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## EXPLANATORY FOREWORD

### 1. Financial Statements

This foreword provides a brief description of the financial events affecting the Council in 2007-08 and the Council's financial position generally. The final accounts are produced in the format stipulated by the Statement of Recommended Practice (SORP) published by the Chartered Institute of Public Finance and Accountancy (CIPFA), which sets out the proper accounting practices in accordance with the statutory framework. The SORP designates certain of the financial statements as 'core' and requires these to be grouped together in a specified order, to be followed by a consolidated set of notes to the accounts covering all of the core statements. Supplementary statements are presented with their own notes after the notes on the core statements.

The core financial statements are:

- *Income and Expenditure Account*  
This statement brings together the net cost of all the services provided by the Council, excluding the Collection Fund. It demonstrates how that cost has been financed from general government grants and income from local taxpayers.
- *Statement of the Movement on the General Fund Balance*  
The Income and Expenditure Account brings together all of the functions of the authority and summarises all of the resources that the authority has generated, consumed or set aside in providing services during the year. However, this accounting basis is currently out of line with the statutory provision that specify the net expenditure that authorities need to take into account when setting local taxes. In order to give a full presentation of the financial performance of an authority during the year and the actual spending power carried forward to future years, the outturn on the Income and Expenditure Account needs to be reconciled to the balance established by the relevant statutory provisions. This statement provides this reconciliation.
- *Statement of Total Recognised Gains and Losses*  
Not all gains and losses experienced by a local authority are reflected in the Income and Expenditure Account. This statement brings these other gains and losses together with the outturn on the Income and Expenditure Account to show the total movement in the authority's net worth for the year.
- *Balance Sheet*  
This shows the financial position of the Council as a whole and summarises all of its assets and liabilities as at 31<sup>st</sup> March 2008.
- *Cash Flow Statement*  
This summarises the inflows and outflows of cash arising from transactions with third parties for both revenue and capital purposes.

The Collection Fund:

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

The Group Accounts:

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

The Firefighters' Pension Fund:

The purpose of the firefighters' pension fund is to provide a basis for demonstrating the balance of cash-based transactions taking place over the year and for identifying the arrangements needed to close the balance for that year.

Isle of Wight Pension Fund Accounts:

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

The Statement of Accounting Policies:

The purpose of this statement is to explain the basis for the recognition, measurement and disclosure of transactions and other events in the accounts. In certain circumstances, where more than one accounting basis or estimation technique is acceptable, the accounting policy and/or estimation techniques followed can significantly affect an authority's reported results and financial position.

The Statement of Responsibilities for the Statement of Accounts:

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

## 2. **Financial Summary**

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

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

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

The Council's 2007-08 grant settlement from the Government was identical to that set out in the provisional settlement twelve months previously and included in the Medium Term Financial Plan. The settlement represented an increase of 6.1% over the previous year which was well above the national average of 3.7%. Once again, the Council makes a major contribution of £3.6 millions to provide protection for authorities who suffered losses of Formula Grant entitlement. This represents resources that are rightly due to the Island based on the Government's formulae, but are taken away through a damping mechanism to help fund other Councils who would otherwise lose more grant if the formulae was rigorously applied.

The 2007-08 revenue budget significantly redirected resources towards priority areas, funded in the main by efficiency savings and income generation and, to a lesser extent, redirection of resources away from areas which did not contribute sufficiently strongly to the delivery of key outcomes. As a result, additional expenditure of £10.7 million was identified as being required for service improvements, mainly in Schools, care packages and improvements to Public Realm services, in addition to £3.2 million for inflation and other pressures. This £13.9 million increase was offset by £7.9 million in efficiency savings and income generation. The revenue budget therefore showed a net increase of £6.0 million when compared to the previous year. Consequently, the Council set a Council Tax increase of 1.9%, which was the lowest increase since the Council was formed. Once again, the Council Tax also contained a 'Special Expenses' charge in non-parished areas to cover the costs incurred by the Council on services provided elsewhere by parishes. This is the final year of these arrangements as all areas will be emparished from 2008-09, but in the meantime these charges eliminate double taxation across other parts of the Island.

The Council's net revenue budget for 2007-08 was £114.843 million (including parish precepts) and the estimated balance on the General Fund at year-end was £1.938 million. Subsequent to the 2007-08 budget being set, the final position on the 2006-07 net expenditure resulted in a contribution of £0.116 million to the General Fund, resulting in a revised estimated balance of £2.054 million.

A summarised comparison of net expenditure with the revised budget for 2007-08 is set out below. These figures relate only to the 'cash limited' management accounts which exclude accounting adjustments relating to items such as retirement benefit costs and depreciation charges.

	<b>Revised Budget</b>	<b>Actual Spend</b>	<b>Carry-overs</b>	<b>Net over/(under) spend</b>
	<b>£'000s</b>	<b>£'000s</b>	<b>£000's</b>	<b>£'000s</b>
Children's Services	19,962	18,250	1,366	(346)
Adult & Community Services	41,991	41,311	680	0
Environment & Neighbourhoods	19,667	19,587	8	(72)
Regeneration & Development	2,882	2,828	52	(2)
Safer Communities	9,727	9,266	375	(86)
Central services	12,090	11,784	266	(40)
Corporate Items & Financing	7,672	6,191	518	(963)
<b>Total Expenditure</b>	<b>113,991</b>	<b>109,217</b>	<b>3,265</b>	<b>(1,509)</b>
<b>Financed from:</b>				
Formula Grant	(50,701)	(50,701)		
Council Tax	(63,290)	(63,290)		
Under-spend carried forward	0	3,265		
Provisions to General Fund	0	1,465		
Applied to General Fund balance	0	44		
<b>Total Financing</b>	<b>(113,991)</b>	<b>(109,217)</b>		
<b>General Fund Balance</b>				
Opening General Fund Balance	(2,055)	(2,055)		
Transfer from Reserves	(12,006)	(12,437)		
Contribution from Provisions/Net underspend	(1,139)	(1,509)		
<b>Closing General Fund Balance</b>	<b>(15,200)</b>	<b>(16,001)</b>		

There have been a number of significant in-year pressures on the budget which have been managed through the Directors' Team and the Mini-Service Board process. The results of the management action taken in the first half of the financial year was a report to Cabinet identifying key issues and proposing a reprioritisation of resources to ensure delivery within budget. The report was approved by Cabinet on 20 November 2007. Details of significant variations are analysed as follows:

- Children's Services – additional budgets made available for Residential Placements (£0.839 million), Looked After Children (£0.286 million) and Direct Payments – Children (£0.152 million). Following approved requests for carryovers of both service underspends and LPSA monies, there is a net underspend at the year end of £0.346 million.
- Engineering Services – additional budget of £2 million made available for Concessionary Fares, £0.427 million for Parking Services and £0.275 million for Landfill Tax. By the year end £0.340 million was not required for Concessionary Fares and was returned to the centre, however the Parking services budget was overspent by a further £0.050 million; there were a number of underspends in other areas including street lighting, waste recycling and street cleansing, which have been set aside in an earmarked reserve for the Highways PFI project.

- Adult Social Services – additional budget of £0.512 million was made available for single status costs at resources centres. In the event, only £0.379 million was necessary and the balance returned to the centre. There were no other significant variations after carryovers.
- Cultural and Leisure Services – additional budget of £0.084 million for the impact of retaining theatres. Carryovers approved for the Island Games, and LPSA1 reward monies relating to family learning and sports development.
- Capital Financing – savings in interest paid due to the reappraisal of the capital programme in year and further slippage.
- Other Corporate Items – this draws together a range of corporate budgets including interest received on investments in the money market, and non-service specific grants. After setting aside money for the Highways PFI reserve and a carryover of £0.518 million for corporate initiatives into 2008/09, there is a net underspend of £0.963 million which forms part of the overall in-year contribution to the General Fund Balance.

Emphasis has been placed on carryovers linked to the delivery of corporate priorities rather than service specific carryover requests. The full amount of unspent LPSA1 Reward Grant and LPSA2 Pump Priming Grant was approved by the Director of Finance for carryover. This is to support delivery of improved service performance from the use of Reward Grant and the achievement of performance targets through the use of Pump Priming Grant.

The net result after carrying forward £3.265 million into 2008-09 is an underspend of £1.509 million, contributing to a General Fund at 31<sup>st</sup> March 2008 of £16.01 million.

The balance of earmarked reserves at 31 March 2008 is £19.28 million. Further details are contained in Note 32 to the Accounts.

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

In 2007-08 the Council spent £23.2 million on capital projects. This was £17.5 million less than the budget of £40.7 million and resources are available to be carried forward to meet areas of slippage in the capital programme. Most capital investment is financed by borrowing which is agreed by central Government over a period of years. At 31 March 2008, the total net borrowings were £108.0 million.

The main areas of expenditure related to road improvements, coast protection schemes and school building improvements. Further details are given in Note 16 to the Accounts.

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

Service Area	Revised Estimate	Actual Spend	Slippage to 2008-09	Net Over/(under) spend
	£000's	£000's	£000's	£000's
Children's Services	19,361	11,767	7,594	0
Community Services	6,133	4,270	1,858	(5)
Environment & Neighbourhoods	10,255	5,001	5,253	(1)
Customer Services	3,687	1,703	1,984	0
Planning & Development	447	41	406	0
Chief Executive	100	0	100	0
Isle of Wight Economic Partnership projects	386	386	0	0
Corporate	346	0	0	(346)
<b>Total Expenditure</b>	<b>40,715</b>	<b>23,168</b>	<b>17,195</b>	<b>(352)</b>

**Financed by:-**

Increase in Capital Financing Requirement	11,457
Grants & Contributions	10,229
Capital Receipts	1,482
<b>Total Financing</b>	<b>23,168</b>

Significant amounts of slippage have occurred in the delivery of certain capital projects, in particular within the Children's Services and Environment and Transport capital programmes. There are some justifiable reasons why the programme has slipped, most notably the ongoing uncertainty of the School's reorganisation plan, which needed to be resolved if abortive spending on some schools was to be avoided. The magnitude of the Cowes High School replacement means also that any delay in that project alone will have a disproportionate effect on the level of spending. Another scheme of significance is the Ryde Gateway project for which contractual negotiations are still on-going.

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

- The Local Government Act 2003 introduced the Prudential Code as a framework under which a local authority's capital finance decisions are carried out. This Act requires local authorities to demonstrate that capital expenditure plans are affordable, external borrowing is prudent and sustainable and treasury management decisions are taken in accordance with professional good practice. The Code is mandatory and applied from April 2004.
- In the 2007-08 Statement of Accounts, the Council has adopted new accounting policies relating to Financial Liabilities and Financial Assets. These involve the charging of notional amounts to service revenue accounts relating to transactions involving financial instruments:
  - debits for the loss recorded on making a soft loan
  - credits for the gain recognised on receiving a loan at less than prevailing interest rates
  - debits for the fair value of any financial guarantees given.

These changes in accounting policy have been given an exceptional exception from being treated as prior period adjustments, so that comparative figures for 2006-07 in the 2007-08 Income and Expenditure Account will not be adjusted.

- The Balance Sheet figures for 31 March 2007 have been adjusted from those included in the Statement of Accounts for 2006-07 to accommodate the implementation of the new Revaluation Reserve. The Revaluation Reserve replaces the Fixed Asset Restatement Account (FARA). The balance on the FARA at 31 March 2007 has been written off to the Capital Financing Account to form the new Capital Adjustment Account. The Revaluation Reserve has then been included in the Balance Sheet with a zero opening balance. The closing position on the Reserve at 31 March 2008 therefore only shows revaluation gains accumulated since 1 April 2007.
- Impairments - the values of each category of assets and of material individual assets that are not being depreciated are reviewed at the end of each financial year for evidence of reductions in value. Where impairment is identified as part of this review or as a result of a valuation exercise, this is accounted for by:
  - where attributable to the clear consumption of economic benefits – the loss is charged to the relevant service revenue account
  - otherwise –written off against any revaluation gains attributable to the relevant asset in the Revaluation Reserve, with any excess charged to the relevant service revenue account.

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

- expenditure that secures but does not extend the previously assessed standards of performance of an asset (eg repairs and maintenance) is charged to revenue as it is incurred.
- FRS17 Retirement Benefits – the Net Pension Liability at 31<sup>st</sup> March 2008 is estimated to be £105.5 million and the implication of this is set out in Note 27 to the Accounts.
- The Fire-fighters' Pension Fund - new arrangements commenced on 1<sup>st</sup> April 2006. The pension scheme remains unfunded but is no longer on a pay-as-you-go basis as far as an individual Fire and Rescue Authority is concerned. The fund is topped up by Government grant if contributions are insufficient to meet the cost of pension payments, while any surplus in the fund is recouped by the Government. As at 31 March 2008, there is a balance of £0.121 million payable by the authority to Government and this has been included in both the FRS17 disclosure and the Income and Expenditure Account. The comparative figures for 2006-07 in the 2007-08 accounts has been restated and this has an impact on the Income & Expenditure Account, the Statement of Movement on the General Fund Balance, the Statement of Total Recognised Gains and Losses and the Balance Sheet.
- Prior year restatements have also been made in respect of accrued interest on loans and investments which have previously been included as creditors or debtors at year end. Any such amounts are now included with the carrying value of the loan or investment. This has an impact on the Balance Sheet only.
- Group Accounts – the 2007 Statement of Recommended Practice (SORP) requires local authorities to enhance their statement of accounts with information about their interest in subsidiaries, associates and joint ventures in a set of group accounts. Where applicable, this provides comprehensive accounting requirements for consolidation of the transactions and balances of subsidiaries and of interests in associates and joint ventures that will ensure group accounts provide a complete picture of the authority's control over other entities. There are no entities where the Council's interest is such that it would give rise to the requirement to prepare group accounts for 2007-08.
- Local Area Agreement (LAA) – the Council, the Local Strategic Partnership (LSP) and the Government have entered into a LAA with the intention of improving services to the local community. Grants amounting to £1.94 million have been received in 2007-08 relating to LAA funding. The revenue income (£1.76 million) and corresponding expenditure are included within service revenue accounts in the Income and Expenditure Account, with the capital element (£0.18 million) being included within Capital Grants and Contributions.
- Local Authority Business Growth Incentives (LABGI) – LABGI delivers financial rewards directly to local authorities that promote continued economic growth in their local areas by allowing them to retain increases in revenue derived from business rates. This additional money is not ring-fenced and is designed to encourage local authorities to build partnerships with local business and promote long-term economic sustainability in their areas. The Council received £1.2 million in 2007-08 and this is

included within General Government Grants on the face of the Income and Expenditure Account. Of this figure £0.658 million has been allocated to Earmarked Reserves and will be used to augment economic regeneration projects in 2008-09.

