11	101,460 101,460	0 10,001	0 0	101,460 111,461	22,321 22,321	123,781 133,782
Strategic Director of Community Services (i)	2011-12 2010-11	125,982 79,221	0 7,000	0 0	125,982 86,221	27,716 17,360	153,698 103,581
Deputy Director of Children's Social Care Services (ii)	2011-12 2010-11	90,348 18,701	0 0	0 0	90,348 18,701	19,877 4,114	110,225 22,815
PFI Programme Director	2011-12 2010-11	148,680 148,934	29 287	0 0	148,709 149,221	31,900 31,900	180,609 181,121
Director of Economy & Environment	2011-12 2010-11	110,235 110,235	0 0	0 0	110,235 110,235	24,252 24,252	134,487 134,487
Director of Corporate Services(iii)	2011-12 2010-11	94,766 100,786	662 978	0 0	95,428 101,764	19,973 22,173	115,401 123,937
Strategic Director of Resources (iv)	2011-12 2010-11	112,258 117,193	0 0	0 0	112,258 117,193	N/A	136,955 142,976

Post	Year	Salary	Expense allowance	Compensation of loss of office	Remuneration excluding pension contributions	Pension contributions	Remuneration including pension contributions
		£	£	£	£	£	£
Chief Fire Officer (v)	2011-12 2010-11	62,319 96,334	736 1,297	0 0	63,055 97,631	0 0	63,055 97,631
Chief Fire Officer (vi)	2011-12 2010-11	40,468 0	635 0	0 0	41,103 0	8,510 0	49,613 0
Assistant Director of Economic Development Tourism & Leisure	2011-12 2010-11	90,348 90,763	0 4	0 0	90,348 90,767	19,877 19,877	110,225 110,644

Notes to officers' remuneration

Note (i)	The Strategic Director of Community Services commenced employment on 16 August 2010 at an annualised salary of £125,982.
Note (ii)	The Deputy Director of Children's Social Care Services commenced employment on 17 January 2011 at an annualised salary of £90,348.
Note (iii)	The Director of Corporate Services works 4 days per week. The whole time equivalent salary is £118,107 (£125,982 in 2010-11).
Note (iv)	The Strategic Director of Resources is paid under the terms of a contractual arrangement which covers total employment costs including employers' national insurance and pension contributions and sickness. The contract sum was £153,625 in 2011-12 (£159,250 in 2010-11) and the equivalent costs commensurable to a direct employee are shown in the table, being costs excluding employers' national insurance contributions of £136,955 (£142,976 in 2010-11). This is equivalent to a salary of £112,258 (£117,193 in 2010-11) after allowing for notional employers' pension contributions.
Note (v)	The former Chief Fire Officer left the authority on 31 October 2011. The annualised salary was £94,699. There were no employer pension contributions payable in either 2011-12 or 2010-11.
Note (vi)	The new Chief Fire Officer commenced employment on 1 November 2011 at an annualised salary of £94,699. The amounts shown above exclude any pay received by the postholder in undertaking a previous role within the authority.

The council's other employees (including teachers) receiving more than £50,000 remuneration for the year (excluding employer's pension contributions but including termination payments where applicable) were paid the following amounts:

Remuneration band	2010-11	2011-12
	Number of employees	Number of employees
	Total	Total
£50,000 to £54,999	43	48
£55,000 to £59,999	46	32
£60,000 to £64,999	16	14
£65,000 to £69,999	10	4
£70,000 to £74,999	7	5
£75,000 to £79,999	7	2
£80,000 to £84,999	4	3
£85,000 to £89,999	3	1
£90,000 to £94,999	3	2
£95,000 to £99,999	1	0
£100,000 to £104,999	0	0
£105,000 to £109,999	0	0
£110,000 to £114,999	0	0
£115,000 to £119,999	0	1

36. Termination benefits

The council terminated the contracts of a number of employees in 2011-12, incurring liabilities of £3.795 million. (£3.364 million in 2010-11).

The level of termination benefit costs is as a result of the reduction in the amount of Central Government grant allocated to the council arising from the 2010 comprehensive spending review. The council's 2011-12 budget strategy identified savings from posts which would be the subject of voluntary or compulsory redundancy. The £3.364 million in 2010-11 included accruals where staff had received a termination letter from the council on or before 31 March 2011, and a provision for those staff identified as 'at risk' and for whom a reasonable estimate of likely costs could be made. The 2011-12 figure represents the on-going impact of the budget strategy together with a substantial number of teaching and support posts which were made redundant following schools reorganisation.

The total cost of £3.795 million (£3.364 million in 2010-11) in the table below represents exit packages that have been agreed, accrued for and charged to the council's comprehensive income and expenditure statement in the respective years. The cost of exit packages includes redundancy pay, the accrued costs of added years (pension strain) and other departure costs.

The number of other departures agreed in 2011-12 is a result of schools staff opting for voluntary redundancy during the schools reorganisation process.

The numbers of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below:

Exit package cost band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2010-11	**2011-12**	2010-11	**2011-12**	2010-11	**2011-12**	2010-11 £	**2011-12 £**
£0 to £20,000	223	**192**	19	**88**	242	**280**	1,347,938	**1,376,285**
£20,001 to £40,000	40	**43**	2	**11**	42	**54**	1,199,523	**1,491,453**
£40,001 to £60,000	5	**11**	1	**2**	6	**13**	292,849	**614,322**
£60,001 to £80,000	3	**2**	1	**0**	4	**2**	270,983	**132,473**
£80,001 to £100,000	3	**1**	0	**1**	3	**2**	252,960	**180,860**
£100,001 to £150,000	0	**0**	0	**0**	0	**0**	0	**0**
Total	274	**249**	23	**102**	297	**351**	3,364,253	**3,795,393**

37. External audit costs

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

	2010-11 £000	**2011-12 £000**
Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor for the year	357	**271**
Fees payable to the Audit Commission for certification of grant claims and returns for the year	45	**50**
Fees payable in respect of other services provided by the appointed auditor during the year	0	**0**
Total	402	**321**

38. Dedicated schools grant

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

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

Deployment of dedicated schools grant	Central expenditure £000		Individual schools budget (ISB) £000		Total £000	
	2010-11	**2011-12**	2010-11	**2011-12**	2010-11	**2011-12**
Final DSG for year					76,371	**80,637**
Brought forward from previous year					(143)	**(1,235)**
Carry-forward to following year agreed in advance					0	**0**
Agreed budget distribution in year	10,575	**14,782**	65,653	**64,620**	76,228	**79,402**
In-year adjustments	-	**(2,564)**	-	**2,564**	-	**0**
Final budget distribution for year	10,575	**12,218**	65,653	**67,184**	76,228	**79,402**
Less: Actual central expenditure	11,110	**17,547**				
Less: Actual ISB deployed to schools			66,353	**67,190**		
Plus: Local authority contribution for year	0	**0**	0	**0**	0	**0**
Carry forward of overspend to following year	(535)	**(5,329)**	(700)	**(6)**	(1,235)	**(5,335)**

39. Grant income

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

Credited to taxation and non-specific grant income	2010-11 £000	**2011-12 £000**
Revenue grants:		
Formula grant	(61,397)	**(63,595)**
Local services support grant	-	**(847)**
Area based grant	(13,005)	**-**
Waste PFI grant	(1,248)	**(1,248)**
Council tax freeze grant	-	**(1,788)**
New homes bonus	-	**(577)**
Housing benefit reforms transitional funding	-	**(30)**
Capital grants:		
Department for Education grants	(10,874)	**(32,502)**
Sure start grant	(847)	**-**
Local transport plan grant	(86)	**(4,092)**
Fire service grant	(559)	**(1,128)**
Other capital grants	(2,066)	**(1,015)**
Total	(90,082)	**(106,822)**

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

The increase in the local transport plan grant is due to a change in the mechanism for funding from supported borrowing to direct grant funding.

Credited to services	2010-11 £000	**2011-12 £000**
Dedicated schools grant	(76,371)	**(80,759)**
Schools standards grant & schools standard fund	(13,128)	**(204)**
Sure start grant	(4,060)	**-**
Sixth form funding grant	(10,740)	**(5,685)**
Supporting people grant	(70)	**-**
Rent allowance & rent rebates subsidy	(51,250)	**(53,105)**
Council tax benefit subsidy	(13,095)	**(13,496)**
Housing benefit & council tax benefit administration grant	(1,512)	**(1,471)**
Concessionary fares	(1,776)	**-**
Early intervention grant	-	**(5,296)**
Pupil premium grant	-	**(1,196)**
Learning disability & health reform grant	-	**(1,492)**
Other revenue grants	(4,924)	**(4,459)**
Revenue expenditure funded by capital under statute (REFCUS):		
Private sector renewal	(534)	**-**
Disabled facilities grant	(618)	**(843)**
Department for education REFCUS grants	(810)	**(1,228)**
Other REFCUS grants	(291)	**(47)**
Total	(179,179)	**(169,281)**

The council has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the money or property to be returned to the giver. The balances at year-end are included with current liabilities in the balance sheet and are as follows:

Capital grants & contributions receipts in advance	2010-11 £000	**2011-12 £000**
Department for Education grants	(45,934)	**(18,084)**
Other grants	(657)	**(451)**
Contributions	(801)	**(47)**
Total	(47,392)	**(18,582)**

Revenue grants & contributions receipts in advance	2010-11 £000	**2011-12 £000**
Housing benefit subsidy	(690)	**0**
Schools standards grant & schools standard fund	(204)	**(163)**
Business, Innovation & Skills (Learning & Skills Council) grants	(320)	**0**
Other schools grants	(664)	**(107)**
Other grants	(816)	**0**
Section 106 contributions	(774)	**(1,219)**
Total	(3,468)	**(1,489)**

40. Related parties transactions

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

Central Government
Central government has significant influence over the general operations of the council – it is responsible for providing the statutory framework within which the council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the council has with other parties (eg council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in Note 30 on reporting resources allocation decisions. Grant receipts outstanding at 31 March 2012 are shown in Note 39.

