Isle of Wight Council

Statement of Accounts

2019-20

CONTENTS

Narrative report

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

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

Annual Governance Statement

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

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

THE STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The authority's responsibilities

The authority is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Finance and Section 151 officer;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- approve the statement of accounts.

The Director of Finance and Section 151 officer's responsibilities

The Director of Finance and Section 151 officer is responsible for the preparation of the authority's statement of accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this statement of accounts, the Director of Finance and Section 151 officer has:

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

The Director of Finance and Section 151 officer has also:

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

I certify that the statement of accounts for the year ended 31 March 2020 required by the Accounts and Audit Regulations 2015 is set out on pages 6 to 129.

I further certify that the statement of accounts gives a true and fair view of the financial position of the Isle of Wight Council at the 31 March 2020 and its income and expenditure for the year then ended.

C Ward

Director of Finance and Section 151 officer **Date: 12 November 2020**
(original signed)

Councillor R Barry

Chair of Audit Committee **Date: 23 November 2020**
(original signed)

EXPENDITURE AND FUNDING ANALYSIS

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

2018-19				**2019-20**		
Net Expenditure Chargeable to the General Fund Balance	Adjustments between the Funding and Accounting Basis (see note 7A)	Net Expenditure in the Comprehensive Income and Expenditure Statement	**Portfolio reporting structure**	**Net Expenditure Chargeable to the General Fund Balance**	**Adjustments between the Funding and Accounting Basis (see note 7A)**	**Net Expenditure in the Comprehensive Income and Expenditure Statement**
£000	£000	£000		**£000**	**£000**	**£000**
50,670	2,131	52,801	Adult Social Care, Public health & Housing Needs	**51,749**	**2,874**	**54,623**
24,797	5,851	30,648	Children's Services	**28,166**	**11,546**	**39,712**
7,530	631	8,161	Community Safety & Public protection	**2,203**	**760**	**2,963**
2,531	2,263	4,794	Environment & Heritage	**2,986**	**2,606**	**5,592**
15,127	9,476	24,603	Infrastructure & Transport	**14,406**	**10,285**	**24,691**
895	97	992	Leader & Strategic Partnerships	**964**	**155**	**1,119**
495	419	914	Planning & Housing Renewal	**1,096**	**553**	**1,649**
4,778	595	5,373	Procurement, Projects & Forward Planning	**3,813**	**892**	**4,705**
1,396	223	1,619	Regeneration & Business Development	**1,214**	**129**	**1,343**
12,959	6,685	19,644	Resources	**14,983**	**2,722**	**17,705**
121,178	28,371	149,549	**Net Cost of services**	**121,580**	**32,522**	**154,102**
(124,199)	(9,744)	(133,943)	Other Income and Expenditure	**(115,054)**	**(22,760)**	**(137,814)**
(3,021)	18,627	15,606	**(Surplus)/deficit on provision of services**	**6,526**	**9,762**	**16,288**

72,725			Opening General Fund balance	**75,746**		
3,021			Less/add Surplus or (deficit) on General Fund balance in year	**(6,526)**		
75,746			**Closing General Fund Balance at 31 March**	**69,220**		

COMPREHENSIVE INCOME & EXPENDITURE STATEMENT

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from council tax and other revenue resources. Authorities raise income to cover expenditure in accordance with statutory requirements; this may be different from the accounting cost. The taxation position is shown in both the expenditure and funding analysis and the movement in reserves statement.

2018-19				**2019-20**		
Gross Expenditure (see note 8)	Gross Income (see note 8)	Net expenditure	**Portfolio reporting structure**	**Gross Expenditure (see note 8)**	**Gross Income (see note 8)**	**Net Expenditure**
£000	£000	£000		**£000**	**£000**	**£000**
84,969	(32,168)	52,801	Adult Social Care, Public health & Housing Needs	**88,952**	**(34,329)**	**54,623**
119,215	(88,567)	30,648	Children's Services	**132,973**	**(93,261)**	**39,712**
10,774	(2,613)	8,161	Community Safety & Public protection	**11,065**	**(8,102)**	**2,963**
10,198	(5,404)	4,794	Environment & Heritage	**11,008**	**(5,416)**	**5,592**
30,713	(6,110)	24,603	Infrastructure & Transport	**31,069**	**(6,378)**	**24,691**
1,245	(253)	992	Leader & Strategic Partnerships	**1,227**	**(108)**	**1,119**
5,151	(4,237)	914	Planning & Housing Renewal	**6,051**	**(4,402)**	**1,649**
6,091	(718)	5,373	Procurement, Projects & Forward Planning	**5,277**	**(572)**	**4,705**
2,187	(568)	1,619	Regeneration & Business Development	**1,906**	**(563)**	**1,343**
68,721	(49,077)	19,644	Resources	**59,164**	**(41,459)**	**17,705**
339,264	(189,715)	149,549	**Cost of services**	**348,692**	**(194,590)**	**154,102**
5,080	0	5,080	Other operating expenditure (note 11)	**5,292**	**0**	**5,292**
39,170	(14,571)	24,599	Financing & investment income & expenditure (note 12)	**38,220**	**(15,001)**	**23,219**
0	(163,622)	(163,622)	Taxation & non-specific grant income (note 13)	**0**	**(166,325)**	**(166,325)**
383,514	(367,908)	15,606	**Deficit on provision of services**	**392,204**	**(375,916)**	**16,288**
		(37,133)	Surplus on revaluation of non-current assets (note 28)			**(7,952)**
		1,816	Downward revaluation of assets and impairment losses on non-current assets charged to the revaluation reserve (note 28)			**1,368**
		28,279	Actuarial (gains)/losses on pension assets/liabilities (note 48)			**(70,640)**
		(7,038)	**Other comprehensive income & expenditure**			**(77,224)**
		8,568	**Total comprehensive income & expenditure**			**(60,936)**

MOVEMENT IN RESERVES STATEMENT

This statement shows the movement in the year on the different reserves held by the council, analysed into ‘usable reserves’ (ie those that can be used to fund expenditure or reduce local taxation) and other ‘unusable reserves’. The statement shows how the movements in the year of the council’s reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax for the year. The net increase/decrease line shows the statutory general fund balance movements in the year following those adjustments.

	General fund balance £000	Capital receipts reserve £000	Capital grants unapplied £000	Total usable reserves £000	Unusable reserves £000	Total authority reserves £000
Balance at 31 March 2018 brought forward	72,725	17,454	12,159	102,338	(186,448)	(84,110)
Movement in reserves during 2018-19:						
Total Comprehensive Income & Expenditure	(15,605)	0	0	(15,605)	7,037	(8,568)
Adjustments between accounting basis & funding basis under regulations (Notes 7A & 9)	18,626	(12,693)	(40)	5,893	(5,893)	0
Increase/decrease in 2018-19	3,021	(12,693)	(40)	(9,712)	1,144	(8,568)
Balance at 31 March 2019 carried forward	75,746	4,761	12,119	92,626	(185,304)	(92,678)

General Fund analysed between:	Balance brought forward	Movement in year	Balance carried forward
	£000	£000	£000
Earmarked Reserves (see note 10)	65,496	(5)	65,491
Dedicated Schools Grant (DSG) reserve deficit (see note 10)	(703)	(205)	(908)
Reserve for general purposes (see note 27)	7,932	3,231	11,163
Total at 31 March 2019	72,725	3,021	75,746

	General fund balance £000	Capital receipts reserve £000	Capital grants unapplied £000	Total usable reserves £000	Unusable reserves £000	Total authority reserves £000
Balance at 31 March 2019 brought forward	75,746	4,761	12,119	92,626	(185,304)	(92,678)
Movement in reserves during 2019-20:						
Total Comprehensive Income & Expenditure	(16,288)	0	0	(16,288)	77,224	60,936
Adjustments between accounting basis & funding basis under regulations (Notes 7A & 9)	9,762	(2,488)	72	7,346	(7,346)	0
Increase/decrease in 2019-20	(6,526)	(2,488)	72	(8,942)	69,878	60,936
Balance at 31 March 2020 carried forward	69,220	2,273	12,191	83,684	(115,426)	(31,742)

General Fund analysed between:	Balance brought forward	Movement in year	Balance carried forward
	£000	£000	£000
Earmarked Reserves (see note 10)	65,491	(6,012)	59,479
Dedicated Schools Grant (DSG) reserve deficit (see note 10)	(908)	(1,580)	(2,488)
Reserve for general purposes (see note 27)	11,163	1,066	12,229
Total at 31 March 2020	75,746	(6,526)	69,220

BALANCE SHEET

The balance sheet shows the value as at the balance sheet date of the assets and liabilities held by the council. The net assets of the council (assets less liabilities) are matched by the reserves held by the council. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example, the capital receipts reserve may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the revaluation reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the movement in reserves statement line ‘adjustments between accounting basis and funding basis under regulations’.

31 March 2019			**31 March 2020**
£000		**Note**	**£000**
482,535	Property, plant & equipment	**14**	**503,253**
1,291	Heritage assets	**15**	**1,296**
33,695	Investment property	**16**	**33,095**
616	Intangible assets	**17**	**582**
2,690	Long term debtors	**21**	**2,876**
520,827	**Long term assets**		**541,102**
39,245	Short-term investments	**18**	**37,102**
773	Assets held for sale	**24**	**595**
90	Inventories	**20**	**86**
22,617	Short term debtors	**21**	**28,601**
31,400	Cash and cash equivalents	**23**	**34,373**
94,125	**Current assets**		**100,757**
(113,345)	Short term borrowing	**18**	**(88,263)**
(41,811)	Short term creditors	**25**	**(29,732)**
(7,597)	Short term provisions	**26**	**(6,639)**
(162,753)	**Current liabilities**		**(124,634)**
(87,298)	Long term creditors	**18**	**(101,083)**
(1,167)	Long term provisions	**26**	**(1,169)**
(150,355)	Long term borrowing	**18**	**(192,665)**
(300,265)	Other long term liabilities	**18**	**(247,694)**
(394)	Donated assets account	**15**	**(394)**
(5,398)	Capital grants receipts in advance	**40**	**(5,962)**
(544,877)	**Long term liabilities**		**(548,967)**
(92,678)	**Net liabilities**		**(31,742)**
92,626	Usable reserves	**27**	**83,684**
(185,304)	Unusable reserves	**28**	**(115,426)**
(92,678)	**Total reserves**		**(31,742)**

Signed: ***C Ward*** (original signed)

Date: 12 November 2020

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.

2018-19		**2019-20**
£000		**£000**
(15,606)	Net deficit on the provision of services	**(16,288)**
43,778	Adjustments to net deficit on the provision of services for non-cash movements (note 30)	**38,250**
(74,108)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (note 30)	**(11,814)**
(45,936)	Net cash flows from operating activities	**10,148**
(17,766)	Investing activities (note 31)	**(2,747)**
78,674	Financing activities (note 32)	**(4,428)**
14,972	Net increase or decrease in cash & cash equivalents	**2,973**
16,428	Cash & cash equivalents at the beginning of the reporting period	**31,400**
31,400	**Cash & cash equivalents at the end of the reporting period (note 23)**	**34,373**

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 2019-20 financial year and its position at the year-end of 31 March 2020. The council is required to prepare an annual statement of accounts by the Accounts and Audit Regulations 2015 which those regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2019-20, 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 contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the balance sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather that when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

1.3 Cash and cash equivalents

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

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

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

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

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

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

1.5 Charges to revenue for non-current assets

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

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

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

The Local Government Act 2003 requires the Council to have regard to the Ministry of Housing, Communities and Local Government Guidance on Minimum Revenue Provision (the CLG Guidance) most recently issued in 2018.

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

- The broad aim of the CLG Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

- The CLG Guidance requires the Council to approve an Annual MRP Statement each year and recommends a number of options for calculating a prudent amount of MRP. The statement incorporates options recommended in the Guidance as well as locally determined prudent methods.

- The council has adopted the annuity method for capital expenditure. This method will ensure the repayment of the debt better reflects the consumption of these assets financed. MRP will be determined by charging the expenditure over the expected useful life of the relevant asset. This being equal to the principal repayment on an annuity with an annual interest rate equal to the relevant PWLB rate for the year of expenditure, starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 40 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years.

- For finance leases and the Highways PFI contract, the MRP charge will be equal to the repayment of the liability in year.

- For investment properties with a holding period of less than 50 years; MRP will not be provided for Investment Properties. Upon sale of these assets the capital receipt will be set aside to repay the borrowing that has financed these assets. Where the fair value of the property falls below acquisition cost, MRP will be provided on an annuity method over the remainder of the life of asset.

- For investment properties with a holding period of greater than 50 years; MRP will be provided on an annuity method over the life of asset.

- For capital expenditure loans to third parties the income received has an interest and principal element. No MRP will be charged on these loans unless the loan is deemed to be impaired in line with IFRS 9.

Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the general fund balance by way of an adjusting transaction with the capital adjustment account in the movement in reserves statement for the difference between the two.

1.6 Accounting for Council Tax and Business Rates

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

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

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

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

1.7 Employee benefits

1.7.1 Benefits payable during employment

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

1.7.2 Termination benefits

Termination benefits are amounts payable as a result of a decision by the council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy. They are charged on an accruals basis to the appropriate service or, where applicable, to the non-distributed costs line in the comprehensive income and expenditure statement at the earlier of when the council can no longer withdraw the offer of those benefits or when the council recognises costs for a restructuring.

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

1.7.3 Post-employment benefits

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

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

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

However, the arrangements for the teachers' and NHS schemes mean that liabilities for these benefits cannot ordinarily be identified specifically to the council. These schemes are therefore accounted for as if they were defined contributions schemes and no liability for future payments of benefits is recognised in the balance sheet. The children's services line in the comprehensive income and expenditure statement is charged with the employer's contributions payable to Teachers' Pensions in the year. The adult social care and public health services line is charged in respect of the employers' contributions to the NHS pension scheme.

1.7.4 The Local Government Pension Scheme

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

- The liabilities of the Isle of Wight Council pension fund attributable to the council are included in the balance sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates etc., and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate derived from a corporate bond yield curve constructed from yields on high quality bonds and recognising the weighted average term of the benefit obligation for the employer at the IAS19 valuation date. The corporate bond yield curve is constructed based on the constituents of the iBoxx £ Corporates AA index and using the UBS delta curve fitting methodology.
- The assets of the Isle of Wight Council Pension Fund attributed to the council are included in the balance sheet at their fair value:
    - quoted securities – current bid price
    - unquoted securities – professional estimate
    - unitised securities – current bid price
    - property – market value

The change in the net pensions liability is analysed into the following components:

- Service cost comprising:
    - current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the comprehensive income and expenditure statement to the services for which the employees worked;
    - past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the surplus or deficit on the provision of services in the resources line of the comprehensive income and expenditure statement;
    - net interest on the defined benefit liability (asset), i.e. net interest expense for the authority – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the financing and investment income and expenditure line of the comprehensive income and expenditure statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined liability (asset) at the beginning of the period, taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
- Remeasurements comprising:
    - the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset). This is charged to the pensions reserve as other comprehensive income and expenditure;
    - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the pensions reserve as other comprehensive income and expenditure;
- Contributions paid to the Isle of Wight Council pension fund – cash paid as employer's

contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

1.7.5 Discretionary benefits

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

1.7.6 The Fire-fighters' Pension Scheme

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

- The liabilities of the Fire-fighters' pension scheme attributable to the council are included in the balance sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates etc., and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate derived from a corporate bond yield curve constructed from yields on high quality bonds and recognising the weighted average term of the benefit obligation for the employer at the IAS19 valuation date. The corporate bond yield curve is constructed based on the constituents of the iBoxx £ Corporates AA index and using the UBS delta curve fitting methodology.

The change in the net pensions liability is analysed into the following components:

- Service cost comprising:
    - current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the comprehensive income and expenditure statement to the services for which the employees worked;
    - past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the surplus or deficit on the provision of services in the resources line of the comprehensive income and expenditure statement;
    - net interest on the defined benefit liability, i.e. net interest expense for the authority – the change during the period in the net defined benefit liability that arises from the passage of time charged to the financing and investment income and expenditure line of the comprehensive income and expenditure statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined liability at the beginning of the period, taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments.
- Remeasurements comprising:
    - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to

the pensions reserve as other comprehensive income and expenditure.

- Contributions paid by the Isle of Wight Council – cash paid as employer's contributions to the fire-fighters' pension scheme in settlement of liabilities; not accounted for as an expense.

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

In-year deficits on the fire-fighters' pension scheme (i.e. the difference between employees' and employers' contributions and the amounts paid out as pensions) are reimbursed by government grant.

Fire-fighters' injury pensions awarded since the introduction of the New Firefighters' Pension Scheme in 2006 are charged to the community safety and public protection line in the council's comprehensive income and expenditure statement rather than the fire-fighters' pension fund.

1.8 Events after the reporting period

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

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

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

1.9 Financial instruments

1.9.1 Financial liabilities

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

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

1.9.2 Financial assets

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

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

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

1.9.3 Financial assets measured at amortised cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the authority, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

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

1.9.4 Expected credit loss model

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

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

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

1.10 Government grants and contributions

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

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

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

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

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

1.11 Business Improvement District

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

1.12. Heritage assets

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

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

- **Museum social history**

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

- **Local government collection**

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

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

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**

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.

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**

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

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

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

- **Geology**

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

- **Record Office collection**

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

- **Local collection books**

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

- **Heritage assets - general**

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

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

1.13. Intangible assets

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

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

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

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

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

1.14 Inventories

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

1.15 Investment property

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

Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated but are revalued annually according to market conditions at year-end. Gains and losses on revaluation are posted to the financing and investment income and expenditure line in the comprehensive income and expenditure statement. The same treatment is applied to gains and losses on disposal.

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

1.16 Interests in companies and other entities

An assessment of the council's interests has been carried out during the year in accordance with the Code of Practice to determine the group relationships that exist. Inclusion in the group is dependent upon the extent of the council's control over the entity demonstrated through ownership, such as a shareholding in an entity or representation on an entity's board of directors. The council has no material interests in companies and other entities that have the nature of subsidiaries, associates and joint ventures and that would require it to prepare group accounts.

1.17 Joint operations

Joint operations are arrangements where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. The activities undertaken by the authority in conjunction with other joint operators involve the use of the assets and resources of those joint operators. In relation to its interest in a joint operation, the authority as a joint operator recognises:

- its assets, including its share of any assets held jointly.
- its liabilities, including its share of any liabilities incurred jointly
- its revenue from the sale of its share of the output arising from the joint operation
- its share of the revenue from the sale of the output by the joint operation
- its expenses, including its share of any expenses incurred jointly.

1.18 Leases

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

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

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

1.18.1 The council as lessee

Finance leases

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

Lease payments are apportioned between:

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

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

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

Operating leases

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

1.18.2 The council as lessor

Finance leases

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

Operating leases

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

1.19 Overheads and support services

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

1.20 Property, plant and equipment

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

1.20.1 Recognition

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

1.20.2 Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

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

- infrastructure, community assets and assets under construction – depreciated historical cost
- vehicles, plant and equipment - depreciated historical cost.
- school buildings – current value, but because of their specialist nature, are measured at depreciated replacement cost which is used as an estimate of current value
- surplus assets – the current value measurement base is fair value, estimated at the highest and best use from a market participant's perspective
- shared ownership – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).
- all other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

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

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

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

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

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

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

1.20.3 Impairment

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

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

- where there is a balance of revaluation gains for the asset in the revaluation reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)

- where there is no balance in the revaluation reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line in the comprehensive income and expenditure statement.

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

1.20.4 Depreciation

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

Depreciation is calculated on the following bases:

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

Where an item of property, plant and equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately and this is determined at the point of valuation and is estimated by the valuer.

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

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

1.20.5 Disposals and non-current assets held for sale

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

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

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

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

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. Receipts are required to be credited to the capital receipts reserve and can then only be used for new capital investment or set aside to reduce the council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the reserve from the general fund balance in the movement in reserves statement.

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

1.21 Private finance initiative (PFI) and similar contracts

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

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

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

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

- fair value of the services received during the year – debited to the relevant service in the comprehensive income and expenditure statement
- finance cost – an interest charge on the outstanding balance sheet liability, debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement
- contingent rentals – increases in the amount to be paid for the property arising during the contract, debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement.
- payment towards liability – applied to write down the balance sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease)
- payment towards the excess of capital investment over planned capital investment specified in the contract. Excess of capital investment is credited to deferred income on the balance sheet and credited to the relevant service in the comprehensive income and expenditure statement
- lifecycle replacement costs – the council charges lifecycle costs as incurred and these are recognised as additions to property, plant and equipment when the relevant works are eventually carried out.

1.22 Fair value measurement of non-financial assets

The council's accounting policy for fair value measurement of financial assets is set out in note 1.9.2. The council also measures some of its non-financial assets such as surplus assets and investment properties at fair value at each reporting date. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the council's financial statements are categorised within the fair value hierarchy, as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the council can access at the measurable date
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 – unobservable inputs for the asset or liability.

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

1.23 Provisions, contingent liabilities and contingent assets

1.23.1 Provisions

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

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

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

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

Provisions are analysed between short and long-term for the purpose of balance sheet categorisation.

1.23.2 Contingent liabilities

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

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

1.23.3 Contingent assets

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

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

1.24 Reserves

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

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

1.25 Revenue expenditure funded from capital under statute

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

1.26 Accounting for Schools

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

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

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

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

1.27 VAT

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

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

The council does not have any transactions in 2019-20 that are reclassifiable to the surplus or deficit on the provision of services under the requirements of IAS 1. All of the amounts in other comprehensive income and expenditure are not reclassifiable in the surplus or deficit on the provision of services.

1.29 Going Concern

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

The provisions in the CIPFA/LASAAC Code of Practice of Local Authority Accounting 2019/20 and the Financial Reporting Council's Practice Note 10 in respect of going concern reporting requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting. Local authorities carry out functions essential to the local community and are themselves revenue-raising bodies (with limits on their revenue-raising powers arising only at the discretion of central government). If an authority were in financial difficulty, the prospects are thus that alternative arrangements might be made by central government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year and indeed, correspondence from MHCLG during Covid-19 is supportive of this approach. As a result of this, it would not therefore be appropriate for local authority financial statements to be provided on anything other than a going concern basis. Accounts drawn up under the Code therefore assume that a local authority's services will continue to operate for the foreseeable future.

The COVID-19 pandemic has had a serious impact on the council's financial situation. A detailed report was presented to the Corporate Scrutiny Committee on 09 June 2020 outlining the council's response to the pandemic to date and the estimated financial impact. At that point in time and after two tranches of emergency grant funding from the government an estimated financial gap of £9.8m was reported, being made up as follows:

Description	**£m**
Additional Costs & Unachievable Savings	8.5
Income Losses (e.g. Rents, Fees and Charges)	8.0
Funding Losses (i.e. Council Tax and Business Rates)	2.3
Less: Emergency COVID-19 Funding	(9.0)
Total Shortfall	**9.8**

At that time it remained uncertain whether or not there would be further funding allocated from Central Government to help meet the £9.8m shortfall. It was therefore reported that given the council's obligation to plan its financial management responsibly and given the forecast deficit of £9.8m, compared with the available headroom of £3.2m in General Reserves, the Cabinet had begun the process of developing a Deficit Recovery Strategy to enable the Council to continue to operate without the need to consider emergency spending controls and service reductions under a S114 Notice.

Further to this report to the Corporate Scrutiny Committee, the Leader presented the Deficit Recovery Strategy totalling some £11.5m to Full Council on 15 July which in summary is as follows:

1. Placing on hold schemes from the Capital Programme totalling some £4m
2. Placing on hold member priority schemes totalling some £0.5m
3. Use of the Corporate Contingency up to £2m (representing 60% of the total)
4. Use of the Transformation Reserve of up to £2m (representing 50% of the uncommitted balance)
5. Use of Reserves earmarked for short term risks where that risk has now been mitigated (e.g. the pending court case regarding Christ the King sixth form buildings which has now been successfully defended by the council) £3m

More detail can be found at the following link (Appendix A):

https://www.iow.gov.uk/Meetings/committees/mod-council/15-7-20/PAPER%20C%20-%20Leaders%20Report%20-%20July%202020%20(DS1.JPM1).pdf

The most up to date forecast of the budget gap (as per the Delta 7 Return 31 October 2020), indicates that the estimated gap for 2020/21 has reduced slightly to £9.6m and is therefore still within the amount provided for by the Deficit Recovery Strategy. The £9.6m gap however does not, as yet, factor in re-imbursement from the government's Sales, Fees and Charges compensation scheme but might reasonably be expected to amount to circa £3m (see below):

Description	£m
Additional Costs & Unachieved Savings	21.4
Income Losses (e.g. Rents, Fees and Charges)	7.1
Funding Losses (i.e. Council Tax and Business Rates)	3.4
Less: Emergency COVID-19 Funding (three tranches)	(10.3)
Less: Other Grant funding (Infection Control, Track & Trace, Contain Outbreak Management Fund, Reopening High Streets, Next Steps Accommodation Programme etc)	(9.4)
Less: CCG reimbursement	(2.6)
Total Shortfall	**9.6**

As can be seen from the table above, the estimated additional expenditure and lost savings totalling £21.4m are currently forecast to be within the grant funding received to date and CCG reimbursement (£22.3m). The net pressure is therefore arising from the estimate of lost income, of which the most significant items are as follows:

- Recreation and Sport (including leisure centres) estimated £2.9m loss (75% of budget)
- Parking estimated £2.7m loss (53% of budget)
- Culture & related (including museums and theatre) estimated £0.3m loss (44% of budget)
- Floating Bridge estimated £0.4m loss (59% of budget)

This position does not factor in any amount which will be recovered from the government's Sales Fees and Charges Compensation Scheme. It is currently estimated that c £3m could be recovered bringing the total estimated deficit down to just under £7m.