- The Council's Medium-Term Revenue and Capital Budget Strategy approved in February 2008 set out the funding requirements for the next three years. This involves the use of the General Fund balances in such a way that enables the Council to deliver a coherent strategy, invest in priorities, modernise in a planned way and deliver a Council Tax increase in line with inflation over time. This strategy involved a review of resources held in Earmarked Reserves and other balances, and transfers where appropriate to the General Fund, so that the General Fund would have a closing balance of £15.2 million. These transfers are reflected in the closing balances for the General Fund, Earmarked Reserves, Provisions and the Bad Debt Provision.
- Following Government approval of the Council's proposal for a Highways Maintenance PFI project, it is currently estimated that preliminary costs necessary to deliver the project will amount to £3 million. The opportunity has been taken as part of the 2007-08 closedown process to set aside £2 million in an earmarked reserve for that purpose.
- The Statement on Internal Control has now been replaced by the Annual Governance Statement under the requirements of the Accounts and Audit (Amendment) (England) Regulations 2006.

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

The authority is the accountable body for the following activities and consequently all relevant income and expenditure has been included within the Income and Expenditure Account and the assets and liabilities within the Balance Sheet.

- Market Towns, Area Investment Framework (AIF) and Leader Plus projects, operated by the Isle of Wight Economic Partnership.
- The Standing Conference on Problems Associated with the Coastline (SCOPAC). The membership of this organisation is drawn from other local authorities and interested parties.
- Pooled funding paid by the Government in connection with the Local Area Agreement (LAA).



## STATEMENT OF ACCOUNTING POLICIES

### 1. General Principles

The statement of accounts summarises the Council's transactions for the 2007-08 financial year and its position at the year-end of 31 March 2008. It has been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice 2007* (the SORP). The accounting convention adopted is historical cost, modified by the revaluation of certain categories of tangible fixed assets.

### 2. Accruals of Income and Expenditure

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

- Fees, charges and rents due from customers are accounted for as income at the date the Council provides the relevant goods or services.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as stocks on the balance sheet.
- Works are charged as expenditure when they are completed, before which they are carried as works in progress on the balance sheet.
- Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where income and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

### 3. Provisions

Provisions are made where an event has taken place that gives the Council an obligation that probably requires settlement by a transfer of economic benefits, but where the timing of the transfer is uncertain. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

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

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

### 4. Reserves

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

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

### 5. Government Grants and Contributions (Revenue)

Whether paid on account, by instalments or in arrears, Government grants and third party contributions and donations are recognised as income at the date that the authority satisfies the conditions of entitlement to the grant/contribution, there is reasonable assurance that the monies will be received and the expenditure for which

the grant is given has been incurred. Revenue grants are matched in service revenue accounts with the service expenditure to which they relate. Grants to cover general expenditure (eg Revenue Support Grant) are credited to the foot of the Income and Expenditure Account after Net Operating Expenditure.

## 6. Retirement Benefits

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

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

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

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

### The Local Government Pension scheme

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

- The liabilities of the Isle of Wight Council pension scheme attributed to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – ie an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 6.9% nominal (3.2% real) based on the indicative rate of return on high quality corporate bond as measured by the gross redemption yield on the iBoxx Sterling Corporates Index, AA over 15 years, as at the FRS17 valuation date.
- The assets of the Isle of Wight Council pension fund attributed to the council are included in the Balance Sheet at their fair value:
  - quoted securities – mid-market value
  - unquoted securities – professional estimate
  - unitised securities – average of the bid and offer rates
  - property – market value
- The change in the net pensions liability is analysed into seven components:
  - current service cost – the increase in liabilities as a result of years of service earned this year - allocated in the Income and Expenditure Account to the revenue accounts of services for whom the employees worked
  - past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Net Cost of Services in the Income and Expenditure Account as part of Non Distributed Costs
  - interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to Net Operating Expenditure in the Income and Expenditure Account
  - expected return on assets – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return – credited to Net Operating Expenditure in the Income and Expenditure Account

- gains/losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees - debited to the Net Cost of Services in the Income and Expenditure Account as part of Non-Distributed Costs
- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Statement of Total Recognised Gains and Losses
- contributions paid to the Isle of Wight Council pension fund – cash paid as employer’s contributions to the pension fund.

Statutory provisions limit the Council to raising council tax to cover the amounts payable by the Council to the pension fund in the year. In the Statement of Movement on the General Fund this means that there is an appropriation to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and any amounts payable to the fund but unpaid at the year-end.

### **Discretionary Benefits**

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

### **7. VAT**

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

### **8. Overheads and support services**

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA *Best Value Accounting Code of Practice 2007(BVACOP)*. The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council’s status as a multi-functional, democratic organisation
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on non-operational properties.

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

### **9. Intangible Fixed Assets**

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

### **10. Tangible Fixed Assets**

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

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

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

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

Net current replacement cost is assessed as:

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

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

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

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

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

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

**Disposals:** when an asset is disposed of or decommissioned, the value of the asset in the Balance Sheet is written off to the Income and Expenditure Account as part of the gain or loss on disposal. Receipts from disposals are credited to the Income and Expenditure Account as part of the gain or loss on disposal (ie netted off against the carrying value of the asset at the time of disposal). Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account. Amounts in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Usable Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the Statement of Movement on the General Fund Balance.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the Statement of Movement on the General Fund Balance.

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

Depreciation is calculated on the following bases:

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

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

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

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

## 11. Charges to Revenue for Fixed Assets

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

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

The Council is not required to raise council tax to cover depreciation, impairment losses or amortisations. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement (equal to at least 4% of the underlying amount measured by the adjusted Capital Financing Requirement). Depreciation, impairment losses and amortisations are therefore replaced by revenue provision in the Statement of Movement on the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account for the difference between the two.

## 12. Deferred Charges

Deferred charges represent expenditure that may be capitalised but does not result in the creation of tangible assets. Deferred charges incurred during the year have been written off as expenditure to the relevant service revenue account in the year. Where the Council has determined to meet the cost of the deferred charges from existing capital resources or by borrowing, a transfer to the Capital Adjustment Account then reverses out the amounts charged to the Statement of Movement on the General Fund Balance so there is no impact on the level of council tax.

## 13. Leases

### Finance Leases

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

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

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

### Operating Leases

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

## **14. Financial Liabilities**

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

Where premiums and discounts are charged to the Income and Expenditure Account, regulations allow the impact on the General Fund Balance to be spread over future years. The council's policy will be to spread the gain/loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Income and Expenditure Account to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Statement of Movement on the General Fund Balance.

## **15. Financial Assets**

Financial assets are classified into two types:

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

### **Loans and Receivables**

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Income and Expenditure Account for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable and interest credited to the Income and Expenditure Account is the amount receivable for the year in the loan agreement.

However, the council has made a number of loans to voluntary organisations at less than market rates (soft loans). When soft loans are made, where material a loss is recorded in the Income and Expenditure Account for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Income and Expenditure Account to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Statement of Movement on the General Fund Balance. Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Income and Expenditure Account.

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

A review of soft loans has been undertaken and these are not considered to be material for the purposes of the 2007-08 Statement of Accounts.

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

Available-for-sale assets are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Income and Expenditure Account for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (eg, dividends) is credited to the Income and Expenditure Account when it becomes receivable by the Council.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

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

Changes in fair value are balanced by an entry in the Available-for-sale Reserve and the gain/loss is recognised in the Statement of Total Recognised Gains and Losses (STRGL). The exception is where impairment losses have been incurred – these are debited to the Income and Expenditure Account, along with any net gain/loss for the asset accumulated in the Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Income and Expenditure Account.

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

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

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

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

#### **17. Pooled Budgets**

Section 75 of the National Health Service Act 2006 (previously Section 31 of the Health Act 1999 and the NHS Bodies and Local Authorities Partnership Arrangements Regulations 2000) enable establishment of joint working arrangements between NHS bodies and local authorities. Pooled funds enable health bodies and local authorities to work collaboratively to address specific local health issues. Memorandum accounts are prepared relating to pooled budget agreements between the Isle of Wight Council and Isle of Wight NHS Primary Care Trust. All relevant income and expenditure is included in the Adult Social Care division of service in the Income and Expenditure Account and year-end balances are shared pro-rata on the basis of contributions made.

#### **18. Interests in Companies and Other Entities**

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

#### **19. Estimation Techniques**

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

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

There are no estimates in the 2007-08 accounts which would materially affect the fair presentation of the accounts had a different estimation technique been applied.

## THE STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

### The Authority's responsibilities

The authority is required to:

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

### The Chief Financial Officer's responsibilities

The Chief Financial 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 of Practice').

In preparing this statement of accounts, the Chief Financial Officer has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that are reasonable and prudent;
- complied with the Code of Practice.

The Chief Financial 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 2008 required by the Accounts and Audit (Amendment) (England) Regulations 2006 is set out on pages 24 to 83.

I further certify that the Statement of Accounts presents fairly the financial position of the Authority at 31 March 2008 and its income and expenditure for the year then ended.



Signed:

**Director of Finance**

Date **17/06/08**

I certify that the Statement of Accounts for 2007-08 was approved at the Audit Committee meeting held on 23 June 2008.



Signed:

Date **23/06/08**

**Chair of Audit Committee**



## ANNUAL GOVERNANCE STATEMENT

### Scope of Responsibility

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

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

This Statement outlines how the Council has complied with the principles of the CIPFA/SOLACE Framework for Delivering Good Governance in Local Government.

### The Purpose of the Governance Framework

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

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

The governance framework has been in place for the year ended 31<sup>st</sup> March 2008 and up to the date of approval of the published financial statements.

### The Governance Framework

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

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

- A thriving island
- A safe and well kept island
- A healthy and supportive island
- An inspiring island

And by the One Council programme which is the internal modernisation programme driven by customer need to ensure the Council is equipped to deliver the Eco Island vision.

The vision is refreshed by annual opinion surveys of local citizens to determine if priorities need to be revised. An opinion survey was conducted during 2007/08 financial year and the outcomes were factored in to the One Island programme. The outcomes of the annual opinion surveys are evaluated to determine if there are any implications for the authority's governance arrangements with appropriate amendments being made as necessary.

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

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

The Council has adopted a constitution which sets out the framework within which the Council operates, how decisions are made and the procedures to ensure that they are efficient, transparent and accountable. The constitution is subject to a major review and a revised constitution will be presented to Full Council for approval in 2008/9.

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

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

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

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

The Members Code of Conduct is prescribed by central government and is communicated to members through training. Adherence to the code is reinforced by the Standards Committee which has oversight of the conduct of elected members.

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

Contract Standing Orders set out the rules governing the procurement process to ensure that value for money is achieved whilst meeting all legal and statutory requirements and minimising the risk of corruption. Financial Procedure Rules set out the standards which officers must meet when conducting financial transactions.

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

A risk management framework has been in place across the Council for some years with the objective of embedding effective risk management practices at both strategic and operational levels. During 2007/8, the Risk Management Strategy and Policy Guidelines were revised and updated.

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

In January 2008, Audit and Performance Committee was replaced by Audit Committee with the transfer of responsibility for the consideration of performance to Scrutiny Committee. The role of the Audit Committee is to oversee the financial reporting process and provide independent assurance of the adequacy of the risk management framework and the associated control environment. It is an independent committee comprising seven members selected for their interest in and knowledge of Audit Committee business.

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

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

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

Senior Officers of the council participate in the corporate Development Review Process. This provides an annual appraisal which identifies training and development needs and an appropriate programme of training is developed and delivered.

Effective and efficient communications and consultation is regarded as a high priority for the council and it has invested in building strong and proactive teams in order to deliver that. The council consults residents each year as part of the budget setting process and feedback has enabled the authority to set annual spending programmes that address the concerns and aspirations of the local population. The council also consults residents annually in May through the residents' survey and feedback from the budget consultation and residents' survey feeds into the One Island programme and helps to improve services and influence decision-making. For 2007/8, an Annual Report has been prepared for publication to provide a summarised version of the information contained within the statement of accounts, the annual governance statement and the best value performance plan.

The drive for joined-up government continued in 2007/08 with the aim of producing better services for the public through the exploitation of the obvious synergies available through cooperative working between different public service providers. These relationships are evidenced by partnership agreements. During 2007/08, the council's involvement in partnership arrangements was guided by its partnership governance document "Partnerships – A Guide to Good Practice." This guidance conforms to best practice as identified by the Audit Commission and Chartered Institute of Public Finance and Accountancy (CIPFA). During the year, the council's partnership arrangements were mapped and key attributes for each partnership recorded on a central database. Significant partnership arrangements were identified by the Director's Team and risk registers were developed for these arrangements.