Members
Members of the council have direct control over the council's financial and operating policies. The total of members' allowances paid in 2011-12 is shown in Note 34. During 2011-12, payments to the value of £0.446 million were made to organisations where members had an interest. In addition, the council paid £25.929 million to organisations where members had been nominated by the council to hold positions on the governing body. This includes schools delegated funding where councillors are Governors, town and parish councils where councillors are members and Island Waste and Medina Housing where councillors were nominated by the council to the respective boards.

The Leader of the Council also has an interest in an organisation which received housing benefit income relating to accommodation provided to individuals who have an entitlement regardless of the relationship. The Leader had no part in the assessment of individual's entitlement to housing benefit payments.

One councillor recorded a family member who worked for a company which provided architectural services to the council. Work to the value of £0.028 million had been awarded to this company during 2011-12 following an island-based quote exercise. The councillor's relationship to this company was also declared at each council meeting and the councillor took no part in any decisions to award work to this company.

In all instances, contracts were entered into in full compliance with the council's procurement code and standards. Details of all these transactions are recorded in the register of members' interest, open for public inspection during office hours at County Hall, Newport, Isle of Wight. PO30 1UD.

Officers
The Strategic Director of Resources is contracted to the council through a limited company. One member of the senior management team has declared a family member who is appointed as a Governor at the Isle of Wight College. The council made payments totalling £0.145 million to the Isle of Wight College in 2011-12 relating to training for staff and a quarterly payment relating to the Young Apprentice Programme.

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

<u>Pension Fund</u>
The Isle of Wight Council administers the Isle of Wight Council Pension Fund for the Isle of Wight council and admitted bodies. The council charged the fund £0.254 million for expenses incurred in administering the fund. Further details are shown in the Notes to the Isle of Wight Council Pension Fund Accounts.

<u>Entities controlled or significantly influenced by the council</u>
The council does not own shares in any trusts or companies that would constitute significant control or influence. Similarly, where representatives are appointed to trusts or company boards, they are in the minority and have limited ability to significantly influence or control decisions on policy or operations by that trust or company. All nominations of councillors are approved annually through Full Council and a regular review of the approach to nominations is undertaken. Any such nominations are included on individual Councillors' declarations of interests which can be viewed during office hours at County Hall, Newport, Isle of Wight PO30 1UD.

41. Group accounts

For the 2011-12 financial year, there are no entities where the council's interest is such that it would give rise to the requirement to prepare group accounts. This position is reviewed and updated on an annual basis.

42. Capital expenditure and capital financing

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

	2010-11 £000	**2011-12 £000**
Opening capital financing requirement	186,006	**190,273**
Capital investment:		
Waste PFI assets brought onto balance sheet	0	**278**
Finance lease assets brought onto balance sheet	552	**0**
Property, plant and equipment	25,442	**45,504**
Investment properties	120	**35**
Intangible assets	391	**388**
Assets held for sale	13	**131**
Revenue expenditure funded from capital under statute	5,297	**3,791**
Sources of finance:		
Capital receipts	(1,454)	**(1,147)**
Government grants and other contributions	(16,988)	**(41,597)**
Revenue contributions to capital	0	**(1,976)**
Finance lease	(552)	**0**
Deferred income	0	**(278)**
Statutory charge to revenue:- past expenditure	(7,682)	**(10,788)**
Statutory charge to revenue:- Waste PFI	(872)	**(926)**
Closing capital financing requirement	190,273	**183,688**
Explanation of movements in year		
Increase in underlying need to borrow (supported by government financial assistance)	2,045	**0**
Increase in underlying need to borrow (unsupported by government financial assistance)	2,222	**(6,585)**
Increase/decrease in capital financing requirement	4,267	**(6,585)**

43. Leases

Council as lessee

The council has acquired vehicles, plant, furniture and equipment assets under finance leases. The rentals payable under these arrangements in 2011-12 were £0.504 million (£0.348 million in 2010-11), charged to the comprehensive income and expenditure account as £0.119 million finance costs (charged to interest payable) and £0.385 million relating to the write-down of obligations to the lessor (charged as part of the appropriation to the capital adjustment account in the movement in reserves statement). Finance lease rentals extending beyond the primary lease period are treated as contingent rent, as the future use of the asset at the inception of the lease agreement in unknown. Contingent rentals are expensed in the year and in 2011-12 there were no rentals payable (£0.055 million in 2010-11). Financial resources for contingent rentals are provided through a budget based upon estimated demand and approved as part of the council's annual budget process.

Carrying amount of assets	31 March 2011 £000	**31 March 2012 £000**
Balance at 1 April	1,174	**1,481**
Additions	552	**0**
Depreciation	(243)	**(292)**
Disposal	(2)	**(37)**
Balance at 31 March	1,481	**1,152**

Liability	**Minimum lease payments**		**Present value of minimum lease payments**	
	31 March 2011 £000	**31 March 2012 £000**	31 March 2011 £000	**31 March 2012 £000**
Not later than one year	416	**362**	304	**276**
Later than one year and not later than five years	1,286	**990**	1,034	**814**
Later than five years	992	**830**	368	**231**
	2,694	**2,182**	1,706	**1,321**
Less: future finance charges	(988)	**(861)**	-	**-**
Total	1,706	**1,321**	1,706	**1,321**

Included in:	31 March 2011 £000	**31 March 2012 £000**
Current borrowings	304	**276**
non-current borrowings	1,402	**1,045**
Total	1,706	**1,321**

<u>Operating leases</u>

The council has the right to use vehicles, plant, furniture and equipment assets financed under the terms of operating leases. The rentals payable under these arrangements in 2011-12 were £2.002 million (£2.673 million in 2010-11), charged to the comprehensive income and expenditure statement. The council leases properties for homelessness accommodation for a duration of between three and five years from private landlords. The council receives income towards the costs of these operating leases from housing benefits and other contributions. Such contributions credited to the comprehensive income and expenditure statement in 2011-12 amounted to £0.706 million (£0.760 million on 2010-11).

It has not been possible to analyse the operating lease payments from the service element for the grounds maintenance contract. The payments for this contract have been included in the lease payments total.

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

Leases expiring	31 March 2011 £000	**31 March 2012 £000**
Not later than one year	1,431	**1,010**
Later than one year and not later than five years	2,491	**1,948**
Later than five years	1,052	**859**
Total	4,974	**3,817**

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

	2010-11 £000	**2011-12 £000**
Minimum lease payments	2,669	**1,996**
Contingent rents	4	**6**
Total	2,673	**2,002**
Sub-lease income receivable	(760)	**(706)**
Total	1,913	**1,296**

Council as lessor

The council has leased out property to third parties under the terms of operating leases. The rentals received under the arrangements in 2011-12 was £0.740 million (£0.703 million in 2010-11), credited to the comprehensive income and expenditure statement. Lease agreements on a weekly, monthly and annual basis are excluded from minimum lease payments.

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

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

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

	Minimum lease payments	
	31 March 2011 £000	**31 March 2012 £000**
Not later than one year	482	**566**
Later than one year and not later than five years	1,581	**1,832**
Later than five years	15,399	**18,238**
Total	17,462	**20,636**

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2011-12 £0.012 million in contingent rents were received by the council (2010-11 £0.035 million).

44. Private finance initiatives and similar contracts

Waste PFI contract

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

Within the waste PFI contract, the council has acquired fixed assets under a finance lease arrangement. The rentals payable under these arrangements in 2011-12 were £1.174 million (£1.174 million in 2010-11), charged to the comprehensive income and expenditure statement as £0.248 million finance cost (charged to interest payable) and £0.925 million relating to the write-down of obligations to the lessor which has been charged as part of the appropriation to the capital adjustment account in the movement in reserves statement.

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

	2010-11 £000	**2011-12 £000**
Value at 1 April	3,924	**3,039**
Additions	0	**278**
Revaluations	47	**0**
Depreciation	(932)	**(775)**
Impairment	0	**0**
Disposals	0	**0**
Total assets at 31 March	3,039	**2,542**

Since 2009-10, Island Waste has invested £1.047 million in excess of the planned capital investment within the PFI contract. This is accounted for as deferred income and amortised over the remainder of the contract. The balance of the deferred income at 31 March 2012 is £0.517 million (£0.462 million in 2010-11) and this is treated as an asset, with the corresponding entry credited to deferred income and written-down to the comprehensive income and expenditure statement over the remainder of the contract. The profile of this deferred income at 31 March 2012 accounted for as short or long-term liabilities are as follows:-

	2010-11 £000	**2011-12 £000**
Not later than one year	154	**223**
Later than one year and not later than five years	308	**294**
Total	462	**517**

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

	2010-11 £000	**2011-12 £000**
Value at 1 April	4,929	**4,057**
Finance additions	0	**0**
Finance charge	302	**248**
Finance lease rental	(1,174)	**(1,174)**
Finance lease outstanding at 31 March	4,057	**3,131**

Outstanding obligations to make payments under the Waste PFI scheme at 31 March 2012, separated into repayments of liability, interest and service charges are as follows:-

	Repayment of liability £000	Interest £000	Service Charges £000	**Total £000**
Not later than one year	982	192	5,506	**6,680**
Later than one year and not later than five years	2,149	200	15,757	**18,106**
Total	**3,131**	**392**	**21,263**	**24,786**

In February 2012, the council changed to a new collection service which includes fortnightly collections and increased recycling. Although there has been no change to the total contractual payment (unitary charge), there are financial benefits through increased recycling and diversion from landfill. There will therefore be reduced expenditure on landfill tax and potential fines.