Since the Delta 7 return was submitted a further tranche of Emergency Grant (tranche 4) has been received totalling £1.1m for the council, which allows the council greater flexibility if expenditure exceeds estimated amounts or may reduce the deficit further. At this stage it is prudent to assume it will be required for further expenditure.

The current estimated total gap of c£7m includes the impact on the collection fund (£3.4m) which will can now be recovered over a three year period so will not be as a significant risk to be set against the Deficit Recovery Strategy. Excluding the impact on the collection fund the estimated budget gap is c£3.6m, which leaves over £7.9m headroom within the Deficit Recovery Strategy. In addition to this strategy Directors have been instructed to exercise spending restraint where possible for the remainder of 2020/21. In addition, the Council will still maintain General Reserves headroom of £3.2m over the medium term. The Council has a total general fund balance of £12.2m and total earmarked reserves of £59.5m, of which at least £25m could be made available for general use if required (though this is not expected to be necessary).

Looking further ahead to 2021/22 the council is still working to achieve £3.5m of savings in that year as per the Medium Term Financial Strategy and has made significant progress to date and is confident that this will be achieved and will enable the council to set a balanced budget in February 2021. It is anticipated that the balance of the substantial surplus in the Deficit Recovery Strategy will be available to offset any legacy impact of Covid (most likely element is considered to be income in leisure) which is not funded by further government grant. That with sufficient levels of general reserves and earmarked reserves is expected to enable the council to continue with its MTFS as planned.

The Council has also undertaken cashflow forecasting for the foreseeable future period. Our projections for the revenue budget show that the Council has sufficient liquidity over the period to the end of November 2021, with positive cash balances throughout. There is no identified need for new borrowing to manage the working capital for revenue balances. At the end of October 2020, the Council had total cash and readily available investments of £80m. The cash balance is forecast to remain positive throughout the period to the end of November 2021.

The Council does have a significant capital programme for the same period and through to the end of March 2022 and there was always an intent to borrow, from the PWLB, as one of a source of funds for this programme. When taken into the cashflow forecast this situation does not change and PWLB borrowing will be required. With the impact of Covid-19 in mind we continue to focus on reviewing the timing and extent of the capital programme, but are of the view that PWLB loans will be available.

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

2. Accounting standards that have been issued but have not yet been adopted

The Code of Practice on Local Authority Accounting in the United Kingdom 2020-21 (the Code) has introduced changes in accounting policies which will need to be adopted by the council in the 2020-21 financial statements. The Code requires implementation from 1 April 2020 and there is therefore no impact on the 2019-20 statement of accounts.

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

Accounting changes that are introduced by the 2020-21 code are:

- Amendments to IAS 28 Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures
- Annual Improvements to IFRS Standards 2015–2017 Cycle
- Amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement.

These changes are not expected to have a material impact on the Council’s financial statements.

3. Critical judgements in applying accounting policies

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

- **Future funding of the council**.

The Chancellor, as part of the Spending Round announcement in September 2019, declared the end of austerity. This provided some hope that funding for Local Government would at least stabilise if not increase. The Government also stated that a full multi-year spending review would take place in 2020 and there would be other changes:

• The Fair Funding Review of the Local Government finance system;
• The Business Rates system would move nationally to a 75% retention system.
• Business Rates baselines would be reset for potentially redistributing existing gains and losses associated with the current system; and
• Business Rates revaluation would be implemented affecting the amount of Business Rates paid by the occupiers of commercial premises. Revaluation would, in future, take place every three years

All of this has now been put on hold due to the unknown mid to long term impact of the COVID-19 pandemic. This means there is virtually no indication of the level of funding Local Authorities can expect to receive for 2021-22 and beyond.

However, the council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the council might be impaired as a result of the need to close facilities and reduce levels of service provision.

- **Asset classifications**

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

- **Lease classifications**

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

- **Contractual arrangements**

The council has made judgements on whether its contractual arrangements contain embedded leases (i.e. arrangements that are not legally leases but take the form of payments in return for the use of specific assets). The judgement made for these concerns the amount of use considered to be significant and recognised as a lease arrangement.

- **PFI schemes**

The council has made judgements relating to the control of services provided under the Highways PFI contract. It has determined that the council controls these services and also to control the residual value of the assets at the end of the contracts. The accounting policies for PFI schemes and similar contracts have been applied to the arrangements and the assets are recognised as property, plant and equipment on the council's balance sheet in line with IFRIC 12 (service concession arrangements). The waste management contract which commenced in November 2015 has been judged as falling outside the definition of a service concession and so has not been accounted for under the accounting policy applying to PFI schemes and similar contracts.

- **School Land and Buildings**

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

- **Minimum Revenue Provision (MRP)**

The council has made judgements on the application of a 'prudent amount' definition in the setting aside of sums for the repayment of debt (MRP). The council has judged that the accounting policy for charging the MRP can be interpreted so that the calculation considers all of the assets of the council in totality and considers them in the context of the maturity profile of the council's debt. As a result, the annuity method has been adopted as the most appropriate method for the setting aside of its MRP.

- **Investment properties**

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

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

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

Item	Uncertainties	Effect if actual results differ from assumptions
Property, plant and equipment	Assets are depreciated over useful lives that are dependent on assumptions about level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to	If the useful life of assets is reduced, depreciation increases and the carrying amount of the asset falls. It is estimated that the annual depreciation charge for buildings would increase by £0.156 million for every year that useful lives had to be reduced.

Item	Uncertainties	Effect if actual results differ from assumptions
	assets. The carrying value of property, plant and equipment at 31 March 2020 is £503.252 million.	
Local Government Pension Scheme – Pensions Liability	The estimation of the net liability to pay retirement benefits depends on a number of complex judgements. In particular these judgements relate to the discount rate used, the rate at which salaries are projected to increase, changes to the age at which retirement benefits can be taken, mortality rates and the expected returns on pension fund assets. The council engages an actuary to provide expert advice about the assumptions to be applied and the sensitivity of the results. The carrying value of the Local Government Pension Scheme at 31 March 2020 is a deficit of £166.123 million.	The impact on the net pensions liability of changes in individual assumptions can be measured in approximate terms. For example, a 0.5% decrease in the real discount rate would result in an increase of 9% to the employer liability for which the approximate monetary value would be £59.752 million. A one year increase in member life expectancy would result in an increase of between 3% and 5% to the employer's defined benefit obligation. In practice the actual cost of a one year increase in life expectancy will depend on the structure of the revised assumption (ie if the improvements to survival rates predominantly apply at younger of older ages). A 0.5% increase in the salary increase rate would result in an increase of 1% to the employer liability for which the approximate monetary value would be £4.942 million. A 0.5% increase in the pension increase rate would result in an increase of 8% to the employer liability for which the approximate monetary value would be £54.360 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 2020 is a deficit of £81.700 million (excluding the top-up grant receivable).	The impact on the net pension liability of changes in individual assumptions can be measured in approximate terms. For example, a 0.5% decrease in the real discount rate would result in an increase of 9% to the employer liability for which the approximate monetary value would be £7.297 million. A one year increase in member life expectancy would result in an increase of 3% to the employer liability for which the approximate monetary value would be £2.426 million. A 0.5% increase in the salary increase rate would result in an increase of 1% to the employer liability for which the approximate monetary value would be £0.728 million. A 0.5% increase in the pension increase rate would result in an increase of 7% to the employer liability for which the approximate monetary value would be £5.799 million.
Allowance for impairment of short-term debtors	The council has made impairment allowances of £8.221 million for the non-collection of outstanding debts at 31 March 2020. This includes an allowance of £4.363 million for council tax and business rate arrears representing the council's share of the allowance. The allowance for all other debt (including housing benefit overpayments) is calculated on a sliding scale of percentages applied to the outstanding amounts based on an age profile, historical levels and the nature of the debts. In the current economic climate it	For collection fund arrears, variances between estimated and actual write-offs will have an impact on the surplus or deficit on the collection fund. For the remaining sundry debts (including housing benefit overpayments), a 5% increase in the percentage applied would require an adjustment to the allowance of £0.300 million which would be attributable to the general fund.

Item	Uncertainties	Effect if actual results differ from assumptions
	is not certain whether these allowances will be sufficient. If collection rates were to deteriorate then an increase in the amount of the impairment allowance would be required.	
Insurance provision	The services of a claims handling company is used to process claims made against the council. As significant claims can often take many years to be settled, outcomes cannot always be predicted with any great level of certainty. A provision for outstanding insurance liabilities at 31 March 2020 has been based on information contained within the council's in-house claims recording database and also an estimate of the amount liable to 'clawback' in respect of claims against policies taken out with the Municipal Mutual Insurance (MMI) prior to 1 April 1993. MMI went into 'run-off' in September 1992 and subsequently established a scheme of arrangement whereby claims paid since January 1994 will be subject to a total or partial 'clawback' in the event of insolvency. In November 2012, the directors of MMI triggered the company's scheme of arrangement following a Supreme Court judgement in March 2012 relating to mesothelioma claims. Under this scheme, Ernst & Young have taken over management of MMI's business, with the power to levy on scheme creditors in order to achieve a solvent run-off.	The insurance provision is being maintained at a level considered to be prudent in view of the information currently available. The impact of a significant claim paid from the provision would require a reassessment of the adequacy of the Provision and additional contributions may need to be made from the general fund if the provision was found to be insufficient to absorb such a claim. With regard to the MMI scheme, in future only 75% of claim amounts will be paid out and so the 25% shortfall will need to be self-funded by the council. In addition, it is possible that there will be further costs resulting from 'incurred but not reported' claims, although it is not possible to quantify the potential amounts. The potential liability relating to the MMI solvency position is based on a current assessment of the impact of industrial disease type claims. Should the solvency position deteriorate further, the council could face further calls on the amount in the provision.
Accumulated absences account	An accrual in respect of non-schools staff annual leave entitlement carried forward at 31 March 2020 has been based on 100% of staff. The accrual in respect of schools staff is calculated by using a formula which is based on the school holiday year. Differences between years can arise as a result of the dates of the Easter holidays. The carrying value at 31 March 2020 is £2.962 million.	Both current assets and unusable reserves on the balance sheet would be under or over stated if the estimate was proved not to be robust. The net worth on the balance sheet would therefore be under or over stated. The comprehensive income & expenditure statement is charged or credited with the movement between the prior and current year balance sheet figures. However, the entries in the comprehensive income & expenditure statement are reversed out through the movement in reserves statement, so that there is no impact on the general fund balance.
Business rate appeals	Since the introduction of the business rates retention scheme on 1 April 2013, local authorities are required to make a provision for refunding ratepayers who will successfully appeal against the rateable value of their properties on the rating list. This will include amounts relating to business rates prior to 1 April 2013. A list of outstanding appeals on the 2010 valuation list has been provided by the valuation office (VAO) and the services of rating experts have been engaged to determine potential success rates and a range of possible outcomes by analysing historical data. This information has been used to	The collection fund statement shows how the appeals provision impacts on the business rate deficit at 31 March 2020. The council's share of all business rate balances for 2019-20 is 75%. This reduces to 50% in 2020-21 in line with the changes to the retention scheme. The provision has been recognised as a short-term liability as there is insufficient information to enable the estimation of the level of appeals likely to be awaiting settlement at 31 March 2021. If the outcome of appeals is different than the amount estimated, then this will have an impact in a future year on both the

Item	Uncertainties	Effect if actual results differ from assumptions
	estimate the likely rateable value reductions on successful appeals and the level of backdating applicable. For the 2017 valuation list, the services of the rating experts have also been engaged to assess the potential liability that takes account of appeals lodged, settled and also of appeals yet to be submitted. The total amount recognised as a provision in the council's balance sheet (£5.994 million) is therefore the council's share (75%) of the estimate at the balance sheet date of the expenditure required to settle the potential obligation from appeals up to 31 March 2020 on both the 2010 and 2017 valuation lists.	business rates surplus or deficit in the collection fund and the business rates income receivable by the council.
Highways PFI contract	PFI and similar arrangements have been considered to have an implied finance lease within the agreement. In assessing the lease applicable to the Highways PFI scheme, the council has estimated the implied interest rate within the leases to calculate the interest and principal payments. In addition, the future RPI increases within the contract have been estimated as remaining constant throughout the period of the contract. The inflation rate used in the calculation is based on RPIx and is 2.5% for year 7 of the contract (2019-20) and estimated as being 2.5% per year for the remainder of the contract.	The impact of a 0.01% variation in the assumed interest rates used in calculating future service charges and lifecycle replacement costs would result in an increase or reduction of £0.373 million to the total cost of the scheme over the remaining life of the contract.

Land, buildings and investment property material valuation uncertainty

Due to the COVID-19 pandemic and the impact on market activity in many sectors, the valuers have included a material valuation uncertainty clause with the valuations of land, buildings and investment properties at 31 March 2020.

The valuers have stated that they consider that less weight can be attached to previous market evidence for comparison purposes to inform opinions of value and that the current response to COVID-19 means that they are faced with an unprecedented set of circumstances on which to base a judgement. The valuations are therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Valuation – Global Standards effective from 31 January 2020.

Consequently, less certainty and a higher degree of caution should be attached to their valuation than would normally be the case.

5. Material items of income and expense

5.1. Revaluation losses

During 2019-20, the council has recognised a net revaluation loss of £2.406 million in relation to property, plant and equipment. This has been charged to the relevant service line in the comprehensive income and expenditure statement and then reversed through the movement in reserves statement with the result that there is no impact on the council tax. The carrying value of property, plant and equipment in the balance sheet has been reduced by £2.406 million as a result of these revaluation losses.

Further details are shown in note 46.

5.2 Pension assets/liabilities

The actuarial valuation of the Council's pension scheme liabilities shown on the Balance Sheet has decreased from £300.331 million at 31 March 2019 to £247.723 million at 31 March 2020. This is a result of the changes in the financial assumptions related to the change in discount rate used by the pension fund actuary (Hymans-Robertson). These assumptions are determined by the actuary and represent the market conditions at the reporting date. The council relies and places assurance on the professional judgement of the Actuary and the assumptions used to calculate this actuarial valuation.

The individual factors which contribute to this increase are credited or charged to the comprehensive income and expenditure statement and then reversed through the movement in reserves statement with the result that there is no impact on the amount to be raised through local taxation.

The notes to the Pension Reserve in note 28 and note 48 defined benefit pensions schemes give further details of the impact on the council's finances.

6. Events after the reporting period

The statement of accounts was authorised for issue by the Director of Finance and Section 151 officer on 12 November 2020. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2020, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

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

7A. Note to the Expenditure and Funding Analysis

Adjustments between Funding and Accounting Basis 2018-19

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes (Note 7A.1) £000s	Net change for Pension Adjustments (Note 7A.2) £000s	Other Differences (Note 7A.3) £000s	Total Adjustments £000s
Adult Social Care, Public health & Housing Needs	371	1,735	25	2,131
Children's Services	2,137	3,739	(25)	5,851
Community Safety & Public protection	722	(95)	4	631
Environment & Heritage	1,747	510	6	2,263
Infrastructure & Transport	9,278	195	3	9,476
Leader & Strategic Partnerships	3	92	2	97
Planning & Housing Renewal	197	219	3	419
Procurement, Projects & Forward Planning	549	45	1	595
Regeneration & Business Development	136	86	1	223
Resources	1,866	4,802	17	6,685
Net Cost of Services	17,006	11,328	37	28,371
Other income and expenditure from the Expenditure and Funding Analysis	(16,655)	7,164	(253)	(9,744)

Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	351	18,492	(216)	18,627

Adjustments between Funding and Accounting Basis 2019-20

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes (Note 7A.1) £000s	Net change for Pension Adjustments (Note 7A.2) £000s	Other Differences (Note 7A.3) £000s	Total Adjustments £000s
Adult Social Care, Public health & Housing Needs	**362**	**2,491**	**21**	**2,874**
Children's Services	**5,841**	**5,563**	**142**	**11,546**
Community Safety & Public protection	**828**	**(72)**	**4**	**760**
Environment & Heritage	**1,843**	**756**	**7**	**2,606**
Infrastructure & Transport	**9,971**	**311**	**3**	**10,285**
Leader & Strategic Partnerships	**3**	**151**	**1**	**155**
Planning & Housing Renewal	**247**	**303**	**3**	**553**
Procurement, Projects & Forward Planning	**809**	**83**	**0**	**892**
Regeneration & Business Development	**7**	**121**	**1**	**129**
Resources	**1,859**	**846**	**17**	**2,722**
Net Cost of Services	**21,770**	**10,553**	**199**	**32,522**
Other income and expenditure from the Expenditure and Funding Analysis	**(30,618)**	**7,479**	**379**	**(22,760)**
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	**(8,848)**	**18,032**	**578**	**9,762**

Note 7A.1: Adjustments for Capital Purposes

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

- Other operating expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.

- Financing and investment income and expenditure – the statutory charges for capital financing ie minimum revenue provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.

- Taxation and non-specific grant income and expenditure – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The taxation and non-specific grant income and expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

Note 7A.2: Net Change for the Pension Adjustments

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

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

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

Note 7A.3: Other Differences

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

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

7B. Segmental Income

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

Portfolio reporting structure	2018-2019 Income from Services £000s	**2019-20 Income from Services £000s**
Adult Social Care, Public health & Housing Needs	(18,651)	**(20,034)**
Children's Services	(5,407)	**(5,700)**
Community Safety & Public protection	(2,497)	**(2,630)**
Environment & Heritage	(5,354)	**(5,274)**
Infrastructure & Transport	(6,109)	**(6,378)**
Leader & Strategic Partnerships	(7)	**(9)**
Planning & Housing Renewal	(1,941)	**(2,125)**
Procurement, Projects & Forward Planning	(718)	**(572)**
Regeneration & Business Development	(274)	**(279)**
Resources	(4,962)	**(4,460)**
Total income analysed on a segmental basis	(45,920)	**(47,461)**

8. Expenditure and Income analysed by nature

The council's expenditure and income is analysed as below and shows the accounting expenditure and income in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from council tax and other revenue resources.

Expenditure /Income	2018-19 £000s	**2019-20 £000s**
Expenditure		
Employee benefit expenses	129,491	**137,047**
Other services expenses	193,132	**190,127**
Depreciation, amortisation, impairment	16,779	**21,689**
Financing and investment expenditure	39,173	**38,180**
Precepts and levies	4,206	**4,864**
Gain or loss on the disposal of assets	733	**297**
Total expenditure	383,514	**392,204**
Income		
Fees, charges and other service income (see note 7B)	(45,920)	**(47,461)**
Financing and investment income	(14,572)	**(15,001)**
Income from council tax and business rates	(123,980)	**(120,040)**
Government grants and contributions	(183,436)	**(193,414)**
Total income	(367,908)	**(375,916)**
Deficit on the provision of services	15,606	**16,288**

9. Adjustments between accounting basis and funding basis under regulations

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

2019-20 Adjustments	**General fund balance £000**	**Capital receipts reserve £000**	**Capital grants unapplied £000**	**Movement in unusable reserves £000**
Adjustments primarily involving the capital adjustment account:				
Reversal of items debited or credited to the comprehensive income & expenditure statement:				
Charges for depreciation and impairment of non-current assets and current assets held for sale	**(18,836)**	**-**	**-**	**18,836**
Revaluation losses/gains on Property, Plant & Equipment	**(2,406)**	**-**	**-**	**2,406**
Movements in the market value of investment properties	**0**	**-**	**-**	**0**
Amortisation of intangible assets	**(448)**	**-**	**-**	**448**
Capital grants and contributions applied	**10,076**	**-**	**-**	**(10,076)**
Revenue expenditure funded from capital under statute	**(3,405)**	**-**	**-**	**3,405**
Capitalised interest	**17**	**-**	**-**	**(17)**

2019-20 Adjustments	**General fund balance £000**	**Capital receipts reserve £000**	**Capital grants unapplied £000**	**Movement in unusable reserves £000**
Impairment allowance for long-term debtors	**211**	**-**	**-**	**(211)**
Capital financing adjustment	**40**		**-**	**(40)**
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	**(516)**	**(572)**	-	**1,088**
Insertion of items not debited or credited to the comprehensive income & expenditure statement:				
Provision for the financing of capital investment (minimum revenue provision - MRP)	**21,045**	**-**	**-**	**(21,045)**
Capital expenditure charged against the General fund	**1,905**	**-**	**-**	**(1,905)**
Adjustments primarily involving the capital grants unapplied account:				
Capital grants and contributions unapplied credited to the comprehensive income & expenditure statement	**1,165**	**-**	**(1,165)**	-
Application of grants to capital financing transferred to the capital adjustment account	**-**	**-**	**1,094**	**(1,094)**
Adjustments primarily involving the capital receipts reserve				
Capital loans repaid	**-**	**(81)**	**-**	**81**
Use of the capital receipts reserves to finance new capital expenditure	**-**	**3,060**	**-**	**(3,060)**
Use of Capital Receipts Reserve for repayment of debt	**-**	**81**	**-**	**(81)**
Transfer from deferred capital receipts reserve upon receipt of cash	**-**	**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 48)	**(33,344)**	**-**	**-**	**33,344**
Employers' pension contributions and direct payments to pensioners in the year	**15,446**	**-**	**-**	**(15,446)**
Capitalised pension costs	**37**	**-**	**-**	**(37)**
Firefighters' pension scheme – movement on top-up grant repayable (to)/from Government	**(171)**	**-**	**-**	**171**
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	**(608)**	**-**	**-**	**608**
Amount by which non-domestic rate income credited to the comprehensive income & expenditure statement is different from non-domestic rate income calculated for the year in accordance with statutory requirements	**229**	**-**	**-**	**(229)**
Adjustments primarily involving the accumulated absences account:				

2019-20 Adjustments	**General fund balance £000**	**Capital receipts reserve £000**	**Capital grants unapplied £000**	**Movement in unusable reserves £000**
Amount by which officer remuneration charged to the comprehensive income & expenditure statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	**(200)**	**-**	**-**	**200**
Rounding adjustment	**1**	**-**	**(1)**	**-**
Total adjustments	**(9,762)**	**2,488**	**(72)**	**7,346**

2018-19 Adjustments (comparative year)	General fund balance £000	Capital receipts reserve £000	Capital grants unapplied £000	Movement in unusable reserves £000
Adjustments primarily involving the capital adjustment account:				
Reversal of items debited or credited to the comprehensive income & expenditure statement:				
Charges for depreciation and impairment of non-current assets and current assets held for sale	(16,803)	-	-	16,803
Revaluation losses/gains on Property, Plant & Equipment	526	-	-	(526)
Movements in the market value of investment properties	(2,070)	-	-	2,070
Amortisation of intangible assets	(502)	-	-	502
Capital grants and contributions applied	8,606	-	-	(8,606)
Revenue expenditure funded from capital under statute	(2,598)	-	-	2,598
Capitalised interest	17	-	-	(17)
Impairment allowance for long-term debtors	(374)	-	-	374
Capital financing adjustment	(3)	(26)	-	29
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	(733)	(240)	-	973
Insertion of items not debited or credited to the comprehensive income & expenditure statement:				
Provision for the financing of capital investment (minimum revenue provision - MRP)	8,283	-	-	(8,283)
Capital expenditure charged against the General fund	5,109	-	-	(5,109)
Adjustments primarily involving the capital grants unapplied account:				
Capital grants and contributions unapplied credited to the comprehensive income & expenditure statement	191	-	(191)	-
Application of grants to capital financing transferred to the capital adjustment account	-	-	232	(232)
Adjustments primarily involving the capital receipts reserve				
Capital loans repaid	-	(1,081)	-	1,081

2018-19 Adjustments (comparative year)	General fund balance £000	Capital receipts reserve £000	Capital grants unapplied £000	Movement in unusable reserves £000
Use of the capital receipts reserves to finance new capital expenditure	-	13,059	-	(13,059)
Use of Capital Receipts Reserve for repayment of debt	-	1,081	-	(1,081)
Transfer from deferred capital receipts reserve upon receipt of cash	-	(100)	-	100
Adjustments primarily involving the pensions reserve:				
Reversal of items relating to retirement benefits debited or credited to the comprehensive income & expenditure statement (see Note 48)	(32,910)	-	-	32,910
Employers' pension contributions and direct payments to pensioners in the year	14,522	-	-	(14,522)
Capitalised pension costs	37	-	-	(37)
Firefighters' pension scheme – movement on top-up grant repayable (to)/from Government	(141)	-	-	141
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
Amount by which non-domestic rate income credited to the comprehensive income & expenditure statement is different from non-domestic rate income calculated for the year in accordance with statutory requirements	376	-	-	(376)
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	(37)	-	-	37
Rounding adjustment	1	-	(1)	-
Total adjustments	(18,626)	12,693	40	5,893

10. Transfers to/from earmarked reserves

This note sets out the amounts set aside from the general fund balance in earmarked reserves to provide financing for future expenditure plans and the amounts transferred from earmarked reserves to meet general fund expenditure in 2019-20.