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

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

The process that has been applied by the Council in maintaining and reviewing the effectiveness of the system of internal control during 2007/08, and in the period to publication of this statement, includes:

- The Monitoring Officer and her staff have a duty to keep under review the operation of the Constitution to ensure it is lawful, up to date and fit for purpose.
- The Cabinet, both collectively and individually through the scheme of delegation, is responsible for considering overall financial and performance management and receives comprehensive reports on a quarterly basis. More regular reports on aspects of performance and financial management, in particular significant exceptions and progress with achieving targets, are taken to Service Boards together with action plans for dealing with corporate risks.
- The Council has established four Policy Commissions as part of the overview and scrutiny function. The principal role of the Commissions is to deliver evidence based policy recommendations to the Cabinet, and which are capable of being adopted by the Cabinet. These Commissions have detailed work programmes reflecting the priorities of the administration, and provide stakeholders with the opportunity to participate in Council initiatives and matters of public concern.
- There is a well resourced Scrutiny Committee which is chaired by a member of an opposition group and includes a number of co-opted independent members. This Committee is wholly independent of the Executive functions of the Council, has developed its own work plan, and is responsible for delivering independent scrutiny of service and financial performance, decision making processes, efficiency and effectiveness in achieving the Council's objectives.
- The Council has an established Audit Committee, also independent of the Executive functions of the Council, and responsible for overseeing internal and external audit, risk management processes, reviewing the adequacy of internal controls and the outcome of external inspections as well as reviewing performance at a corporate level.

- Internal Audit provides an independent assessment of, and assurance over, the effectiveness of the Council's internal control processes including its risk management and governance arrangements. Internal Audit's work is undertaken in accordance with the annual audit plan which is prepared by the Chief Internal Auditor using a risk assessment in order to prioritise audit coverage. The audit plan is approved by Audit Committee. Reports are issued to service managers at the conclusion of each audit; where appropriate, these reports include recommendations for improvement and a timetable for implementation. Such recommendations are subsequently reviewed to ensure effective action has been taken. The results of audit work are regularly reported to Audit Committee. The audit plan is subject to regular review and discussion with the Council's external auditors, who place reliance on internal audit work when forming their own judgements about the effectiveness of internal control arrangements across the Council's services.
- The external auditor's Annual Audit and Inspection Letter is considered by the Cabinet and by the Audit Committee. Monitoring of progress towards implementing recommendations contained in the letter takes place as required.
- The Council has a Risk Management Group which includes a 'risk champion' to represent each service area. The group meets on a quarterly basis to consider best practice in risk management, review the risk register and service risks, identify strategic risks and to ensure that consistent management action is being taken to minimise risk to the Council's operations.

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

The Accounts and Audit Regulations (Amendment) (England) 2006 introduced a requirement, from 2006/7 onwards, for each authority to undertake an independent review of the effectiveness of its system of internal audit and to incorporate the outcome of that review within the Annual Governance Statement. A review against the CIPFA Code of Practice for Internal Audit (2006) was undertaken in June 2007 and independently validated by the Head of Audit at Portsmouth City Council. An action plan was put in place to address the improvement opportunities identified by that review. The review has been repeated in May 2008 and the only significant item outstanding is the development of a compliant Audit Manual which is in progress.

Subject to this outstanding issue, an effective internal audit service has been provided across the Council throughout 2007/8.

### The Assurance Process

To support the preparation of this statement, the Director of Finance has co-ordinated an assurance process. Directors and Heads of Service were required to provide assurances that key elements of the internal control framework were in place during 2007/8 in their service area and, where appropriate, to identify areas of control weakness and action to be taken to resolve the weakness including a timescale for implementation of these actions.

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

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

The amended draft AGS, background information and other supporting documents were considered at a meeting of the Audit Committee on 20 May 2008.

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

## Significant Governance Issues

To support the preparation of this statement, the Director of Finance has co-ordinated an assurance process. Directors and Heads of Service were required to provide assurances that key elements of the internal control framework were in place during 2007/8 in their service area and, where appropriate, to identify areas of control weakness and action to be taken to resolve the weakness including a timescale for implementation of these actions.

A number of significant issues have been identified for inclusion in the 2007/8 Statement. These are outlined in the table below and have been identified through the assurance statements provided by Heads of Service, review of the Council's risk registers and the results of external inspection processes.

No.	Issue	Action Planned/Undertaken
1	<p><b>Equality &amp; Diversity</b> The Council needs to ensure it continues to make progress towards meetings its equality and diversity obligations. <i>(Lead: Director of Customer Services)</i></p>	<p>Comprehensive equality plan introduced in 2005. Impact assessments and action plans under review were completed by 31<sup>st</sup> December 2007. Audit to be undertaken in Summer 2008 to enable an action plan to be developed to support the Council in meeting Level 3 of the Equality Standard. Staff training is ongoing and provided by in-house team supplemented by external provision as necessary.</p>
2	<p><b>Procurement</b> Revised Contract Standing Orders underpinned by a new Procurement Code were introduced in 2007/8 but are not yet fully established and embedded across the Council's procurement activity. <i>(Lead: Director of Finance)</i></p>	<p>Procurement Board established in 2007/8 and has met fortnightly since (and will meet on a weekly basis from 19 June 2008). The Board provides additional control over the letting and award of contracts. Procurement training is being delivered to all relevant staff.</p>
3	<p><b>Business Continuity Planning</b> Whilst good progress has been made on specific ICT continuity issues through projects currently underway, arrangements are not yet in place to provide the requisite level of ICT resilience. <i>(Lead: Director of Environment &amp; Neighbourhoods)</i></p>	<p>Plans being tested regularly. Good progress being made on specific ICT continuity issues through projects currently underway. Project established and on schedule to create a disaster recovery site facility. Provision for requisite investment included within the 3 year capital programme and the revised ICT strategy.</p>
4	<p><b>Data Quality</b> The Audit Commission's review conducted in September 2007 on the quality of reporting against BVPIs in 2006/7 identified continued weaknesses in data quality. The majority of actions included within the Data Quality Action Plan agreed by Directors Team in July 2007 have been completed. However, improvements to the quality of the Council's data and intelligence continue to be required in order that it can direct its focus on performance improvements and use data intelligently when making decisions. <i>(Lead: Director of Children's Services)</i></p>	<p>Data Quality Strategy and Policy approved by Cabinet in October 2007. The Audit Commission report was received by the Council in January 2008. This makes further recommendations for improvement. It notes the progress made but emphasises that more needs to be done to develop whole council ownership of this issue. The Council's action plan is now considered and revised quarterly by Directors' Team.</p>
5	<p><b>Governance of Partnerships</b> A sound framework for the governance of the Council's partnerships is now in place. Furthermore, the Council's partnerships have been assessed for risk and value for money is now a key component for a rolling 6-monthly review programme. However, there remains a need to embed the guidance on the establishment and maintenance of partnerships across all areas of the Council. <i>(Lead: Director of Community Services)</i></p>	<p>Fully inclusive partnership register and map to be created to provide a definitive baseline of all the Council's partnerships.</p>
6	<p><b>Project Management</b> There is a need to develop the capacity and capability of project management resource</p>	<p>Programme Office implemented in June 2007. Project management policies and governance process implemented in March 2008 with regular reporting mechanisms in place.</p>

	across the Council to meet the Council's needs. <i>(Lead: Director of Customer Services)</i>	Staff development framework for project managers implemented based on the Association of Project Management competence framework.
7	<b>Financial Management</b> There is a need to ensure greater consistency of financial management standards across the council. During 2007/08, significant budgetary shortfalls and emerging budget pressures were identified requiring reprioritisation of resources and the prudent use of reserves to fund projected overspends. There continued to be significant slippage in the delivery of the capital programme in 2007/8. <i>(Lead: Director of Finance)</i>	Medium Term Financial Plan supported by Medium Term Revenue and Capital Strategies for 2008/9 to 2010/11 put in place during 2007/8. Reprioritisation of resources and prudent use of reserves put in place during 2007/8 to manage the budget within available resources. Additional resources have been secured to improve the capacity of the finance team. Additional budget secured to provide training to finance staff and service managers. Budget training packages to be developed in-house and by engaging external training providers. Budget manual being developed to augment training packages. New procedures for the development of the capital programme together with the strengthening of project management will limit the risk of capital programme slippage.
8	<b>Highways Maintenance</b> The Island's highways are subject to a significant maintenance backlog. <i>(Lead: Director of Environments &amp; Neighbourhoods)</i>	The Highways Maintenance PFI bid is progressing with a view to a contractor commencing work in November 2011. Additional annual budget of £1.75m p.a. has been allocated for 2008/9 to 2010/11.
9	<b>Asset Management</b> The condition of the Council's building stock continues to be of an unsatisfactory standard and subject to a significant maintenance backlog. <i>(Lead: Director of Finance)</i>	Strategic Asset Management Plan to be updated following the report by Bruton Knowles including provision of the Action and Investment Plans by September 2008. A Corporate Property Manager and Corporate Buildings Manager have been recruited to enhance capacity to address this issue. It is proposed that recruitment of a Reactive Maintenance Surveyor and a Space Planner/Designer/Project Manager be investigated to reinforce this enhancement.
10	<b>ICT</b> Weaknesses continue in the Council's ICT arrangements with key issues including IT security, heavy reliance on legacy systems and arrangements not yet in place to provide the requisite level of ICT resilience.  <i>(Lead: Director of Customer Services)</i>	ICT Security Team now reporting to Head of Service. Security Policy rewritten and undergoing consultation. Policy notification included in the log-on process. Security penetration testing undertaken quarterly (and now comparable with best standards in local government). Air conditioning upgraded. Internet filtering system implemented.  Baseline review carried out and gap analysis to be undertaken. Capital programme agreed and being implemented. ICT strategy being revised (and due to be completed by August 2008). All ICT policies re-written and in draft for consultation. Rationalisation and consolidation of operating environments incorporated into the ICT Strategy and Three Year Programme.
11	<b>Educational Performance</b> The Council's objective to improve the educational outcomes for the Island's children continues to present a significant challenge.  <i>(Lead: Director of Children's Services)</i>	The Annual Performance Assessment has increased the Council's grade from inadequate to adequate in terms of standards. A more robust approach for challenging and supporting schools has been developed. The medium support schools are now extensively engaged in their tailored programme. However, the targets set by middle schools for 2009 key stage 2 results were below the Council's aggregate target. Monthly board meetings continue to monitor the programme's progress.
12	<b>Health &amp; Safety</b> Health and safety arrangements remain a cause for concern as there is insufficient corporate understanding of organisation-wide health and safety issues. <i>(Lead: Director of Customer Services)</i>	A paper has been presented to Directors Team recommending that the function be transferred to HR. Improvement plan to be developed and implemented.
13	<b>Governance Framework</b> The Council's constitution and Financial procedure rules are in need of revision. The council must develop a local code of	Reviews of the constitution and financial procedure rules are planned to be completed by September 2008. A local code of corporate governance will be produced at the same time.

	<p>corporate governance to comply with best practice.  <i>(Lead: Director of Legal and Democratic Services)</i></p>	
14	<p><b>Value For Money</b>  The Council lacks the framework to routinely achieve and demonstrate value for money in its operations. It continues to receive a judgement by the Audit Commission (as part of its Use of Resources assessment) that it is performing only adequately in terms of Value for Money.  <i>(Lead: Director of Finance)</i></p>	<p>The Council has introduced a number of processes to improve its value for money including:</p> <ul style="list-style-type: none"> <li>• Improved procurement practices which will deliver lower costs and better value</li> <li>• Routine review of value for money that services provide</li> <li>• Improved collaboration with partners to achieve seamless service delivery</li> <li>• Better management of the Council's physical assets, and</li> <li>• Improved management of the Council's investment programme</li> </ul>
15	<p><b>Management of people</b>  Lack of clarity of strategic HR direction and supporting structure.  <i>(Lead: Director of Customer Services)</i></p>	<p>HR Service Plan for 2008/9 based on clear strategic direction. Revised structure completed, consultation undertaken and recruitment due to commence in June 2008.</p>
16	<p><b>Vulnerable Clients</b>  There is a continuing risk that requires ongoing management to prevent the death or serious injury to a vulnerable client of the Council (child or older adult)  <i>(Lead: Director of Children's Services &amp; Director of Community Services)</i></p>	<p>Children  Progress has been made in this area and the number of children in care is reducing – this is allowing more time for case workers to ensure files are audited and up-to-date. Good co-operation across agencies through the Local Safeguarding Children Board is enabling all agencies to review their practice.</p> <p>Older Adults  Revised Adult Protection Policy jointly agreed with partners and approved by Cabinet in October 2007. Reorganised care management approach with specialised line management. Increased oversight of casework by Head of service.</p>

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed: **Leader of the Council**

Signed: **Chief Executive**

**On behalf of the Isle of Wight Council**

## INCOME & EXPENDITURE ACCOUNT

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

	<b>2007-08 Gross Expenditure £000's</b>	<b>2007-08 Gross Income £000's</b>	<b>2007-08 Net Expenditure £000's</b>	<b>2006-07 Net Expenditure £000's</b>
<b>Expenditure on Services</b>				
Children's & Education Service (see note 1)	128,499	(99,463)	<b>29,036</b>	24,219
Adult Social Care (see note 1)	56,531	(19,412)	<b>37,119</b>	35,508
Cultural, Environmental & Planning Services	40,205	(14,066)	<b>26,139</b>	23,193
Highways, Roads & Transport	23,254	(10,328)	<b>12,926</b>	9,703
Fire Services	7,909	(599)	<b>7,310</b>	7,010
Housing Services (including Benefits)	51,014	(47,923)	<b>3,091</b>	3,557
Court Services	432	0	<b>432</b>	413
Central Services	14,066	(13,680)	<b>386</b>	873
Corporate & Democratic Core	4,352	(40)	<b>4,312</b>	4,524
Non-Distributed costs	400	0	<b>400</b>	1,238
<b>Net Cost of Services</b>	<b>326,662</b>	<b>(205,511)</b>	<b>121,151</b>	110,238
Loss/(Gain) on disposal of fixed assets (see note 1)			<b>4,877</b>	(762)
Amounts due to precepting authorities			<b>852</b>	795
Interest Payable			<b>7,970</b>	7,961
Contribution of housing capital receipts to Government Pool			<b>2</b>	4
Interest receivable			<b>(2,841)</b>	(2,368)
Pension interest cost & expected return on pension assets (see note 27)			<b>2,931</b>	3,458
Firefighters' Pension Scheme – top-up grant repayable to Government (see note 1)			<b>121</b>	362
<b>Net Operating Expenditure</b>			<b>135,063</b>	119,688
Demand on the Collection Fund			<b>(64,142)</b>	(62,759)
General Government Grants (see note 2)			<b>(8,495)</b>	(10,424)
Non-domestic rates redistribution			<b>(43,415)</b>	(40,461)
<b>Deficit for the Year</b>			<b>19,011</b>	6,044