45. Impairment losses

During 2011-12, the council has recognised an impairment loss of £7.115 million in relation to land and buildings within property, plant and equipment. The most significant impairment losses relate to building assets at Ventnor Middle School (£2.120 million), Downside Middle School (£0.788 million), the Barrack Block at Sandown (£0.607 million) and Cowes Solent Middle School (£0.569 million).

During 2011-12, the council has recognised an impairment loss of £6.387 million in relation to assets held for sale. The most significant impairment losses relate to Shanklin Theatre (£2.099 million), Ryde Theatre (£1.418 million), Gurnard Primary School (£0.978 million) and Greenmount Primary School (£0.748 million).

Asset valuations are based upon a number of factors such as the condition of buildings, likely useful life and income generation estimates from the use of land based assets. The recoverable amount of these assets has been reduced to their current value as estimated by a professional valuer. This is based on fair value in existing use to the council where there is an active market. Where there is no active market for assets, such as schools, the valuation is based on depreciated replacement cost. As there were no balances of revaluation gains in the revaluation reserve for assets impaired, the resultant impairment losses have been charged to the appropriate service line in the comprehensive income and expenditure statement and reversed out through the movement in reserves statement.

46. Pension schemes accounted for as defined contribution schemes

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

The scheme is technically a defined benefit scheme. However, the scheme is unfunded and the

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

In 2011-12, the council paid £4.854 million to teachers' pensions in respect of teachers' retirement benefits, representing 14.1% of pensionable pay. (The figures for 2010-11 were £5.798 million and 14.1%). There were no contributions remaining payable at year-end.

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

47. <u>Defined benefit pension schemes</u>

<u>Participation in pension schemes</u>

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

The authority participates in two post-employment schemes:

- The Local Government Pension Scheme is administered by the council and is a funded defined benefit final salary scheme, meaning that the council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.
- the Fire-Fighters' Pension Scheme is administered by the council and is an unfunded defined benefit final salary scheme, meaning that there are no investment assets built up to meet the pensions liabilities, and cash has to be generated to meet actual pension payments as they eventually fall due. The authority and employees pay contributions into a fund from which pension payments are made. Under the 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.

Transactions relating to post-employment benefits

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

	Local Government Pension Scheme £000		**Firefighters' Pension Scheme £000**		**Total £000**	
	2010-11	**2011-12**	2010-11	**2011-12**	2010-11	**2011-12**
Cost of services:						
Current service cost	(12,468)	**(9,808)**	(1,200)	**(1,100)**	(13,668)	**(10,908)**
Past service costs	45,595	**(1,798)**	5,700	**(400)**	51,295	**(2,198)**
Fire Service injury pensions	-	**-**	300	**300**	300	**300**
Settlements and curtailments	(208)	**(2,369)**	0	**0**	(208)	**(2,369)**
Financing and investment income and expenditure						
Interest cost	(25,033)	**(22,890)**	(2,600)	**(2,600)**	(27,633)	**(25,490)**
Expected return on assets	19,372	**20,261**	-	**-**	19,372	**20,261**
Movement on top-up grant repayable (to)/from Government	-	**-**	(908)	**555**	(908)	**555**
Total post employment benefit charged to the surplus or deficit on the provision of services	27,258	**(16,604)**	1,292	**(3,245)**	28,550	**(19,849)**
Other post employment benefit charged to the comprehensive income and expenditure statement						
Actuarial gains and losses	59,672	**(33,463)**	1,700	**(1,900)**	61,372	**(35,363)**
Total post employment benefit charged to the comprehensive income and expenditure statement	86,930	**(50,067)**	2,992	**(5,145)**	89,922	**(55,212)**
Movement in reserves statement						
Reversal of net charges made to the surplus or deficit for the provision of services for post -employment benefits in accordance with the Code	(41,208)	**4,475**	(2,900)	**2,500**	(44,108)	**6,975**
Movement on top-up grant repayable to/(from) Government	-	**-**	908	**(555)**	908	**(555)**
Actual amount charged against the general fund balance for pensions in the year:						
Employers' contributions payable to the scheme (including unfunded benefits)	13,950	**12,129**	-	**-**	13,950	**12,129**
Retirement benefits payable to pensioners (net of member contributions)	**-**	**-**	700	**1,300**	700	**1,300**

The cumulative amount of actuarial losses recognised in the comprehensive income and expenditure statement is £124.506 million.

Assets and liabilities in relation to post-employment benefits

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

	Funded liabilities: Local Government Pension Scheme		**Unfunded liabilities: Fire-fighters' Pension Scheme**		**Total**	
	£000		**£000**		**£000**	
	2010-11	**2011-12**	2010-11	**2011-12**	2010-11	**2011-12**
Opening balance at 1 April	(489,718)	**(415,374)**	(52,200)	**(47,807)**	(541,918)	**(463,181)**
Current service cost	(12,468)	**(9,808)**	(1,200)	**(1,100)**	(13,668)	**(10,908)**
Interest cost	(25,033)	**(22,890)**	(2,600)	**(2,600)**	(27,633)	**(25,490)**
Contributions by scheme participants	(3,716)	**(3,134)**	(300)	**(300)**	(4,016)	**(3,434)**
Actuarial gains and (losses)	55,592	**(19,974)**	1,700	**(1,900)**	57,292	**(21,874)**
Estimated unfunded benefits paid	1,278	**1,337**	-	**-**	1,278	**1,337**
Benefits paid	13,304	**14,140**	-	**-**	13,304	**14,140**
Pensions and lump sum expenditure	-	**-**	1,200	**1,600**	1,200	**1,600**
Transfers in from other schemes	-	**-**	(200)	**0**	(200)	**0**
Injury award expenditure	-	**-**	300	**300**	300	**300**
Past service costs	45,595	**(1,798)**	5,700	**(400)**	51,295	**(2,198)**
Losses on curtailment	(208)	**(2,369)**	-	**-**	(208)	**(2,369)**
Sub total	(415,374)	**(459,870)**	(47,600)	**(52,207)**	(462,974)	**(512,077)**
Movement on top-up grant creditor	-	**-**	(207)	**207**	(207)	**207**
Closing balance at 31 March	(415,374)	**(459,870)**	(47,807)	**(52,000)**	(463,181)	**(511,870)**

Reconciliation of fair value of the scheme assets:-

	Local Government Pension Scheme		Fire-fighters' Pension Scheme		Total	
	£000		£000		£000	
	2010-11	**2011-12**	2010-11	**2011-12**	2010-11	**2011-12**
Opening balance at 1 April	271,554	**298,090**	0	**0**	271,554	**298,090**
Expected rate of return	19,372	**20,261**	-	**-**	19,372	**20,261**
Actuarial gains and losses	4,080	**(13,489)**	-	**-**	4,080	**(13,489)**
Contributions by scheme participants	3,716	**3,134**	300	**300**	4,016	**3,434**
Employer contributions	12,672	**10,792**	700	**1,300**	13,372	**12,092**
Transfers in from other schemes	-	**-**	200	**0**	200	**0**
Contributions towards injury pensions	-	**-**	300	**300**	300	**300**
Contributions in respect of unfunded benefits paid	1,278	**1,337**	-	**-**	1,278	**1,337**
Unfunded benefits paid	(1,278)	**(1,337)**	-	**-**	(1,278)	**(1,337)**
Benefits paid	(13,304)	**(14,140)**	-	**-**	(13,304)	**(14,140)**
Pensions and lump sum expenditure	-	**-**	(1,200)	**(1,600)**	(1,200)	**(1,600)**
Injury award expenditure	-	**-**	(300)	**(300)**	(300)	**(300)**
Sub total	298,090	**304,648**	0	**0**	298,090	**304,648**
Movement on top-up grant debtor	-	**-**	0	**348**	0	**348**
Closing balance at 31 March	298,090	**304,648**	0	**348**	298,090	**304,996**

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 £6.826 million (2010-11: £24.332 million).

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

	2007-08 £000	2008-09 £000	2009-10 £000	2010-11 £000	**2011-12 £000**
Present value of liabilities:					
Local Government Pension Scheme	(305,970)	(303,107)	(489,718)	(415,373)	**(459,869)**
Firefighters' Pension Scheme	(33,700)	(36,000)	(52,200)	(47,600)	**(52,000)**
Fair value of assets in the Local Government Pension Scheme	233,789	192,919	271,554	298,089	**304,647**
Surplus/(deficit) in the scheme:					
Local Government Pension Scheme	(72,181)	(110,188)	(218,164)	(117,284)	**(155,222)**
Firefighters' Pension Scheme	(33,700)	(36,000)	(52,200)	(47,600)	**(52,000)**
Total	(105,881)	(146,188)	(270,364)	(164,884)	**(207,222)**

The above totals exclude the Fire-fighters' Scheme top-up grant repayable by central government. At 31 March 2012 £0.348 million has been included within the preceding assets statement as a debtor (2010-11 creditor of £0.207 million).