General Fund:	Balance at 1 April 2018 £000	Transfer out 2018/19 £000	Transfer in 2018/19 £000	Balance at 1 April 2019 £000	Transfer out 2019/20 £000	Transfer in 2019/20 £000	Balance at 31 March 2020 £000
Revenue carry-forward reserve	**5,243**	(5,243)	6,269	**6,269**	(6,269)	5,878	**5,878**

Balances held by schools under scheme of delegation	**182**	0	267	**449**	(729)	0	**(280)**
Repairs & renewal funds	**500**	0	595	**1,095**	(34)	500	**1,561**
Earmarked reserves – services	**14,253**	(4,156)	4,246	**14,343**	(3,252)	7,476	**18,567**
Insurance & risk funds	**2,206**	0	3,144	**5,350**	(16)	609	**5,943**
Capital resources reserve	**8,289**	(5,899)	7,786	**10,176**	(990)	8,634	**17,820**
Transformation reserve	**4,000**	(856)	0	**3,144**	(763)	2,000	**4,381**
Highways PFI contract cashflow reserve	**27,676**	(5,921)	0	**21,755**	(18,722)	163	**3,196**
Dedicated Schools grant (DSG) reserve	**(703)**	(205)	0	**(908)**	(1,580)	0	**(2,488)**
Section 106 contributions reserve	**2,242**	(44)	163	**2,361**	(1,155)	614	**1,820**
Public Health earmarked reserve	**905**	(356)	0	**549**	(83)	127	**593**
Total	**64,793**	**(22,680)**	**22,470**	**64,583**	**(33,593)**	**26,001**	**56,991**

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

School balances represent cumulative underspendings set aside by delegated budget holders under schemes for financing schools. The law requires that these underspendings are carried forward for future use by the school concerned. The balance at 31 March 2020 shows a deficit position which is the net position of all the delegated budget schools.

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

The council maintains a number of earmarked reserves for specific purposes at levels required to meet known future or potential commitments. The balance at 31 March 2020 includes the first tranche of un-ringfenced Government COVID-19 support funding totalling £5.016 million which was received on 27 March 2020.

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

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

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

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

The Dedicated Schools Grant (DSG) reserve has a deficit balance at 31 March 2020. An analysis of the factors contributing to the deficit is shown in note 39. The earmarking as a separate reserve has resulted from statutory requirements for 2020-21, which require the DSG reserve to be separated from other general reserves that are at the full disposal of the council. A recovery plan is in place to recover this deficit from future DSG allocations.

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

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

11. Other operating expenditure

2018-19 £000		**2019-20 £000**
4,057	Parish & Town Council precepts	**4,712**
149	Levies	**152**
141	Fire-fighters' Pension Scheme – movement in top-up grant repayable to/(from) Government	**171**
733	(Gains)/losses on the disposal of non-current assets and current assets held for sale	**257**
5,080	**Total**	**5,292**

In addition to the precepts shown above, Parish and Town Councils were also paid grants totalling £0.031 million (£0.059 million in 2018-19) in respect of the Localised Council Tax Support scheme.

A levy of £0.111 million (£0.109 million in 2018-19) was paid to the Southern Inshore Fisheries and Conservation Authority and £0.041 million (£0.040 million in 2018-19) was paid as a flood defence levy to the Environment Agency.

12. Financing and investment income & expenditure

2018-19 £000		**2019-20 £000**
16,086	Interest payable and similar charges	**16,565**
7,023	Net interest on the net defined benefit liability	**7,308**
(365)	Interest receivable and similar income	**(745)**
1,369	Income and expenditure in relation to investment properties and changes in their fair value	**(420)**
486	Impairment of financial instruments	**511**
24,599	**Total**	**23,219**

13. Taxation and non-specific grant incomes

2018-19 £000		**2019-20 £000**	
86,622	Council tax income (notes CF2 to CF4 to the collection fund)	**89,973**	
37,358	Business rates income (note CF5a to the collection fund)	**30,067**	
123,980	Total income from local taxation		**120,040**
33,218	Non-ringfenced government grants	**38,369**	
6,424	Capital grants & contributions	**7,916**	
39,642	Total grant income (see note 40)		**46,285**
163,622	**Total**		**166,325**

The 2019-20 business rates income figure includes a net contribution of £1.172 million from the Solent business rates pool (a contribution to the pool of £1.561 million in 2018-19). This has been calculated in line with the agreed proportional share of business rate growth between the pool members. The pool agreement ceased to operate on 31 March 2020.

14. Property, plant & equipment

Movements on balances in 2019-20	**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 2019	**3,674**	**257,726**	**46,189**	**204,504**	**536**	**2,690**	**62,869**	**578,188**	**176,484**
Additions	**0**	**4,785**	**5,503**	**17,533**	**0**	**0**	**8,054**	**35,875**	**17,579**
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	**0**	**2,521**	**0**	**0**	**0**	**302**	**0**	**2,823**	**89**
Revaluation increases/ (decreases) recognised in the Surplus/deficit on the Provision of Services	**0**	**(2,406)**	**0**	**0**	**0**	**0**	**0**	**(2,406)**	**80**
Derecognition	**0**	**(300)**	**(2,437)**	**(1,250)**	**0**	**0**	**0**	**(3,987)**	**(1,692)**
Assets reclassified (to)/from held for sale	**0**	**0**	**(67)**	**0**	**0**	**0**	**0**	**(67)**	**0**
Other movements	**0**	**0**	**40**	**0**	**0**	**0**	**0**	**40**	**0**
Reclassification	**0**	**134**	**6,055**	**84**	**0**	**174**	**(6,689)**	**(242)**	**56**
At 31 March 2020	**3,674**	**262,460**	**55,283**	**220,871**	**536**	**3,166**	**64,234**	**610,224**	**192,596**
Accumulated depreciation & impairment 2019-20	**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 2019	**0**	**(2,282)**	**(29,669)**	**(63,201)**	**(494)**	**(7)**	**0**	**(95,653)**	**(54,752)**
Depreciation charge	**0**	**(5,141)**	**(3,499)**	**(10,520)**	**0**	**(7)**	**0**	**(19,167)**	**(9,705)**

Depreciation written out to the revaluation reserve	**0**	**3,754**	**0**	**0**	**0**	**2**	**0**	**3,756**	**0**
Depreciation written out to the Surplus/deficit on the provision of services	**0**	**332**	**0**	**0**	**0**	**0**	**0**	**332**	**35**
Derecognition	**0**	**71**	**2,391**	**1,216**	**0**	**0**	**0**	**3,678**	**1,692**
Assets reclassified (to)/from held for sale	**0**	**0**	**67**	**0**	**0**	**0**	**0**	**67**	**0**
Reclassification	**0**	**(51)**	**70**	**0**	**0**	**(3)**	**0**	**16**	**0**
At 31 March 2020	**0**	**(3,317)**	**(30,640)**	**(72,505)**	**(494)**	**(15)**	**0**	**(106,971)**	**(62,730)**

Net book value at 31 March 2020	**3,674**	**259,143**	**24,643**	**148,366**	**42**	**3,151**	**64,234**	**503,253**	**129,866**
Net book value at 31 March 2019	3,674	255,444	16,520	141,303	42	2,683	62,869	482,535	121,732

Movements on balances in 2018-19 (comparative year)	**Shared ownership £000**	**Other land & buildings £000**	**Vehicles, plant, furniture & equipment £000**	**Infrastructure assets £000**	**Community assets £000**	**Surplus assets £000**	**Assets under construction £000**	**Total property, plant & equipment £000**	**PFI assets included in property, plant & equipment £000**
Cost or valuation									
At 1 April 2018	3,518	218,750	43,932	187,624	536	2,690	49,935	506,985	159,491
Additions	0	7,447	2,939	16,922	0	0	14,020	41,328	17,011
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	231	30,736	0	0	0	0	0	30,967	0
Revaluation increases/ (decreases) recognised in the Surplus/deficit on the Provision of Services	0	526	0	0	0	0	0	526	0

Derecognition	(75)	(694)	(657)	(96)	0	0	0	(1,522)	(72)
Assets reclassified (to)/from held for sale	0	0	(58)	0	0	0	0	(58)	0
Other movements	0	(1)	0	0	0	0	(29)	(30)	0
Reclassification	0	962	33	54	0	0	(1,057)	(8)	54
At 31 March 2019	3,674	257,726	46,189	204,504	536	2,690	62,869	578,188	176,484

Accumulated depreciation & impairment in 2018-19 (comparative year)	**Shared ownership £000**	**other land & buildings £000**	**Vehicles, plant, furniture & equipment £000**	**Infrastructure assets £000**	**Community assets £000**	**Surplus assets £000**	**Assets under construction £000**	**Total property, plant & equipment £000**	**PFI assets included in property, plant & equipment £000**
Cost or valuation									
At 1 April 2018	0	(3,390)	(27,279)	(53,419)	(494)	0	0	(84,582)	(45,924)
Depreciation charge	0	(4,311)	(3,160)	(9,800)	0	(7)	0	(17,278)	(8,900)
Depreciation written out to the revaluation reserve	0	5,009	0	0	0	0	0	5,009	0
Depreciation written out to the Surplus/deficit on the provision of services	0	398	78	0	0	0	0	476	0
Derecognition	0	12	634	18	0	0	0	664	72
Assets reclassified (to)/from held for sale	0	0	58	0	0	0	0	58	0
At 31 March 2019	0	(2,282)	(29,669)	(63,201)	(494)	(7)	0	(95,653)	(54,752)

Net book value at 31 March 2019	3,674	255,444	16,520	141,303	42	2,683	62,869	482,535	121,732
Net book value at 31 March 2018	3,518	215,360	16,653	134,205	42	2,690	49,935	422,403	113,567

Depreciation

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

- Other land and buildings – straight-line allocation over the life of the property as estimated by the valuer (between 5 and 999 years. Based on depreciated value, 80.65% of properties fall within the 50 to 65 years range).

- Vehicles, plant, furniture and equipment - straight-line allocation over the life of each class of assets in the balance sheet, as advised by a suitably qualified officer (between 3 and 60 years)
- Infrastructure - straight-line allocation over estimated life of the asset (between 5 and 120 years).

Capital commitments

At 31 March 2020, the council's principal commitments relate to:

- Waste contract £18.332 million (over remaining life of 25 year contract)
- St Mary's roundabout highways scheme £4.503 million
- Wroxall Primary School priority school building programme £2.230 million
- Greenmount Primary School priority school building programme £2.208 million
- Binstead Primary School priority school building programme £1.767 million
- Brading Primary School priority school building programme £1.596 million

Similar commitments at 31 March 2019 were £24.079 million.

Effects of changes in estimates

There have been no material changes to the council's accounting estimates for property, plant and equipment during 2019-20.

Revaluations

The council carries out a rolling programme that ensures that all property, plant and equipment required to be measured at current value is revalued at least every five years. The effective date of these valuations is 31 March as valuations are based on inspection of assets in the last quarter of the financial year. An assessment is undertaken between the inspection date and balance sheet date to ensure that there have been no material changes.

The valuation of properties located were undertaken by John E Prince FRICS, IRRV (Hons) of Principal Chartered Surveyors. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

The significant assumptions applied in estimating the values are:

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

Fair value for investment properties, surplus properties and assets held for sale have been measured using significant observable inputs, being level 2 on the fair value hierarchy.

Material Valuation Uncertainty

Due to the COVID-19 pandemic and the impact on market activity in many sectors, the valuer has included a material valuation uncertainty clause with the valuations at 31 March 2020.

The valuer has stated that they consider that less weight can be attached to previous market evidence for comparison purposes to inform opinions of value and that the current response to COVID-19 means that they are faced with an unprecedented set of circumstances on which to base a judgement. The valuations are therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Valuation – Global Standards effective from 31 January 2020.

Consequently, less certainty and a higher degree of caution should be attached to their valuation than would normally be the case.

Valuation profile	Shared ownership £000	other land & buildings £000	Vehicles, plant, furniture & equipment £000	Infrastructure assets £000	Community assets £000	Surplus assets £000	Assets under construction £000	Total property, plant & equipment £000
Carried at historical cost	0	0	24,643	148,366	42	0	64,234	**237,285**
Valued at current as at:								
31 March 2020	0	120,012	0	0	0	475	0	**120,487**
31 March 2019	3,674	107,859	0	0	0	0	0	**111,533**
31 March 2018	0	6,857	0	0	0	365	0	**7,222**
31 March 2017	0	7,024	0	0	0	1,610	0	**8,634**
31 March 2016	0	17,391	0	0	0	701	0	**18,092**
Total	**3,674**	**259,143**	**24,643**	**148,366**	**42**	**3,151**	**64,234**	**503,253**

15. Heritage assets

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

Cost or valuation	Local government collection £000s	Art collection £000s	Archaeology treasure £000s	Total assets £000s
31 March 2018	**136**	**1,763**	**51**	**1,950**
1 April 2018	136	1,763	51	**1,950**
Revaluations	0	(659)	0	**(659)**
31 March 2019	**136**	**1,104**	**51**	**1,291**
1 April 2019	136	1,104	51	**1,291**
Revaluations	0	0	5	**5**
31 March 2020	**136**	**1,104**	**56**	**1,296**

Analysed between cost/valuation and acquired/donated for each year:-

Cost or valuation	Local government collection £000s	Art collection £000s	Archaeology treasure £000s	Total assets £000s
Cost	136	262	49	447
Valuation	0	842	2	844
31 March 2019	136	1,104	51	1,291

Acquired	0	848	49	897
Donated	136	256	2	394
31 March 2019	136	1,104	51	1,291

Cost or valuation	Local government collection £000s	Art collection £000s	Archaeology treasure £000s	Total assets £000s
Cost	136	262	49	447
Valuation	0	842	7	849
31 March 2020	**136**	**1,104**	**56**	**1,296**

Acquired	0	848	54	902
Donated	136	256	2	394
31 March 2020	**136**	**1,104**	**56**	**1,296**

16. Investment properties

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

2018-19 £000		**2019-20 £000**
(1,037)	Rental income from investment properties	**(1,647)**
335	Direct operating expenses arising from investment property	**1,008**
(702)	**Net gain**	**(639)**

There are no restrictions on the council's ability to realise the value inherent in its investment property or on the council's right to the remittance of income and the proceeds of disposal. The council has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement. The following table summarises the movement in the fair value of investment properties over the year:

	31 March 2019 £000	**31 March 2020 £000**
Balance at 1 April	600	**33,695**
Purchases	35,165	**0**
Disposals	0	**(600)**
Net loss from fair value adjustments	(2,070)	**0**
Balance at 31 March	33,695	**33,095**

Fair value hierarchy

Details of the council's investment properties and information about the fair value hierarchy as at 31 March 2020 and the comparative year are as follows:

Recurring fair value measurement using:	Quoted prices in active markets for identical assets (level 1) £000s	Other significant observable inputs (level 2) £000s	Significant unobservable inputs (level 3) £000s	Fair value as at 31 March 2020 £000s
Commercial properties	**0**	**33,095**	**0**	**33,095**
Investment land	**0**	**0**	**0**	**0**
Total at 31 March 2020	**0**	**33,095**	**0**	**33,095**

Recurring fair value measurement using: (Previous year comparative figures)	Quoted prices in active markets for identical assets (level 1) £000s	Other significant observable inputs (level 2) £000s	Significant unobservable inputs (level 3) £000s	Fair value as at 31 March 2019 £000s
Commercial properties	0	33,095	0	33,095
Investment land	0	600	0	600
Total at 31 March 2019	0	33,695	0	33,695

Transfers between levels of the fair value hierarchy

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

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

Significant observable inputs - Level 2

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

Highest and best use of investment properties

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

Changes in valuation techniques

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

Valuation process for investment properties

The fair value of the council's investment properties is measured annually at each reporting date. Off-island commercial property valuations were undertaken by Robert Baldwin MRICS of Avison Young. The valuation of investment land located on the Isle of Wight were undertaken by John E Prince FRICS, IRRV (Hons) of Principal Chartered Surveyors.

Material Valuation Uncertainty

Due to the COVID-19 pandemic and the impact on market activity in many sectors, Avison Young have included a material valuation uncertainty clause with their commercial property valuations at 31 March 2020.

Avison Young have stated that they consider that less weight can be attached to previous market evidence for comparison purposes to inform opinions of value and that the current response to COVID-19 means that they are faced with an unprecedented set of circumstances on which to base a judgement. The valuations are therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Valuation – Global Standards effective from 31 January 2020.

Consequently, less certainty and a higher degree of caution should be attached to their valuation than would normally be the case.

17. Intangible assets

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

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the council. The useful life assigned to the major software suite internally generated and used by the council relating to the Isle of Wight Council website is five years.

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £0.448 million was charged to the comprehensive income and expenditure statement in 2019-20. Of this figure, £0.346 million was charged to the ICT service within the Resources service line.

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

	2018-19			**2019-20**		
	Internally generated assets £000s	Other assets £000s	Total £000s	**Internally generated assets £000s**	**Other assets £000s**	**Total £000s**
Balance at 1 April						
Gross carrying amounts	1,973	4,463	6,436	**1,995**	**4,473**	**6,468**
Accumulated amortisation	(1,378)	(3,989)	(5,367)	**(1,659)**	**(4,193)**	**(5,852)**
Net carrying amount at 1 April	595	474	1,069	**336**	**280**	**616**
Additions:						
Internal development	22	0	22	**86**	**0**	**86**
Purchases	0	19	19	**0**	**102**	**102**
Assets reclassified from property, plant & equipment	0	8	8	**74**	**152**	**226**
Amortisation for the period	(281)	(221)	(502)	**(251)**	**(197)**	**(448)**
Disposals gross value	0	(17)	(17)	**0**	**0**	**0**
Disposals amortisation	0	17	17	**0**	**0**	**0**
Net carrying amount at 31 March	336	280	616	**245**	**337**	**582**
Comprising:						
Gross carrying amounts	1,995	4,473	6,468	**2,155**	**4,727**	**6,882**
Accumulated amortisation	(1,659)	(4,193)	(5,852)	**(1,910)**	**(4,390)**	**(6,300)**
Balance at 31 March	336	280	616	**245**	**337**	**582**

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

At 31 March 2020 there are no contractual commitments for the acquisition of intangible assets.

18. Financial instruments

Classifications

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

Financial liabilities

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

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

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

Financial assets

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

Loans and receivables (financial assets that have fixed or determinable payments and are not quoted in an active market) comprising:

- cash in hand
- bank current and deposit accounts
- fixed term deposits with banks and building societies
- loans to other local authorities
- loans made to the Isle of Wight Council Pension Fund for cash flow purposes
- loans made for service purposes
- lease receivables
- trade receivables for goods and services delivered

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

	Non-current		**Current**	
	31 March 2019	**31 March 2020**	31 March 2019	**31 March 2020**
	£000	**£000**	£000	**£000**
Financial assets				
Short-term Investments	-	**-**	39,245	**37,102**
Cash equivalents	-	**-**	24,212	**30,005**
Total investments	0	**0**	63,457	**67,107**
Debtors				
Long-term debtors	3,064	**3,039**	-	**-**
Short-term debtors and cash	-	**-**	19,328	**20,991**
Total debtors	3,064	**3,039**	19,328	**20,991**
Financial liabilities				
Borrowings	(150,355)	**(192,665)**	(113,345)	**(88,263)**
Total borrowings	(150,355)	**(192,665)**	(113,345)	**(88,263)**
Other long-term liabilities & creditors				
PFI and finance lease liabilities	(87,101)	**(100,920)**	(20,387)	**(1,014)**
Other financial liabilities	(197)	**(163)**	(12,837)	**(12,499)**
Total other long-term liabilities & creditors	(87,298)	**(101,083)**	(33,224)	**(13,513)**

Income, expense, gains and losses

	2018-19 £000	**2019-20 £000**
Interest expense from financial liabilities measures at amortised cost	(16,086)	**(16,565)**
Total expense in surplus or deficit on the provision of services	(16,086)	**(16,565)**
Interest income from financial assets: loans and receivables	365	**745**
Total expense in surplus or deficit on the provision of services	365	**745**
Net loss for the year	(15,721)	**(15,820)**

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 2020 of 2.10% to 2.72% 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 2019		**31 March 2020**	
	Carrying amount	Fair value	**Carrying amount**	**Fair value**
	£000	£000	**£000**	**£000**
Financial liabilities	296,924	322,292	**294,441**	**318,374**
Long-term creditors	87,298	206,224	**101,083**	**159,054**

- the carrying value of the council's portfolio of PWLB loans is £205.453 million. The fair value has been calculated as £227.198 million and this measures the economic effect of the terms agreed with the PWLB compared with the terms that would be offered for market transactions undertaken at the balance sheet date. The difference between the carrying value and the fair value measures the additional interest that the council will pay over the remaining terms of the loans under the agreements with the PWLB, against what would be paid if the loans were at prevailing market rates. However, the council has a continuing ability to borrow at concessionary rates from the PWLB rather than from the markets. If the council were to seek to avoid the projected loss by repaying the loans to the PWLB, the PWLB would raise a penalty charge for early redemption and charge a premium for the additional interest that would not be paid. The fair value of PWLB loans has been calculated by discounting the contractual cash flows at the market rate for local authority loans of the same remaining term. This represents level 2 on the valuation hierarchy being inputs other than quoted prices that are observable for the liability e.g. interest rates or yields for similar instruments.

- a Lender Option Borrower Option (LOBO) loan amounting to £5.000 million with a carrying value (including accrued interest) of £5.076 million. The lender has the option to request a change in the interest rate which could lead the council to make an early repayment. The lender has not exercised their option to change the interest rate. The fair value of the LOBO loan has been calculated at £7.155 million by discounting the contractual cash flows at the market rate for local authority loans of the same remaining term and adding the value of the lender's option from a market option pricing model. This represents level 2 on the valuation hierarchy being inputs other than quoted prices that are observable for the liability e.g. interest rates or yields for similar instruments.

- The fair value of long-term creditors is more than the carrying amount due to fair value being calculated on discounted contractual cash flows at the AA bond yield of the same remaining term. This represents level 2 on the valuation hierarchy being inputs other than quoted prices that are observable for the liability e.g. interest rates or yields for similar instruments.

Assets	31 March 2019		**31 March 2020**	
	Carrying amount	Fair value	**Carrying amount**	**Fair value**
	£000	£000	**£000**	**£000**
Short-term investments, debtors, cash and cash equivalents	84,169	84,173	**88,098**	**88,123**
Long-term debtors	3,064	3,064	**3,039**	**3,039**

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

Other long-term liabilities
The liability relating to the defined benefit pension schemes (Local Government Pension Scheme and the Fire-fighters' Pension Fund) is £249.544 million (£300.265 million in 2018-19). These figures include the balance due from central government in respect of the 2019-20 Fire-fighters' Pension Fund top-up grant.

19. Nature and extent of risks arising from financial instruments

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

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

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

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

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

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

Credit risk

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

The credit criteria in respect of financial assets held by the council are as detailed below:
- rating of A2 or better
- stable credit rating outlook

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

The council's maximum exposure to credit risk in relation to its investments with banks of £30.005 million cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of non-recovery applies to all council's deposits, but there was no evidence as at the 31 March 2020 that this was likely to crystalise.

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

The impairment loss allowance on short-term debtors is calculated on a sliding scale of percentages applied to the outstanding amounts based on age profile, historical levels and nature of the debts. Following the COVID-19 pandemic these percentages have been revised to reflect the greater risk of debtor default and the impairment loss allowance have consequently increased. The amount of debtors written-off in 2019-20 (excluding local taxations debtors) was £0.130 million (£0.148 million in 2018-19). The amount of local taxation debtors written-off in both years is shown in the Collection Fund Statement. The impairment on long-term debtors is based on a credit scoring matrix taking financial statements, market conditions and other relevant factors into account. Details of the amounts outstanding at 31 March, the impairment allowances and resulting balances after the impairment allowances are shown in note 21.