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

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

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

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

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

	<b>2007-08</b> <b>£000's</b>	2006-07 £000's
Deficit for the year on the Income & Expenditure Account	<b>19,011</b>	6,044
Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year	<b>(32,957)</b>	(6,160)
(Increase)/Reduction in General Fund Balance for the Year	<b>(13,946)</b>	(116)
General Fund brought forward	<b>(2,055)</b>	(1,939)
General Fund carried forward generally available for new expenditure	<b>(16,001)</b>	(2,055)

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

	2007-08 £000's	2007-08 £000's	2006-07 £000's
<b>Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the Year</b>			
Amortisation of intangible fixed assets	(470)		0
Depreciation and impairment of fixed assets	(18,525)		(9,732)
Government Grants deferred amortisation	1,312		330
Write downs of deferred charges to be financed from capital resources	(4,106)		(2,661)
Capital Grants & Contributions not deferred	5,160		1,565
Net (loss)/gain on sale of fixed assets	(4,877)		763
Net charges made for retirement benefits in accordance with FRS 17	(14,668)		(16,945)
		(36,174)	(26,680)
<b>Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the Movement on the General Fund Balance for the Year</b>			
Minimum revenue provision for capital financing	6,244		5,873
Capital expenditure charged in-year to the General Fund balance	0		0
Transfer from Usable Capital Receipts to meet payments to the Housing Capital Receipts Pool	(2)		(4)
Employers' contributions payable to the Isle of Wight Council Pension Fund and retirement benefits payable direct to pensioners	12,838		11,591
Firefighters' Pension Scheme – top-up grant repayable to Government	(121)		(362)
		18,959	17,098
<b>Transfers to or from the General fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year</b>			
Net transfers to or (from) reserves		(15,742)	3,422
Net additional amount required to be credited to the General Fund balance for the year		(32,957)	(6,160)

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

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

	<b>2007-08</b> <b>£000's</b>	2006-07 £000's (note 1)
Deficit for the year on the Income & Expenditure Account	<b>19,011</b>	6,044
Surplus arising on revaluation of fixed assets	<b>(22,231)</b>	(13,402)
Adjustments for Land & Buildings	<b>3,821</b>	(4,468)
Actuarial gains on pension fund assets and liabilities	<b>(29,877)</b>	(23,194)
Any other (gains)/losses	<b>(252)</b>	458
Total recognised gains for the year	<b>(29,528)</b>	(34,562)

## BALANCE SHEET

31 March 2007 £000's (note 1)		31 March 2008 £000's	£000's
	<b>Fixed Assets (note 16)</b>		
0	<b>Intangible Fixed Assets</b>	83	
	<b>Tangible Fixed Assets - Operational Assets:</b>		
249,327	Land and Building	250,642	
4,911	Vehicles, Plant, Furniture & Equipment	7,513	
71,460	Infrastructure	69,013	
1,037	Community Assets	1,917	
	<b>Non-Operational Assets:</b>		
1,269	Shared Ownership Dwellings	1,204	
0	Assets under construction	3,483	
1,909	Surplus assets held for disposal	8,183	
329,913	<b>Total Fixed Assets</b>		342,038
11	Long-term Investments (note 17)		11
169	Long-term Debtors (note 18)		141
330,093	<b>Total Long Term Assets</b>		342,190
	<b>Current Assets</b>		
590	Stock & Work in Progress (note 19)	609	
19,419	Debtors & Payments in Advance (note 20)	16,932	
30,446	Investments (note 22)	34,418	
1,938	Cash and bank	2,016	
52,393			53,975
382,486	<b>Total Assets</b>		396,165
	<b>Current Liabilities</b>		
(12,130)	Short-term borrowing (note 23)	(9,739)	
(22,815)	Creditors & Receipts in Advance (note 21)	(28,372)	
(4,885)	Bank Overdraft	(3,259)	
(39,830)			(41,370)
342,656	<b>Total Assets less Current Liabilities</b>		354,795
	<b>Long Term Liabilities</b>		
(132,962)	Long-term borrowing (note 23)		(132,720)
(3,383)	Provisions (note 24)		(2,980)
(2,612)	Capital Grants & Contributions (note 25)		(10,440)
(10,131)	Capital Grants & Contributions Deferred (note 25)		(13,888)
(561)	Deferred Liabilities (note 26)		(520)
(133,822)	Liability related to defined benefit pension schemes (note 27)		(105,534)
59,185	<b>Total assets less liabilities</b>		88,713
	<b>Financed By</b>		
-	Revaluation Reserve (note 28)		19,199
0	Available for Sale Financial Instruments Reserve (note 45)		0
156,431	Capital Adjustment Account (note 29)		140,385
0	Financial Instruments Adjustment Account (note 45)		0
(133,822)	Pensions Reserves (note 27)		(105,534)
0	Usable Capital receipts Reserve (note 30)		0
134	Deferred Capital Receipts (note 31)		125
2,055	General Fund Balance		16,001
(272)	Deficit on Collection Fund		(380)
34,659	Earmarked Reserves (note 32)		18,917
59,185	<b>Total net worth</b>		88,713

## CASH FLOW STATEMENT FOR YEAR ENDED 31 MARCH 2008

	2007-08		2006-07
	£000's	£000's	£000's
Revenue Activities			
<u>Cash Outflows</u>			
Cash paid to and on behalf of employees	135,927		127,720
Precepts paid	7,592		7,200
Housing Benefit paid	37,652		35,659
National Non-Domestic Rate Receipts to Pool	27,196		26,045
Payments to Housing Capital Receipts Pool	2		4
Other operating cash payments	118,590		117,376
		<b>326,959</b>	314,004
<u>Cash Inflows</u>			
Rents	(589)		(567)
Council Tax Income	(60,495)		(58,508)
National Non-Domestic Rate Receipts from Pool	(43,415)		(40,461)
National Non-Domestic Rate Receipts	(27,324)		(26,475)
Revenue Support Grant	(7,286)		(7,639)
DWP Grants for Housing Benefit	(39,851)		(33,699)
Other Government Grants (note 41)	(126,242)		(122,163)
Cash Received for Goods and Services	(39,916)		(36,987)
		<b>(345,118)</b>	(326,499)
Revenue Activities Cash Flow (note 39)		<b>(18,159)</b>	(12,495)
Servicing of Finance			
Interest paid		8,076	7,637
Interest element of finance lease		26	26
Interest Received		(2,618)	(2,360)
		<b>(12,675)</b>	(7,192)
Capital Activities			
<u>Cash Outflows</u>			
Purchase of Fixed Assets		18,274	18,917
Other Capitalised Expenditure		4,106	2,661
<u>Cash Inflows</u>			
Sale of Fixed Assets	(1,482)		(1,921)
Capital Grants & Contributions Received	(18,332)		(8,796)
		<b>(19,814)</b>	(10,717)
		<b>2,566</b>	10,861
Net Cash (Inflow) Outflow Before Financing		<b>(10,109)</b>	3,669
Financing			
Repayments of Amounts Borrowed & Temporary Advances		2,001	1
Capital element of finance lease		41	39
New Loans Raised		0	0
		<b>2,042</b>	40
(Increase)/Reduction in cash and cash equivalents (note 40)		<b>(8,067)</b>	3,709

## NOTES TO THE CORE FINANCIAL STATEMENTS

1. The Statement of Recommended Practice (the SORP) requires that authorities present the Net Cost of Services using the Service Expenditure Analysis set out in the Best Value Accounting Code of Practice (BVACOP). The 2007 BVACOP introduced two new headings of 'Children's & Education Service' and 'Adult Social Care' to replace the former 'Education Services' and 'Social Services'. The 2007-08 Income and Expenditure Account is presented in the new format and the 2006-07 comparative figures have been restated accordingly.

The entry for the 'Firefighters' Pension Scheme – top-up grant repayable to Government' relates to the surplus owed by the authority to the Government as at 31 March 2008 and is shown as corporate expenditure. This entry is reversed out in the Statement of Movement in the General Fund Balance and so has no net impact on the level of Council Tax. Equivalent entries have been made for the 2006-07 comparative year and these have also impacted on the Balance Sheet, where Pension Liabilities and Pension Reserves figures have been restated, and the Statement of Total Recognised Gains and Losses.

Comparative figures for 2006-07 have also been restated in respect of accrued interest on loans and investments which have previously been included within creditors or debtors at year end. Accrued interest is now included with the carrying value of the loan or investment and this has impacted on the Investments, Debtors & Payments in Advance; Short-term borrowing; Long-term borrowing and Creditors & Receipts in Advance balances. However, the overall impact is zero. In addition, an adjustment has been made between the debtors and creditors figures in respect of Local Taxation, but this also has no overall impact.

The loss on the disposal of assets of £4.5 million relates principally to the transfer of the Magistrates Court to the Her Majesty's Court Service (HMCS). This entry is reversed out in the Statement of Movement in the General Fund Balance and so has no net impact on the level of Council Tax.

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

	<b>2007-08</b>	<b>2006-07</b>
Revenue Support Grant	(7,286)	(7,810)
Local Authority Business Growth Incentive grant	(1,209)	(1,010)
Local Public Service Agreements (LPSA)	0	(1,775)
Revenue Support Grant Amending Order	0	171
<b>Total</b>	<b>(8,495)</b>	<b>(10,424)</b>

3. Trading Operations

The Best Value Accounting Code of Practice sets out categories of trading operations which authorities should consider disclosing and detailing in a note to the Accounts. For the financial year ending 31<sup>st</sup> March 2008, all such activities are included in the total cost of the relevant services and are therefore consolidated into the net cost of services. A new disclosure has been made in respect of the Council's Wightbus service and the note relating to Parking Services has been expanded to include on-street parking. In both cases, the equivalent 2006-07 figures are shown for comparison. The amounts include any depreciation, impairment or FRS 17 retirement benefit charges attributable to the particular service. In certain instances, the council may subsidise a service in order to achieve specific service objectives.

The 2007 SORP has prescribed new guidelines for the treatment of capital expenditure and also the treatment of valuations made in year. When a valuation is made in year, the Revaluation Reserve is the first call on any reductions in asset value. As at 1 April 2007, the Revaluation Reserve had a zero balance, so no gains have been brought forward which could have been used to offset any impairments in asset value. Also, the new guidance prescribes that capital expenditure that does not add value should be written-off as an impairment to the benefiting service in the year that the expenditure is incurred. This has had an impact on the Trading Accounts and the amounts of any impairment charges are noted against each relevant operation below:

<b>Operation</b>	<b>Description</b>		<b>£000's</b>
Industrial Units	The Council let industrial units in a variety of locations. The 2007-08 expenditure figure includes an impairment charge of £0.456 million in respect of Somerton Industrial Park.	Turnover	141
		Expenditure	570
		Agreed contribution to/(from) General Fund:	
		2007-08	(429)
		2006-07	53
Markets	The Council runs Newport market and provides supervisory support for other local markets	Turnover	31
		Expenditure	17
		Agreed contribution to/(from) General Fund:	
		2007-08	14
		2006-07	20
Cowes Ferry	Cowes Floating Bridge contains the costs of providing the ferry link between East and West Cowes. Income is generated by charges for vehicles only with 1.5 million passengers carried annually.	Turnover	519
		Expenditure	493
		Agreed contribution to/(from) General Fund:	
		2007-08	26
		2006-07	(67)
Parking Services	This service covers the enforcement of all on-street waiting restrictions and the management of Council controlled off-street car parks. Income is derived from charges levied on users, in particular from ticket and permit sales together with penalty charge notices issued for violations. The excess of income generated by this service is reinvested to improve the transport infrastructure on the Island. The 2007-08 expenditure figure includes an impairment charge of £0.025 million.	Turnover	3,997
		Expenditure	1,672
		Agreed contribution to/(from) General Fund:	
		2007-08	2,325
		2006-07	2,379
Wightbus	Wightbus is the Council's in-house bus operation and provides home-to-school transport, adult day care transport, local bus services and private hires.	Turnover	1,688
		Expenditure	1,769
		Agreed contribution to/(from) General Fund:	
		2007-08	(81)
		2006-07	(82)

Trading Operations (continued)

<b>Operation</b>	<b>Description</b>		<b>£000's</b>
School Buy-Backs	LEA/LA Central Services purchased by schools. Schools are free to choose whether they purchase these services from the authority, or from an external provider. Some service contracts, eg School meals, contain a minimum notice to terminate period. Charges are estimated in October and assumptions are made about rate of buy-back. Schools decide whether to buy-back when they receive their budgets in the following March, hence the potential for a deficit when the buy-back rate does not match that assumed in October.	Turnover	2,328
		Expenditure	2,411
		Agreed contribution to/(from) General Fund:	
		2007-08	(83)
		2006-07	(67)
Bereavement Services	Burial service and maintenance of twelve cemeteries and eleven closed churchyards, together with provision for a Crematorium service including maintenance of site and buildings. Income derived from cremation fees, charges and sales and cemetery burial fees and charges. The 2007-08 expenditure figure includes an impairment charge of £0.026 million in respect of the Crematorium.	Turnover	883
		Expenditure	791
		Agreed contribution to/(from) General Fund:	
		2007-08	92
		2006-07	133
Harbours and Coastal	This includes Newport and Ryde Harbours, Ventnor Haven, Folly Moorings and Whitegates Pontoon. The 2007-08 expenditure figure includes an impairment charge of £0.055 million in respect of Newport Harbour.	Turnover	190
		Expenditure	372
		Agreed contribution to/(from) General Fund:	
		2007-08	(182)
		2006-07	(88)
Leisure Facilities	The running of Leisure facilities at Waterside Pool, Medina Leisure Centre, The Heights, Rew Valley and the squash courts at Westridge. These are subsidised facilities, as with most leisure facilities across the country. The 2007-08 expenditure figure includes impairment charges of £0.158 million in respect of Leisure Centres.	Turnover	1,675
		Expenditure	3,499
		Agreed contribution to/(from) General Fund:	
		2007-08	(1,824)
		2006-07	(1,441)
Seasonal Sites	The running of tourism related sites including Browns and Shanklin Lift.	Turnover	481
		Expenditure	515
		Agreed contribution to/(from) General Fund:	
		2007-08	(34)
		2006-07	(115)



4. Section 137 Expenditure

The Local Government Act 2000 amended the provisions of Section 137 of the Local Government Act 1972. Actual expenditure in 2007-08 amounted to £0.005 million and was in respect of a contribution to RELATE. (£0.005 million in 2006-07).