The liabilities show the underlying commitments that the authority has in the long run to pay post-employment (retirement) benefits. The total liability of £207.222 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 £25.182 million.

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

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

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

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

The total contributions expected to be made to the Local Government Pension Scheme by the council in the year to 31 March 2013 is £9.924 million. Due to the unfunded nature of the Fire-fighters' Pension Scheme, the contributions in the year to 31 March 2013 made by the council will be dependent on the benefits paid in the year, the employee contributions and transfers-in received.

Basis for estimating assets and liabilities

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

The principal assumptions used the actuary have been:

	Local Government Pension Scheme		**Fire-fighters' Pension Scheme**	
	2010-11	**2011-12**	2010-11	**2011-12**
Long-term expected rate of return on assets in the scheme:				
Equity investments	7.5%	**6.3%**	-	**-**
Bonds	4.9%	**4.6%**	-	**-**
Property	5.5%	**4.4%**	-	**-**
Cash	4.6%	**3.5%**	-	**-**
Mortality assumptions: (at age 65 for Local Government Scheme and at age 60 for Fire-fighters' scheme):				
Longevity for current pensioners (years):				
Men	22.9	**22.9**	27.9	**27.9**
Women	25.7	**25.7**	30.8	**30.8**
Longevity for future pensioners (years):				
Men	24.9	**24.9**	29.5	**29.5**
Women	27.7	**27.7**	32.3	**32.3**
Pension increase rate (CPI)	2.8%	**2.5%**	2.8%	**2.5%**
Market derived RPI	3.6%	**3.3%**	3.6%	**3.3%**
Rate of increase in salaries	5.1%	**4.8%**	4.6%	**3.5%**
Expected return on assets	6.8%	**5.8%**	-	**-**
Rate for discounting scheme liabilities	5.5%	**4.8%**	5.5%	**4.8%**
Commutation assumptions:-				
Take-up of option to convert annual pension into retirement lump sum – pre April 2008 service	25%	**25%**	-	**-**
Take-up of option to convert annual pension into retirement lump sum – post April 2008 service	63%	**63%**	-	**-**
Take-up of option to convert annual pension into retirement lump sum	-	**-**	90%	**90%**

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

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

	31 March 2011 %	**31 March 2012 %**
Equity investments	72	**70**
Bonds	21	**23**
Property	5	**6**
Cash	2	**1**
Total	100	**100**

History of experience gains and losses

The actuarial gains identified as movements on the pension reserve in 2011-12 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31st March of each year.

Local Government Pension Scheme

	2007-08	2008-09	2009-10	2010-11	**2011-12**
	%	%	%	%	%
Differences between the expected and actual return on assets	(7.10)	(24.22)	29.60	1.39	**(4.24)**
Experience gains and losses on liabilities	2.59	0.00	0.12	(5.16)	**1.46**

Fire-Fighters' Pension Scheme

	2007-08	2008-09	2009-10	2010-11	**2011-12**
	%	%	%	%	%
Differences between the expected and actual return on assets	-	-	-	-	**-**
Experience gains and losses on liabilities	(0.30)	6.67	3.64	(0.63)	**(0.77)**

48. Contingent liabilities

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

49. Trust funds and other balances

The council administers a number of trust funds and balances on behalf of others which are not included in the balance sheet. These include cash held in safekeeping for residents of old peoples' homes and amenities funds set up to provide facilities at particular establishments from the proceeds of fund raising and bequests. The main trust funds are as follows:-

- The Brenda James Trust Fund, which was established with the object of the advancement of music education on the Isle of Wight for the benefit of pupils and young musicians, has a balance of £0.091 million at 31 March 2012 (£0.095 million on 31 March 2011).

- 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 March 2012 (£0.040 million on 31 March 2011).

	31 March 2011	**31 March 2012**
	£000s	**£000s**
Trust Funds etc	142	**137**
Cash in Safekeeping	10	**40**
Amenity Funds	123	**122**
Total	275	**299**

50. Authorisation of accounts for issue

The Strategic Director of Resources authorised the draft financial statements for issue on 29 June 2012 and re-authorised them following completion of the audit on 18 September 2012.

THE COLLECTION FUND

2010-11		2011-12	
£000		**£000**	**£000**
	Income		
(67,480)	Council tax (note 3)		**(67,989)**
	Transfers from general fund:-		
(12,956)	Council tax benefits	**(13,355)**	
(79)	Contribution re: discretionary relief (business rates)	**(71)**	
(13,035)			**(13,426)**
(29,149)	Income collectable from business ratepayers (note 1)		**(31,376)**
	Contribution towards previous year's collection fund deficit		
(87)	Isle of Wight Council	**(58)**	
(10)	Hampshire Police Authority	**(6)**	
(97)			**(64)**
(109,761)			**(112,855)**
	Expenditure		
72,568	Isle of Wight Council precept (including Parish & Town Councils) (note 3)		**73,196**
8,068	Police precept		**8,109**
	Business rate:-		
28,837	Payment to national pool	**30,771**	
251	Costs of collection	**251**	
29,088			**31,022**
	Bad and doubtful debts:-		
	Council tax:		
47	Write-offs	**127**	
(14)	Provisions	**7**	
33			**134**
	Business rates:		
102	Write-offs	**336**	
38	Provisions	**89**	
140			**425**
109,897			**112,886**
	Collection fund balance at 31st March		
36	Balance on fund at start of year		**172**
136	(Surplus)/deficit for year		**31**
172	Balance on fund carried forward (note 3)		**203**

Notes to the collection fund

1. Business rates (National Non-Domestic Rates)

The total non-domestic rateable value at 31 March 2012 was £91.067 million (£90.481 million at 31 March 2011) and the non-domestic rate multiplier for the year was 43.3p (41.4p in 2010-11). A reduced multiplier of 42.6p (40.7p in 2010-11) was applicable where there was eligibility for small business rate relief. The gross yield for the year was £38.227 million (£35.985 million in 2010-11) and the net yield was £31.376 million (£29.149 million in 2010-11). Several nationally defined adjustments and reliefs contribute towards this reduction as shown below:-

	2010-11		**2011-12**	
	£000	£000	**£000**	**£000**
Gross Non-domestic rate yield at 31 March		35,985		**38,227**
Less:-				
Mandatory relief to charities etc	(1,670)		**(1,994)**	
Empty rate relief	(1,182)		**(671)**	
Small Business Rate relief	(2,166)		**(3,344)**	
Transitional relief	(1,776)		**(839)**	
Interest on refunds	(42)		**(3)**	
		(6,836)		**(6,851)**
Net Non-domestic rate yield at 31 March		29,149		**31,376**

2. Council tax

The following details the number of properties in each valuation band of the tax base for 2011-12:-

Band	Net chargeable dwellings	Relevant Proportion	Band D equivalents
Band A (disabled)	11	5/9	6
Band A	7,849	6/9	5,233
Band B	15,083	7/9	11,731
Band C	14,807	8/9	13,161
Band D	11,761	9/9	11,761
Band E	6,279	11/9	7,674
Band F	2,806	13/9	4,053
Band G	1,316	15/9	2,194
Band H	95	18/9	190
Total	**60,007**		**56,003**
Less reduction for bad debts & valuation changes (1%)			(560)
2011-12 Council tax base			**55,443**
Council tax per Band D property (£)			1,289.80
Isle of Wight Council: Council tax precept (£000)			71,510

3. Precepts made on the fund in 2011-12

	2010-11		2011-12	
	£000	£000	£000	£000
Isle of Wight Council: Council tax requirement	71,154		**71,510**	
Parish & Town Council precepts	1,414		**1,686**	
Isle of Wight Council precept (including Parish & Town Councils)		72,568		**73,196**
Share of estimated collection fund deficit as 31 March in previous year		(87)		**(58)**
Isle of Wight Council: budget requirement		72,481		**73,138**
Hampshire Police Authority: Council tax requirement	8,068		**8,109**	
Share of estimated collection fund deficit as 31 March in previous year	(10)		**(6)**	
Hampshire Police Authority: budget requirement		8,058		**8,103**
Total precepts		80,539		**81,241**
Council Tax income analysis				
Council Tax gross debit	91,851		**92,644**	
Discounts	(8,659)		**(8,351)**	
Exemptions	(2,756)		**(2,949)**	
Net debit		80,436		**81,344**
Council Tax Benefits		(12,956)		**(13,355)**
Council Tax income		67,480		**67,989**
Collection Fund deficit analysis				
Net debit (actual)	80,436		**81,344**	
Less: Net debit (estimated)	80,539		**81,241**	
Reduction in net debit		(103)		**103**
Contribution to allowance for bad debts		(33)		**(134)**
Collection Fund deficit brought forward		(36)		**(172)**
Collection Fund deficit carried forward		(172)		**(203)**

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

2010-11	Precepts/ demands £000	Share of 31 March deficit £000	Total 2010-11 £000	Share of deficit carried forward £000
Isle of Wight Council (including Parish & Town Councils)	72,481	(123)	72,358	155
Hampshire Police Authority	8,058	(13)	8,045	17
Total	80,539	(136)	80,403	172

2011-12	Precepts/ demands £000	Share of 31 March deficit £000	Total 2011-12 £000	Share of deficit carried forward £000
Isle of Wight Council (including Parish & Town Councils)	73,139	(28)	73,111	183
Hampshire Police Authority	8,102	(3)	8,099	20
Total	**81,241**	**(31)**	**81,210**	**203**