The other short-term debtors figure in note 21 includes £1.692 million of deferred payments at 31 March 2020 (£1.558 million at 31 March 2019) made in respect of care fees for clients in residential or nursing homes. No impairment allowance has been applied as legislation allows the council to place a legal charge or to register an interest on the client's property and so consequently the debt is covered by the value of the property.

The council's exposure to credit risk is managed in accordance with its annual treasury management strategy which for 2019-20 was approved by the council in February 2019. Amongst other controls, the strategy sets out the arrangements for managing credit risk (i.e. the risks of borrowers defaulting). The main controls used are:
- Using credit ratings to assess the credit standing of borrowers
- Defining a list of borrowers to which the council considers it secure to lend (the lending list)
- Defining limits to its exposure to any one institution or group of institutions
- Defining time limits as to how long the council will lend to particular institutions
- Considering advice from external treasury management advisors

In ordinary circumstances, these controls once set are sufficient to manage any credit risk. However due to the impact of the current COVID-19 pandemic on the global economic situation, it has been necessary to monitor these controls more closely, including the following:

Credit ratings and outlook for each borrower are continuously monitored and reviewed on a daily basis:
- The lending list is reviewed as a result of credit ratings analysis and other intelligence information, including external treasury management advisor's information

- Borrowers' limits are changed in accordance with those reviews (in 2019-20 lending limits were revised throughout the year, depending on interest rates, security and external treasury management advisors' recommendations)
- During the year, the council placed most of its surplus funds in instant access/call accounts with banks, to take advantage of higher interest rates.
- The strategy for treasury management activity is reviewed by the section 151 officer and other senior finance officers on a monthly basis. Appropriate actions have been taken as a result of those reviews

The council's treasury management strategy approved on 18 February 2019 is located on the council's website:- www.iwight.com

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

The authority does not generally allow credit for customers, such that £4.090 million is due for payment at 31 March 2020 (£3.199 million at 31 March 2019) from invoices raised through the council's accounts receivable system. This amount due can be analysed by age as follows:

	31 March 2019	**31 March 2020**
	£000	**£000**
Less than two months	1,559	**1,795**
Two to four months	179	**320**
Four months to one year	562	**820**
More than one year	899	**1,155**
Total	3,199	**4,090**

Liquidity risk

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

The council has a lender option/borrower option (LOBO) loan for a total of £5.000 million. Under the arrangement for this LOBO loan, the lenders have the option to increase the interest rate each year. If the lenders were to increase the interest rate, the authority has the right to repay the loan without penalty. In this case, it is possible that the council would have to pay higher interest if it chose to replace the loan. The lender has not exercised their option to change the interest rate.

With the exception of £70.000 million in temporary loans with other local authorities and money held on behalf of various trust, amenity and safekeeping funds, the remainder of the council's borrowing consists of fixed rate PWLB debt. The PWLB allows debt to be rescheduled prior to maturity, although this may necessitate paying a premium to PWLB. The maturity analysis of financial liabilities for external borrowing is as follows:

	31 March 2019	**31 March 2020**
	£000	**£000**
Less than one year	113,345	**88,263**
Between one and two years	8,533	**11,838**
Between two and five years	26,800	**34,413**
Between five and ten years	50,355	**61,376**

Between ten and fifteen years	29,667	**44,971**
Between fifteen and twenty years	17,667	**21,667**
Between twenty and twenty five years	9,667	**12,067**
More than twenty five years	7,666	**6,333**
Total external borrowing	263,700	**280,928**
Of which, Public Works Loan Board (PWLB)	157,888	**204,302**

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

Amount (£000)	Interest rate (%)	Final maturity date
5,000	4.27	25/11/2041

The council has long-term liabilities arising from the highways PFI scheme and the acquisition of vehicles under finance leases.

The most significant long-term liability relates to the highways PFI scheme (£101.138 million) at 31 March 2020 (£107.221 million at 31 March 2019). As the additional costs of this scheme, over and above the council's existing budgetary provision for highways management, is met through government funding (PFI credits), there is no significant risk that the authority will be unable to raise finance to meet its commitments to the PFI contractor.

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

	31 March 2019	**31 March 2020**
	£000	**£000**
Less than one year	20,387	**1,014**
Between one and two years	755	**3,661**
Between two and five years	11,205	**15,243**
Between five and ten years	24,850	**29,678**
More than ten years	50,326	**52,371**
Total	107,523	**101,967**

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 2020, 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 £0.669 million. The impact of a 1% fall in interest rates would be as above, but with the movements being reversed. However, as investment interest rates remained low for the duration of 2019-20, the impact would have been limited to the actual amount of investment income received (£0.529 million). The majority of external borrowing is at fixed rates through the PWLB or LOBO loans, but the impact of a 1% increase in temporary borrowing rates would have been an increase in interest payable of £0.775 million. The impact of a 1% fall in interest rates would be as above, but with the movements being reversed. The actual amount of temporary loan interest paid in 2019-20 is £0.818 million. Therefore, an increase or decrease in general interest rates would have had a minimal impact on the surplus or deficit on the provision of services in the comprehensive income and expenditure statement. However, such a change would increase or decrease the fair value of fixed rate borrowing liabilities.

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

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

20. Inventories

Inventories comprise consumable stores with a value of £0.014 million (£0.016 million at 31 March 2019) and stocks held for resale with a value of £0.072 million (£0.074 million at 31 March 2019).

21. Debtors

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

	31 March 2019 £000	**31 March 2020 £000**
Trade receivables	7,318	**11,295**
Less: impairment allowance	(842)	**(1,533)**
Trade receivables (net of impairment allowance)	6,476	**9,762**
Local taxpayers	8,135	**9,281**
Less: impairment allowance	(3,005)	**(4,363)**
Local taxpayers (net of impairment allowance)	5,130	**4,918**
Housing benefit overpayments	2,856	**2,470**
Less: impairment allowance	(2,295)	**(2,326)**
Housing benefit overpayments (net of impairment allowance)	561	**144**
Prepayments and accrued income	8,593	**11,680**

Other debtors	1,857	**2,097**
Total short-term debtors (net of impairment allowance)	22,617	**28,601**

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

	31 March 2019 £000	**31 March 2020 £000**
Financial instruments	9,003	**12,496**
Non-financial instruments	13,614	**16,105**
Total debtors (net of impairment allowance)	22,617	**28,601**

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

	31 March 2019 £000	**31 March 2020 £000**
Capital loans to renewable energy businesses	2,773	**2,790**
Less: impairment allowance	(374)	**(163)**
Capital loans net of impairment allowance	2,399	**2,627**
Other loans	291	**249**
Total long-term debtors (net of impairment allowance)	2,690	**2,876**

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

22. Debtors for local taxation

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

	Council tax		**Business rates**	
	£000s		**£000s**	
	31 March 2019	**31 March 2020**	31 March 2019	**31 March 2020**
Less than one year	3,337	**3,736**	1,029	**903**
Between one and two years	1,420	**1,960**	153	**343**
Between two and five years	1,892	**2,270**	109	**170**
More than five years	970	**1,218**	37	**30**
Total due	7,619	**9,184**	1,328	**1,446**
Less: share attributed to Police & Crime Commissioner for Hampshire	(812)	**(988)**	-	**-**
Less: share attributed to Central Government	-	**-**	0	**(361)**
Council's share before impairment allowance	6,807	**8,196**	1,328	**1,085**
Council's share of impairment allowance	(2,525)	**(3,702)**	(480)	**(661)**
Net debtor balance after impairment allowance	4,282	**4,494**	848	**424**

The impairment allowance is calculated on a sliding scale of percentages applied to the outstanding amounts based on an age profile of the debts. The reasons for the reduction in the business rates net debtor balance include the council having a 75% share of balances in 2019-20 compared to 100% in 2018-19. Further information relating to this is shown in the Collection Fund statements.

23. Cash and cash equivalents

	31 March 2019 £000	**31 March 2020 £000**
Cash held by the council	4,728	**4,636**
Short-term deposits with banks	24,212	**30,005**
Bank current accounts	2,460	**(268)**
Total	31,400	**34,373**

24. Assets held for sale

Assets are reclassified from property, plant and equipment as assets held for sale where a sale is highly probable, the asset is being actively marketed, the sale is likely to be completed within one year from classification and the decision to sell is unlikely to be withdrawn.

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

All of the assets held for sale meet the criteria for classification as current assets in both 2018-19 and 2019-20.

	Current	
	2018-19 £000	**2019-20 £000**
Balance at 1 April	**888**	**773**
Assets sold	**(115)**	**(178)**
Balance at 31 March	**773**	**595**

25. Creditors

	31 March 2019 £000	**31 March 2020 £000**
Trade creditors	8,821	**8,868**
Central government – Business rates	134	**1,912**
Local taxpayers	2,988	**2,591**
Other tax and social security payable	950	**1,221**
Highways PFI finance lease liability (short-term)	20,253	**780**
Receipts in advance	4,498	**10,499**
Other creditors	4,167	**3,861**
Total	41,811	**29,732**

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

	31 March 2019 £000	**31 March 2020 £000**
Financial instruments	12,837	**12,231**
Non-financial instruments	28,974	**17,501**
Total	41,811	**29,732**

26. Provisions

	Outstanding Insurance Claims £000	**Business Rates appeals £000**	**Total £000**
Balance at 1 April 2019	1,926	6,838	**8,764**
Additional provision made in 2019-20	2	1,656	**1,658**
Amounts used in 2019-20	(114)	(2,500)	**(2,614)**
Balance at 31 March 2020	**1,814**	**5,994**	**7,808**

Analysis of provisions between short and long term:

	2018-19 £000	**2019-20 £000**
Short-term provisions	7,597	**6,639**
Long-term provisions	1,167	**1,169**
Balance at 31 March	8,764	**7,808**

Outstanding insurance claims
The Insurance Provision at 31 March 2020 is based on an estimate of potential liabilities arising from outstanding claims. Of the total at 31 March 2020, £0.645 million relates to public and employers' liability following an assessment of the council's claims register to establish the likely exposure. The provision also includes an estimate of the liability arising from the scheme of arrangement established by Municipal Mutual Insurance (MMI) (who were the council's insurers until 1992) in respect of the potential total or partial 'clawback' of claims paid since January 1994. In November 2012 the directors of MMI triggered the company's scheme of arrangement following a Supreme Court judgement relating to mesothelioma claims. Of the total insurance provision of £1.814 million, £1.169 million relates to the potential MMI clawback. This potential clawback has been categorised as a long-term liability.

Business rates appeals
This provision relates to the council's share of an estimate of the potential value of refunds which will be due to ratepayers following a successful appeal against a rateable value on both the 2010 and 2017 valuation lists. It includes amounts which may be backdated to 1 April 2010. Under the business rate retention scheme applicable to 2019-20, the council has retained 75% of business rates income and the same proportion applies to balance sheet values at 31 March 2020. The share of the appeals provision has reduced from 100% in 2018-19.

Analysis of provisions between short and long term
It is expected that the costs relating to short-term liabilities will be incurred in 2020-21.

27. Usable reserves

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

	31 March 2019 £000	**31 March 2020 £000**
General fund balance	11,163	**12,229**
Capital receipts reserve	4,761	**2,273**
Capital grants unapplied	12,119	**12,191**
Earmarked reserves (see note 10)	65,491	**59,479**
Dedicated Schools Grant (DSG) reserve deficit (see note 10)	(908)	**(2,488)**
Total usable reserves	92,626	**83,684**

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

28. Unusable reserves

	31 March 2019 £000	**31 March 2020 £000**
Revaluation reserve	132,450	**136,236**
Capital adjustment account	(14,660)	**(597)**
Pensions reserve	(300,331)	**(247,723)**
Collection fund adjustment account	(1)	**(380)**
Accumulated absences account	(2,762)	**(2,962)**
Total unusable reserves	(185,304)	**(115,426)**

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.

2018-19 £000		**Revaluation reserve**	**2019-20 £000**	
	99,462	Balance at 1 April		**132,450**
37,133		Upward revaluation of assets	**7,952**	
(1,816)		Downward revaluation of assets and impairment losses not charged to the surplus/ deficit on the provision of services	**(1,368)**	
	35,317	Surplus or deficit on revaluation of non-current assets not posted to the surplus or deficit on the provision of services		**6,584**

(1,842)		Difference between current depreciation and historical cost depreciation	**(2,584)**	
(487)		Accumulated gains on assets sold or scrapped	**(214)**	
	(2,329)	Amount written off to the capital adjustment account		**(2,798)**
	132,450	**Balance at 31 March**		**136,236**

Capital adjustment account

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

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

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

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

2018-19 £000		**Capital adjustment account**	**2019-20 £000**	
	(29,471)	Balance at 1 April		**(14,660)**
		Reversal of items relating to capital expenditure debited or credited to the comprehensive income and expenditure statement:		
(16,803)		• Charges for depreciation and impairment of assets	**(18,836)**	
526		• Revaluation (losses)/reversals on property, plant & equipment	**(2,406)**	
(502)		• Amortisation of intangible assets	**(448)**	
(2,598)		• Revenue expenditure funded from capital under statute	**(3,405)**	
17		• Capitalised interest	**17**	
(374)		• Impairment allowance for long-term debts	**211**	
(973)		• Amounts of assets written-off on disposal or sale as part of the gain/loss on disposal to the comprehensive income and expenditure statement	**(1,088)**	
(1,081)		• Capital loans repaid	**(81)**	
	(21,788)			**(26,036)**
	2,329	Adjusting amounts written out of the revaluation reserve		**2,798**
	(48,930)	Net written out amount of the cost of non-current assets consumed in the year		**(37,898)**
		Capital financing applied in the year:		

13,059		• Use of capital receipts reserve to finance new capital expenditure	**3,060**	
1,081		• Use of capital receipts reserve for repayment of debt	**81**	
8,606		• Capital grants and contributions credited to the comprehensive income and expenditure statement that have been applied to capital financing	**10,076**	
232		• Application of grants to capital financing from the capital grants unapplied account	**1,094**	
8,283		• Statutory provision for the financing of capital investment charged against the general fund	**21,045**	
5,109		• Capital expenditure charged against the general fund	**1,905**	
	36,370			**37,261**
	(2,070)	Movement in the market value of investment properties debited or credited to the comprehensive income & expenditure statement		**0**
	(30)	Other movements		**40**
	(14,660)	**Balance at 31 March**		**(597)**

Pension reserve

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

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

2018-19	**Pension reserve**	**2019-20**
£000		**£000**
253,560	Balance at 1 April	**300,331**
28,279	Actuarial (gains) and losses on pensions assets and liabilities	**(70,640)**
32,910	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	**33,344**
(14,522)	Employer's pensions contributions and direct payments to pensioners payable in the year	**(15,446)**
141	Fire-fighters' Pension Scheme – movement on top-up grant repayable from Government	**171**
(37)	Capitalised pension - movement	**(37)**
300,331	**Balance at 31 March**	**247,723**

Collection fund adjustment account

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

2018-19	**Collection fund adjustment account**	**2019-20**
£000		**£000**
254	Balance at 1 April	**1**
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 (note CF4 to the collection fund)	**608**
(376)	Amount by which non-domestic rate income credited to the comprehensive income and expenditure statement is different from non-domestic rate income calculated for the year in accordance with statutory requirements (note CF5b to the collection fund)	**(229)**
1	**Balance at 31 March**	**380**

Accumulated absences account

The accumulated absences account absorbs the difference that would otherwise arise on the general fund balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the general fund is neutralised by transfers to or from the account. The balance at 31 March 2020 is £2.962 million (£2.762 million at 31 March 2019).

29. Cash flow statement – operating activities (interest)

The cash flows for operating activities include the following items:

2018-19		**2019-20**
£000's		**£000's**
14,571	Interest received	**15,001**
(39,170)	Interest paid	**(38,220)**

30. Cash flow statement – operating activities

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

2018-19		**2019-20**	
£000		**£000**	**£000**
16,803	Depreciation	**18,836**	
(526)	Impairment and downward valuations (reversed)	**2,406**	
502	Amortisation	**448**	
374	Increase/decrease in impairment allowance for long-term debtors	**(211)**	
1,365	Increase/decrease in creditors	**4,837**	
86	Increase/decrease in debtors	**(6,100)**	
(5)	Increase/decrease in inventories	**4**	
18,388	Movement in pension liability	**17,898**	

973	Carrying amount for non-current assets and non-current assets held for sale, sold or derecognised	**1,088**	
5,818	Other non-cash items charged to the net surplus or deficit on the provision of services	**(956)**	
43,778	**Adjustments to net deficit on the provision of services for non-cash movements**		**38,250**
(65,070)	Adjustment for items in the net surplus or deficit on the provision of services that are investing or financing activities:-	**0**	
(240)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	**(573)**	
(8,798)	Any other items for which the cash effects are investing or financing cash flows	**(11,241)**	
(74,108)	**Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities**		**(11,814)**

31. Cash flow statement – investing activities

2018-19		**2019-20**
£000		**£000**
(60,778)	Purchase of property, plant & equipment, investment property and intangible assets	**(17,332)**
(39,200)	Purchase of short-term and long-term investments	**(37,000)**
0	Other payments for investing activities	**(40)**
340	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	**573**
72,300	Proceeds from short-term and long-term investments	**39,200**
9,572	Other receipts from investing activities	**11,852**
(17,766)	**Net cash flows from investing activities**	**(2,747)**

32. Cash flow statement – financing activities

2018-19		**2019-20**
£000's		**£000's**
139,000	Cash receipts of short and long-term borrowing	**123,948**
157	Other receipts for financing activities	**27**
(11,640)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	**(23,721)**
(46,264)	Repayments of short and long-term borrowing	**(106,555)**
(2,579)	Billing authority - council tax and business rate adjustments	**1,873**
78,674	**Net cash flows from financing activities**	**(4,428)**

33. Trading operations

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

Operation	Description		£000
Industrial units	The council let industrial units in a variety of locations.	Turnover	194
		Expenditure	82
		Agreed contribution to/(from) general fund:	
		2019-20	**112**
		2018-19	98
Cowes ferry	Cowes Floating Bridge shows the costs of providing the ferry link between East and West Cowes. Income is generated by charges for vehicles & foot passengers. Commissioning and install problems have meant that outage hours for 2019-20 were slightly higher than 2018-19. Maintaining the service during ebb tides has resulted in an additional £0.138 million cost in year, for push boat services. Other additional costs amounting to £0.205 million include legal fees relating to ongoing compensation claim, a repair to the prow and launch replacement hire.	Turnover	775
		Expenditure	1,631
		Agreed contribution to/(from) general fund:	
		2019-20	**(856)**
		2018-19	(619)
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.	Parking income:	
		Ticket machine income	3,462
		Permit income	655
		Penalty charge notice income	669
		Other sources of income	71
		Turnover	4,857
		Expenditure	1,281
		2019-20 Parking account surplus	**3,576**
		2018-19 surplus	3,623
Bereavement services	Burial service and maintenance of twelve cemeteries and eleven closed churchyards, together with provision for a Crematorium service including maintenance of site and buildings. Income derived from cremation fees, charges and sales and cemetery burial fees and charges.	Turnover	1,559
		Expenditure	1,114
		Agreed contribution to/(from) general fund:	
		2019-20	**445**
		2018-19	327
Harbours and coastal	This includes Ryde Harbour, Ventnor Haven, and Whitegates Pontoon. Further details of income, expenditure, assets and liabilities relating to Ventnor Haven are shown within a separate statement of accounts which the council is required to prepare as the statutory harbour authority.	Turnover	76
		Expenditure	218
		Agreed contribution to/(from) general fund:	
		2019-20	**(142)**
		2018-19	(117)
Leisure facilities	The running of Leisure facilities at Medina Leisure Centre, The Heights, Westridge Leisure Centre, and Fairway Sports Centre. These are subsidised facilities, as is the case with many similar local authorities.	Turnover	3,290
		Expenditure	4,615
		Agreed contribution to/(from) general fund:	

Operation	Description		£000
		2019-20	**(1,325)**
		2018-19	(1,123)
Newport Harbour (including Folly Moorings)	This includes the Newport Harbour Estate and Folly Moorings. Further details of income, expenditure, assets and liabilities are shown within a separate annual report and accounts which the council is required to prepare as the statutory harbour authority for Newport Harbour.	Turnover	229
		Expenditure	347
		Agreed contribution to/(from) general fund:	
		2019-20	**(118)**
		2018-19	(87)

34. Agency services

The council, as billing authority, acts as an agent for the government in collecting business rates. The council received an allowance from the government for the cost of collection of £0.265 million in 2019-20 (£0.264 million in 2018-19). There was no other significant agency work carried out during 2019-20.

35. Members' allowances

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

	2018-19 £000	**2019-20 £000**
Basic allowance & special responsibility allowances	445	**456**
Employers' national insurance & pension contributions paid on behalf of members	19	**19**
Travelling & subsistence allowance and reimbursements	29	**29**
Co-opted members	1	**1**
Total	494	**505**

36. Officers' remuneration

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

Post	Year	Salary	Returning officer fees (elections)	Remuneration excluding pension contributions	Employers' contribution to pension fund	Remuneration including pension contribution
		£	£	£	£	£
Chief Executive	2019-20 2018-19	132,358 129,763	250 0	132,608 129,763	31,104 30,494	163,712 160,257
Assistant Chief Executive & Chief Strategy Officer (i)	2019-20 2018-19	97,552 90,583	0 0	97,552 90,583	22,925 21,287	120,477 111,870
Director of Corporate Services (ii)	2019-20 2018-19	99,374 92,283	6,303 664	105,677 92,947	23,353 21,687	129,030 114,634

Director of Neighbourhoods (iii)	2019-20 2018-19	102,498 21,336	0 0	102,498 21,336	24,087 5,014	126,585 26,350
Director of Adult Social Services	2019-20 2018-19	119,215 108,708	0 0	119,215 108,708	28,015 25,546	147,230 134,254
Director of Regeneration	2019-20 2018-19	108,931 104,883	0 0	108,931 104,883	25,599 24,647	134,530 129,530

Notes to officers' remuneration

Note (i)	The Assistant Chief Executive and Strategy Officer commenced in this post on 1 August 2018. The figures for 2018-19 include the remuneration in the postholder's previous role as the Head of Place. The 2018-19 annualised pay for the Assistant Chief Executive and Strategy Officer was £93,854.
Note (ii)	The Director of Corporate Services commenced in this post on 1 August 2018. The figures for 2018-19 include the remuneration in the postholder's previous role as the Head of Resources. The 2018-19 annualised pay for the Director of Corporate Services post was £95,639.
Note (iii)	The Director of Neighbourhoods commenced on 14 January 2019. The annualised pay was £99,212.

Other notes relating to senior employees:

Note (iv)	The post of Director of Children's Services is filled under a strategic partnership with Hampshire County Council. The remuneration details are disclosed in full by Hampshire County Council. The amount recharged to the Isle of Wight Council relating to this post in 2019-20 is £46,648 (£49,194 in 2018-19).
Note (v)	The post of Director of Finance and Section 151 officer is filled under a strategic partnership with Portsmouth City Council. The remuneration details are disclosed in full by Portsmouth City Council. The amount recharged to the Isle of Wight Council relating to this post for 2019-20 is £61,713 (£55,608 in 2018-19).
Note (vi)	The post of Chief Fire Officer is filled under a strategic partnership with Hampshire Fire and Rescue Service. The remuneration details are disclosed by the Hampshire Fire and Rescue Service. The amount recharged to the Isle of Wight Council for 2019-20 is £29,550 (£29,550 in 2018-19).
Note (vii)	The post of Director of Public Health is filled under a strategic partnership with Hampshire County Council. The remuneration details are disclosed by the Hampshire County Council. The amount recharged to the Isle of Wight Council for 2019-20 is £46,000 (£40,144 in 2018-19).
Note (viii)	The post of Monitoring Officer is filled on a contract for services agreement which is inclusive of all employment related costs including employers' national insurance, pension contributions, sickness and agency fees. The amount payable in 2019-20 is £72,761 and the daily rate is £960. The contract period commenced on 1 October 2019 following the departure of the Assistant Director of Corporate Services, whose role incorporated that of Monitoring Officer.