5. Publicity

As required by Section 5 of the Local Government Act 1986 the total amount spent on publicity in the year including recruitment advertising, was £0.834 million (£0.716 million in 2006-07).

6. Building Regulations Charging Account 2007-08

The Local Authority Building Control Regulations require the disclosure of information regarding the setting of charges for the administration of the building control function. However, certain activities performed by the Building Control Section cannot be charged for, such as providing general advice and liaising with other statutory authorities. The statement below shows the total cost of operating the building control section divided between the chargeable and non-chargeable activities.

	<b>Chargeable</b>	<b>Non Chargeable</b>	<b>Total Building Control</b>	<b>Total Building Control</b>
	<b>2007-08</b>	<b>2007-08</b>	<b>2007-08</b>	<b>2006-07</b>
	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>
<b>Expenditure</b>				
Employee expenses	334	102	<b>436</b>	432
Transport	14	4	<b>18</b>	18
Supplies and Services	21	6	<b>27</b>	36
Central and support services	101	44	<b>145</b>	129
<b>Total Expenditure</b>	<b>470</b>	<b>156</b>	<b>626</b>	<b>615</b>
<b>Income</b>				
Building Regulation charges	482	0	<b>482</b>	480
Miscellaneous income	0	2	<b>2</b>	2
<b>Total Income</b>	<b>482</b>	<b>2</b>	<b>484</b>	<b>482</b>
<b>Surplus/(Deficit) for Year</b>	<b>12</b>	<b>(154)</b>	<b>(142)</b>	<b>(133)</b>

7. Agency Services

Under various statutory powers an authority may agree with other local authorities, water companies and government departments to do work on their behalf. This Council did not carry out any significant agency work during 2007-08.

8. Local Authority Goods and Services Act 1970

Services provided to other public bodies under the powers provided by this Act were as follows:

	<b>2007-08</b> <b>£000's</b>	2006-07 £000's
Provision of Administrative, Professional and Technical Services	<b>178</b>	176
Hire	<b>2</b>	4
Works Relating to Land and Buildings	<b>6</b>	2
<b>Total</b>	<b>186</b>	182

The services were provided to the Riverside Centre, South Wight Housing Association, Isle of Wight Youth Trust, Isle of Wight Law Centre, Parish Councils, Citizens Advice Centre, Not Just Enterprises, Home-Start, Rural Community Council, Real World Trust, Island 2000, IW Women's Refuge, Pre-School Nurseries, IW Credit Union, the Charitable Trust, Unison, HM Prison Service, local Health bodies, coastal management bodies and other local authorities.

In no case did this work represent a material proportion of the activity of the Isle of Wight Council departments concerned.

9. National Health Service Act 2006 Section 75 Pooled Funds

Section 75 of the National Health Service Act 2006 (formerly Section 31 of the Health Act 1999 and the NHS Bodies and Local Authorities Partnership Arrangements Regulations 2000) enable the establishment of joint working arrangements between NHS bodies and local authorities. Pooled funds enable health bodies and local authorities to work collaboratively to address specific local health issues. Memorandum accounts have been prepared relating to pooled budget agreements between the Isle of Wight Council and Isle of Wight NHS Primary Care Trust during 2007-08. All relevant income and expenditure has been included in the Social Services division of service in the Income and Expenditure Account.

**Free Nursing Care - Registered Nursing Care Contribution (RNCC)**

This agreement enables a single payment incorporating both the nursing and social care cost to be made to the Nursing Homes. The pooled budget arrangement is hosted by the Isle of Wight Council. The following shows the pool income, expenditure and balance as at 31<sup>st</sup> March.

	<b>2007-08</b>	2006-07
<b>Amounts Received from Partners</b>	<b>%</b>	<b>£000's</b>
Contribution from IW Council	<b>71.0</b>	<b>4,884</b>
Contribution from IW NHS Primary Care Trust	<b>29.0</b>	<b>1,994</b>
Total Income		<b>6,878</b>
<b>Amount Spent from Pool</b>	<b>£000's</b>	<b>£000's</b>
IWC Funded Island Clients	<b>4,888</b>	5,307
IWC Funded Mainland Clients	<b>225</b>	279
RNCC Island Placed Self Funders	<b>693</b>	597
RNCC Island Self Funders Placed by Mainland Authorities	<b>40</b>	46
Continence Products	<b>136</b>	118
Administration/Assessment	<b>40</b>	36
Total Expenditure		<b>6,022</b>
<b>Amount Remaining in Pool</b>		<b>856</b>

<b>Free Nursing Care (RNCC)</b> To be shared between partners based on agreed split (actuals basis to take account of continuing care charges)	<b>2007-08</b>		2006-07
	<b>%</b>	<b>£000's</b>	£000's
I W Council	<b>77.0</b>	<b>659</b>	(131)
I W NHS Primary Care Trust	<b>23.0</b>	<b>197</b>	(47)
<b>Total</b>		<b>856</b>	(178)

### **Substance Misuse**

This agreement is to provide a pooled budget and lead commissioning arrangement for Substance Misuse Services. This pooled budget arrangement is hosted by the Isle of Wight Council. The following shows the pool income, expenditure and balance as at 31<sup>st</sup> March.

<b>Amounts Received from Partners</b>	<b>2007-08</b>		2006-07
	<b>%</b>	<b>£000's</b>	£000's
Contribution from IW Council	<b>21.14</b>	<b>396</b>	620
Contribution from IW NHS Primary Care Trust	<b>78.86</b>	<b>1,476</b>	1,427
Total Income		<b>1,872</b>	2,047
<b>Amount Spent from Pool</b>	<b>£000's</b>		
Drug Strategies	<b>1,189</b>		1,510
Island Drug and Alcohol Service	<b>532</b>		488
Total Expenditure		<b>1,721</b>	1,998
Carry-forward on Adult Treatment /Young People		<b>151</b>	24
Total Expenditure including carry-forward		<b>1,872</b>	2,022
<b>Amount Remaining in Pool</b>		<b>0</b>	25
To be shared between partners pro rata to contributions made		<b>£000's</b>	£000's
I W Council		<b>0</b>	8
I W NHS Primary Care Trust		<b>0</b>	17
<b>Total</b>		<b>0</b>	25

### Occupational Therapy Pooled Budget

This agreement commenced on 1<sup>st</sup> September 2006 and provides a seamless Occupational Therapy Service to simplify access to services for client groups and carers and further enhance delivery of safe, sound and supportive services. This pooled budget is hosted by the Isle of Wight NHS Primary Care Trust. The following shows the pool income, expenditure and balance as at 31 March.

	2007-08		2006-07
<b>Amounts Received from Partners</b>	%	£000's	£000's
Contribution from IW Council	46.9	467	252
Contribution from IW NHS Primary Care Trust	53.1	527	280
Total Income		994	532
<b>Amount Spent from Pool</b>	£000's		
Staff costs	920		510
Non-staff costs	65		26
Total Expenditure		985	536
<b>Amount Remaining in Pool</b>		9	(4)
To be shared between partners pro rata to contributions made	%		
I W Council	46.9	4	(2)
I W NHS Primary Care Trust	53.1	5	(2)
<b>Total</b>		9	(4)

### Integrated Community Equipment Store Pooled Budget

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

	2007-08		2006-07
<b>Amounts Received from Partners</b>	%	£000's	£000's
Contribution from IW Council	60.3	338	332
Contribution from IW NHS Primary Care Trust	39.7	222	156
Income		560	488
<b>Amount Spent from Pool</b>	£000's		
Staff Costs	115		96
Non-Pay Costs	391		386
Total Expenditure		506	482
Amount Carried Forward		54	0
Total		560	482
<b>Amount remaining in Pool</b>		0	6
To be shared between partners pro rata to contributions made			
I W Council		0	4
I W NHS Primary Care Trust		0	2
<b>Total</b>		0	6

10. Members' Allowances

The total amount of members' allowances paid in the year were £0.589 million (£0.548 million in 2006-07).

11. Disclosure of Employees' Emoluments

The number of officers, teachers and other staff whose remuneration, excluding employer's pension contributions, was £50,000 or more in bands of £10,000 were:-

Remuneration Band	2007-08		2006-07	
	Total	Left during year	Total	Left during year
£50,000 to £59,999	57	1	55	2
£60,000 to £69,999	13	1	9	0
£70,000 to £79,999	8	0	7	0
£80,000 to £89,999	5	0	3	1
£90,000 to £99,999	1	0	3	0
£100,000 to £109,999	1	0	1	0
£110,000 to £119,999	1	0	1	1
£120,000 to £129,999	0	0	0	0
£130,000 to £139,999	1	0	1	0
£140,000 to £149,999	0	0	0	0
£150,000 to £159,999	0	0	0	0
£160,000 to £169,999	0	0	0	0
£170,000 to £179,999	1	0	0	0

The totals in the Statement of Accounts for 2006-07 were based on taxable pay. The SORP requires emoluments to be based on gross pay and the comparative figures for 2006-07 have been restated to comply with this requirement.

A number of officers left the employment of the Council during the year which resulted in severance payments being made. All severance costs, including redundancy payments, added year enhancements and 'capitalised' pension costs are funded from the Revenue Account. The payment of severance payments of this nature does not represent an exceptional occurrence and has occurred in previous years as a result of reorganisation or restructuring.

In 2007-08 43 employees left the Council's employment for reasons of early retirement or redundancy, compared with 65 in 2006-07. Related severance costs charged to the Income and Expenditure Revenue Account in 2007-08 totalled £0.588 million, compared with £1.393 million in 2006-07. The current management arrangement for these costs is that they are charged to revenue accounts to suit service budget requirements, and this can be for any period subject to a maximum of 5 years.

## 12. Related Parties Transactions

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

Central government has effective control over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (eg housing benefits). Details of transactions with government departments are set out in a note relating to the Cash Flow Statement.

Transactions with the Isle of Wight NHS Primary Care Trust in respect of the Pooled Budget arrangements are shown in Note 9 to the Accounts.

Members of the Council have direct control over the council's financial and operating policies. During 2007-08, works and services to the value of £0.158 million were commissioned from companies in which three members had an interest. Contracts were entered into in full compliance with the council's standing orders. In addition, members are nominated to represent the Council on various outside bodies. One member acts as a trustee for an organisation which receives payments in connection with Supporting People contracts, where the value of payments made during 2007-08 was £0.467 million. The Council also nominates trustees to the Citizen's Advice Bureau, where payments totalling £0.111 million were made during 2007-08. All such relationships are disclosed in the Register of Members' Interest, open for public inspection at County Hall, Newport, Isle of Wight. PO30 1UD.

Elected members disclosures included positions of interest with Parish or Town Councils, Town or Village Management Committees, voluntary bodies or as school governors.

Senior officers were requested to disclose any related party transactions during 2007-08. Whilst there have been no specific disclosures in respect of related party transactions, during the course of the financial year there have been a number of interim arrangements relating to certain senior posts. These by their nature could imply an involvement in related party transactions and the Council has been careful to ensure that robust arrangements are in place and that correct procurement and recruitment procedures have been followed in each case.

During the financial year, the pension fund had an average balance of £0.421 million of surplus cash deposited with the council. The council paid the fund a total of £0.024 million interest on these deposits. The council charged the fund £0.365 million for expenses incurred in administering the fund.

## 13. Audit Costs

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

	2007-08 £	2006-07 £
Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor	307	283
Fees payable to the Audit Commission in respect of statutory inspection	51	145
Fees payable to the Audit Commission for certification of grant claims and returns	79	91
Fees payable in respect of other services provided by the appointed auditor	0	10
<b>Total</b>	<b>437</b>	<b>529</b>

The payments made relating to the external audit services for 2006-07 included fees in respect of the Comprehensive Performance Assessment (CPA), for which there is no equivalent payment in 2007-08. The payments made for the certification of grant claims relates to work carried out during the year of account, but is in respect of claims made in the previous financial year.

14. Government Grants

Central Government and European Community revenue grants towards specific services were received during the year totalling £162.9 million (£155.6 million in 2006-07). These are included as income offsetting service expenditure in the Income and Expenditure Account and are subject to certification by the Audit Commission. The grant relating to Local Authority Business Growth Incentive Scheme (LABGIS) is excluded from this figure as it is not service specific and is instead included with General Government Grants shown on the face of the Income and Expenditure Account.

15. Local Area Agreement (LAA)

The Council is a participant in an LAA which is a partnership with other public bodies involving the pooling of government grants to finance work towards jointly agreed objectives for local public services. In 2007-08, the LAA has completed the second year of its three-year agreement between the Government Office (Government Office for the South-East – GOSE) and the Local Strategic Partnership (LSP).

The purpose of the LAA is:-

- to form an agreement between the Island Strategic Partnership (ISP), the Government (represented by GOSE) and other external agencies, to ensure that they are all working together as closely as possible to the same objectives. This includes developing and facilitating the implementation of the Sustainable Community Strategy for the Isle of Wight, known as 'Eco-Island'. 'Eco-Island' contains the Vision and Values of the Island Strategic Partnership. It sets out an agreed direction and future for the Island based on a set of priorities agreed among all of the partners.
- to agree specific outcomes and targets that will be achieved each year for the three years of the agreement.
- to improve the effectiveness and efficiency of public services on the Isle of Wight by pooling and aligning funding streams.