ISLE OF WIGHT COUNCIL FIREFIGHTERS' PENSION FUND

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

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

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

<u>Accounting Policies</u>

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

2010-11	FIREFIGHTERS' PENSION FUND ACCOUNT	2011-12	
£000		**£000**	**£000**
	Contributions receivable:		
	Fire authority:		
(496)	Employers' contributions in relation to pensionable pay	**(502)**	
0	Early retirements	**0**	
(280)	Firefighters' contributions	**(283)**	
(776)			**(785)**
(245)	Transfers in from other schemes		**0**
	Benefits payable:		
1,244	Pensions	**1,317**	
0	Commutations and lump sum retirement benefits	**243**	
0	Lump sum death benefits	**0**	
1,244			**1,560**
	Payments to and on account of leavers:		
0	Transfers out to other authorities	**0**	
0	Refunds of contributions	**0**	
0			**0**
223	**Net amount payable for the year**		**775**
(223)	**Top-up grant payable by the Government**		**(775)**
0			**0**

2010-11	NET ASSETS STATEMENT	2011-12
£000		**£000**
	Current assets	
0	Debtors - top-up receivable from the Government	**348**
207	Amount owing from general fund	**0**
	Current liabilities	
(207)	Creditors - top-up payable to the Government	**0**
0	Amount owing to general fund	**(348)**
0		**0**

ISLE OF WIGHT COUNCIL PENSION FUND

2010-11 (restated) £000	FUND ACCOUNT	Notes	2011-12 £000
	Dealings with members, employers and others directly involved in the fund		
18,567	Contributions	7	17,766
2,926	Transfers in from other pension funds	8	1,751
7	Other income	9	12
21,500			19,529
(14,114)	Benefits	10	(18,894)
(1,482)	Payments to and on account of leavers:	11	(1,418)
(446)	Administrative expenses	12	(352)
(16,042)			(20,664)
5,458	Net additions/(withdrawals) from dealings with members		**(1,135)**
	Returns on investments		
7,226	Investment income	13	9,717
(364)	Taxes on income	14	(578)
21,473	Profit and losses on disposal of investments and changes in the market value of investments	17	(1,703)
(984)	Investment management expenses	15	(1,002)
-	Interest payable	16	(4)
27,351	Net returns on investments		6,430
32,809	**Net increase in the net assets available for benefits during the year**		**5,295**

2011 £000	NET ASSETS STATEMENT AS AT 31 MARCH	Notes	2012 £000
322,500	Investment assets	17	330,646
4,671	Cash deposits	17	4,335
327,171			334,981
(477)	Investment liabilities	17	(66)
-	Borrowings	18	(1,285)
119	Long term assets	22	-
2,319	Current assets	23	1,022
(337)	Current liabilities	24	(562)
328,795	**Net assets of the fund available to fund benefits at the period end**		**334,090**

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

Isle of Wight Council Pension Fund

Notes to the accounts

1. Description of the fund

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

The following description of the fund is a summary. For more detail, reference should be made to the Isle of Wight Council Pension Fund Annual Report 2011-12 and the underlying statutory powers underpinning the scheme, namely the Superannuation Act 1972 and the Local Government Pension Scheme (LGPS) Regulations.

a) General

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

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

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

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

b) Membership

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

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

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

The scheduled bodies of the fund at 31 March 2012 are:

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

The admitted bodies of the fund at 31 March 2012 are:

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

The membership of the scheme is shown below:
Year ended 31 March 2012

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

Year ended 31 March 2011

	Administering Authority	Scheduled Bodies	Admitted Bodies	Total
Number of employers with active members	1	7	12	20
Number of contributors (Active members)	4,196	201	105	4,502
Number of frozen refunds [1]	627	-	-	627
Number of deferred pensioners [2]	3,596	202	74	3,872
Number of pensioners	2,478	106	82	2,666
Number of widows/dependant pensioners	444	6	10	460
	11,341	515	271	12,127

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

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

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007. The pay bands and rates applicable for the year ended 31 March 2012 are detailed below.

Range (Annual full-time equivalent pay)	Contribution rate
Up to £12,900	5.5%
£12,901 – £15,100	5.8%
£15,101 – £19,400	5.9%
£19,401 – £32,400	6.5%
£32,401 – £43,300	6.8%
£43,301 – £81,100	7.2%
More than £81,100	7.5%

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

d) Benefits
Pension benefits under the LGPS are based on pensionable pay and length of pensionable service, summarised below:

	Service pre 1 April 2008	**Service post 31 March 2008**
Pension	Each year worked is worth 1/80 x final pensionable salary	Each year worked is worth 1/60 x final pensionable salary
Lump Sum	Automatic lump sum of 3 x salary In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

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

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

2. Basis of preparation
The Statement of Accounts summarises the fund's transactions for the 2011-12 financial year and its position at year-end as at 31 March 2012. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2011/12* which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

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

3. Summary of significant accounting policies

Fund account – revenue recognition
a) Contribution income
Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the actuary in the payroll period to which they relate.

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

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

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

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

Transfers In (see note 8).

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

c) Investment income

i) Interest income

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

ii) Dividend income

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

iii) Distributions from pooled funds

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

iv) Movements in the net market value of investments

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

Fund account – expense items

d) Benefits payable

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

e) Taxation

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

f) Administrative expenses

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

g) Investment management expenses

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

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

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

- Newton Investment Management
- Majedie Asset Management

Performance-related fees were nil in 2011-12 (2010-11: £39 thousand)

Where an investment manager's fee note has not been received by the balance sheet date, an estimate based on the market value of their mandate as at the end of the year is used for inclusion in the fund account. There were no such estimates used in the accounts to 31 March 2012.

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

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

Net assets statement

h) Financial assets

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

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

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

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

i) Foreign currency transactions

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

j) Cash and cash equivalents

Cash comprises cash in hand and demand deposits.

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

k) Financial liabilities

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

l) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards.

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

m) Additional Voluntary Contributions

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

AVCs are not included in the accounts in accordance with section 4(2)(b) of the Local Government Pension Scheme (Management and Investment Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (note 25).

n) Prior period adjustments, changes in accounting policies and estimates and errors.

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

Changes in accounting policies are only made when required by proper accounting practices or when the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or financial performance.

Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied. There are no prior period adjustments made in these accounts.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period. There were no material errors discovered and disclosed in these accounts.

o) Events After the Balance Sheet Date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

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

p) Provisions, Contingent Liabilities and Contingent Assets

i) Provisions

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

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

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

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

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

Contingent liabilities are not recognised in the net assets statement but disclosed in note 27 to the accounts.

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

Contingent assets are not recognised in the net assets statement but disclosed in note 27 to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

4. Critical judgements in applying accounting policies

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

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

The statement of accounts contains estimated figures that are based on assumptions made by the council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the net assets statement at 31 March 2012 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

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

6. Events after the balance sheet date

There are no Post Balance Sheet events recorded prior to the authorised for issue date and any events that occurred after this date have not been recognised in the Statement of Accounts.

7. Contributions receivable

By category:

2010-11 £000		2011-12 £000
	Employers	
13,816	Normal	12,197
570	Special (Capitalisation)	1,775
112	Additional (deficit funding and cessations)	249
14,498		14,221
	Members	
4,014	Normal	3,514
55	Additional	31
4,069		3,545
18,567		**17,766**

By authority:

2010-11 £000		2011-12 £000
16,918	Administering authority	15,560
799	Scheduled bodies	1,221
850	Admitted bodies	985
18,567		**17,766**

8. Transfers in from other pension funds

2010-11 £000		2011-12 £000
-	Group transfers	-
2,926	Individual transfers	1,751
2,926		**1,751**

9. Other income

2010-11 £000		2011-12 £000
7	Miscellaneous income	12
-	Contribution Equivalent Premiums	-
7		**12**

Contribution Equivalent Premiums (CEPs) are sums relating to National Insurance Contributions payable when an employee leaves the pension fund without entitlement to benefits. Sums are held as a contingent asset and/or liability and these amounts remain so until the relevant employee requests a refund of contributions payable, a transfer is made to another pension fund or the employee returns to the employ of the Isle of Wight Council (see note 27).

10. Benefits payable

By category:

2010-11 £000		2011-12 £000
12,431	Pensions	13,482
1,663	Commutation of pension and lump sum retirement benefits	5,109
20	Lump sum death benefits	303
14,114		**18,894**

By authority:

2010-11 £000		2011-12 £000
12,993	Administering authority	17,377
348	Scheduled bodies	519
773	Admitted bodies	998
14,114		**18,894**

11. Payments to and on account of leavers

2010-11 £000		2011-12 £000
2	Refund of contributions	1
-	Group transfers	-
1,480	Individual transfers	1,417
1,482		**1,418**

12. Administrative expenses

2010-11 (restated) £000		2011-12 £000
321	Administering authority	254
48	IT costs	52
75	Actuarial fees	43
2	Other expenses	3
446		**352**

The 2010-11 figures for administrative expenses have been restated to allow for the reclassification of Actuarial fees from Investment management expenses into Administrative expenses; and Performance management fees from Administrative expenses to Investment management expenses. See also note 15.

Administering authority expenses above include external audit fees of £32.2 thousand (2010-11: £36.6 thousand).