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	2018-19				**2019-20**			
	School based employees				**School based employees**			
	Voluntary Aided & Foundation schools	Other schools	All other council employees	Total number of employees	**Voluntary Aided & Foundation schools**	**Other schools**	**All other council employees**	**Total number of employees**
£50,000 to £54,999	7	11	14	32	**6**	**10**	**11**	**27**
£55,000 to £59,999	9	9	11	29	**9**	**7**	**11**	**27**
£60,000 to £64,999	2	9	10	21	**1**	**7**	**9**	**17**
£65,000 to £69,999	2	0	3	5	**4**	**8**	**8**	**20**
£70,000 to £74,999	1	2	2	5	**0**	**3**	**3**	**6**

£75,000 to £79,999	1	3	4	8	**2**	**4**	**1**	**7**
£80,000 to £84,999	0	0	0	0	**0**	**0**	**4**	**4**
£85,000 to £89,999	0	0	0	0	**0**	**0**	**0**	**0**
£90,000 to £94,999	0	0	0	0	**0**	**1**	**1**	**2**
£95,000 to £99,999	0	1	0	1	**0**	**0**	**0**	**0**
£100,000 to £104,999	0	1	0	1	**0**	**1**	**0**	**1**
£105,000 to £109,999	1	0	0	1	**0**	**0**	**0**	**0**
£110,000 to £114,999	0	0	0	0	**0**	**0**	**0**	**0**
£115,000 to £119,999	0	0	0	0	**1**	**0**	**0**	**1**
£120,000 to £124,999	0	0	0	0	**0**	**0**	**0**	**0**
£125,000 to £129,999	0	0	0	0	**0**	**0**	**0**	**0**
£130,000 to £134,999	0	0	0	0	**0**	**0**	**1**	**1**
Totals	23	36	44	103	**23**	**41**	**49**	**113**

37. Termination benefits

The council terminated the contracts of a number of employees in 2019-20, incurring liabilities of £0.660 million. (£0.334 million in 2018-19).

The total costs in the table below represents exit packages that have been agreed, accrued for and charged to the council's comprehensive income and expenditure statement in the respective years. The cost of exit packages includes redundancy pay, the accrued costs of added years (pension strain) and other departure costs. The numbers and costs include schools based teaching staff.

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

Exit package cost band (including special payments)	**Number of compulsory redundancies**		**Number of other departures agreed**		**Total number of exit packages by cost band**		**Total cost of exit packages in each band**	
	2018-19	**2019-20**	2018-19	**2019-20**	2018-19	**2019-20**	2018-19 £	**2019-20 £**
£0 to £20,000	21	**42**	7	**20**	28	**62**	133,075	**329,168**
£20,001 to £40,000	2	**2**	2	**1**	4	**3**	160,402	**101,041**
£40,001 to £60,000	0	**2**	1	**0**	1	**2**	40,745	**81,948**
£100,001 to £150,000	0	**0**	0	**1**	0	**1**	0	**147,407**
Total	23	**46**	10	**22**	33	**68**	334,222	**659,564**

The total of termination payments made during 2019-20 has been charged to the Comprehensive Income and Expenditure Statement. The total cost of exit packages includes £0.029 million relating to one member of staff who has taken flexible retirement, but who remains an employee of the council. The total number of exit packages does not include this member of staff.

38. 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.

	2018-19 £000	**2019-20 £000**
Fees payable with regard to external audit services carried out by the appointed auditor for the year (Ernst & Young LLP)	99	**99**
Fees payable to the appointed auditor for certification of housing benefit subsidy grant claim and return for the year (KPMG)	8	**8**
Total of fees payable to the appointed auditors	107	**107**

39. Dedicated schools grant

The council's expenditure on schools is funded by grant monies provided by the Education and Skills Funding Agency, the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance and Early Years (England) Regulations 2018. The Schools budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable are as follows:

Deployment of dedicated schools grant 2019-20	**Central expenditure £000**	**Individual schools budget £000**	**Total £000**
Final DSG for 2019-20 before Academy recoupment			**93,522**
Academy figure recouped for 2019-20			**(19,158)**
Total DSG after Academy recoupment for 2019-20			**74,364**
Brought forward from 2018-19			**(908)**
Carry-forward to 2020-21 agreed in advance			**(908)**
Agreed initial budget distribution in 2019-20	**12,922**	**61,458**	**74,380**
In-year adjustments	**(200)**	**(192)**	**(392)**
Final budget distribution for 2019-20	**12,722**	**61,266**	**73,988**
Less: Actual central expenditure	**14,433**		**14,433**
Less: Actual ISB deployed to schools		**61,135**	**61,135**
Plus: Local authority contribution for 2019-20	**0**	**0**	**0**
Carry forward to 2020-21	**(1,711)**	**131**	**(2,488)**

The final DSG for 2019-20 before the academy recoupment figure includes a provision for the early years block. This figure is derived from the 2018 to 2019 data. The final allocation for the 2019-20 early years block will be made in June 2020 using the January 2020 census figures and any adjustments to be treated as an 'in year adjustment' for 2020/21.

Deployment of dedicated schools grant 2018-19 (comparative year)	Central expenditure £000	Individual schools budget £000	Total £000
Final DSG for 2018-19 before Academy recoupment			90,202
Academy figure recouped for 2018-19			(18,682)
Total DSG after Academy recoupment for 2018-19			71,520
Brought forward from 2017-18			(704)
Carry-forward to 2019-20 agreed in advance			(704)
Agreed initial budget distribution in 2018-19	12,174	56,527	68,701
In-year adjustments	467	2,458	2,925
Final budget distribution for 2018-19	12,641	58,985	71,626
Less: Actual central expenditure	12,668		12,668
Less: Actual ISB deployed to schools		59,162	59,162
Plus: Local authority contribution for 2018-19	0	0	0
Carry forward to 2019-20	(27)	(177)	(908)

The carry forward deficit balances at each year end are identified in the earmarked reserves disclosure (note 10).

40. 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	2018-19 £000	**2019-20 £000**
Revenue grants:		
Business rates top-up grant	(2,334)	**(7,737)**
New homes bonus	(1,715)	**(1,529)**
Small business rate relief scheme s31 grant	(5,613)	**(4,702)**
Other business rate relief schemes s31 grant	(1,181)	**(1,794)**
Extended rights to free travel	(190)	**(199)**
Housing Benefit administration	(499)	**(443)**
Council tax support administration	(194)	**(182)**
Local Reform/Community Voices	(108)	**(100)**
Troubled families (core grant)	(150)	**(113)**
Highways PFI grant	(19,428)	**(19,428)**
Social care in prisons grant	(255)	**(255)**
Independent Living Fund grant	(154)	**(149)**
Special Educational Needs reforms grant	(78)	**0**
Staying Put grant	(112)	**(114)**
Adult Social Care grant	(479)	**(1,309)**

School Improvement Monitoring/Brokering	(155)	**(164)**
Local lead authorities flood grant	(10)	**(11)**
Supported Intern grant	(38)	**0**
Virtual School grant	(30)	**(30)**
Levy account surplus grant	(495)	**(110)**
Capital grants:		
Department for Education grants	(4,836)	**(6,053)**
Department for Transport grants	(922)	**(1,458)**
Other capital grants & contributions	(666)	**(405)**
Total	(39,642)	**(46,285)**

Credited to services	2018-19 £000	**2019-20 £000**
Dedicated schools grant	(71,625)	**(73,988)**
Sixth form funding grant	(3,754)	**(3,393)**
Rent allowance & rent rebates subsidy	(43,306)	**(36,185)**
Public health grant	(7,511)	**(7,313)**
Pupil premium grant	(4,219)	**(4,081)**
COVID-19 support grant	0	**(5,016)**
Improved Better Care Fund grant	(4,364)	**(5,232)**
Other revenue grants	(6,705)	**(8,708)**
Revenue expenditure funded by capital under statute (REFCUS):		
Disabled facilities grant	(1,764)	**(1,880)**
Department for Education REFCUS grants	(372)	**(1,238)**
Other REFCUS grants	(174)	**(95)**
Total	(143,794)	**(147,129)**

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

Capital grants & contributions receipts in advance	2018-19 £000	**2019-20 £000**
Department for Education grants	(2,496)	**(3,116)**
Other grants	(2,503)	**(2,448)**
Contributions	(399)	**(398)**
Total	(5,398)	**(5,962)**

Revenue grants & contributions receipts in advance	2018-19 £000	**2019-20 £000**
Grants	(351)	**(5,448)**
Section 106 contributions	(1,725)	**(2,152)**
Total	(2,076)	**(7,600)**

41. 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 a significant element of its funding in the form of grants and prescribes the terms of many of the transactions that the council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are detailed in note 40.

Members and their family
Members of the council have direct control over the council's financial and operating policies. The total of members' allowances paid in 2019-20 is shown in note 35. During 2019-20, payments to the value of £28.5 million were made to organisations where members had declared an interest including £19 million to educational facilities, £4.2 million to parish and town councils (including precepts) and £3.7 million to the NHS with whom the council transacts as part of its day to day business. The remaining £1.5 million included payments of:

- £0.645 million to Visit Isle of Wight (VIOW) relating to the BID levy collected by the council but payable to VIOW.

- £0.300 million to Community Action Isle of Wight which relates to core grant funding as well as delivery of community based projects.

- £0.246 million to Acorn Care for care services as part of the council's social care responsibilities.

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

Officers
During 2019-20 the Director of Children's Services was provided by Hampshire County Council as part of the strategic partnership arrangement that was approved in July 2013.

The Director of Finance and section 151 officer is provided by Portsmouth City Council under a partnership arrangement approved in April 2016. This officer is also a council appointed Director of Access 4/20 Management Ltd and holds various Directorships as part of his role at Portsmouth City Council.

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

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

Further details of these arrangements are shown in note 36.

The Chief Executive is a council appointed Director for Perpetuus Tidal Energy Centre and Access 4/20 Management Ltd. He is also a Governor/Trustee at St Catherine's Schools.

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

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

The Assistant Director of Regeneration is also a director of IWight Homes Ltd.

Other Public Bodies (subject to common control by central government)

The council has a pooled budget arrangement under section 75 of the National Health Service Act 2006 with the Isle of Wight Clinical Commissioning Group (CCG) for the Better Care Fund (BCF) and funded nursing care. The council is the host for the pooled budget and although the intention is to support better integration, the current arrangement does not provide for the sharing of any financial risk. There is no joint decision making body and the decisions do not need to be taken with the unanimous consent of the partners. Consequently, this arrangement has not been accounted for as a joint operation under IFRS11 and the receipt of income by the council from the CCG and the subsequent reimbursement of cash by the council to the CCG has been netted out of the 2019-20 financial statements.

During 2019-20 the council entered into a service level agreement with the Isle of Wight NHS Trust to provide waste management services to the Trust, as a precursor to the development and implementation of a Joint (Council / Trust) Waste Management Service. Although the value of the current arrangement is not material, the intention to form a multi-agency service could result in the need for a more detailed declaration in the future.

The council is also currently working with Hampshire Fire and Rescue Service to establish a Hampshire and Isle of Wight Combined Fire Authority with a go live date of April 2021. This may be the subject of a more detailed declaration in the future.

The council also has a strategic partnership agreement in place with Hampshire County Council for the provision of children's services. The council remains accountable for the provision of these services and the associated budgets. Payments of £2.090 million were made to Hampshire County Council in 2019-20 under this strategic partnership agreement.

The Isle of Wight Council administers the Isle of Wight Council Pension fund which includes admitted bodies as detailed in the Isle of Wight Council Pension Fund accounts. The council charged the fund £0.538 million for expenses incurred in administering the fund.

Entities controlled or significantly influenced by the council

Grants to other bodies of £3 million were made by the council during 2019-20. However, none of these grants were for material amounts and the allocation of such funding does not constitute effective influence over the financial and operating policies of those organisations.

The council holds a 2% shareholding in Cowes Yacht Haven which is the trading subsidiary of the Cowes Town Waterfront Trust Ltd. This does not give the council significant control or influence over the financial or operating decisions of the charity.

The council also holds shares in Perpetuus Tidal Energy Centre Ltd under a legal shareholding agreement which does give the council a significant level of control over strategic decisions and thus the council is deemed to be a party to a joint venture entity. A council officer has been appointed as a board member in line with the shareholder agreement. This is the subject of a more detailed disclosure in the group accounts note 42.

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

The council has entered into a limited liability partnership with Public Sector PLC Facilitating Ltd to maximise opportunities from the council's land and property portfolio. During 2019-20 no disposals or developments were completed, although planning and consents have commenced. This is subject to a more detailed disclosure in the group accounts note 42.

The council holds a £1 share in Pan Management CIC which is a limited liability community interest company. The council has one director's position on the board. The council has made a loan to the company during 2019-20. However, the council had no significant control or influence over the financial or operating decisions of the company during the 2019-20 financial year.

The council also holds shares in Access 4/20 Management Ltd and Sandy Lane (Oxford) Management Ltd, both companies limited by guarantee to manage the estate and service charges related to two commercial investment properties that the council purchased in 2019-20. This is the subject of a more detailed disclosure in the group accounts note 42.

During 2019-20 the council established a wholly owned subsidiary – IWight Homes Ltd with 2 directors appointed from the council's senior management team. The council will have complete control over the strategic and operational decisions of the subsidiary and this is the subject of a more detail disclosure in the group accounts note 42.

42. Group accounts

The council has invested in a joint venture company known as Perpetuus Tidal Energy Centre Ltd, with partners Perpetuus Energy Ltd and TB Partners LLP. This is to undertake the design and construction of a 20 megawatt grid connect and managed tidal energy facility for the test and demonstration for deployment of single devices and arrays of tidal stream technologies. This includes on-shore facilities and infrastructure for the testing and proving of solutions for the generation of electricity. The council invested £1 million over 2 years under a loan agreement repayable after 9 years and holds 15% of the ordinary shares in the company with rights to dividends. The shareholder legal agreement states that no major decisions shall be undertaken without the prior written consent of the Council and Perpetuus and as such the council is deemed to have control over the decisions of the company. Under accounting regulations this is categorised as a joint venture for which the council would need to prepare group accounts. This has not been necessary on materiality grounds in 2019-20 whilst the company is in phase 1 of the delivery, but once phase 2 commences the council will consider the materiality of any transactions and, if appropriate, consolidate them into the council's statement of accounts.

The council has also formed a limited liability partnership (LLP) with Public Sector PLC Facilitating (PSPF) to maximise opportunities from the council's land and property portfolio on the island, and generate capital receipts or revenue income. The council holds 50% shares in the partnership and has a right to 50% of the profits. Under accounting regulations this is categorised as a joint venture for which the council would need to prepare group accounts. Whilst there has been some spend in 2019/20, this is not be material to the councils' accounts as whole. Furthermore, the disposal of sites is not yet finalised and therefore the apportionment of costs has yet to be agreed.

As part of the council's ownership of two commercial properties, the council also now holds shares in Access 4/20 Management Ltd and Sandy Lane (Oxford) Management Ltd, both companies limited by guarantee set up to management the common estates and service charges for those properties. Access 4/20 Management Ltd is 100% owned by the council and therefore under accounting regulations, it is categorised as a subsidiary. The council holds 1 of 4 shares in Sandy Lane (Oxford) Management Ltd and this is therefore categorised as a joint venture. In both cases, the council would need to prepare group accounts, however this has not been necessary on materiality grounds in 2019-20, but will be considered each year and if appropriate they will be consolidated in the council's statement of accounts.

In December 2019 the council registered a limited liability company called IWIGHT Homes Ltd as a wholly owned subsidiary of the council with 2 directors both appointed from the council's senior management team. No transactions have been undertaken in the 2019-20 financial year, but it is anticipated that this will commence in 2020-21. As a wholly owned subsidiary, consolidation into the council's accounts would be required if transactions are considered to be material.

There are no other entities where the council's interest is such that it would give rise to the requirement to prepare group accounts. This position is reviewed and updated on an annual basis.

43. Capital expenditure and capital financing

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

	2018-19 £000	**2019-20 £000**
Balance carried forward	360,712	**403,475**
Capital investment:		
Property, plant and equipment	24,389	**17,710**
Investment properties	35,165	**0**
Intangible assets	42	**188**
Revenue expenditure funded from capital under statute	2,598	**3,405**
Highways PFI assets brought onto balance sheet	16,939	**17,470**
Finance lease assets brought onto balance sheet	0	**695**
Sources of finance:		
Capital receipts	(14,140)	**(3,141)**
Government grants and other contributions	(8,838)	**(11,170)**
Sums set-aside from revenue:		
Revenue contributions to capital	(5,109)	**(1,905)**
Statutory charge to revenue	(8,283)	**(21,045)**
Closing capital financing requirement	403,475	**405,682**
Explanation of movements in year		
Increase/(reduction) in underlying need to borrow (unsupported by government financial assistance)	25,824	**(15,958)**
Assets acquired under PFI contracts	16,939	**17,470**
Assets acquired under finance leases	0	**695**
Increase/decrease in capital financing requirement	42,763	**2,207**

44. Leases

Council as lessee

The council has acquired vehicles, plant, furniture and equipment assets under finance leases. The rentals payable under these arrangements in 2019-20 were £0.195 million (£0.164 million in 2018-19), charged to the comprehensive income and expenditure account as £0.028 million finance costs (charged to interest payable) and £0.167 million relating to the write-down of obligations to the lessor (charged as part of the appropriation to the capital adjustment account in the movement in reserves statement). Finance lease rentals extending beyond the primary lease period are treated as contingent rent, as the future use of the asset at the inception of the lease agreement is unknown. There was no such expense charged in either 2019-20 or 2018-19.

Carrying amount of assets	31 March 2019 £000	**31 March 2020 £000**
Balance at 1 April	340	**208**
Additions	0	**695**
Depreciation	(132)	**(158)**
Balance at 31 March	208	**745**

Liability	**Minimum lease payments**		**Present value of minimum lease payments**	
	31 March 2019 £000	**31 March 2020 £000**	31 March 2019 £000	**31 March 2020 £000**
Not later than one year	160	**287**	132	**232**
Later than one year and not later than five years	147	**561**	133	**462**
Later than 5 years	-	**106**	-	**99**
	307	**954**	265	**793**
Less: future finance charges	(42)	**(161)**	-	**-**
Total	265	**793**	265	**793**

Included in:	31 March 2019 £000	**31 March 2020 £000**
Current borrowings	132	**232**
non-current borrowings	133	**561**
Total	265	**793**

The fair value for the present value of minimum lease payments has been measured using significant observable inputs, being level 2 on the fair value hierarchy. The fair value at 31 March 2020 is £0.890 million based on discount contractual cash flows at the AA bond yield of the same remaining term.

Operating leases

The council has the right to use vehicles, plant, furniture and equipment assets financed under the terms of operating leases. The rentals payable under these arrangements in 2019-20 were £1.247 million (£1.421 million in 2018-19), charged to the comprehensive income and expenditure statement. In addition to vehicles, plant, furniture and equipment, these leases also include properties for homelessness accommodation which are leased for durations of between three and five years from private landlords. The council receives income towards the costs of these operating leases from housing benefits and other contributions. Such contributions credited to the comprehensive income and expenditure statement in 2019-20 amounted to £0.761 million (£0.858 million in 2018-19).

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

Leases expiring	31 March 2019 £000	**31 March 2020 £000**
Not later than one year	831	**461**
Later than one year and not later than five years	1,157	**645**
Later than five years	26	**46**
Total	2,014	**1,152**

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

	2018-19 £000	**2019-20 £000**
Minimum lease payments	1,415	**1,251**
Contingent rents	6	**(4)**
Total	1,421	**1,247**
Sub-lease income receivable	(858)	**(761)**
Total	563	**486**

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 2019-20 was £2.726 million (£1.924 million in 2018-19), credited to the comprehensive income and expenditure statement. Lease agreements on a weekly, monthly and annual basis are excluded from minimum lease payments.

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

- For rental income received and capital appreciation from commercial property
- For the provision of community services, such as sports facilities, tourism services and community centres
- For economic development purposes to provide suitable affordable accommodation for local businesses
- For housing purposes through a shared ownership scheme.

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

	Minimum lease payments	
	31 March 2019 £000	**31 March 2020 £000**
Not later than one year	2,373	**2,340**
Later than one year and not later than five years	7,697	**7,442**
Later than five years	22,510	**21,433**
Total	32,580	**31,215**

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 2019-20 £0.097 million in contingent rents were received by the council (2018-19 £0.047 million).

45. Private finance initiatives and similar contracts

Highways PFI

The Highways PFI contract commenced on 1 April 2013 and is a 25 year project. This project involves the comprehensive upgrade of the Island's road, footway and cycleway network, together with associated assets, over a 7 year Core Investment Period and then maintaining them over the remaining life of the contract. The PFI is financed through a government grant and the council also makes an annual contribution. The contract is with Island Roads Services Ltd, comprised of VINCI Concessions and Meridiam Investments, and the sub-contract is with Ringway Island Roads Ltd.

Within the highways PFI contract, the council has acquired non-current assets under a finance lease agreement. The rentals payable under these arrangements in 2019-20 were £33.379 million (£20.846 million in 2018-19) charged to the comprehensive income and expenditure statement as £9.825 million finance costs (charged to interest payable) and £23.554 million relating to the write-down of obligations to the lessor which has been charged as part of the appropriation to the capital adjustment account in the movement in reserve statement. The fair value of services is calculated as £12.623 million (£12.762 million in 2018-19) and is charged to the Infrastructure and Transport service line in the comprehensive income and expenditure statement. Government grant of £19.428 million (£19.428 million in 2018-19) has been credited to taxation and non-specific grant income in the comprehensive income and expenditure statement.

The operator has the right to use highway assets defined as the project network. These include roads, footways, bridges and street lighting. The net book value of these assets at 31 March 2020 is £129.866 million and these are classified as service concession assets. The operator will handback the project network in the condition defined by the council at expiry of contract.

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

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

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

	2018-19 £000	**2019-20 £000**
Value at 1 April	113,567	**121,732**
Additions	17,011	**17,579**
Reclassifications	54	**56**
Revaluation gains	0	**204**
Depreciation	(8,900)	**(9,705)**
Total assets at 31 March	121,732	**129,866**

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

	2018-19 £000	**2019-20 £000**
Value at 1 April	101,798	**107,221**
Finance additions	16,939	**17,471**
Finance charge	9,330	**9,825**
Finance lease rental	(20,846)	**(33,379)**
Finance lease outstanding at 31 March	107,221	**101,138**

The finance lease outstanding of £101.139 million has been apportioned into short and long-term liabilities on the basis of the age profile of the repayment of liability shown below.

Outstanding obligations to make payments under the Highways PFI scheme at 31 March 2020, separated into repayments of liability, interest, service charges, lifecycle replacement costs and contingent rental using the current rate of RPI assumed in the contract are as follows:-

	Repayment of liability £000	Interest £000	Service charges £000	Lifecycle replacement costs £000	Contingent rental £000	Total £000
Not later than 1 year	780	9,052	10,561	6,002	(162)	**26,233**
Payable within 2 to 5 years	18,433	33,188	46,129	7,494	4,083	**109,327**
Payable within 6 to 10 years	29,569	30,653	63,520	17,110	6,508	**147,360**
Payable within 11 to 15 years	26,739	17,913	69,880	47,080	(875)	**160,737**
Payable within 16 to 20 years	25,617	4,112	41,680	30,184	1,979	**103,572**
Total	**101,138**	**94,918**	**231,770**	**107,870**	**11,533**	**547,229**

The fair value for the repayment of liability has been measured using significant observable inputs, being level 2 on the fair value hierarchy. The fair value at 31 March 2020 is £158.330 million based on discount contractual cash flows at the AA bond yield of the same remaining term.

46. Revaluation losses

During 2019-20, the council has recognised revaluation losses of £2.406 million in relation to property, plant and equipment. The most significant losses relate to building assets at Newport Barton School (£1.377 million).

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

47. 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 2019-20, the council paid £5.724 million to teachers' pensions in respect of teachers' retirement benefits. The employers' contribution rate was 16.48% of pensionable pay from 1 April to 31 August 2019 and then 23.68% from 1 September 2019 to 31 March 2020 (2018-19 £4.315 million and 16.48%). There were no contributions remaining payable at year-end.

The council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These benefits are accounted for on a defined benefit basis and detailed in note 48.

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

In 2019-20, the council paid £0.030 million (2018-19 £0.033 million) to NHS pensions in respect of retirement benefits, representing 14.38% of pensionable pay.

48. Defined benefit pension schemes

Participation in pension schemes

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

The authority participates in two post-employment schemes:

- The Local Government Pension Scheme is administered by the council and is a funded defined benefit scheme, meaning that the council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.
- the Fire-fighters' Pension Scheme is administered by the council and is an unfunded defined benefit final salary scheme, meaning that there are no investment assets built up to meet the pensions liabilities, and cash has to be generated to meet actual pension payments as they eventually fall due. The authority and employees pay contributions into a fund from which pension payments are made. Under the Fire-fighters' Pension Scheme (Amendment)(England) Order 2006, the fund is topped up by Government grant if the contributions are insufficient to meet the cost of pension payment, while any surplus in the fund is repayable to Central Government. Regular firefighters employed before April 2006 were eligible for membership of the '1992 scheme' and employees starting between April 2006 and March 2015 were eligible to the '2006 scheme'. These schemes are now closed. Whole-time fire-fighters' starting since April 2015 are eligible for the new 'CARE' scheme and retained firefighters are eligible to the 'modified scheme'. These four schemes have been combined for the purpose of the disclosures shown on the following pages.