The LAA partners are the Isle of Wight Council, the Isle of Wight NHS Primary Care Trust, the Hampshire Police Authority, the Isle of Wight Rural Community Council, Isle of Wight College, Job Centre Plus, the Environment Forum, the Isle of Wight Chamber of Commerce, Tourism and Industry, Learning and Skills Council and representatives from the Island Faith Community.

The Isle of Wight Council acts as the accountable body for the LAA. This means that the Council is responsible for managing the distribution of grant paid by the Government Office to the partners involved, but the Council does not determine which bodies are due payments – this is determined either by the Government Office or the partnership. The total amount of LAA Grant received by the LSP in 2007-08 is £1.94 million of which £1.76 million relates to revenue and £0.18 million to capital expenditure. The Council has recognised the full amount of LAA grant in its financial statements.

Of the total amount of grant of £1.94 million in 2007-08, £1.86 million relates to services provided by the Council and £0.08 million to amounts provided to partner organisations within the LAA for services provided in partnership with the Council.

As accountable body, the Council is potentially responsible for repaying to the Government any element of grant that is found to have been misused by its partners. Systems in place for distributing grant are designed to limit the possibility that this will happen. It has not been necessary to recognise any contingent liability for possible repayments and no provisions have been made for any such eventuality.

16. Tangible Fixed Assets

Movement in tangible fixed assets were as follows:

**Operational Assets**

	Land and Buildings £000's	Vehicles Plant Furniture & Equipment £000's	Infrastructure £000's	Community Assets £000's	Total £000's
Certified valuation at 31 March 2007	269,252	9,713	79,402	1,057	359,424
Accumulated depreciation and impairment	(19,925)	(4,802)	(7,942)	(20)	(32,689)
Net book value of assets at 31 March 2007	249,327	4,911	71,460	1,037	326,735
<i>Adjustments in 2007/08</i>					
Transfer historical cost	(7,060)	1,829	(2,207)	96	(7,342)
Transfer Accumulated Depreciation	172	(136)	0	0	36
Previous Disposals not recognised - cost	(330)	(32)	0	0	(362)
Previous Disposals not recognised – accumulated depreciation	21	19	0	0	40
Land & Building historic cost adjustment	(5,178)	0	0	339	(4,839)
Land & Building depreciation adjustment	320	0	0	0	320
Assets not previously recognised	1,065	0	0	25	1,090
Adjusted Net book value at 31 March 2007	238,337	6,591	69,253	1,497	315,678
<i>Movement in 2007/08</i>					
Additions	9,663	3,420	3,707	92	16,882
Disposals	(6,054)	0	0	0	(6,054)
Revaluations	20,673	0	0	431	21,104
Depreciation	(4,705)	(2,498)	(3,745)	(11)	(10,959)
Impairments	(7,272)	0	(202)	(92)	(7,566)
<b>Net book value at 31 March 2008</b>	<b>250,642</b>	<b>7,513</b>	<b>69,013</b>	<b>1,917</b>	<b>329,085</b>

Write-down of accumulated depreciation for re-valued and disposed assets:

Gross Book Value	(7,362)	(85)	0	0	(7,447)
Accumulated Depreciation	7,362	85	0	0	7,447
	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>



Analysis of gross and net book value at 31 March 2008

Certified valuation at 31 March 2008	274,669	14,845	80,902	2,040	372,456
Accumulated depreciation and impairment	(24,027)	(7,332)	(11,889)	(123)	(43,371)
<b>Net book value at 31 March 2008</b>	<b>250,642</b>	<b>7,513</b>	<b>69,013</b>	<b>1,917</b>	<b>329,085</b>

**Non-Operational Assets**

	Shared Ownership Dwellings £000's	Assets under construction £000's	Surplus assets held for disposal £000's	Total £000's
Certified valuation at 31 March 2007	1,269	0	2,022	3,291
Accumulated depreciation and impairment	0	0	(113)	(113)
Net book value of assets at 31 March 2007	1,269	0	1,909	3,178
<i>Adjustments in 2007/08</i>				
Transfer historical cost	0	1,934	5,408	7,342
Transfer accumulated depreciation	0	0	(35)	(35)
Land & Building historic cost adjustment	0	0	(146)	(146)
Land & Building depreciation adjustment	0	0	15	15
Assets not previously recognised	0	0	60	60
Adjusted Net book value at 31 March 2007	1,269	1,934	7,211	10,414
<i>Movement in 2007/08</i>				
Additions	0	1,549	78	1,627
Disposals	(68)	0	(230)	(298)
Revaluations	3	0	1,124	1,127
<b>Net book value of assets at 31 March 2008</b>	<b>1,204</b>	<b>3,483</b>	<b>8,183</b>	<b>12,870</b>

Write-down of accumulated depreciation for re-valued and disposed assets:

	Shared Ownership Dwellings £000's	Assets under construction £000's	Surplus assets held for disposal £000's	Total £000's
Gross Book Value	0	0	(10)	(10)
Accumulated Depreciation	0	0	10	10
	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

## Analysis of gross and net book value at 31 March 2008

Certified valuation at 31 March 2008	1,204	3,483	8,306	12,993
Accumulated depreciation and impairment	0	0	(123)	(123)
<b>Net book value at 31 March 2008</b>	<b>1,204</b>	<b>3,483</b>	<b>8,183</b>	<b>12,870</b>

The opening balances shown for the certified valuation and accumulated depreciation and impairment for both Land and Buildings and Surplus Assets held for Disposal have been adjusted from the closing balances shown in the 2006-07 Statement of Accounts. This is due to the write-down of accumulated depreciation relating to re-valued and disposed assets. The Net Book Value at 31 March 2007 remains unaltered.

Non-operational assets are tangible fixed assets held by a local authority but not directly occupied, used or consumed in the delivery of services. The Council has an interest in 66 shared ownership dwellings, the asset values have been calculated by reference to the rental income received and an expected rental return of 7%.

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

	Land and Buildings £000's	Vehicles Plant Furniture & Equipment £000's	Infrastructure £000's	Community Assets £000's	Non-Operational Assets £000's	Total £000's
Valued at historical cost	-	7,513	69,013	1,917	3,534	81,977
Valued at current value in:						
2007/08	108,780	-	-	-	5,389	114,169
2006/07	32,590	-	-	-	2,029	34,619
2005/06	30,034	-	-	-	319	30,353
2004/05	32,277	-	-	-	522	32,799
2003/04	46,961	-	-	-	1,077	48,038
<b>Total</b>	<b>250,642</b>	<b>7,513</b>	<b>69,013</b>	<b>1,917</b>	<b>12,870</b>	<b>341,955</b>

### Information about Depreciation Methodologies

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

The main items of capital expenditure were:-

	<b>£000's</b>
Sandown High School – Entrance and 6 <sup>th</sup> form study centre	1,785
Medina High School – Science block	1,517
Oakfield Housing scheme	1,105
ICT in Schools (Standards Grant funded)	984
Summerfields Primary School – three classrooms	525
Arreton Primary School – remodelling	506
Heathfield House – homelessness	500
Nettlestone Rural Housing Scheme	476
One School Pathfinder	470
Road Safety – speed signs	425

In addition, major contracts had been entered into with the following outstanding sums at 31 March 2008:-

	<b>£000's</b>
Medina High school – Science block	631
Children's centre – Sandown	400
Public Convenience – Cascades, Ventnor	257
Downside Middle School – Pan Multi Use Games Area (MUGA)	255
Sandown High School – Entrance and 6 <sup>th</sup> form study centre	232
Public Convenience – Yaverland Car Park	219

#### Deferred Charges

Deferred Charges are no longer applicable as a category on the Balance Sheet. Expenditure on deferred charges is included in the Net Operating Expenditure in the Income and Expenditure Account and matched by a corresponding appropriation from the Capital Adjustment Account.

#### Movement in Deferred Charges

	Balance at 1 April £000's	Expenditure In year £000's	Written out In year £000's	<b>Balance at 31 March £000's</b>
Improvement Grants	0	2,350	(2,350)	<b>0</b>
Housing Association Grant	0	1,078	(1,078)	<b>0</b>
Isle of Wight Economic Partnership	0	386	(386)	<b>0</b>
Other	0	292	(292)	<b>0</b>
<b>Total</b>	<b>0</b>	<b>4,106</b>	<b>(4,106)</b>	<b>0</b>

#### Capital Expenditure was financed as follows:-

	<b>2007-08 £000's</b>	2006-07 £000's
Capital Receipts	<b>1,482</b>	1,921
Capital Grants	<b>10,229</b>	6,853
Finance leases	<b>0</b>	345
Increase in Capital Financing Requirement (CFR)	<b>11,457</b>	12,385
<b>Total</b>	<b>23,168</b>	21,504

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

**Capital Financing Requirement (memorandum account)**

	<b>2007-08</b>	2006-07
	<b>£000's</b>	£000's
Balance at 1 April	<b>163,417</b>	156,560
Capital Expenditure in year	<b>23,168</b>	21,504
Application of Capital Receipts	<b>(1,482)</b>	(1,921)
Application of Capital Grants	<b>(10,229)</b>	(6,853)
Statutory Charge to Revenue re: past expenditure	<b>(6,244)</b>	(5,873)
<b>Balance at 31 March</b>	<b>168,630</b>	163,417

**Information on Fixed Assets**

An analysis of fixed assets at 31 March is:

	<b>2008</b>	2007
Libraries	<b>11</b>	11
Museums	<b>4</b>	4
Tourist Information Centres	<b>3</b>	3
Allotment sites	<b>21</b>	21
Park areas & amenity sites	<b>209</b>	209
Theatres	<b>2</b>	2
Shanklin Lift	<b>1</b>	1
Leisure facilities	<b>3</b>	3
Schools *	<b>69</b>	69
with a - sports centre	<b>3</b>	3
- theatre	<b>1</b>	1
- swimming pool	<b>1</b>	1
Other Educational properties	<b>18</b>	18
Fire Stations	<b>10</b>	10
Crematorium	<b>1</b>	1
Courts	<b>0</b>	1
Cemeteries	<b>12</b>	12
Guildhall	<b>1</b>	1
Waste Derived Fuel Plant	<b>1</b>	1
Refuse Disposal Sites	<b>2</b>	2
Toilet Blocks	<b>81</b>	81
Car Parks	<b>78</b>	78
Harbours	<b>3</b>	3
Residential Homes for the Elderly	<b>2</b>	2
Resource Centres for the Elderly	<b>2</b>	2
Group Homes	<b>6</b>	6
Family Centre	<b>1</b>	1
Day/Community Centres	<b>12</b>	12
Other Social Services Properties	<b>15</b>	17
Hostels	<b>1</b>	1
Highways Depots and Other Premises	<b>10</b>	10
Chain Ferry and Terminals	<b>1</b>	1
Industrial Estates	<b>8</b>	8
Council Dwellings	<b>5</b>	5
Garage Sites	<b>2</b>	2
County Hall	<b>1</b>	1
Other Office Premises	<b>22</b>	22
Other Premises & Land Sites	<b>36</b>	39
Vehicles and Major Plant - owned	<b>156</b>	144
- leased	<b>134</b>	140
Roads and Bridges (Km)	<b>791.8</b>	791.8
Cycleways (km)	<b>36.3</b>	36.3
Coastal Defences (km)	<b>41</b>	41

\* Including 18 church schools not owned by Isle of Wight Council.

Movement in intangible assets

	Purchased software licences £000's
Original cost	0
Amortisations to 1 April 2007	0
Balance at 1 April 2007	0
Expenditure in year	553
Written off to revenue in year	(470)
<b>Balance at 31 March 2008</b>	<b>83</b>

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

17. Long-term Investments

These comprise £0.011 million in Government and other stocks (2006-07 £0.011 million).

18. Long-term Debtors

Long term debtors consist mainly of mortgages to private householders and loans to employees for car purchase. These loans are repayable over varying periods, interest being charged at nationally determined rates. At 31 March 2008 the balance amounted to £0.141 million (2006-07 £0.169 million).

19. Stocks and Work-in-Progress

	<b>31 March 2008 £000's</b>	31 March 2007 £000's
Works-in-Progress	<b>46</b>	25
Stocks	<b>563</b>	565
Balance at end of year	<b>609</b>	590

20. Debtors and Payments in Advance

	<b>31 March 2008 £000's</b>	31 March 2007 £000's (note1)
Government Departments	<b>5,035</b>	7,438
Local Taxpayers	<b>2,112</b>	2,152
Other Organisations and Individuals	<b>11,579</b>	12,244
	<b>18,725</b>	21,834
less Provision for Bad Debts	<b>(1,794)</b>	(2,415)
Balance at end of year	<b>16,932</b>	19,419

The Provision for Bad Debts is reviewed annually and is a cumulative figure to cover all outstanding debtors. A full review of the provision was undertaken during the course of the financial year as part of the overall review of funds and balances. As a result, the requirement for this provision was reduced to £1.8 million, with the balance being transferred to the General Fund.

21. Creditors and Receipts in Advance

	<b>31 March 2008 £000's</b>	31 March 2007 £000's (note 1)
Government Departments	<b>6,640</b>	5,983
Local Taxpayers	<b>3,303</b>	2,189
Other Organisations & Individuals	<b>18,429</b>	14,643
	<hr/>	
Balance at end of year	<b>28,372</b>	22,815
	<hr/>	

In addition to the restatement adjustment of the 2006-07 comparative figure reported in Note 1, the analysis between Government Departments and Other Organisations & Individuals has also been adjusted as a result of a Government Grant previously being categorised within the Other Organisations category.

22. Investments

This involves the temporary investment of surplus cash flows and internal funds in accordance with the Council's Treasury Management Strategy. At 31<sup>st</sup> March 2008 £0.4 million was invested with Banks and £34.0 million with Building Societies.