13. Investment income

2010-11 £000		2011-12 £000
3,924	Equity dividends	5,629
	Income from pooled investment vehicles:	
765	- Property	785
2,511	- Bonds	3,247
17	- Unit Trusts	46
8	Interest on cash deposits	10
1	Other	-
7,226		**9,717**

14. Taxation

2010-11 £000		2011-12 £000
364	Withholding tax - equities	578
364		**578**

15. Investment management

2010-11 (restated) £000		2011-12 £000
971	Management fees	972
(7)	Custodian fees	16
9	Performance monitoring fees	9
11	Actuarial fees – investment consultancy	5
984		**1,002**

The 2010-11 figures for investment management expenses have been restated to allow for the reclassification of Actuarial fees from Investment management expenses into Administrative expenses; and Performance management fees from Administrative expenses to Investment management expenses. See also note 12.

16. Interest payable

2010-11 £000		2011-12 £000
-	Interest on short term borrowing	4
-		**4**

17. Investments

Market value 31 March 2011 £000		Market value 31 March 2012 £000
	Investment assets	
225,563	Equities	224,897
95,662	Pooled Investment Vehicles	105,094
4,671	Cash deposits	4,335
469	Investment income due	512
630	Amounts receivable for sales	42
176	Recoverable withholding tax	101
327,171	**Total investment assets**	**334,981**
	Investment liabilities	
(477)	Amounts payable for purchases	(66)
(477)	**Total investment liabilities**	**(66)**
326,694	**Net investment assets**	**334,915**

17a) Reconciliation of movements in investments

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

	Market value 1 April 2010	Purchases during the year	Sales during the year	Change in market value during the year	**Market value 31 March 2011**
	£000	£000	£000	£000	**£000**
Equities					
UK Equities	104,100	40,644	(36,962)	5,971	**113,753**
Global Equities	100,647	444	-	10,719	**111,810**
Pooled Investment Vehicles					
Property	15,127	1,591	-	1,100	**17,818**
Bonds	63,852	3,218	-	1,421	**68,491**
Unit Trusts	7,008	219	(138)	2,264	**9,353**
	290,734	46,116	(37,100)	21,475	**321,225**
Cash with custodian	3,909			(2)	**4,671**
Amounts receivable for sales of investments	8				**630**
Investment income due	322				**469**
Recoverable withholding tax	21				**176**
Amounts payable for purchases of investments	(322)				**(477)**
Net investment assets	294,672			21,473	**326,694**

17b) Analysis of investments

31 March 2011 £000		31 March 2012 £000
	EQUITIES	
	UK	
113,753	Quoted	117,935
	Overseas	
111,810	Quoted	106,962
225,563		**224,897**
	POOLED FUNDS – ADDITIONAL ANALYSIS	
	UK	
95,662	Quoted	105,094
95,662		**105,094**
321,225		**329,991**

Investments analysed by fund manager

Market value 31 March 2011			Market value 31 March 2012	
£000	%		£000	%
68,491	21.0	Schroder Investment Management – Bonds	77,103	23.0
52,901	16.2	Schroder Investment Management – UK Equities	51,564	15.4
18,001	5.5	Schroder Investment Management – Property	19,215	5.7
111,810	34.2	Newton Investment Management – Overseas Equities	106,962	32.0
75,315	23.1	Majedie Asset Management – UK Equities	79,970	23.9
326,518			**334,814**	
176	0.0	Recoverable withholding tax	101	0.0
326,694			**334,915**	

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

Market value 31 March 2011			Market value 31 March 2012	
£000	% of total fund		£000	% of total fund
111,810	34.00	Newton International Growth X Account	106,962	32.02
68,491	20.82	Schroder Institutional Sterling Broad Market X Account	77,103	23.08
17,818	5.41	Schroder Exempt Property Unit Trust	18,888	5.65

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

Market value 31 March 2011			Market value 31 March 2012	
£000	% of asset class		£000	% of asset class
		UK Equities		
8,592	7.55	Vodafone Group	8,328	7.07
7,457	6.56	GlaxoSmithKline plc	8,004	6.80
7,205	6.33	BP plc	7,211	6.12
9,086	7.99	Royal Dutch Shell	6,829	5.80
5,684	5.00	HSBC Holdings plc	4,555	3.87

Market value 31 March 2011			Market value 31 March 2012	
£000	% of asset class		£000	% of asset class
		Unit Trusts		
7,256	77.58	Majedie Asset Management Special Situations Investment Fund	7,495	82.33
963	10.30	Schroder Institutional UK Smaller Companies Fund	1,121	12.31
1,134	12.13	Schroder Recovery Fund A Inc	487	5.36

18. Financial instruments

18a) Classification of financial instruments

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

31 March 2011				31 March 2012		
Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost		Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost
£000	£000	£000		£000	£000	£000
			Financial assets			
225,563			Equities	224,897		
95,662			Pooled investment vehicles	105,094		
	5,864		Cash		4,335	
1,275			Other investment balances	655		
			Debtors:			
	1		Due within one year		2	
322,500	**5,865**	**-**		**330,646**	**4,337**	**-**
			Financial liabilities			
(477)			Other investment balances	(66)		
		-	Bank overdraft			(138)
			Creditors:			
		(337)	Due within one year			(266)
		-	Borrowings			(1,285)
(477)	**-**	**(337)**		**(66)**	**-**	**(1,689)**
322,023	**5,865**	**(337)**		**330,580**	**4,337**	**(1,689)**

18b) Net gains and losses on financial instruments

31 March 2011 £000		31 March 2012 £000
	Financial assets	
21,745	Fair value through profit and loss	(1,703)
(2)	Loans and receivables	-
-	Financial liabilities measured at amortised cost	-
	Financial liabilities	
-	Fair value through profit and loss	-
-	Loans and receivables	-
-	Financial liabilities measured at amortised cost	-
21,743	**Total**	**(1,703)**

18c) Fair value of financial instruments and liabilities

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

31 March 2011			31 March 2012	
Carrying value	Fair value		Carrying value	Fair value
£000	£000		£000	£000
		Financial assets		
322,500	322,500	Fair value through profit and loss	330,646	330,646
5,865	5,865	Loans and receivables	4,337	4,337
328,365	**328,365**	**Total financial assets**	**334,983**	**334,983**
		Financial liabilities		
(477)	(477)	Fair value through profit and loss	(66)	(66)
(377)	(377)	Financial liabilities measured at amortised cost	(1,689)	(1,689)
(854)	**(854)**	**Total financial liabilities**	**(1,755)**	**(1,755)**

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

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

18d) Valuation of financial instruments carried at fair value

IFRS7 – Financial Instruments: Disclosure requires the Fund to classify its investments using a fair value hierarchy that reflects the subjectivity of the inputs used in making an assessment of fair value. Fair value is the value at which the investments could be realised within a reasonable timeframe. This hierarchy is not a measure of investment risk but a reflection of the ability to value the investments at fair value. The fair value hierarchy has the following levels:

- Level 1 – easy to price securities; there is a liquid market for these securities.
- Level 2 – moderately difficult to price; limited visible market parameters to use in the valuation e.g. use inputs derived from observable market data.
- Level 3 – difficult to price; difficult to verify the parameters used in valuation e.g. use information not available in the market.

The level in the fair value hierarchy will be determined by the lowest level of input that is appropriate for the investment. This is particularly relevant for pooled funds where, for this exercise, the fund is classed as a single investment.

The classification of financial instruments in the fair value hierarchy is subjective but the Fund has applied the same criteria consistently across its investments. The financial instruments reported at fair value are classified in accordance with the following levels:

Level 1 inputs – Quoted prices (unadjusted) in active, liquid markets for an identical instrument. These include active listed equities, exchange traded derivatives and government bonds. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, pricing service or regulatory agency and those prices represent regularly occurring market transactions.

Therefore in the analysis below, Level 1 includes quoted equities and government bonds, which are liquid and readily realisable investments but excludes pooled funds that invest in these securities.

Level 2 inputs – Valuation techniques used to price securities are based on observable inputs. This includes instruments valued using quoted market prices for similar instruments, quoted prices for similar instruments in markets that are less active, or other valuation techniques where all significant inputs are observable from market data.

Therefore in the analysis below, Level 2 includes pooled funds where the net asset value of the pooled fund is derived from observable prices of underlying securities. The Fund's holding in these pooled funds can be realised at net asset value.

Level 3 inputs – Valuation techniques using significant unobservable inputs for the valuation of financial instruments and where there is little market activity. These inputs require management judgement of estimation and include financial instruments that are valued based on unobservable adjustments or assumptions to reflect differences between instruments for which there is no active market.

At 31 March 2012, the fund does not have any investments which should be classified as Level 3.

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

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

At 31 March 2011			
Type of Asset	Level 1	Level 2	Level 3
	£000	£000	£000
UK Equities	113,753	-	-
Global Equities	111,810	-	-
Pooled Investment Vehicles:			
Property	-	17,818	-
Bonds	68,491	-	-
Unit Trusts	9,353	-	-
Cash and Cash Equivalents	4,671	-	-
TOTAL	**308,078**	**17,818**	**-**

19. Nature and extent of risks arising from financial instruments

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

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

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

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

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

a) Market Risk

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

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

Market Price Risk

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

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

Market Price Risk - Sensitivity Analysis

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

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

	Value as at 31 March 2012	Volatility of return	Increase	Decrease
	£'000	%	£'000	£'000
Schroder – Bonds	77,103	3.4%	2,619	(2,619)
Schroder – UK Equities	50,887	4.7%	2,403	(2,403)
Schroder – Property	18,888	2.0%	378	(378)
Newton – Global Equities	106,962	5.8%	6,152	(6,152)
Majedie – UK Equities	76,151	3.5%	2,628	(2,628)
Cash with custodian	4,335	17.6%	762	(762)
Total for Isle of Wight Fund*	334,326	3.2%	10,582	(10,582)

* Please note that this is a separate calculation for the Fund as a whole and not a sum of the above.