Transactions relating to post-employment benefits

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

	Local Government Pension Scheme £000		Fire-fighters' Pension Scheme £000		Total £000	
	2018-19	**2019-20**	2018-19	**2019-20**	2018-19	**2019-20**
Comprehensive Income & Expenditure Statement						
Cost of services:						
Current service cost	(19,993)	**(24,958)**	(1,400)	**(1,200)**	(21,393)	**(26,158)**
Past service costs (including curtailments)	(1,694)	**(278)**	(3,200)	**0**	(4,894)	**(278)**

Fire Service injury pensions	-	**-**	400	**400**	400	**400**
Gain/loss from settlements	0	**0**	0	**0**	0	**0**
Financing and investment income and expenditure						
Interest cost on defined benefit liability	(17,893)	**(17,817)**	(2,300)	**(2,100)**	(20,193)	**(19,917)**
Interest income on plan assets	13,170	**12,609**	-	**-**	13,170	**12,609**
Movement on top-up grant repayable (to)/from Government	-	**-**	(141)	**(171)**	(141)	**(171)**
Total post-employment benefit charged to the surplus or deficit on the provision of services	(26,410)	**(30,444)**	(6,641)	**(3,071)**	(33,051)	**(33,515)**
Other post-employment benefit charged to the comprehensive income and expenditure statement						
Re-measurement of the net defined benefit liability comprising:						
Return on plan assets (excluding the amount included in the net interest expense)	26,307	**(48,243)**	-	**-**	26,307	**(48,243)**
Actuarial gains and losses arising on changes in demographic assumptions	0	**25,009**	6,100	**2,800**	6,100	**27,809**
Actuarial gains and losses arising on changes in financial assumptions	(52,973)	**55,973**	(5,600)	**7,400**	(58,573)	**63,373**
Other experience gains and losses	(313)	**28,501**	(1,800)	**(800)**	(2,113)	**27,701**
Total post-employment benefit charged to the comprehensive income and expenditure statement	(53,389)	**30,796**	(7,941)	**6,329**	(61,330)	**37,125**
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	13,288	**16,298**	5,100	**1,600**	18,388	**17,898**
Movement on top-up grant repayable to/(from) Government	-	**-**	141	**171**	141	**171**
Actual amount charged against the general fund balance for pensions in the year:						
Employers' contributions payable to the scheme (including unfunded benefits)	13,122	**14,146**	-	**-**	13,122	**14,146**
Retirement benefits payable to pensioners (net of member contributions)	-	**-**	1,400	**1,300**	1,400	**1,300**

Pension Assets and Liabilities Recognised in the Balance Sheet

The amount included in the balance sheet arising from the council's obligation in respect of its defined benefit plan is as follows:

	Local Government Pension Scheme £000		Fire-fighters' Pension Scheme £000		Total £000	
	2018-19	**2019-20**	2018-19	**2019-20**	2018-19	**2019-20**
Present value of the defined benefit obligation	(737,058)	**(653,025)**	(89,500)	**(81,700)**	(826,558)	**(734,725)**
Fair value of plan assets	525,993	**486,902**	0	**0**	525,993	**486,902**
Net liability arising from defined benefit obligation	(211,065)	**(166,123)**	(89,500)	**(81,700)**	(300,565)	**(247,823)**

Reconciliation of fair value of the scheme assets:-

	Local Government Pension Scheme		Fire-fighters' Pension Scheme		Total	
	£000		£000		£000	
	2018-19	**2019-20**	2018-19	**2019-20**	2018-19	**2019-20**
Opening fair value of scheme assets	489,686	**525,993**	0	**0**	489,686	**525,993**
Effect of settlements	0	**0**	0	**0**	0	**0**
Interest income	13,170	**12,609**	-	**-**	13,170	**12,609**
Re-measurement gains/loss:						
Return on plan assets excluding the amount included in the net interest expense	26,307	**(48,243)**	-	**-**	26,307	**(48,243)**
Contributions by employer	11,699	**12,724**	1,400	**1,300**	13,099	**14,024**
Contributions from plan participants	3,073	**3,333**	400	**300**	3,473	**3,633**
Contributions in respect of unfunded benefits paid	1,423	**1,422**	-	**-**	1,423	**1,422**
Benefits paid	(17,942)	**(19,514)**	(1,800)	**(1,600)**	(19,742)	**(21,114)**
Unfunded benefits paid	(1,423)	**(1,422)**	-	**-**	(1,423)	**(1,422)**
Contributions towards injury pensions	-	**-**	400	**400**	400	**400**
Injury award expenditure	-	**-**	(400)	**(400)**	(400)	**(400)**
Closing fair value of scheme assets	525,993	**486,902**	0	**0**	525,993	**486,902**

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	
	2018-19	**2019-20**	2018-19	**2019-20**	2018-19	**2019-20**
Opening balance at 1 April	(660,484)	**(737,058)**	(83,100)	**(89,500)**	(743,584)	**(826,558)**
Current service cost	(19,993)	**(24,958)**	(1,400)	**(1,200)**	(21,393)	**(26,158)**
Interest cost	(17,893)	**(17,817)**	(2,300)	**(2,100)**	(20,193)	**(19,917)**
Contributions by scheme participants	(3,073)	**(3,333)**	(400)	**(300)**	(3,473)	**(3,633)**

Re-measurement gains/loss:						
Actuarial gains/losses arising from changes in demographic assumptions	0	**25,009**	6,100	**2,800**	6,100	**27,809**
Actuarial gains/losses arising from changes in financial assumptions	(52,973)	**55,973**	(5,600)	**7,400**	(58,573)	**63,373**
Other experience gains/loss	(313)	**28,501**	(1,800)	**(800)**	(2,113)	**27,701**
Past service costs (including curtailments)	(1,694)	**(278)**	(3,200)	**0**	(4,894)	**(278)**
Benefits paid	17,942	**19,514**	1,800	**1,600**	19,742	**21,114**
Unfunded benefits paid	1,423	**1,422**	-	**-**	1,423	**1,422**
Injury award expenditure	-	-	400	**400**	400	**400**
Closing fair value of scheme liabilities	(737,058)	**(653,025)**	(89,500)	**(81,700)**	(826,558)	**(734,725)**

Local Government Pension Scheme assets comprised:

	Fair value of scheme assets			
	2018-19		**2019-20**	
	Quoted prices	Percentage of total assets	**Quoted prices**	**Percentage of total assets**
	£000	%	**£000**	**%**
In active markets				
Equity securities:				
Consumer	25,576.1	4.9%	**24,786.9**	**5.1%**
Energy & Utilities	20,839.5	4.0%	**8,041.1**	**1.7%**
Financial Institutions	14,558.3	2.8%	**13,048.9**	**2.7%**
Health & Care	7,400.2	1.4%	**8,584.2**	**1.8%**
Information Technology	1,400.0	0.3%	**4,595.9**	**0.9%**
Other	26,608.9	5.1%	**30,601.1**	**6.3%**
Real Estate	31,460.1	6.0%	**30,028.0**	**6.2%**
Investment Funds & Unit Trusts:				
Equities	224,871.2	42.8%	**174,587.3**	**35.8%**
Bonds	98,406.2	18.7%	**104,282.5**	**21.4%**
Other	71,184.2	13.5%	**83,266.2**	**17.1%**
Not in active markets				
Cash and cash equivalents	3,687.3	0.7%	**5,078.9**	**1.0%**
Total assets	525,992.0	100.0%	**486,901.0**	**100.0%**

Basis for estimating assets and liabilities

Liabilities have been assessed on the actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Both fund liabilities have been assessed by Hymans Robertson, an independent firm of actuaries, estimates for the Local Government Scheme being based on the latest full valuation of the scheme as at 31 March 2019.

The significant assumptions used the actuary have been:

	Local Government Pension Scheme		Fire-fighters' Pension Scheme	
	2018-19	**2019-20**	2018-19	**2019-20**
Mortality assumptions: (at age 65 for Local Government Scheme and at age 60 for Fire-fighters' scheme):				
Longevity for current pensioners (years):				
Men	22.3	**21.7**	27.3	**26.4**
Women	24.7	**23.8**	29.4	**28.5**
Longevity for future pensioners (years):				
Men	23.9	**22.4**	28.4	**27.5**
Women	26.5	**25.2**	30.6	**29.7**
Pension increase rate (CPI)	2.5%	**1.9%**	2.5%	**1.9%**
Market derived RPI	3.5%	**2.8%**	3.5%	**2.8%**
Rate of increase in salaries	2.9%	**2.7%**	3.5%	**2.8%**
Rate for discounting scheme liabilities	2.4%	**2.3%**	2.4%	**2.3%**
Commutation assumptions:-				
Take-up of option to convert annual pension into retirement lump sum – pre April 2008 service	25%	**25%**	-	**-**
Take-up of option to convert annual pension into retirement lump sum – post April 2008 service	63%	**63%**	-	**-**
Take-up of option to convert annual pension into retirement lump sum	-	**-**	90%	**90%**

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

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analysis below has been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and woman. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, ie on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

Local Government Pension Scheme	**Impact on the defined benefit obligation in the scheme**	
Change in assumptions at 31 March 2020	**Approximate % increase to employer liability**	**Approximate monetary amount**
	%	**£000**
0.5% decrease in real discount rate	9%	59,752
0.5% increase in the salary increase rate	1%	4,942
0.5% increase in the pension increase rate	8%	54,360

A one year increase in life expectancy would approximately increase the Employer's Defined Benefit

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

Fire-fighters' Pension Scheme	Impact on the defined benefit obligation in the scheme	
Change in assumptions at 31 March 2020	**Approximate % increase to employer liability**	**Approximate monetary amount**
	%	**£000**
0.5% decrease in real discount rate	9%	7,297
1 year increase in member life expectancy	3%	2,426
0.5% increase in the salary increase rate	1%	728
0.5% increase in the pension increase rate	7%	5,799

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

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% of the next 20 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed on 31 March 2022.

The scheme will need to take account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the Act, the Local Government Pension Scheme in England and Wales and the other main existing public service schemes may not provide benefits in relation to service after 31 March 2014. The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits to certain public servants.

The total contributions expected to be made to the Local Government Pension Scheme by the council in the year to 31 March 2021 is £12.586 million. Due to the unfunded nature of the Fire-fighters' Pension Scheme, the contributions in the year to 31 March 2021 made by the council will be dependent on the benefits paid in the year, the employee contributions and transfers-in received.

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

	Local Government Pension Scheme		Fire-fighters' Pension Scheme	
	Liability Split		**Liability Split**	
	£000	**%**	**£000**	**%**
Active members	203,790	32.4%	29,400	41.5%
Deferred members	143,904	22.9%	2,300	3.2%
Pensioner members	281,665	44.7%	39,200	55.3%
Total	**629,359**	**100.0%**	**70,900**	**100.0%**
Injury pensions				
Contingent liabilities	-	-	2,900	26.9%
Injury pension liabilities	-	-	7,900	73.1%
Total	**-**	**-**	**10,800**	**100.0**

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

49. Contingent liabilities

Contractual liability of a school
The council has been successful in entirely defending a £8 million claim relating to the contractual liabilities of a school and are now proceeding with the recovery of the substantial costs.

However, the council is under notice that the claimants are intending to ask for permission to appeal. The outcome of the appeal process is subject to court timetabling.

Former council housing stock
The council has indemnified the South Wight Housing Association (now part of the Southern Housing Group) in respect of the cost of any defects that would have led to a reduction in the transfer valuation of the former South Wight Borough council housing stock in 1990, had a full survey been made on an individual property basis. The potential liability has not been quantified, but there is a diminishing probability of a claim against the council due to the time elapsed since the transfer.

50. Contingent asset

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

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

51. Trust funds and other balances

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

- The Brenda James Trust Fund, which was established with the object of the advancement of music education on the Isle of Wight for the benefit of pupils and young musicians, has a balance of £0.036 million at 31 March 2020 (£0.051 million on 31 March 2019).

- 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 £0.069 million at 31 March 2020 (£0.059 million on 31 March 2019). This fund is administered by Newport Parish Council on behalf of the Isle of Wight Council.

	31 March 2019	**31 March 2020**
	£000s	**£000s**
Trust Funds etc	110	**105**
Cash in Safekeeping	2	**2**
Amenity Funds	42	**35**
Total	154	**142**

53. Authorisation of accounts for issue

The Director of Finance and Section 151 officer authorised the draft financial statements for issue on 12 June 2020 and then re-authorised them following completion of the audit on 12 November 2020.

THE COLLECTION FUND

The Collection fund is an agent's statement that reflects the statutory obligation of billing authorities to maintain a separate Collection fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers of council tax and business rates and the distribution to the precepting bodies and central government.

The council has a statutory requirement to operate a collection fund as a separate account to the general fund. The purpose of the collection fund is to separately identify the income and expenditure relating to council tax and business rates. The administrative costs associated with the collection process are charged to the general fund.

The CIPFA code of practice stipulates that a collection fund income and expenditure account is included in the council's accounts. The collection fund balance sheet is incorporated into the council's balance sheet, but shows only the council's proportionate share of the relevant balances.

Collection Fund 2019-20	Business Rates	Council Tax	Total
	£000	£000	£000
Income			
Council Tax receivable (note CF3)		(102,129)	(102,129)
Business rates receivable (note CF1)	(40,344)		(40,344)
Total income	(40,344)	(102,129)	(142,473)
Expenditure			
Apportionment of Previous Year Surplus/(Deficit):			
Central Government	(369)		(369)
Isle of Wight Council	(500)	300	(200)
Police & Crime Commissioner		33	33
	(869)	333	(536)
Precepts, Demands and Shares:			
Central Government (note CF1)	9,624		9,624
Isle of Wight Council (notes CF1 & CF3)	28,874	90,280	119,154
Police & Crime Commissioner (note CF3)		10,780	10,780
	38,498	101,060	139,558
Charges to the Collection Fund:			
Write-offs of uncollectable amounts	86	128	214
Net (decrease)/increase in Bad Debt Allowance	401	1,322	1,723
Net increase in Provision for appeals (note CF6)	1,154		1,154
Cost of Collection	265		265
Renewable energy projects	268		268
Council tax section 13A discretionary relief		(35)	(35)
	2,174	1,415	3,589
(Surplus)/Deficit arising during the year	(541)	679	138
(Surplus)/Deficit brought forward at 1 April	582	(223)	359
(Surplus)/Deficit carried forward at 31 March (notes CF4 & CF5a)	41	456	497
(Surplus)/Deficit allocated to:			
Isle of Wight Council	(41)	407	366
Central Government	82		82
Police and Crime Commissioner		49	49
Total	41	456	497

Collection Fund 2018-19 (comparative year)	Business Rates	Council Tax	Total
	£000	£000	£000
Income			
Council Tax receivable (note CF3)		(97,222)	(97,222)
Business rates receivable (note CF1)	(40,197)		(40,197)
Total income	(40,197)	(97,222)	(137,419)
Expenditure			
Apportionment of Previous Year Surplus/(Deficit):			
Central Government	(265)		(265)
Isle of Wight Council	(265)	400	135
Police & Crime Commissioner		43	43
	(530)	443	(87)
Precepts, Demands and Shares:			
Central Government (note CF1)	0		0
Isle of Wight Council (notes CF1 & CF3)	38,484	86,346	124,830
Police & Crime Commissioner (note CF3)		9,405	9,405
	38,484	95,751	134,235
Charges to the Collection Fund:			
Write-offs of uncollectable amounts	288	161	449
Net (decrease)/increase in Bad Debt Allowance	56	1,027	1,083
Net increase in Provision for appeals (note CF6)	671		671
Cost of Collection	264		264
Renewable energy projects	278		278
Council tax section 13A discretionary relief		(23)	(23)
	1,557	1,165	2,722
(Surplus)/Deficit arising during the year	(686)	137	(549)
(Surplus)/Deficit brought forward at 1 April	1,268	(360)	908
(Surplus)/Deficit carried forward at 31 March (notes CF4 & CF5a)	582	(223)	359
Allocated to:			
Isle of Wight Council	213	(202)	11
Central Government	369		369
Police and Crime Commissioner		(21)	(21)
Total	582	(223)	359

Notes to the collection fund

CF1. Business Rates

The council collects business rates for its area based on rateable values provided by the Valuation Office Agency (VOA) multiplied by a uniform business rate set nationally by central government.

The administration of business rates changed in 2013-14 following the introduction of the business rates retention scheme which aims to give councils a greater incentive to grow businesses, but also increases the financial risk due to volatility and non-collection. Instead of paying business rates to the central pool, local authorities retain a proportion of the total collectable rate due. For the period 2013-14 to 2017-18 the Isle of Wight Council's share was 50%, with the other 50% paid to central government as preceptor.

In October 2017 the Isle of Wight Council, together with Portsmouth City Council and Southampton City Council, submitted a business case to central government to form a Solent Unitary Authorities business rates pool for the 2018-19 financial year. This bid was successful and enabled the pool be part of a pilot scheme in retaining 100% of business rates income. This pilot scheme was extended into 2019-20, although the retention rate was reduced from 100% to 75%. An agreed proportion of growth in business rate income, expressed as income compared to baseline figures, is distributed to each authority with the balance being allocated to financial stability and growth and productivity pots maintained by Portsmouth City Council, who is the pool host authority. While business rate income is accounted for through the collection fund, the entries relating to the pool are debited or credited to the general fund.

Business rates income since 2017-18 has been based on the 2017 valuation list which superseded the 2010 valuation list on 1 April 2017. The total of business rates payable for 2019-20 was estimated before the start of the financial year as £38.498 million (£38.484 million in 2018-19). This is shared between the council (75%) and central government (25%) and charged to the collection fund in year.

When the scheme was introduced, central government set a baseline level for each authority identifying the expected level of retained business rates and a top-up or tariff amount to ensure that all authorities receive their baseline amounts. Tariffs due from authorities payable to central government are used to finance the top-ups to those authorities who did not achieve their targeted baseline funding. The Isle of Wight Council received a top-up grant of £7.737 million in 2018-19 (£2.334 million in 2018-19) which is credited to the general fund (see note 40). The increase in the top-up grant is due to the funding changes resulting from the reduction in the retention rate.

The total income from business ratepayers collectable in 2019-20 was £40.344 million (£40.197 million in 2018-19). Authorities are compensated by receipt of section 31 grant for reductions in income due to measures implemented by central government announced in Autumn Statements since the scheme was introduced. These grants are credited to the general fund rather than the collection fund.

In addition to the management of business rates, authorities are required to finance appeals made in respect of rateable values as defined by the VOA. As such, authorities are required to make a provision in respect of outstanding appeals at 31 March 2020. In addition to appeals made on the 2017 valuation list, there are also outstanding appeals on the 2010 valuation list. A successful appeal on the 2010 valuation list is likely to result in a backdated adjustment for any overpayment due. The total provision charged to the collection fund at 31 March 2020 is £7.992 million (£6.837 million at 31 March 2019). This amount is included in short-term provisions in the balance sheet (note CF6).

The total business rate rateable value at 31 March 2020 is 111.823 million (110.693 million at 31 March 2019) and the business rate multiplier for the year is 50.4p (49.3p in 2018-19). A reduced multiplier of 49.1p (48.0p in 2018-19) is applicable where there is eligibility for small business rate relief.

The gross yield for the year is £55.457 million (£53.478 million in 2018-19) and the net yield was £40.344 million (£40.197 million in 2018-19). Several nationally defined adjustments and reliefs contribute towards this reduction as shown below:-

	2018-19		**2019-20**	
	£000	£000	**£000**	**£000**
Gross Business rate yield at 31 March		53,478		**55,457**
Less:-				
Mandatory/discretionary relief granted	(4,262)		**(4,980)**	
Empty rate relief	(954)		**(1,255)**	
Small Business Rate relief	(8,065)		**(8,878)**	
		(13,281)		**(15,113)**
Net Business rate yield at 31 March		40,197		**40,344**

CF2. **Council tax**

Council tax derives from charges raised according to the value of residential properties, which have been classified into nine valuations bands (A to H). Individual charges are calculated by estimating the amount of income required to be taken from the collection fund by the council for the forthcoming year and dividing this by the council tax base, which is the equivalent number of Band D properties.

The council tax base for 2019-20 was 53,508.0 (52,998.0 in 2018-19).

The following details the number of properties in each valuation band of the tax base:

Band	**Relevant Proportion**	**Chargeable dwellings (net of council tax support scheme)**	**Band D equivalents**	**Chargeable dwellings (net of council tax support scheme)**	**Band D equivalents**
		2018-19		**2019-20**	
Band A (disabled)	5/9	7	4	**6**	**3**
Band A	6/9	6,516	4,344	**6,584**	**4,389**
Band B	7/9	13,597	10,575	**13,736**	**10,683**
Band C	8/9	14,222	12,642	**14,376**	**12,779**
Band D	9/9	11,506	11,506	**11,667**	**11,667**
Band E	11/9	6,435	7,865	**6,477**	**7,917**
Band F	13/9	2,923	4,222	**2,951**	**4,263**
Band G	15/9	1,412	2,353	**1,399**	**2,332**
Band H	18/9	107	214	**109**	**218**
Total		56,725	53,725	**57,305**	**54,251**
Less reduction for bad debts & valuation changes			(727)		**(743)**
Council tax base			52,998		**53,508**
Council tax per band D property (£)			1,552.67		**1,599.17**
Isle of Wight Council: Council tax precept (£000)			82,288		**85,568**

CF3. Precepts made on the fund (Council tax)

	2018-19		**2019-20**	
	£000	£000	**£000**	**£000**
Isle of Wight Council: Council tax requirement (note CF2)	82,289		**85,568**	
Parish & Town Council precepts	4,057		**4,712**	
Isle of Wight Council precept (including Parish & Town Councils)		86,346		**90,280**
Share of estimated collection fund surplus at 31 March in previous year		400		**300**
Isle of Wight Council: budget requirement		86,746		**90,580**
Police & Crime Commissioner: Council tax requirement	9,405		**10,780**	
Share of estimated collection fund surplus at 31 March in previous year	43		**33**	
Police & Crime Commissioner: budget requirement		9,448		**10,813**
Total precepts		96,194		**101,393**

Council Tax income analysis

	2018-19	**2019-20**
	£000	**£000**
Council Tax gross debit	118,599	**124,305**
Discounts	(9,741)	**(10,227)**
Exemptions	(1,667)	**(1,896)**
Council Tax Support	(9,969)	**(10,053)**
Council Tax income	97,222	**102,129**

Council Tax surplus/(deficit) analysis

	2018-19		**2019-20**	
	£000	£000	**£000**	**£000**
Net debit (actual)	97,222		**102,129**	
Less: Net debit (estimated)	96,194		**101,393**	
Increase/(reduction) in net debit		1,028		**736**
Contribution to allowance for bad debts		(1,188)		**(1,450)**
Council tax section 13A discretionary relief		23		**35**
Collection Fund surplus brought forward		360		**223**
Council Tax surplus/(deficit) carried forward		223		**(456)**

CF4. Reconciliation with Isle of Wight Council's note 13 to the comprehensive income and expenditure statement and note 27 Collection Fund adjustment account (Council tax)

2018-19: comparative year	Isle of Wight Council £000	Police & Crime Commissioner £000	Total £000
Demand/Precept	86,746	9,448	96,194
Share of 2018-19 in-year deficit (note 28)	(124)	(14)	(138)
Total (note 13)	86,622	9,434	96,056
Share of surplus carried forward at 31 March 2019	202	21	223

2019-20	Isle of Wight Council £000	Police & Crime Commissioner £000	Total £000
Demand/Precept	**90,580**	**10,812**	**101,392**
Share of 2019-20 in-year deficit (note 28)	**(608)**	**(70)**	**(678)**
Total (note 13)	**89,972**	**10,742**	**100,714**
Share of deficit carried forward at 31 March 2020	**(407)**	**(49)**	**(456)**

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

2018-19 (Comparative year)	Isle of Wight Council £000		Central Government £000		Total £000	
Estimate of 2018-19 business rates income at 31 January 2018		38,484		0		38,484
Less: share of deficit at 31 March 2018 (estimated at 31 January 2018)		(265)		(265)		(530)
Less: share of actual deficit at 31 March 2018	634		634		1,268	
Share of 2018-19 deficit carried forward at 31 March 2019	(212)		(369)		(581)	
Share of 2018-19 in-year surplus		422		265		687
Renewable energy rates retained		277		-		277
Total Business rate income (note 13)		38,918		0		38,918

2019-20	Isle of Wight Council £000		Central Government £000		Total £000	
Estimate of 2019-20 business rates income at 31 January 2019		**28,874**		**9,624**		**38,498**
Less: share of deficit at 31 March 2019 (estimated at 31 January 2019)		**(500)**		**(369)**		**(869)**
Less: share of actual deficit at 31 March 2019	**212**		**369**		**581**	
Share of 2019-20 deficit carried forward at 31 March 2020	**41**		**(82)**		**(41)**	
Share of 2019-20 in-year surplus		**253**		**287**		**540**
Renewable energy rates retained		**268**		**-**		**268**
Total Business rate income (note 13)		**28,895**		**9,542**		**38,437**

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

The figure shown in note 28 Collection fund adjustment account is the amount by which business rate income credited to the comprehensive income and expenditure statement is different from business rate income calculated for the year in accordance with statutory requirements. The business rates income from specified renewable energy projects is retained by the council, as permitted by regulations.