23. External Borrowing

	<b>31 March 2008 £000's</b>	31 March 2007 £000's (note 1)
	<b>£</b>	<b>£</b>
Repayable in 1 - 2 years	<b>3,068</b>	1
Repayable in 2 - 5 years	<b>6,151</b>	7,162
Repayable in 5 - 10 years	<b>23,284</b>	17,276
Repayable in 10 - 15 years	<b>28,499</b>	29,577
Repayable in 15 - 20 years	<b>41,504</b>	37,512
Repayable in 20 - 25 years	<b>17,092</b>	23,189
Repayable in more than 25 years	<b>13,122</b>	18,245
	<hr/>	
Repayable in more than one year	<b>132,720</b>	132,962
Repayable within one year	<b>9,739</b>	12,130
	<hr/>	
Total External Borrowing	<b>142,459</b>	145,092
	<hr/>	
Of which, Public Works Loan Board (PWLB)	<b>132,720</b>	132,962
	<hr/>	

There are three Lender Option Borrower Option (LOBO) loans amounting to £9 million included in the 'Repayable within one year' category. The lenders have the option to request a change in the interest rate which could lead the Council to make an early repayment. None of the lenders have exercised their option to change the interest rate.

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

24. Provisions

	Balance 1 April £000's	Receipts £000's	Payments £000's	Balance 31 March £000's
Insurance Liabilities Fund	3,383	0	(766)	<b>2,617</b>
Restructuring Fund	0	363	0	<b>363</b>
Total	3,383	363	(766)	<b>2,980</b>

The Insurance Liabilities Fund represents the potential liabilities identified in an actuarial valuation of outstanding insurance claims. An actuarial valuation as at 31 March 2007 carried out in the year estimated the Council's outstanding liabilities as £2.616 million. The balance of £0.767 million has been transferred to the General Fund. The Restructuring Fund represents the costs estimated to be incurred within Children's Services.

25. Capital Grants & Contributions

Capital Grants towards the cost of capital projects are generally applied as expenditure is incurred. The balance at 31 March 2008 includes £7.6 million of capital grant from the Department for Children, Schools and Families for the targeted capital fund, which will be applied to capital schemes in 2008/09 and future years.

	31 March 2008 £000's	31 March 2007 £000's
Balance at beginning of year	<b>2,612</b>	44
Capital Grants Received	<b>18,057</b>	9,421
	<b>20,669</b>	9,465
Capital Grants & Contributions applied	<b>(5,069)</b>	(5,288)
Capital Grants & Contributions not deferred	<b>(5,160)</b>	(1,565)
Balance at end of year	<b>10,440</b>	2,612

Capital Grants & Contributions Deferred

The Capital Grants and Contributions Deferred Account represents amounts received to fund expenditure which will be released to offset depreciation in respect of those assets to which they relate.

	31 March 2008 £000's	31 March 2007 £000's
Balance at beginning of year	<b>10,131</b>	5,173
Capital Grants & Contributions Applied	<b>5,069</b>	5,288
	<b>15,200</b>	10,461
Less: Amortised to Income & Expenditure Account	<b>(1,312)</b>	(330)
Balance at end of year	<b>13,888</b>	10,131

26. Operating Leases

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

The amount paid under these arrangements in 2007-08 was £0.426 million (£0.422 million in 2006-07). The authority was committed at 31<sup>st</sup> March 2008 to making payments of £1.343 million in 2008-09, comprising the following elements:-

<b>Leases expiring</b>	<b>Future liability £000's</b>
In 2008-09	0
Between 2009-10 and 2013-14	561
After 2013-14	782

Finance Leases

Vehicles, plant, furniture and equipment – the authority has acquired fire service vehicle assets under finance leases. The rentals payable under these arrangements in 2007-08 was £0.067 million (£0.066 million in 2006-07), charged to the Income and Expenditure Account as £0.026 million finance costs (debited to interest payable) and £0.041 million relating to the write-down of obligations to the lessor (debited as part of the appropriation to Capital Adjustment Account in the Statement of Movement on the General Fund Balance).

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

	<b>Vehicles, Plant &amp; Equipment</b>	
	<b>2008 £000's</b>	<b>2007 £000's</b>
Value at 1 April	523	241
Adjustment to 2006-07 closing balance	13	0
Additions	0	345
Revaluations	0	0
Depreciation	(64)	(63)
Disposals	0	0
<b>Value at 31 March</b>	<b>472</b>	<b>523</b>

Outstanding obligations to make payments under these finance leases (excluding financing costs) at 31 March 2008, accounted for as long-term liabilities, are as follows:-

	<b>Vehicles, Plant &amp; Equipment £000's</b>
Obligations payable in 2008-09	43
Obligations payable between 2009-10 and 2013-14	300
Obligations payable after 2013-14	177
<b>Total liabilities at 31 March 2008</b>	<b>520</b>



27. Retirement Benefits

As part of the terms and conditions of employment of its officers and other employees, the authority offers retirement benefits. Although these benefits will not actually be payable until after employees retire, the authority has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement.

The authority participates in three pension schemes:

- the Local Government Pension Scheme is administered by the Council and is a funded scheme, meaning that the authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.
- the Fire-Fighters' Pension Scheme is administered by the Council and is an unfunded scheme, meaning that there are no investment assets built up to meet the pensions liabilities. The authority and employees pay contributions into a fund from which pension payments are made. 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 recouped by Government.
- teachers employed by the authority are members of the Teachers' Pension Scheme, which is administered by the Teachers' Pension Agency.

The cost of retirement benefits are recognised in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge made against the council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out in the Statement of Movement in the General Fund Balance. The transactions that have been made in the Income and Expenditure Account and Statement of Movement in the General Fund Balance during the year relating to both the Local Government and Firefighters' Pension Schemes are as follows:-

	<b>Local Government Pension Scheme</b>		<b>Firefighters' Pension Scheme</b>		<b>Total</b>	
	<b>2007-08</b>	2006-07	<b>2007-08</b>	2006-07	<b>2007-08</b>	2006-07
	<b>£000's</b>	£000's	<b>£000's</b>	£000's	<b>£000's</b>	£000's
<b><i>Net cost of services:</i></b>						
Current Service cost	<b>(10,230)</b>	(11,331)	<b>(1,100)</b>	(900)	<b>(11,330)</b>	(12,231)
Past service costs	<b>(257)</b>	(638)	<b>0</b>	0	<b>(257)</b>	(638)
Settlements and Curtailments	<b>(150)</b>	(618)	<b>0</b>	0	<b>(150)</b>	(618)
<b><i>Net Operating Expenditure</i></b>						
Interest cost	<b>(17,714)</b>	(16,032)	<b>(2,100)</b>	(1,900)	<b>(19,814)</b>	(17,932)
Expected return on assets	<b>16,883</b>	14,474	-	-	<b>16,883</b>	14,474
Top-up grant repayable to Government	-	-	<b>(121)</b>	(362)	<b>(121)</b>	(362)
<b><i>Net Charge to the Income and Expenditure Account</i></b>						
	<b>(11,468)</b>	(14,145)	<b>(3,321)</b>	(3,162)	<b>(14,789)</b>	(17,307)
<b><i>Statement of Movement in the General Fund Balance</i></b>						
Reversal of net charges made for retirement benefits in accordance with FRS 17	<b>(570)</b>	3,854	<b>2,400</b>	1,500	<b>1,830</b>	5,354
Top-up grant repayable to Government	-	-	<b>121</b>	362	<b>121</b>	362
<b><i>Actual amount charged against the General Fund Balance for pensions in the year:</i></b>						
Employers' contributions payable to the scheme (including unfunded benefits)	<b>12,038</b>	10,291	-	-	<b>12,038</b>	10,291
Retirement benefits payable to Pensioners (net of member contributions)	-	-	<b>800</b>	1,300	<b>800</b>	1,300

### Assets and Liabilities in Relation to Retirement Benefits

The underlying assets and liabilities for retirement benefits attributable to the authority at 31 March are as follows:

	<b>Local Government Pension Scheme</b>		<b>Fire-fighters' Pension Scheme</b>		<b>Total</b>	
	<b>£000's</b>		<b>£000's</b>		<b>£000's</b>	
<b>At 31 March</b>	<b>2008</b>	2007	<b>2008</b>	2007	<b>2008</b>	2007
Estimated liabilities in scheme	<b>(305,970)</b>	(327,422)	<b>(33,821)</b>	(38,962)	<b>(339,791)</b>	(366,384)
Estimated assets in scheme	<b>234,257</b>	232,562	<b>0</b>	0	<b>234,257</b>	232,562
<b>Net Pension Liability</b>	<b>(71,713)</b>	(94,860)	<b>(33,821)</b>	(38,962)	<b>(105,534)</b>	(133,822)

The liabilities show the underlying commitments that the authority has in the long run to pay retirement benefits. The total liability of £105.5 million has a substantial impact on the net worth of the authority as recorded in the Balance Sheet, resulting in an overall balance of £88.7 million. However, statutory arrangements for funding the deficit mean that the financial position for the authority remains healthy:

- the deficit on the local government scheme will be made good by increased contributions over the remaining life of employees, as assessed by the scheme actuary
- in-year deficits on the Fire-fighters' pension fund are reimbursed by Government grant.

### 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 including 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 2004.

The main assumptions used in their calculations are:

<b>Assumptions as at 31 March</b>	<b>Local Government Pension Scheme</b>		<b>Fire-fighters' Pension Scheme</b>	
	<b>2008</b>	2007	<b>2008</b>	2007
Price increases	<b>3.6%</b>	3.2%	<b>3.6%</b>	3.2%
Salary increases	<b>5.1%</b>	4.7%	<b>5.1%</b>	4.7%
Pension increases	<b>3.6%</b>	3.2%	<b>3.6%</b>	3.2%
Proportion of employees opting to take a commuted lump sum	<b>25.0%</b>	25.0%	-	-
Discount rate	<b>6.9%</b>	5.4%	<b>6.9%</b>	5.4%

One the advice of our actuaries, the demographic assumptions adopted (including life expectancy and commutation) are the same as those used for the formal funding valuations as at 31 March 2007. Changes to the Local Government Pension Scheme permit employees retiring on or after 6 April 2006 to take an increase in their lump sum payment on retirement in exchange for a reduction in their future annual pension. An allowance is included for 25% of future retirements to elect additional tax-free cash up to HMRC limits.

Life expectancy for non-pensioners is based on the PMA/PFA92 table, projected to calendar year 2017 for current pensioners and 2033 for non-pensioners. Our actuaries have advised that this will increase the value of the Council's pension liabilities by £11.2 million and this has been included within Non-Distributed Costs on the face of the Income and Expenditure Account.

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

Assets in the Local Government Pension Scheme are valued at fair value, principally market value for investments, and consist of the following categories, by proportion of the total assets held by the Fund.

#### Assets (Employer)

	Long Term Return at 31 March 2008 per annum	Assets at 31 March 2008 £000's	Assets at 31 March 2008 %	Long Term Return at 31 March 2007 per annum	Assets at 31 March 2007 £000's	Assets at 31 March 2007 %
Equities	7.7%	168,877	72.1	7.8%	180,333	77.6
Bonds	5.7%	39,025	16.7	4.9%	27,487	11.8
Property	5.7%	15,674	6.7	5.8%	18,200	7.8
Cash	4.8%	10,681	4.5	4.9%	6,542	2.8
<b>Total</b>		<b>234,257</b>	<b>100.0</b>		<b>232,562</b>	<b>100.0</b>

#### Actuarial Gains and Losses

The actuarial gains identified as movements on the Pension Reserve in 2007-08 can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities at 31<sup>st</sup> March of each year.

#### Local Government Pension Scheme

	2003-04		2004-05		2005-06		2006-07		2007-08	
	£000's	%	£000's	%	£000's	%	£000's	%	£000's	%
Differences between the expected and actual return on assets	20,000	13.9	7,100	4.3	31,700	15.0	2,245	1.0	(24,134)	(10.3)
Differences between actuarial assumptions about liabilities and actual experience	0	0.0	(800)	(0.3)	(1,000)	(0.3)	510	(0.2)	(1,643)	(0.5)
Changes in the demographic and financial assumptions used to estimate liabilities	-	-	(41,400)	(15.3)	(34,200)	(10.5)	18,239	5.6	48,354	15.8
<b>Total</b>	<b>20,000</b>		<b>(35,100)</b>		<b>(3,500)</b>		<b>20,994</b>		<b>22,577</b>	

### Fire-Fighters' Pension Scheme

	2003-04		2004-05		2005-06		2006-07		2007-08	
	£000's	%	£000's	%	%	£000's	%	£000's	%	
Experience gains/(losses) on liabilities arising from pension and salary increases	(5)	(0.0)	(481)	(1.4)	200	0.5	200	0.5	100	0.3
Other experience gains/(losses) on liabilities	0	0.0	0	0.0	(1,500)	(3.8)	0	0.0	(100)	(0.3)
Changes in the demographic assumptions underlying the present value of the scheme liabilities		-	(4,598)	(13.6)	(3,200)	(8.1)	2,000	5.2	7,300	21.6
<b>Total</b>	<b>(5)</b>		<b>(5,079)</b>		<b>(4,500)</b>		<b>2,200</b>		<b>7,300</b>	

### Teachers' Pension Scheme

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

In 2007-08, the council paid £5.6m to Teachers' Pensions in respect of teachers' retirement benefits, representing 14.1% of pensionable pay. During 2006-07, the employer's contribution rate increased from 13.5% to 14.1% from 1<sup>st</sup> January 2007. The council paid a total of £5.0m in 2006-07, with £3.7m being paid when the contribution rate was 13.5% and £1.4m when the rate was 14.1%. There were no contributions remaining payable at year-end.

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

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

28. Revaluation Reserve

The Balance Sheet figures for 31 March 2007 have been adjusted from those included in the Statement of Accounts for 2006-07 to accommodate the implementation of the Revaluation Reserve (see accounting policy 10). The Revaluation Reserve replaces the Fixed Asset Restatement Account (FARA). The credit balance of £119 million on the FARA at 31 March 2007 has been written off to the Capital Financing Account (£37 million credit balance) to form the new Capital Adjustment Account with a balance of £156 million. The Revaluation Reserve has then been included in the Balance Sheet with a zero opening balance. The closing position on the Reserve at 31 March 2008 therefore only shows revaluation gains accumulated since 1 April 2007.