	Value as at 31 March 2011	Volatility of return	Increase	Decrease
	£'000	%	£'000	£'000
Schroder – Bonds	68,491	2.4%	1,650	(1,650)
Schroder – UK Equities	51,193	7.6%	3,875	(3,875)
Schroder – Property	17,818	3.4%	602	(602)
Newton – Global Equities	111,810	5.9%	6,611	(6,611)
Majedie – UK Equities	71,913	7.0%	5,038	(5,038)
Cash with custodian	4,671	8.9%	417	(417)
Total for Isle of Wight Fund*	325,896	5.1%	16,627	(16,627)

* Please note that this is a separate calculation for the Fund as a whole and not a sum of the above.

b) Interest Rate Risk

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

Interest Rate Risk - Sensitivity Analysis

The fund does not directly hold any fixed interest securities; hence a change in interest rates will not impact on the fair value of assets.
Changes in interest rates do not impact on the fair value of cash balances, but they will impact on the interest income earned.

c) Foreign Currency Risk

Foreign currency risk represents the risk that the fair value of financial instruments when expressed in sterling, the fund’s base currency, will fluctuate because of changes in foreign exchange rates. The fund would be exposed to currency risk on investments denominated in a currency other than sterling. For a sterling based investor, when sterling weakens, the sterling value of foreign currency denominated investments rises. As sterling strengthens, the sterling value of foreign currency denominated investment falls.
The fund does not have any investments denominated in foreign currencies.

d) Credit Risk

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

The fund is exposed to credit risk through its underlying investments (including cash balances) and the transactions it undertakes to manage its investments. The careful selection and monitoring of counterparties including brokers, custodian and investment managers minimises credit risk that may occur though the failure to settle transactions in a timely manner. The fund's contractual exposure to credit risk is represented by the net payment or receipt that remains outstanding, and the cost of replacing the position in the event of a counterparty default. Bankruptcy or insolvency of the custodian may affect the fund's access to its assets. However, all assets held by the custodian are ring-fenced as "client assets" and therefore cannot be claimed by creditors of the custodian. The fund manages its risk by monitoring the credit quality and financial position of the custodian.

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

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

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

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

e) Liquidity Risk

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

A substantial portion of the fund's investments consist of readily realisable securities, in particular equities and fixed income investments, even though a significant proportion is held in pooled funds. However, the main liability of the fund is the benefits payable which fall due over a long period and the investment strategy reflects the long term nature of these liabilities. Therefore the fund is able to manage the liquidity risk that arises from its investments in less liquid asset classes such as property which are subject to longer redemption periods and cannot be considered as liquid as the other investments. The fund maintains a cash balance to meet working requirements. Note 26 includes details of borrowing from the Isle of Wight Council for this purpose.

20. Funding arrangements

In line with the Local Government Pension Scheme (Administration) Regulations 2008, the fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The fund's most recent triennial actuarial valuation was undertaken as at 31 March 2010. The next valuation will take place as at 31 March 2013.

The position at March 2010 showed a decline in the funding position relative to the previous valuation, at March 2007. This latest valuation shows that the assets of the Fund equated to 75.3% compared to the previous valuation of 80.2%.

20a) Actuarial Valuation 31 March 2010

This valuation was carried out to calculate employer's contribution rates for the years 2011-12, 2012-13 and 2013-14.

Statement provided by the actuary

This statement has been prepared in accordance with Regulation 34(1) of the Local Government Pension Scheme (Administration) Regulations 2008, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2010/11.

Description of Funding Policy

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

- To ensure the long term solvency of the Pension fund and of the share of the Pension Funds attributable to individual employers;
- To ensure that sufficient funds are available to meet all benefits as they fall due for payment;
- Not to restrain unnecessarily the Investment Strategy of the Pension Fund so that the Administering Authority can seek to maximise investment returns (and hence meet the costs of benefits) for an appropriate level of risk;
- To help employers recognise and manage pension liabilities as they accrue with consideration to the effect on the operation of their business where the Administering Authority considers this appropriate;
- To minimize the degree of short term change in the level of each employer's contributions where the Administering Authority considers it reasonable to do so;
- To use reasonable measures to reduce the risk to other employers and ultimately to the Council taxpayer from and employer defaulting on its pension obligations;
- To address the different characteristics of the disparate employers to the extent that this is practical and cost-effective; and
- To minimise the cost of the Scheme to employers.

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

Funding Position as at the last formal funding valuation

The most recent actuarial valuation was carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was at 31 March 2010. This valuation revealed that the Fund's assets, which at 31 March 2010 were valued at £296 million, were sufficient to meet 75.3% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2010 valuation was £97 million.

Individual employer's contributions for the period 1 April 2011 to 31 March 2014 were set in accordance with the Fund's funding policy as set out in its FSS.

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

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

In addition, certain employers make a lump sum contribution:

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

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions are described in the actuary's valuation report dated 18 March 2011.

Method

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

Assumptions

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

The key financial assumptions adopted at the 2010 valuation are set out in the table below.

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

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

pay increases.

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

The key demographic assumption was the allowance made for longevity. The baseline longevity assumptions adopted at this valuation were in line with standards SAPS mortality tables, and included improvements based on medium cohort projections and a 1% p.a. underpin effective from 2007. Based on these assumptions, the average future life expectancies at age 65 are as follows:

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

* based on members aged 45 at the valuation date.

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

21. Actuarial present value of promised retirement benefits

The fund has engaged the actuaries, Hymans Robertson, to assess the present value of future retirement benefits. Their report for 2011-12 is presented below.

ISLE OF WIGHT COUNCIL PENSION FUND 001

HYMANS ROBERTSON LLP

Pension Fund Accounts Reporting Requirement

Introduction

CIPFA's Code of Practice on Local Authority Accounting 2011/12 requires administering authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits.

The actuarial present value of promised retirement benefits is to be calculated similarly to the defined benefit obligation under IAS19. There are three options for its disclosure in pension fund accounts:

- showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;
- as a note to the accounts; or
- by reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS26 requires the most recent valuation to be used as a base and the date of the valuation disclosed. The valuation should be carried out using assumptions in line with IAS19 and not the Pension Fund's funding assumptions.

I have been instructed by the Administering Authority to provide the necessary information for the Isle of Wight Council Pension Fund, which is in the remainder of this note.

Balance sheet

Year ended	31 Mar 2012 £m	31 Mar 2011 £m
Present value of Promised Retirement Benefits	480	433

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2010. I estimate this liability at 31 March 2012 comprises £208m in respect of employee members, £76m in respect of deferred pensioners and £196m in respect of pensioners. The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member may not be reliable. However, I am satisfied the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises. I have not made any allowance for unfunded benefits.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the accounts of the Pension Fund. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report as required by the Code of Practice. These are given below. I estimate that the impact of the change of assumptions to 31 March 2012 is to increase the actuarial present value by £12m.

Financial assumptions

My recommended financial assumptions are summarised below:

Year ended	31 Mar 2012 % p.a.	31 Mar 2011 % p.a.
Inflation/Pensions Increase Rate	2.5%	2.8%
Salary Increase Rate	4.8%*	5.1%**
Discount Rate	4.8%	5.5%

*Salary increases are assumed to be 1% p.a. nominal for the 3 years to 31 March 2015, reverting to the long term rate shown thereafter.

**Salary increases were assumed to be 1% p.a. nominal for the period to 31 March 2012, reverting to the long term rate shown thereafter.

Longevity assumption

As discussed in the IAS19 generic main report, the life expectancy assumption is based on the SAPS year of birth tables with improvements from 2007 in line with the Medium Cohort and a 1% p.a. underpin. Mortality loadings were applied to the SAPS tables based on membership class. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

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

*Future pensioners were assumed to be aged 45 as at the last formal valuation date.

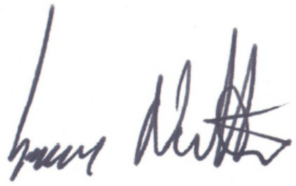
This assumption is the same as at 31 March 2011.

Commutation assumption

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

Professional notes

This paper accompanies my covering report titled 'Actuarial Valuation as at 31 March 2012 for IAS19 purposes' dated April 2012. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.



Geoffrey Nathan FFA

16 May 2012

For and on behalf of Hymans Robertson LLP

22. Long term assets

31 March 2011 £000		31 March 2012 £000
	Debtors	
119	• Contributions due - employers	-
119		**-**

Analysis of debtors

31 March 2011 £000		31 March 2012 £000
	Debtors	
119	Local authorities	-
119		**-**

23. Current assets

31 March 2011 £000		31 March 2012 £000
	Debtors	
32	• Contributions due - employees	38
1,092	• Contributions due - employers	945
1	• Taxation	37
1	• Sundry debtors	2
1,193	Cash balances	-
2,319		**1,022**

Analysis of debtors

31 March 2011 £000		31 March 2012 £000
1	Central government bodies	37
982	Local authorities	781
143	Other entities and individuals	204
1,126		**1,022**

Cash balances

Until 31 March 2011, surplus cash balances of the pension fund were held by the Isle of Wight Council under a co-mingling arrangement. Combined surplus funds were invested according to the Council's treasury management strategy, and interest earned on the pension fund's share was transferred at the year end.

Since 1 April 2011, the pension fund has operated a separate bank account.