	2018-19 £000	**2019-20 £000**
Share of deficit brought forward at 1 April reversed in year	634	**212**
Renewable energy rates retained brought forward at 1 April reversed in year	(55)	**(10)**
Share of deficit at 31 March	(212)	**41**
Renewable energy rates retained at 31 March (difference between estimate and actual)	10	**(14)**
Total (note 28)	377	**229**

CF6. Appeals provision (business rates)

	2018-19				**2019-20**			
	Collection fund		Isle of Wight Council share		**Collection fund**		**Isle of Wight Council share**	
	£000	£000	£000	£000	**£000**	**£000**	**£000**	**£000**
Balance brought forward		(6,166)		(3,083)		**(6,837)**		**(6,837)**
IWC retention share increase from 50% to 100%		-		(3,083)		**-**		**-**
IWC retention share reduced from 100% to 75%		-		-		**-**		**1,709**
Charged to provision	667		667		**359**		**269**	
Transfer (to)/from provision	(1,338)		(1,338)		**(1,514)**		**(1,135)**	
Net (increase)/decrease in provision		(671)		(671)		**(1,155)**		**(866)**
Balance carried forward		(6,837)		(6,837)		**(7,992)**		**(5,994)**

ISLE OF WIGHT COUNCIL FIREFIGHTERS' PENSION FUND

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

Regular firefighters employed before April 2006 were eligible for membership of the '1992 scheme' and employees starting between April 2006 and March 2015 were eligible to the '2006 scheme'. These schemes are now closed. Whole-time fire-fighters' starting since April 2015 are eligible for the new 'CARE' scheme and retained firefighters are eligible to the 'modified scheme'. These four schemes have been combined for the purpose of the firefighters' pension fund account and the net assets statement.

Accounting Policies

1. As the pension fund has no investment assets and does not account for benefits payable in the future, there are no accounting policies that diverge from those set out in the main statement of accounting policies.
2. The net assets statement does not include liabilities to pay pensions and other benefits after the balance sheet date. The council's liability calculated under IAS 19 is disclosed in note 48 to the financial statements.

2018-19	FIREFIGHTERS' PENSION FUND ACCOUNT	2019-20	
£000		£000	£000
	Contributions receivable:		
	Fire authority:		
(391)	Employers' contributions in relation to pensionable pay	**(724)**	
(368)	Firefighters' contributions	**(334)**	
(759)	**Total contributions receivable**		**(1,058)**
	Benefits payable:		
1,610	Pensions	**1,641**	
162	Commutations, lump sum retirement and other lump sum benefits	**8**	
1,772	**Total benefits payable**		**1,649**
1,013	**Net amount payable for the year**		**591**
(1,013)	**Top-up grant receivable from the Government**		**(591)**
0			**0**

2018-19	NET ASSETS STATEMENT	2019-20
£000		£000
	Current assets	
302	Debtors - top-up receivable from the Government	**131**
	Current liabilities	
(302)	Amount owing (to)/from general fund	**(131)**
0		**0**

ISLE OF WIGHT COUNCIL PENSION FUND

2018-19 £000	FUND ACCOUNT	Notes	2019-20 £000
	Dealings with members, employers and others directly involved in the fund		
18,612	Contributions	7	20,088
204	Transfers in from other pension funds	8	1,528
2	Other income	9	16
18,818			21,632
(22,008)	Benefits	10	(22,814)
(2,168)	Payments to and on account of leavers	11	(894)
(24,176)			(23,708)
(5,358)			**(2,076)**
(4,314)	Management expenses	12	**(2,945)**
	Returns on investments		
15,661	Investment income	13	10,442
(58)	Taxes on income	14	(68)
27,534	Profit and losses on disposal of investments and changes in the value of investments	17	(39,697)
(72)	Interest payable	16	(99)
43,065	Net returns on investments		**(29,422)**
33,393	**Net increase/(decrease) in the net assets available for benefits during the year**		**(34,443)**
562,755	Opening Net Assets of the Scheme		596,148
596,148	Closing Net Assets of the Scheme		**561,705**

ISLE OF WIGHT COUNCIL PENSION FUND

2019 £000	NET ASSETS STATEMENT AS AT 31 MARCH	Notes	2020 £000
603,022	Investment assets	17	563,560
4,053	Cash deposits	17	5,275
607,075			**568,835**
(650)	Investment liabilities	17	(403)
(10,400)	Short-term borrowings	19A	(8,000)
117	Long-term assets	23	86
869	Current assets	24	2,107
(863)	Current liabilities	25	(920)
596,148	**Net assets of the fund available to fund benefits at the period end**		**561,705**

The fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed at note 22.

ISLE OF WIGHT COUNCIL PENSION FUND

NOTES TO THE ACCOUNTS

1. DESCRIPTION OF THE FUND

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

The following description of the fund is a summary. For more detail, reference should be made to the Isle of Wight Council Pension Fund Annual Report 2019-20 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme Regulations.

a) General

The fund is governed by the Public Service Pensions Act 2013. The fund is administered in accordance with the following secondary legislation:

- the Local Government Pension Scheme Regulations 2013 (as amended)
- the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

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

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

b) Membership

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

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

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the fund.
- Admitted bodies, which are other organisations that participate in the fund under the terms of an admission agreement between the fund and the employer. Admitted bodies include voluntary, charitable and similar not-for-profit organisations or private contractors undertaking a local authority function following outsourcing to the private sector.

The scheduled bodies of the fund with active members at 31 March 2020 are:

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

The admitted bodies of the fund with active members at 31 March 2020 are:

Accomplish Group Ltd	Southern Housing Limited
Barnados	Southern Vectis
Caterlink	Sovereign Housing Limited
Cowes Harbour Commissioners	Top Mops Ltd
Island Roads Limited	Trustees of Carisbrooke Castle Museum
Nviro	Ventnor Botanic Gardens
RM Ltd	Yarmouth (IW) Harbour Commissioners

The membership of the scheme is shown below:

Year ended 31 March 2020

	Administering Authority	Scheduled Bodies	Admitted Bodies	Total
Number of employers with active members	1	16	14	**31**
Number of contributors (Active members)	3,702	552	116	**4,370**
Number of frozen refunds 1	492	8	4	**504**
Number of deferred pensioners 2	5,770	663	126	**6,559**
Number of pensioners/ widows/dependant pensioners	4,354	296	196	**4,846**
	14,318	**1,519**	**442**	**16,279**

Year ended 31 March 2019

	Administering Authority	Scheduled Bodies	Admitted Bodies	Total
Number of employers with active members	1	17	13	**31**
Number of contributors (Active members)	3,734	541	106	**4,381**
Number of frozen refunds 1	581	11	5	**597**
Number of deferred pensioners 2	5,565	615	122	**6,302**
Number of pensioners/ widows/dependant pensioners	4,177	266	188	**4,631**
	14,057	**1,433**	**421**	**15,911**

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

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

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS Regulations 2013.

The pay bands and rates applicable for the year ended 31 March 2020 are detailed below.

Range (Actual pensionable pay)	Contribution rate
Up to £14,400	5.50%
More than £14,401 and up to £22,500	5.80%
More than £22,501 and up to £36,500	6.50%
More than £36,501 and up to £46,200	6.80%
More than £46,201 and up to £64,600	8.50%
More than £64,601 and up to £91,500	9.90%
More than £95,501 and up to £107,700	10.50%
More than £107,701 and up to £161,500	11.40%
More than £161,500	12.50%

Employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2019. The current and future employer contribution rates as determined by that valuation are detailed in note 21.

d) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, summarised below.

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

From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with the Consumer Prices Index.
A range of other benefits are also provided including early retirement, disability pensions and death benefits. For more details, please refer to the Pensions Office website:
http://www.isleofwightpensionfund.org/

2. BASIS OF PREPARATION

The Statement of Accounts summarises the fund's transactions for the 2019-20 financial year and its position at year-end as at 31 March 2020. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2019/20* which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts report on the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed at note 22 of these accounts.

The accounts have been prepared on a going concern basis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund account – revenue recognition

a) Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis as follows:

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

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

Additional employers' contributions in respect of ill-health and early retirements are accounted for in the year the event arose. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations 2013 (see notes 8 and 11).

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

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

Bulk (group) transfers are accounted for 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.

ii) Dividend income

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

iii) Distributions from pooled funds

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

iv) Movement in the value of investments

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

Fund account – expense items

d) Benefits payable

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

e) Taxation

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

f) Management expenses

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

Administrative expenses

All staff costs of the pension's administration team are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund in accordance with council policy.

Oversight and governance costs

All staff costs associated with governance and oversight are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund in accordance with council policy.

Investment management expenses

Investment management expenses are charged directly to the fund as part of management expenses and are not included in, or netted off from, the reported return on investments. Where fees are netted off of valuations by investment managers, these expenses are shown separately in note 12A and grossed up to increase the change in value of investments. The investment managers provided information on management fees using the LGPS cost templates, for the first time in 2018-19.

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

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

- Majedie Asset Management Limited – UK Equities
- Newton Investment Management Limited – Global Equities up to the date that these assets were transferred to the ACCESS pool (8 May 2019)

Where an investment manager's fee note has not been received by the year end date, an estimate based on the market value of their mandate as at the end of the year is used for inclusion in the fund account. In 2019-20 no fees are based on such estimates (2018-19: nil)

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

A proportion of the council's costs representing management time spent by officers on investment management is also charged to the fund.

g) VAT

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

Net assets statement

h) Financial assets

All investment assets are included in the financial statements 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 in the fund account.

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS13 (see Note 18). For the purposes of disclosing levels of fair value hierarchy, the fund has adopted the classification guidelines recommended in *Practical Guidance on Investment Disclosures* (PRAG/Investment Association, 2016).

i) Foreign currency transactions

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

j) Cash and cash equivalents

Cash comprises cash in hand and demand deposits and includes amounts held by the fund's external managers.

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

A financial liability is recognised in the net assets statement on the date the fund becomes party to the liability. The fund recognises financial liabilities relating to investment trading at fair value at the reporting date, and any gains or losses arising from changes in the fair value of the liability between contract date, the year-end date and the eventual settlement date are recognised in the fund account as part of the Change in Value of Investments.

Other financial liabilities classed as amortised cost are carried at amortised cost i.e. the amount carried in the net asset statement is the outstanding principal repayable plus accrued interest. Any interest charged is accounted for on an accruals basis and included in administration costs.

l) Actuarial present value of promised retirement benefits

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

As permitted under the Code, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (note 22).

m) Additional Voluntary Contributions

Isle of Wight Council Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the pension fund. The fund has appointed Prudential Life and Pensions as its AVC provider. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors.

Each AVC contributor receives an annual statement showing the amount held in their accounts and the movements in the year.

AVCs are not included in the accounts in accordance with section 4(1)(b) of the Local Government Pension Scheme (Management and Investment Funds) Regulations 2016 but are disclosed as a note only (note 26).

n) Accruals of expenditure and income

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

- Revenue from the sale of goods is recognised when the council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the council.
- Revenue from the provision of services is recognised when the council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the council.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the balance sheet.

- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather that when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure based on the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

o) Provisions, Contingent Liabilities and Contingent Assets

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

A contingent asset arises where an event has taken place giving rise to a possible asset, whose existence will only be confirmed by the occurrence future events.

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

4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Pension fund liability

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines.

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

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

5. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported. Estimates and assumptions take account of historical experience, current trends and future expectations, however actual outcomes could differ from the assumption and estimates made.

The items in the net assets statement at 31 March 2020 for which there is a significant risk of material adjustment within the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits (Note 22)	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, salary increases, changes in retirement ages, mortality rates and returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	For instance: A 0.5% increase in the discount rate assumption would result in a decrease in the pension fund deficit of £63m. A 0.5% increase in assumed earnings inflation would increase the deficit by approximately £6m. A 0.5% increase in assumed price inflation/pension increases would increase the deficit by approximately £69m. A one-year increase in assumed life expectancy would increase the deficit by approximately £29m

Pooled Property Funds (Note 18)	Valuation techniques are used to determine the carrying amount of pooled property funds. Where possible these valuation techniques are based on observable data, but where this is not possible management uses the best available data.	Changes in the valuation assumptions used, together with significant changes in rental growth, vacancy levels or the discount rate could affect the fair value of property-based investments.

6. EVENTS AFTER THE BALANCE SHEET DATE

These are events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. Two types of events can be identified:

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

Events taking place after the date of authorisation for issue are not reflected in the financial statements.

On 1 October 2020, the independent valuers of the Schroder Real Estate Fund (SREF) removed the remaining material uncertainty clauses with respect to the 1 October 2020 valuation of SREF's property portfolio. Following this, the Authorised Corporate Director ('ACD') and the Depositary confirmed that the suspension in dealing has been lifted, with immediate effect.

Other than as disclosed above, 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:

2018-19 £000		2019-20 £000
3,728	Employees' normal contributions	3,932
9	Employees' additional contributions	8
3,737		**3,940**
14,116	Employers' normal contributions	14,932
286	Employers' deficit recovery contributions	370
473	Employers' augmentation contributions	846
14,875		**16,148**
18,612		**20,088**

By type of employer:

2018-19 £000		2019-20 £000
14,874	Administering authority	16,190
1,516	Scheduled bodies	1,496
2,222	Admitted bodies	2,402
18,612		**20,088**

8. TRANSFERS IN FROM OTHER PENSION FUNDS

2018-19 £000		2019-20 £000
-	Group transfers	-
204	Individual transfers	1,528
204		**1,528**

9. OTHER INCOME

2018-19 £000		2019-20 £000
10	Miscellaneous income	13
(8)	Contribution Equivalent Premiums	3
2		**16**

Contribution Equivalent Premiums (CEPs) are sums relating to National Insurance Contributions payable when an employee leaves the pension fund without entitlement to benefits. Sums are held as a contingent asset and/or liability and these amounts remain so until the relevant employee requests a refund of contributions payable, a transfer is made to another pension fund or the employee returns to the employ of the Isle of Wight Council (see note 28).

10. BENEFITS PAYABLE

By category:

2018-19 £000		2019-20 £000
18,367	Pensions	19,328
3,262	Commutation and lump sum retirement benefits	3,233
379	Lump sum death benefits	253
22,008		**22,814**

By type of employer:

2018-19 £000		2019-20 £000
19,748	Administering authority	20,294
1,375	Scheduled bodies	1,472
885	Admitted bodies	1,048
22,008		**22,814**

11. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2018-19 £000		2019-20 £000
53	Refund to members leaving service	91
-	Group transfers	-
2,115	Individual transfers	803
2,168		**894**

12. MANAGEMENT EXPENSES

2018-19 £000		2019-20 £000
543	Administrative costs	530
3,202	Investment management expenses	1,881
569	Oversight and governance costs	534
4,314		**2,945**

12A. INVESTMENT MANAGEMENT EXPENSES

2018-19 £000		2019-20 £000
1,230	Management Fees	1,728
-	Performance Related Fees	-
38	Custody Fees	33
1,934	Transaction Costs	120
3,202		**1,881**

In addition to these costs, indirect costs are incurred through the bid-offer spread on investments sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sales of investments (see note 17a).

13. INVESTMENT INCOME

2018-19 £000		2019-20 £000
11,448	Income from equities	8,116
	Income from pooled investment vehicles:	
1,050	- Property	1,062
2,776	- Bonds	3,289
261	- Unit Trusts	182
16	Interest on cash deposits	8
110	Other	(2,215)
15,661		**10,442**

14. TAXATION

2018-19 £000		2019-20 £000
58	Withholding tax - equities	68
58		**68**

15. EXTERNAL AUDIT COSTS

2018-19 £000		2019-20 £000
16	Payable in respect of external audit	14
16		**14**

16. INTEREST PAYABLE

2018-19 £000		2019-20 £000
72	Interest on short term borrowing	99
72		**99**

17. INVESTMENTS

Market value 31 March 2019 £000		Market value 31 March 2020 £000
	Investment assets	
111,300	Equities	104,665
490,844	Pooled Investment Vehicles	457,803
4,053	Cash deposits	5,275
433	Investment income due	223
423	Amounts receivable for sales	834
22	Recoverable withholding tax	35
607,075	**Total investment assets**	**568,835**
	Investment liabilities	
(650)	Amounts payable for purchases	(403)
(650)	**Total investment liabilities**	**(403)**
606,425	**Net investment assets**	**568,432**

17A. RECONCILIATION OF MOVEMENTS IN INVESTMENTS

	Market value 1 April 2019	Purchases during the year	Sales during the year	Change in market value during the year	**Market value 31 March 2020**
	£000	£000	£000	£000	£000
Equities	**111,300**	82,044	(54,151)	(34,528)	**104,665**
Pooled Investment Vehicles					
Global Equities	**251,386**	256,254	(312,654)	1,492	**196,478**
Property	**35,335**	90	(291)	(81)	**35,053**
Bonds	**113,636**	3,289	(229)	5,041	**121,737**
Diversified Growth Fund	**82,201**	136,237	(111,383)	(9,851)	**97,204**
Unit Trusts	**8,286**	1,934	(1,333)	(1,556)	**7,331**
	602,144	**479,848**	**(480,041)**	**(39,483)**	**562,468**
Cash deposits	**4,053**			(217)	**5,275**
Amounts receivable for sales of investments	**423**			-	**834**
Investment income due	**433**			7	**223**
Recoverable withholding tax	**22**			-	**35**
Amounts payable for purchases of investments	**(650)**			3	**(403)**
Net investment assets	**606,425**			**(39,690)**	**568,432**

	Market value 1 April 2018	Purchases during the year	Sales during the year	Change in market value during the year	**Market value 31 March 2019**
	£000	£000	£000	£000	£000
Equities	**108,032**	19,198	(17,400)	1,470	**111,300**
Pooled Investment Vehicles					
Global Equities	**220,394**	3,886	-	27,106	**251,386**
Property	**33,562**	-	447	1,326	**35,335**
Bonds	**110,708**	2,579	-	349	**113,636**
Diversified Growth Fund	**81,834**	1,579	-	(1,212)	**82,201**
Unit Trusts	**11,210**	261	(1,670)	(1,515)	**8,286**
	565,740	**27,503**	**(18,623)**	**27,524**	**602,144**
Cash deposits	3,980			(3)	**4,053**
Amounts receivable for sales of investments	126			-	**423**
Investment income due	331			13	**433**
Recoverable withholding tax	8			-	**22**
Amounts payable for purchases of investments	(92)			-	**(650)**
Net investment assets	**570,093**			**27,534**	**606,425**

The level of purchases and sales in the current year is higher than prior year because the Global Equities and the Diversified Growth mandate were transitioned into the ACCESS pool. In addition there was a rebalancing of the mandates between Global Equities, UK Equities and Diversified Growth.

The Schroder UK Real Estate Fund (SREF) temporarily suspended trading on 18 March 2020 until 1 October 2020. This was in line with the majority of other core balanced UK property funds. The trading suspension aimed to protect long term investors from material uncertainty arising from COVID-19 lockdown measures. The halt on market activity during the pandemic resulted in property valuers being unable to accurately value property portfolios and valuers being forced to insert material uncertainty clauses into their valuations, thus triggering suspension (in accordance with Royal Institute of Chartered Surveyors' guidelines). The Fund continued to monitor this position and remains a long-term investor in the fund with no short-term property transactions planned.

17B. ANALYSIS OF INVESTMENTS

31 March 2019 £000		31 March 2020 £000
	Equities	
	UK	
93,071	Quoted	92,427
	Overseas	
18,229	Quoted	12,238
111,300		**104,665**
	Pooled funds – additional analysis	
	UK	
113,636	Fixed income unit trusts	121,737
341,873	Unit Trusts	301,013
455,509		**422,750**
35,335	Pooled property investments	35,053
35,335		**35,053**
4,053	Cash Deposits	5,275
433	Investment income due	223
423	Amounts receivable from sales	834
22	Withholding Tax	35
4,931		**6,367**
607,075	**Total investment assets**	**568,835**
	Investment Liabilities	
(650)	Amounts payable for purchases	(403)
(650)	**Total Investment Liabilities**	**(403)**
606,425	**Net investment assets**	**568,432**

17C. INVESTMENTS ANALYSED BY FUND MANAGER

Market value 31 March 2019			Market value 31 March 2020	
£000	%		£000	%
113,636	18.7%	Schroder Investment Management – Bonds	121,737	21.4%
35,436	5.8%	Schroder Investment Management – Property	35,795	6.3%
		ACCESS Overseas Equities - Newton	196,478	34.6%
		ACCESS Diversified Growth Fund - Ballie Gifford	97,204	17.1%
123,743	20.4%	Majedie Asset Management – UK Equities	117,183	20.6%
82,201	13.6%	Baillie Gifford – Diversified Growth Fund	-	0.0%
251,387	41.5%	Newton Investment Management – Overseas Equities	-	0.0%
606,403			**568,397**	
22	0.0%	Recoverable wothholding tax	35	0.0%
606,425			**568,432**	

All the above companies are registered in the United Kingdom.

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

Market value 31 March 2020			Market value 31 March 2020	
£000	%		£000	%
-	0.00%	ACCESS - Global Equities - Newton	196,478	34.98%
113,636	19.07%	Schroder Institutional Sterling Broad Market X Account	121,737	21.67%
-	0.00%	ACCESS - Diversified Growth - Baillie Gifford	97,204	17.30%
35,436	5.95%	Schroder UK Property Fund	35,795	6.37%
251,387	42.19%	Newton International Growth X Account	-	0.00%
82,201	13.80%	Baillie Gifford Diversified Growth Pension Fund	-	0.00%

18. FAIR VALUE – BASIS OF VALUATION

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

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

18A. FAIR VALUE HEIRARCHY

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

Level 1
Assets and liabilities at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as Level 1 comprise quoted equities, quoted bonds and unit trusts.

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

Level 3
Assets and liabilities at Level 3 are those where at least one input that could have a significant impact on the instrument's valuation is not based on observable market data.
At 31 March 2020, the fund does not have any investments which should be classified as Level 3.

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

31 March 2019				31 March 2020		
Quoted Market Price Level 1 £000	Using Observable Inputs Level 2 £000	Total £000		Quoted Market Price Level 1 £000	Using Observable Inputs Level 2 £000	Total £000
567,687	35,335	603,022	Financial assets at fair value through profit and loss	528,507	35,053	563,560
-	(650)	(650)	Financial liabilities at fair value through profit and loss	-	(403)	(403)
567,687	**34,685**	**602,372**	**Net investment assets**	**528,507**	**34,650**	**563,157**

19. FINANCIAL INSTRUMENTS

19A. CLASSIFICATION OF FINANCIAL INSTRUMENTS

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

31 March 2019				31 March 2020		
Fair value through profit and loss £000	Assets at amortised costs £000	Liabilities at amortised cost £000		Fair value through profit and loss £000	Assets at amortised costs £000	Liabilities at amortised cost £000
			Financial assets			
111,300			Equities	104,665		
490,845			Pooled investment vehicles	457,803		
	4,056		Cash		6,573	
877			Other investment balances	1,092		
	57		Debtors		193	
603,022	**4,113**	**-**		**563,560**	**6,766**	**-**
			Financial liabilities			
(650)			Other investment balances	(403)		
		(984)	Creditors			(712)
			Bank Balance			
		(10,400)	Borrowings			(8,000)
(650)	**-**	**(11,384)**		**(403)**	**-**	**(8,712)**
602,372	**4,113**	**(11,384)**		**563,157**	**6,766**	**(8,712)**

19B. NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

31 March 2019 £000		**31 March 2020 £000**
	Financial assets	
27,536	Fair value through profit and loss	(39,476)
(2)	Loans and receivables	(217)
	Financial liabilities	
-	Fair value through profit and loss	3
-	Financial liabilities at amortised cost	
27,534	**Total**	**(39,690)**

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

20. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Risk and risk management

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

Responsibility for the fund's risk management strategy rests with the pension fund committee. Risk management policies are established to identify and analyse the risks faced by the pension fund's operations. Policies are reviewed regularly to reflect changes in activity and in market conditions. Because the fund adopts a long-term investment strategy, the high-level risks described below will not alter significantly during the year unless there are significant strategic or tactical changes in the portfolio.

a) Market risk

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

The objective of the fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, while optimising investment return.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the pension fund and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

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

Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

All investments present a risk of loss of capital, the maximum risk being determined by the fair value of the financial instruments. The investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored to ensure it is within limits specified in the fund investment strategy.