24. Current liabilities

31 March 2011 £000		31 March 2012 £000
-	Bank overdraft	138
	Creditors	
-	• Taxation	158
304	• Accruals	259
33	• Sundry creditors	7
337		**562**

Analysis of creditors

31 March 2011 £000		31 March 2012 £000
-	Central government bodies	158
337	Other entities and individuals	266
337		**424**

25. 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 £1.09 million were invested on this basis at 31 March 2012 (2011: £1.37 million); these do not form a common pool of assets available for members generally. AVCs are excluded from the Fund Accounts in accordance with section 4(2)(b) of the Local Government Pension Scheme (Management and Investment Funds) Regulations 2009 (SI 2009/3093). 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 term life cover.

During 2011-12 AVCs of £118 thousand were separately invested with Prudential Life and Pensions (2010-11: £179 thousand). Of this amount, £1.4 thousand (2010-11: £2.7 thousand) was for the purchase of death in service cover, no value accrues on death cover; this sum is not included in the statement below.

	Prudential Deposit	Prudential with Profits	Prudential Discretionary	**Total**
	£000	£000	£000	**£000**
Opening Value 1 April 2011	208	977	183	**1,368**
Purchase of Investments	53	57	6	**116**
Returns on Investments	1	85	16	**102**
Change in Market Value (Realised and Unrealised)	(84)	(376)	(40)	**(500)**
Closing Value 31 March 2012	**178**	**743**	**165**	**1,086**

	Prudential Deposit	Prudential with Profits	Prudential Discretionary	**Total**
	£000	£000	£000	**£000**
Opening Value 1 April 2010	163	912	164	**1,239**
Purchase of Investments	81	89	6	**176**
Returns on Investments	1	34	13	**48**
Change in Market Value (Realised and Unrealised)	(37)	(58)	-	**(95)**
Closing Value 31 March 2011	**208**	**977**	**183**	**1,368**

26. Related party transactions

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

The council incurred costs of £254 thousand (2010-11: £321 thousand) in relation to the administration of the fund and was subsequently reimbursed by the fund for these expenses. The council is also the single largest employer of members of the pension fund and contributed £12.5 million (2010-11: £13.2 million) to the fund in 2011-12. All monies owing to the fund, with the exception of deferred balances in respect of pension strain costs totalling £780 thousand (2011: £1.1 million), were paid during the year.

During 2010-11, the pension fund had an average balance of £373 thousand of excess cash invested with the Isle of Wight Council and the pension fund received £1.2 thousand as interest on this investment (see note 13). Throughout 2011-12 the fund has operated its own bank account, and has had no funds invested with the council.

During 2011-12, the pension fund borrowed funds from the council to support its working cash flow requirements; interest was charged on these borrowings at the broker local authority interest rate relevant to the amount and duration of the borrowing at the time it was made. The maximum amount borrowed during 2011-12 was £2.0 million. The balance due to the council at 31 March 2012 is £1.285 million, repayable within 2 months. Interest of £4.3 thousand was paid on these borrowings (see note 16).

Governance
There is one member of the pension fund committee who is in receipt of pension benefits from the Isle of Wight Council Pension Fund (committee member Cllr Barry). In addition committee members Cllrs Barry and Whittle are active members of the pension fund.

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

Council members named in note 29 form the Pension Fund Committee as trustees.

27. Contingent assets and liabilities
At 31 March 2012 there were contingencies relating to Contribution Equivalent Premiums (CEPs) amounting to a net sum of £142 thousand (2011: £142 thousand) due to the Pension Fund. Assets amounted to £186 thousand and liabilities totalled £44 thousand (2011: £188 thousand and £46 thousand respectively). The sums do not form part of the net assets of the fund. Refunds and payments will only be made on application by the employee.

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

28. Capital commitments
There were no capital commitments as at 31 March 2012 (2011: nil)

29. Trustees report 2011-12
The trustees of the pension fund are the members for the time being of the Pension Fund Committee, who at 31 March 2012 were Councillors Abraham, Barry, Bingham, Churchman, Hunter-Henderson, Mazillius and Whittle. The committee is advised by the Strategic Director of Resources and Hymans Robertson, the fund’s actuaries. In addition, non-voting representatives from the admitted bodies and the staff union attend the committee.

<u>Investment Performance</u>
The net assets of the fund at 31 March 2012 were £334.1 million, a rise of 1.6% on the 31 March 2011 valuation of £328.8 million. This reflects the recovery of the world’s stock markets after a very difficult third quarter.

Funding Level
The Fund's last triennial actuarial valuation was undertaken at 31 March 2010, showing a funding level of 75.3%, compared to 80.2% at the previous valuation at 31 March 2007. The results of this latest valuation, in terms of revised contribution rates, were implemented with effect from April 2011.
The actuary's funding projection report at 31 March 2012 showed that the notional funding level had declined to 67.3%, principally due to reductions in bond yields throughout the year

Governance
The Committee continues to keep its governance arrangements under review. The Committee considered the framework it should adopt for ensuring its effectiveness. It agreed to adopt the CIPFA Knowledge and Skills Framework Code of Practice and the associated policy statements. It also agreed its overall performance management framework and, following a training needs analysis for Committee members, agreed a training plan for delivery during the next financial year.

In 2011-12 the Committee reviewed the contractual arrangements for its Actuarial and Investment Consultancy Services, resulting in new contracts for both services being effective from 1 April 2012. It also received reports on, and agreed, the Statement of Investment Principles, Funding Strategy Statement and Governance Compliance Statement; and considered the on-going implications of the Hutton review on Public Sector Pensions.

In addition, the Committee continues to receive presentations from its Investment Managers on the pension fund performance as well as performance benchmarking and advice from its independent adviser, Hymans Robertson.

Glossary of terms

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

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

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

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

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

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

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

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

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

Community assets
Assets that the council intends to hold indefinitely and which may have some restrictions on their disposal. Eg parks and historic buildings.

Consistency concept
This concept requires that there should be a consistent method of accounting treatment of like items within each accounting period and from one accounting period to the next.

Council tax
A banded property tax that is levied on domestic properties. The banding is based on property values at as 1991.

Credit risk
The possibility that one party to a financial instrument will fail to meet their contractual obligation, causing a loss to the other party.

Creditor
An amount owed by the council for work done, goods received or services rendered, but for which no payment has been made.

Current assets
Asset expected to be realised within twelve months after the reporting period (including cash or cash equivalents).

Debtors
An amount owed to the council for work done, goods supplied or services rendered, but for which no payment has been received.

Defined benefit scheme
A pension or other retirement benefit scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded).

Defined contribution scheme
A pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Depreciation
The measure of the wearing out, consumption or other reduction in a fixed asset either as a result of its use, ageing or obsolescence.

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

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

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

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

General fund
The total services of the council except for the Collection Fund, the Isle of Wight Council Pension Fund and the Fire-fighters' Pension Fund.

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

Intangible asset
Assets that do not have a physical substance but are identified and controlled by the entity through custody or legal rights. Examples of intangible assets are patents and software licences.

Investment property
Property (land or a building, or part of a building, or both) held solely to earn rentals or for capital appreciation or both.

Materiality
An item is material if its omission, non-disclosure or misstatement in the financial statements could be expected to lead to a distorted view given by the financial statements.

Net book value
The amount at which assets are included in the balance sheet ie their historical cost or current value less the cumulative amount provided for depreciation and impairment.

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

Non-current assets
An asset held by the authority for a period greater than one year and is not expected to be disposed of within one year.

Operating lease
An agreement in which the council derives the use of an asset in exchange for rental payments, although the risks and rewards of ownership of the asset are not substantially transferred to the council.

Precepts
The amount levied by another body, such as the Hampshire Police Authority, that is collected by the council on their behalf.

Private finance initiative
A contract in which the private sector is responsible for supplying services that are linked to the provision of a major asset which previously had been provided by the council. The council will pay for the provision of this service, which is linked to availability, performance and levels of usage.

Property, plant and equipment
Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year.

Provisions
Amounts charged to revenue during the year for costs with uncertain timing, although a reliable estimate of the cost involved can be made.

Prudence concept
This concept requires that revenue is not anticipated until realisation can be assessed. Provision is made for all known liabilities whether the amount is certain or can only be estimated in the light of the information available.

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

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

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

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

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

Specific government grants
These are designed to aid particular services and may be venue or capital in nature. They may have specified conditions attached to them which determine that they can only be used to fund expenditure which is incurred in pursuit of defined objectives (known as ring-fenced grants).

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

Opinion on the Authority and firefighters' pension fund financial statements

I have audited the financial statements and the firefighters' pension fund financial statements of Isle of Wight Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and Collection Fund and the related notes. The firefighters' pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of Isle of Wight Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Strategic Director of Resources and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view of the financial position of Isle of Wight Council as at 31 March 2012 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial transactions of the firefighters' pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I report to you if:

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

I have nothing to report in these respects.

Opinion on the pension fund financial statements

I have audited the pension fund financial statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of Isle of Wight Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Strategic Director of Resources and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In my opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012 ; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

Respective responsibilities of the Authority and the auditor

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

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

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. 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.

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

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Authority has proper arrangements for:

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

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

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

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, Isle of Wight Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

Certificate

I certify that I have completed the audit of the financial statements, including the firefighters' pension fund financial statements, of Isle of Wight Council and Isle of Wight Council Pension Fund in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

K.L. Handy
District Auditor
Audit Commission
Collins House
Bishopstoke Road
Eastleigh
Hampshire
SO50 6AD

25 September 2012