Other price risk - sensitivity analysis

In consultation with its investment advisors, the fund has determined that the following movements in market price risk are reasonably possible for 2019/20 assuming that all other variables, in particular foreign exchange rates and interest rates, remain the same:

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

	Value as at 31 March 2020 £000	Volatility of return %	Value on increase £000	Value on decrease £000
Cash & cash equivalents	5,275	0.00%	5,275	5,275
Investment portfolio assets				
Equities – UK	92,427	15.20%	106,476	78,378
Equities – overseas	12,238	22.00%	14,930	9,546
Pooled investment vehicles:				
Global equities	196,478	15.10%	226,146	166,810
Property	35,053	1.20%	35,474	34,633
Bonds	121,737	3.30%	125,755	117,720
Diversified Growth Fund	97,204	14.00%	110,811	83,594
Unit Trusts	7,331	15.40%	8,460	6,202
Amounts receivable for sales	834	0.00%	834	834
Investment income due	223	0.00%	223	223
Recoverable withholding tax	35	0.00%	35	35
Amounts payable for purchases	(403)	0.00%	(403)	(403)
Total	**568,432**		**634,016**	**502,847**

	Value as at 31 March 2019 £000	Volatility of return %	Value on increase £000	Value on decrease £000
Cash & cash equivalents	4,053	0.00%	4,053	4,053
Investment portfolio assets				
Equities – UK	93,071	5.30%	98,004	88,138
Equities – overseas	18,229	4.30%	19,012	17,445
Pooled investment vehicles:				
Global equities	251,386	3.50%	260,185	242,588
Property	35,335	2.00%	36,042	34,629
Bonds	113,636	1.20%	115,000	112,272
Diversified Growth Fund	82,201	1.80%	83,680	80,721
Unit Trusts	8,286	17.20%	9,711	6,861
Amounts receivable for sales	423	0.00%	423	423
Investment income due	433	0.00%	433	433
Recoverable withholding tax	22	0.00%	22	22
Amounts payable for purchases	(650)	0.00%	(650)	(650)
Total	**606,425**		**625,915**	**586,935**

b) Interest rate risk

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

Interest rate risk - sensitivity analysis

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

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

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

c) Currency risk

Currency risk represents the risk that the fair value of future cash flows will fluctuate because of changes in foreign exchange rates. The fund is exposed to currency risk on any cash balances and investment assets not denominated in UK sterling. For a sterling-based investor, when sterling weakens, the sterling value of foreign currency denominated investments rises. As sterling strengthens, the sterling value of foreign currency denominated investment falls.

The following table summarises the fund's currency exposure as at 31 March 2020, and as at the previous period end:

	Asset value as at 31 March 2020 £000	Asset value as at 31 March 2019 £000
Overseas Quoted Securities	26,826	13,683
Investment income due	92	153
	26,918	**13,836**

Currency risk – sensitivity analysis

Following analysis of historical data, the fund considers the likely volatility associated with foreign exchange movements to be 3.18% (2018-19: 3.74%). This analysis assumes that all other variables, in particular interest rates, remain constant.

A 3.18% strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows:

	Value as at 31 March 2020 £000	Value on increase +3.18% £000	Value on decrease -3.18% £000
Overseas Quoted Securities	26,826	27,680	25,972
Investment income due	92	95	89
	26,918	**27,775**	**26,061**

	Value as at 31 March 2019 £000	Value on increase +3.74% £000	Value on decrease -3.74% £000
Overseas Quoted Securities	13,683	14,194	13,172
Investment income due	153	159	147
	13,836	**14,353**	**13,319**

d) Credit Risk

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

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

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

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

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

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

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

Credit risk may also occur if an employing body not supported by central government does not pay contributions promptly, or defaults on its obligations. The pension fund has not experienced any actual defaults in recent years. All contributions due at 31 March 2020 and 31 March 2019 (£548k and £706k respectively) were received in the first month of the financial year.

e) Liquidity Risk

Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as they fall due. The pension fund therefore takes steps to ensure that the pension fund has adequate cash resources to meet its commitments. The fund maintains a cash balance to meet working requirements, which is supported by an available credit line from the Isle of Wight Council. Note 27 includes details of borrowing from the council for this purpose. Management prepares periodic cash flow forecasts to understand and manage the timing of the fund’s cash flows. The appropriate strategic level of cash balances to be held forms part of the fund’s investment strategy.

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

All financial liabilities at 31 March 2020 are due within one year.

Refinancing risk

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

21. FUNDING ARRANGEMENTS

In accordance with the Local Government Pension Scheme Regulations 2013, the fund’s actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2019 and the next valuation will take place as at 31 March 2022.

Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), dated 13 March 2020. In summary, the key funding principles are as follows:

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

The aim is to have 100% solvency over a period of 20 years and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. Normally this is three years, but in some cases a maximum period of 20 years can be granted. Solvency is achieved when the funds held, plus future expected investment returns, and future contributions are sufficient to meet expected future pension benefits payable. When an employer's funding level is less than 10% of the 100% funding target, then a deficit recovery plan will be put in place requiring additional employer contributions.

Funding Position as at the last formal funding valuation

At the 2019 actuarial valuation, the fund was assessed as 95% funded (92% at the March 2016 valuation). This corresponded to a deficit of £32 million (2016 valuation £44 million) at that time. Contribution increases were in effect from 1 April 2020 for both scheme employers and admitted bodies.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable.

For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still a better than 75% chance that the Fund will return to full funding over 20 years. Individual employers' contributions for the period 1 April 2020 to 31 March 2023 were set in accordance with the Fund's funding policy as set out in its FSS.

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

Employer Name		Minimum Contributions for the Year Ending 31 March		
		2021 % of pay	2022 % of pay	2023 % of pay
Isle of Wight Council		23.5	23.5	23.5
Barnardos		Nil	Nil	Nil
Caterlink		23.5	23.5	23.5
Cowes Enterprise College, an Ormiston Academy	*	23.5	23.5	23.5
Cowes Harbour Commissioners		21.5	21.5	21.5
The Island Free School		19.6	19.6	19.6
Island Roads		Nil	Nil	Nil
Isle of Wight College (from 1 August)		23.8	23.8	23.8
Lanesend Academy	*	21.1	21.1	21.1
Northwood Academy	*	23.5	23.5	23.5
Nviro		23.5	23.5	23.5
Ryde Academy, Academies Enterprise Trust	*	23.5	23.5	23.5
Sandown Bay Academy	*	23.5	23.5	23.5
Southern Vectis (Wightbus)		10.3	10.3	10.3
Southern Housing Group		31.6	31.6	31.6
Sovereign Housing Group		29.7	29.7	29.7
St Blasius Academy	*	23.5	23.5	23.5
St Catherine's School Ltd		26.6	26.6	26.6
St Francis Academy	*	23.5	23.5	23.5
Top Mops		21.5	21.5	21.5
Trustees of Carisbrooke Castle Museum		35.4	35.4	35.4
Ventnor Botanical Gardens		Nil	Nil	Nil
Yarmouth Harbour Commissioners		24.8	24.8	24.8

in addition, certain employers make a lump sum contribution

Employer Name	Minimum Contributions for the Year		
	2021 Lump Sum £000	2022 Lump Sum £000	2023 Lump Sum £000
St Catherine's School Ltd	32	33	34
Yarmouth Harbour Commissioners	57	57	57
Cowes Harbour Commissioners	19	19	19
Southern Housing Group	274	274	274
Sovereign Housing Group	198	198	198

* During 2019-20, academies within the fund were asked whether they wished to pool with the administering authority for contribution rate purposes only. Seven of the academies in operation at the time of the 2019 valuation opted to pool, and the pooled rates are shown above.

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

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the valuation report dated 13 March 2020.

Method

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

Assumptions

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

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

Financial Assumptions	31 March 2019 % p.a. Nominal
Discount rate (Investment returns)	3.40%
Salary Increases	3.10%
Price inflation/Pension Increases	2.30%

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

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

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

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

* based on members aged 45 at the valuation date.

Experience over the period since 31 March 2019

Markets were disrupted by COVID 19 which resulted in difficult market conditions towards the end of the financial year. As a result, the funding level of the Fund as at 31 March 2020 has reduced in comparison to that reported in the previous formal valuation**.**

Copies of the 2019 valuation report and the Funding Strategy Statement are available on request from the Finance Department of the Isle of Wight Council, administering authority to the fund.

22. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

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

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

Balance Sheet

Year ended	31 March 2020 £m	31 March 2019 £m
Present value of Promised Retirement Benefits	(729)	(814)
Fair value of scheme assets (bid value)	561	595
Net Liability	**(168)**	**(219)**

The promised retirement benefits have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2019. The actuary estimates this liability at 31 March 2020 comprises £244 million in respect of employee members (2019: £339 million), £167 million in respect of deferred pensioners (2019: £188 million) and £318 million in respect of pensioners (2019: £287 million). The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member may not be reliable. However, the actuary is satisfied that the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises. The actuary has not made any allowance for unfunded benefits. The liability in respect of employee members incorporates an allowance for the McCloud ruling i.e. an estimate of the potential increase in past service benefits arising from this case affecting public service pension schemes.

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 and are different as at 31 March 2020 and 31 March 2019. The actuaries estimate that the impact of the change in financial assumptions to 31 March 2020 is to decrease the actuarial present value by £64m. The actuaries estimate that the impact of the change in demographic and longevity assumptions is to decrease the actuarial present value by £26m.

Financial assumptions

Year ended	31 March 2020 % p.a.	31 March 2019 % p.a.
Inflation/Pension Increase Rate	1.9%	2.5%
Salary Increase Rate	2.7%	2.9%
Discount Rate	2.3%	2.4%

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

Longevity assumption

The life expectancy assumption is based on the Fund's bespoke VitaCurves in line with the CMI 2018 model, with an allowance for smoothing of recent mortality experience and a long-term rate of 1.25% p.a. for both women and men.

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

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

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

Please note that the longevity assumptions have not changed since the previous IAS26 disclosure for the Fund.

Commutation assumption

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

23. LONG TERM ASSETS

31 March 2019 £000		31 March 2020 £000
	Debtors	
62	Contributions due - employers	22
55	Reimbursement of lifetime tax allowances	64
117		**86**

24. CURRENT ASSETS

31 March 2019 £000		31 March 2020 £000
	Debtors	
119	Contributions due - employees	97
587	Contributions due - employers	451
706		**548**
48	Taxation	85
5	Sundry debtors	63
107	Payments in advance	113
3	Cash balances	1,298
869		**2,107**

25. CURRENT LIABILITIES

31 March 2019 £000		31 March 2020 £000
	Creditors	
206	Taxation	208
417	Accruals	340
240	Sundry creditors	372
863		**920**

26. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCS)

Market value 31 March 2019 £000		Market value 31 March 2020 £000
658	Prudential life and pensions	669

AVC contributions of £101.7 thousand were paid directly to Prudential Life and Pensions during the year (2018-19: £151.7 thousand).

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

27. RELATED PARTY TRANSACTIONS

Isle of Wight Council

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

During the reporting period, the council incurred costs of £538 thousand (2018-19: £475 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 £12.9 million in 2019-20 (2018-19: £11.8 million) to the fund. All monies owing to the fund, with the exception of deferred balances in respect of pension strain costs totalling £29.2 thousand (2019: £103.4 thousand), were paid during the year.

During the year, the pension fund borrowed funds from the council to support its working cash flow requirements; interest was charged on these borrowings at the broker local authority interest rate relevant to the amount and duration of the borrowing at the time it was made. The maximum amount borrowed during 2019-20 was £12.0 million (2018-19: £13.6 million). The balance due to the council at 31 March 2020 is £8.0 million (2019: £10.4 million),
Interest of £99.4 thousand (2018-19: £71.8 thousand) was paid on the borrowings in the year.

Year ended 31 March 2019 £000	Repayment profile of borrowings from Isle of Wight Council	Year ended 31 March 2020 £000
1,100	less than 1 month	1,300
-	2 - 3 months	-
1,900	3 - 6 months	1,000
2,600	6 - 9 months	700
4,800	9 – 12 months	5,000
10,400	**Total value of borrowings**	**8,000**

Governance

There are no members of the pension fund committee who are in receipt of pension benefits from, or who are active members of the Isle of Wight Council Pension.

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.

27A. KEY MANAGEMENT PERSONNEL

The key management personnel of the fund are members of the pension fund committee, the Director of Finance and S151 Officer and the Technical Finance Manager.
Total remuneration payable to key management personnel is set out below:

Year ended 31 March 2019 £000		Year ended 31 March 2020 £000
50	Short-term benefits	58
10	Post-employment benefits	12
-	Other long-term benefits	
-	Termination benefits	
-	Share-based payments	
60		**70**

28. CONTINGENT ASSETS AND LIABILITIES

At 31 March 2020 there were contingencies relating to Contribution Equivalent Premiums (CEPs) amounting to a net sum of £135 thousand (2019: £138 thousand) due to the Pension Fund. Assets amounted to £195 thousand and liabilities totalled £60 thousand (2019: £195 thousand and £57 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 October 2018 a decision was made to join a Class Action against BHP Billiton which seeks to recover some of the loss in share value suffered because of BHP Billiton's alleged failure to disclose material information and its alleged misleading and deceptive conduct. It is estimated that there is a possible benefit to the Pension Fund of £5 thousand (2019: £105 thousand). The reduction in the value of the estimated benefit is due to a more accurate estimate being received. This case is currently ongoing. The sums do not form part of the net assets of the fund.

One admitted body employer in the Isle of Wight Pension Fund holds a guarantee bond to guard against the possibility of being unable to meet their pension obligations. This bond is drawn in favour of the pension fund and payment will only be triggered in the event of an employer default. No such default has occurred during 2019/20 (2018/19 Nil).

29. TRUSTEES REPORT 2019-20

The trustees of the pension fund are the members for the time being of the Pension Fund Committee, who at 31 March 2020 were Councillors Abraham, Axford (chair), Brading, Churchman (vice chair), Garratt, and Mosdell. There has been one elected member vacancy within the pension fund committee throughout the year.

In addition, non-voting representatives of the scheme employers (selected by the fund's external employers) and scheme members (selected by UNISON) attend the committee.

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

<u>Investment Performance</u>
The net assets of the fund at 31 March 2020 were £561.7 million, a decrease of 5.8% on the 31 March 2019 valuation of £596.1 million. The fund's total investments under-performed compared to the agreed benchmarks by 1.5% during the year.

The overall performance of the fund in the year to 31 March 2020 was largely driven by the severe downturn in global investment markets in February and March 2020 due to the coronavirus pandemic.

Over the longer term, the fund underperformed annualised benchmark returns for three years (0.4% underperformance).

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

The actuary's interim funding projection report at 31 March 2020 showed that the notional funding level had fallen to 85.6% since the last triennial valuation at 31 March 2019. However, the deficit of £32 million at 31 March 2019 has increased to a deficit of £95 million at 31 March 2020.

<u>Governance</u>
There were nine scheduled pension fund committee meetings during the year 2019-20, each lasting approximately two hours.

During the year the committee considered the following key items of business:
- Approval of 2018-19 annual report and accounts.
- Procurement for global custodian services.
- Monitoring of actions arising from the 2018 governance review.

- Adoption of a new risk management strategy.
- Finalisation of the 2019 triennial actuarial valuation of the fund, including approval of employer contribution rates for the next three years.
- Adoption of the revised Funding Strategy Statement.
- Review of, and agreement to amend, strategic investment asset allocation.
- Consideration of alternative investment asset classes.
- Review of knowledge and understanding levels.
- Review of the operation of both board and committee, including change of meeting day.
- Regular updates on the ACCESS pool, including a presentation from the Interim Director of the ACCESS Support Unit.

In addition, the committee continues to receive presentations from its fund managers on the fund's investment performance as well as performance benchmarking and advice from its investment consultants, Hymans Robertson LLP

Development sessions were held after three of the committee meetings, covering:
responsible investment and environmental, social and governance considerations (RI/ESG)
Risk Management
Investment Strategy Modelling, including alternative asset classes.

A summary of committee members' attendance for the year 2019-20 is detailed in table 1 below.

Table 1: committee attendance

	Chairman	Vice chairman	Elected member 1	Elected member 2	Elected member 3	Elected member 4	Elected member 4	Elected member 4	Elected member 5	Scheme member rep	Employer rep	
05-Apr-19	√	√	aps	√	√	√				√	√	88%
17-May-19	√	√	aps	√	√	√				√	√	88%
14-Jun-19	√	√	aps	√	√		√			aps	√	75%
19-Jul-19	√	√	√	√	√		√			√	√	100%
06-Sep-19	√	√	aps	√	aps		√			√	√	75%
15-Nov-19	aps	√	aps	√	√			√		√	√	75%
19-Dec-19	√	√	√	√	√			√		√	√	100%
14-Feb-20	√	√	aps	√	√			aps		√	√	75%
13-Mar-20	√	√	aps	sub	aps			√		aps	aps	38%
	89%	100%	22%	89%	78%	22%	33%	33%	0%	78%	89%	79%

Please note the percentage attendance at each meeting (final column) is based on a total committee membership of eight (excluding the on-going elected member vacancy but including the scheme member and employer representatives).

The local pension board comprises two scheme member representatives and two employer representatives, membership was unchanged throughout the year.

There were five scheduled board meetings during the 2019-20 year.

The board considered the following key items of business during the year:

- Review and recommendation of the 2018-19 governance compliance statement.
- Review and recommendation of the risk management strategy.
- Development and finalisation of the board's first annual report.
- Monitoring of progress against the fund's governance action plan and data improvement plan.
- Monitoring of administration performance standards against key performance indicators.
- Monitoring employer compliance with deadlines for submission of monthly data and contributions.
- Review of outcomes of Council's automatic re-enrolment process.

- Regular review of complaints and potential breaches of the law.
- Consideration of responses to the Pension Regulator’s annual return and surveys.

Board members also received a development session from CIPFA on developments since the introduction of local pension boards in 2015.

A summary of board members’ attendance for the year 2019-20 is detailed in table 2 below.

Table 2: board attendance

	Chairman (employer)	Employer rep 2	Scheme member rep 1	Scheme member rep 2	
24-Apr-19	√	√	√	√	100%
18-Jun-19	√	√	√	√	100%
17-Sep-19	√	√	√	√	100%
19-Nov-19	√	√	√	√	100%
28-Jan-20	√	√	√	√	100%
	100%	100%	100%	100%	100%

Glossary of terms

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

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

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

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

Capital expenditure
Expenditure that is incurred to create or add value to a non-current asset.

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

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

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

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

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

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

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

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

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

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

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

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

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

Depreciation
The measure of the deterioration, consumption or other reduction in a non-current asset either as a result of its use, ageing or obsolescence.

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

Earmarked Reserves
The council holds a number of reserves earmarked to be used to meet specific, known or predicted future expenditure.

External Audit
The independent examination of the activities and accounts of local authorities to ensure the accounts have been prepared in accordance with legislative requirements and proper practices and to ensure that the authority has made proper arrangements to secure value for money for its use of resources.

Fair value
The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

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

Financial Regulations
These are the written code of procedures approved by the council, intended to provide a framework for proper financial management. Financial regulations usually set out rules on accounting, audit, administrative and budgeting procedures.

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

Heritage Asset
A tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

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

Infrastructure Asset
A category of property, plant and equipment which generally cannot be sold and from which benefit can be obtained only be continued use of the asset created. Examples are highways, footpaths, bridges and coast protection facilities.

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

International Financial Reporting Standards (IFRS)
These are defined accounting standards that must be applied by all reporting entities to all financial statements in order to provide a true and fair view of the entity's financial position. The standards provide a method of comparison with financial statements of other entities.

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

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

Minimum Revenue Provision (MRP)
The MRP is the minimum amount which must be charged to an authority's revenue account each year and set aside as provision for credit liabilities, as required by the Local Government and Housing act 1989.

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

Business rates (non-domestic rates)
A levy on business properties based on a Government determined rate in the pound (multiplier) which is applied to a rateable value of the property. Local authorities collect the sums due and retain a proportion of the sums received, with the remaining proportions shared between precepting bodies.

Non-current assets
An asset held by the authority for a period greater than one year and is not expected to be disposed of within one year.

Operating lease
An agreement in which the council derives the use of an asset in exchange for rental payments, although the risks and rewards of ownership of the asset are not substantially transferred to the council.

Precepts
The amount levied by another body, such as the Police and Crime Commissioner for Hampshire and Central Government that is collected by the council on their behalf.

Private finance initiative (PFI)
A contract in which the private sector is responsible for supplying services that are linked to the provision of a major asset which previously had been provided by the council. The council will pay for the provision of this service, which is linked to availability, performance and levels of usage.

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

Provisions
Amounts charged to revenue during the year for costs with uncertain timing, although a reliable estimate of the cost involved can be made.

Prudence concept
This concept requires that revenue is not anticipated until realisation can be assessed. Provision is made for all known liabilities whether the amount is certain or can only be estimated in the light of the information available.

Prudential Code
The Prudential Code for Capital Finance in Local Authorities (the Code) is a professional code that sets out a framework for self-regulation of capital spending. In effect, this allows councils to invest in capital projects which best meet their service delivery objectives as long as they are affordable, prudent and sustainable, subject to government reserve powers to restrict borrowing for national economic reasons.

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

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

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

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

Revenue support grant (RSG)
This a Government grant paid to the council to finance general expenditure. It is based on the Government's assessment of how much an authority needs to spend in order to provide a standard level of service.

Specific government grants
These are designed to aid particular services and may be revenue or capital in nature. They may have specified conditions attached to them which determine that they can only be used to fund expenditure which is incurred in pursuit of defined objectives (known as ring-fenced grants).

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

Opinion

We have audited the financial statements and the firefighters' pension fund financial statements of Isle of Wight Council for the year ended 31 March 2020 under the Local Audit and Accountability Act 2014. The financial statements comprise the Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, Balance Sheet, Cash Flow Statement, the related notes 1 to 53 and Expenditure and Funding Analysis, the Collection Fund and the related notes 1 to 6, and the Firefighters Pension Fund financial statements comprising the Fund Account, Net Assets Statement and 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 2019/20.

In our opinion the financial statements:

- give a true and fair view of the financial position of Isle of Wight Council as at 31 March 2020 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – Property, Plant and Equipment and Investment Property valuation

We draw attention to Note 4 Assumptions made about the future and other major sources of estimation uncertainty, Note 14, Property, plant and equipment, and Note 16 Investment properties, of the financial statements, which describe the valuation uncertainty the Authority is facing as a result of COVID-19 in relation to property valuations. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Finance and Section 151 officer’s use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Finance and Section 151 officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority’s ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information referred to on page 4 of the Statement of Accounts, other than the financial statements and our auditor’s report thereon. The Director of Finance and Section 151 officer is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

Arrangements to secure economy, efficiency and effectiveness in the use of resources

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General in April 2020, we are satisfied that, in all significant respects, Isle of Wight Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Responsibility of the Director of Finance and Section 151 officer

As explained more fully in the Statement of the Director of Finance and Section 151 officer's Responsibilities set out on page 5, the Director of Finance and Section 151 officer is responsible for the preparation of the Statement of Accounts, which includes 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 2019/20, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Director of Finance and Section 151 officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

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.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, as to whether the Isle of Wight Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Isle of Wight Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

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

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office requires us to report to you our conclusion relating to proper arrangements.

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

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to address two objections received from local electors. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

Until we have completed these procedures we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Use of our report

This report is made solely to the members of Isle of Wight Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of

Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Helen Thompson
Ernst + Young LLP

Helen Thompson (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Southampton
27 November 2020

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

Opinion

We have audited the pension fund financial statements for the year ended 31 March 2020 under the Local Audit and Accountability Act 2014. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 29. 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 2019/20.

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2020 and the amount and disposition of the fund's assets and liabilities as at 31 March 2020; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the pension fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Finance and Section 151 Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Finance and Section 151 Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the pension fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Director of Finance and Section 151 Officer is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we report by exception

We report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Responsibility of the Director of Finance and Section 151 Officer

As explained more fully in the Statement of Responsibilities set out on page 5, the Director of Finance and Section 151 Officer is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Director of Finance and Section 151 Officer is responsible for assessing the Pension Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Pension Fund either intends to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the members of Isle of Wight Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Helen Thompson
Ernst & Young LLP

Helen Thompson (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Southampton
27 November 2020

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

Issue of audit opinion on the financial statements

In our audit report for the year ended 31 March 2020 issued on 27 November 2020 we reported that, in our opinion, the financial statements:

- gave a true and fair view of the financial position of Isle of Wight Council as at 31 March 2020 and of its expenditure and income for the year then ended; and
- had been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

Issue of value for money conclusion on Isle of Wight Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

In our audit report for the year ended 31 March 2020 issued on 27 November 2020 we reported that, in our opinion, in all significant respects, Isle of Wight Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020.

Certificate

In our report dated 27 November 2020, we explained that we could not formally conclude the audit on that date until we had completed the work necessary to address objections received from local electors. We have now completed this work.

No matters have come to our attention since that date that would have a material impact on the financial statements on which we gave an unqualified opinion and value for money conclusion.

We certify that we have completed the audit of the accounts of Isle of Wight Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Helen Thompson
Ernst & Young LLP

Helen Thompson (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Southampton
18 June 2021