	<b>31 March 2008 £000's</b>
Balance at beginning of year	<b>0</b>
Revaluation gains	<b>22,231</b>
Disposals	<b>(2,997)</b>
Historical Cost Depreciation Adjustment	<b>(35)</b>
	<hr/>
Balance at end of year	<b>19,199</b>
	<hr/>

29. Capital Adjustment Account

The Capital Adjustment Account has been created upon the implementation of the Revaluation Reserve as described in Note 28 above. When it was created on 31 March 2007 from the amalgamation of the Fixed Asset Restatement Account and the Capital Financing Account, the opening balance effectively consolidated revaluation gains accumulated up to that date and the 'capital financing v consumption' surplus/deficit. This was the net result of bringing the two old balances together, although the two elements were not separately identifiable. The effect of the pre-Revaluation Reserve revaluation gains will reduce over time as assets held at 31 March 2007 are disposed of or decommissioned, but in the medium term will be a material influence on the Capital Adjustment Account.

	<b>31 March 2008 £000's</b>
Balance at beginning of year	<b>156,431</b>
Depreciation & Impairment	<b>(18,525)</b>
Amortisation of Intangible Assets	<b>(470)</b>
Minimum Revenue Provision	<b>6,244</b>
Capital Grants & Contributions deferred	<b>1,312</b>
Capital Grants & Contributions not deferred	<b>5,160</b>
Financing of Deferred Charges	<b>(4,106)</b>
Fixed Asset Disposals	<b>(6,352)</b>
Balance of Disposals on Revaluation Reserve	<b>2,997</b>
Usable Receipts Applied	<b>1,480</b>
Historical Cost Depreciation Adjustment	<b>35</b>
Asset Register correction	<b>(3,821)</b>
	<hr/>
Balance at end of year	<b>140,385</b>
	<hr/>

30. Usable Capital Receipts

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

	<b>31 March 2008 £000's</b>	31 March 2007 £000's
Balance at beginning of year	<b>0</b>	0
Sale of Capital Assets	<b>1,482</b>	1,921
	<b>1,482</b>	1,921
Less: applied to capital	<b>(1,480)</b>	(1,917)
to meet payments to the Housing Capital	<b>(2)</b>	(4)
Balance at end of year	<b>0</b>	0

31. Deferred Capital Receipts

This item comprises outstanding balances on mortgages made to private householders (former Council tenants) amounting to £0.016 million (2006-07 £0.023 million) and other sundry loans of £0.109 million (2006-07 £0.111 million).

32. Earmarked Reserves

	Balance 1 April	Contributions	Payments	Transfer to General Fund	Total Movements	<b>Balance 31 March</b>
	£000's	£000's	£000's	£000's	£000's	<b>£000's</b>
Earmarked Revenue & Capital	8,687	3,923	(5,309)	(3,011)	(4,397)	<b>4,290</b>
Repairs & Renewals Funds	1,671	107	(366)	(151)	(410)	<b>1,261</b>
Earmarked Reserves - Education	2,140	1,081	(1,749)	0	(668)	<b>1,472</b>
Earmarked Reserves – Adult Social Care Services	229	0	(52)	0	(52)	<b>177</b>
Earmarked Reserves – Other Services	11,458	3,236	(5,208)	(5,116)	(7,088)	<b>4,370</b>
School Balances	2,960	445	(713)	0	(268)	<b>2,692</b>
Insurance & Risk Funds	7,514	3,932	(2,632)	(4,159)	(2,859)	<b>4,655</b>
<b>Total</b>	<b>34,659</b>	<b>12,724</b>	<b>(16,029)</b>	<b>(12,437)</b>	<b>(15,742)</b>	<b>18,917</b>

During the year, a reassessment was made of the Council's funds and balances. As a result, £12.4 million of balances previously held as reserves have been transferred to the General Fund in line with the Council's Medium-Term Revenue and Capital Budget strategy.

The Earmarked Revenue and Capital Reserve provides the finance for slipped expenditure to be carried forward into the next financial year. These funds include the £1.9 million underspends and £1.3 million of LPSA/LAA funds carried over to 2008/09, and £0.7 million LABGIS grant, all of which will be utilised in 2008-09 to augment existing budgets for key priorities and projects.

The Repairs and Renewals Funds include a central contingency to meet significant items of unforeseen expenditure, together with service specific funds for equipment renewal.

The Education earmarked reserves include Standards Fund monies, an ICT reserve and a general contingency set aside to meet future requirements.

The Social Services earmarked reserves relate to the Access replacement computer project and the Wightcare Services equipment renewals fund.

Other Services earmarked reserves represent specific sums set aside to meet future requirements. The principal item under this heading relates to the creation of the Highways Maintenance PFI Scheme reserve, as well as individual service project funds.

School balances represent cumulative underspendings set aside by delegated budget holders under Schemes for Financing Schools. The law requires that these underspendings are carried forward, for future use by the school concerned.

Insurance and Risk Funds provide the means to take categories of insurance risk in-house in the future and to meet various contingencies. These funds also recognise that the Council faces a number of non-insurable risks that fall outside the scope of normal insurance cover including litigation, contract disputes and natural disasters. Rather than provide for these individually, with subsequent volatility within the revenue budget, the non-insurable risk element within these reserves currently provides for these potential liabilities. As part of the review of funds and balances, £4.16 million has been transferred to the General Fund and the balance remaining is consistent with that approved within the Medium-Term Revenue and Capital Budget Strategy.



33. Detail of Movement on Reserves

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

	Balance 1 April	Net Movement in Year	<b>Balance 31 March</b>	Purpose of Reserve	Further Detail of Movements
	£000's	£000's	<b>£000's</b>		
Revaluation Reserve	0	19,199	<b>19,199</b>	Store of gains on revaluation of fixed assets not yet realised through sales	Note 28
Capital Adjustment Account	156,431	(16,046)	<b>140,385</b>	Store of capital resources set aside to meet past expenditure	Note 29
Usable Capital Receipts	0	0	<b>0</b>	Proceeds from asset sales applied in-year to meet the cost of capital investment	Note 30
Pensions Reserve	(133,822)	28,288	<b>(105,534)</b>	Balancing account to allow inclusion of Pensions Liability in the Balance Sheet	Note 27
General Fund	2,055	13,946	<b>16,001</b>	Resources available to meet future running costs	Statement of Movement on the General Fund Balance
Earmarked Reserves	34,659	(15,742)	<b>18,917</b>	Resources set-aside to fund known and potential future liabilities	Note 32
Other Reserves	(138)	(118)	<b>(256)</b>	Deferred credits and Collection Fund balance	Note 31 & Collection Fund statement
<b>Total</b>	<b>59,185</b>	<b>29,890</b>	<b>89,075</b>		

34. Interests in other entities

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

**Island 2000 Trust Ltd** coordinates and runs projects that preserve and enhance the landscape of the Island. It is a company limited by guarantee in which the Council holds 16.67% of the voting rights. It is an influenced company, but not regulated. Further information can be obtained from the registered office:- Cowes Waterfront, Venture Quays, Castle Street, East Cowes, Isle of Wight, PO32 6EZ.

**Hampshire and Wight Trust for Maritime Archaeology** is a registered charity established to preserve maritime archaeology sites in the Solent. It is a company limited by guarantee in which the Council holds 10% of the voting rights. The net assets of the company are not material to the Council. It is not an influenced company or regulated. Further information can be obtained from the registered office:- County Hall, High Street, Newport, Isle of Wight, PO30 1UD

**OSEL Enterprises Ltd** provides employment for people with learning difficulties. It is a registered charity and a company limited by guarantee in which the Council has no voting rights. A significant proportion of the company's income is derived from contracts with the Council. It is an influenced company not regulated. Further information can be obtained from the registered office:- Sunnycrest Nursery, Wacklands Lane, Newchurch, Sandown, Isle of Wight, PO36 0NB.

**Riverside Centre Ltd** operates the multi-purpose Centre at Newport Quay. It is a company limited by guarantee in which the Council has a minority interest. A large proportion of the centre's income comes from the Council and it is therefore an influenced company not regulated. Further information can be obtained from the registered office:- The Quay, Newport, Isle of Wight, PO30 2QR.

**The Isle of Wight Economic Partnership Ltd** advises the Council on economic matters. It is a company limited by guarantee in which the Council has 16.67% voting rights at the AGM. It is not an influenced company or regulated. Further information can be obtained from the registered office:- The Innovation Centre, St Cross Business Park, Monks Brook, Newport, Isle of Wight, PO30 5WB.

**Island Youth Water Activities Centre (Isle of Wight) Ltd** operates the Cowes Watersports Centre. It is a company limited by guarantee in which the Council controls 33% of the voting rights. Approximately 40% of the company's income comes from the Council. It is an influenced regulated company. Further information can be obtained from the registered office:- Whitegates, Artic Road, Cowes, Isle of Wight, PO31 7PG.

**The Tourism Partnership Ltd** is a company limited by guarantee in which the Council controls 50% of the voting rights. It is an influenced regulated company, but has been dormant since its incorporation. Application was made in March 2008 for this company to be dissolved and this is now in progress. Further information can be obtained from the registered office:- County Hall, Newport, Isle of Wight, PO30 1UD.

**Cowes Town Waterfront Trust Ltd** owns the freehold of Cowes Marina. It is a company limited by guarantee in which the Council currently controls 25% of the voting rights. The net assets of the company are not material to the Council's accounts. It is an influenced company not regulated. Further information can be obtained from the registered office:- Vectis Yard, High Street, Cowes, Isle of Wight, PO31 7BD.

**Cowes Yacht Haven Ltd** is a company limited by shares. The Council owns a minority interest of 2% of the share capital, the remaining 98% being owned by Cowes Town Waterfront Trust (CTWT). The Council therefore does not have any control or influence over the company, other than through its membership of the CTWT. Further information can be obtained from the registered office:- Vectis Yard, High Street, Cowes, Isle of Wight, PO31 7BD.

**Isle of Wight Maritime Heritage Partnership Ltd** was incorporated in February 2007 and is a company limited by guarantee with no share capital. During 2007-08 the Council controlled 20% of the voting rights. No trade has been specifically entered into on behalf of the Council with the Company and the Company has not traded with the Council. At present, the process that would lead to the company being categorised as non-trading and dormant is being investigated. Further information can be obtained from the registered office:- County Hall, Newport, Isle of Wight, PO30 1UD.

35. Contingent Liabilities

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

In addition, there are six legal matters pending which potentially could incur costs of up to £0.537 million. However, these sums have been included as part of the risk assessment of the fund held against non-insurable risks.

36. Authorisation of Accounts for Issue

The Director of Finance authorised the financial statements for issue on 17<sup>th</sup> June 2008.

37. Events after the Balance Sheet Date

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

However, on 25 March 2008 the Government announced that the Council's Highways Maintenance PFI bid had been approved. It has been estimated that up to £3 million will be required for the preliminary costs necessary to deliver the project. No specific provision was made at the time of the budget, but the opportunity has been taken as part of the 2007-08 closedown process to set aside £2 million in an earmarked reserve for that purpose. A further review of Reserves and Balances will be undertaken during 2008-09 to identify another £1 million to augment the current amount in the earmarked reserve. It is likely that once the project is underway, the full amount of the preliminary costs will be recovered from PFI credits.

On-going negotiations have been taking place with various external agencies for a number of months over the proposed capital project at Ryde Gateway. The project and the contract are still subject to further negotiations and it is anticipated that these will be concluded during the course of 2008-09, when the full cost of the project and associated funding streams will be confirmed.

38. Trust Funds and Other Balances

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

- The Brenda James Trust Fund, which was established with the object of the advancement of music education on the Isle of Wight for the benefit of pupils and young musicians, has a balance of £0.101 million at 31<sup>st</sup> March 2008 (£0.096 million on 31<sup>st</sup> March 2007).

- 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 £0.047 million at 31<sup>st</sup> March 2008 (£0.047 million on 31<sup>st</sup> March 2007).

	<b>31 March 2008 £000's</b>	31 March 2007 £000's
Trust Funds Etc	<b>154</b>	150
Cash in Safekeeping	<b>15</b>	15
Amenity Funds	<b>107</b>	97
Total	<b>276</b>	262

39. Reconciliation of the net surplus/deficit on the Income and Expenditure Account to the Revenue Activities net cash flow in the statement:

	<b>2007-08 £000's</b>	2006-07 £000's
General Fund movement as per Income & Expenditure Account	-	(116)
Deficit for the year on the Income & Expenditure Account	<b>(19,011)</b>	-
Increase/ (reduction) in Stock and Work in Progress	<b>19</b>	(22)
Increase/ (reduction) in Debtors	<b>(2,487)</b>	5,265
(Increase)/reduction in Creditors	<b>(5,557)</b>	(2,409)
Transfer to/(from) Reserve & other non-cash transactions	<b>14,361</b>	(9,936)
Interest Payments	<b>(8,102)</b>	(7,637)
Interest Receipts	<b>2,618</b>	2,360
Revenue Activities Net Cash Flow	<b>(18,159)</b>	(12,495)

The 2006-07 reconciliation was based on the increase in the General Fund Balance for that year. This base has been changed in 2007-08 to the Deficit for the year on the Income & Expenditure Account. These figures are therefore not comparable.

40. Movement in cash reconciled to the movement in net debt

	<b>2007-08 £000's</b>	2006-07 £000's
Balance Sheet Movements		
Increase/(Reduction) in Bank Overdrawn	<b>(1,626)</b>	1,599
(Increase)/Reduction in Cash in Hand	<b>(78)</b>	11,445
Increase/(Reduction) in Short Term Loans	<b>(2,391)</b>	(185)
(Increase)/Reduction in Bank Advances	<b>(3,972)</b>	(9,150)
Increase/(Reduction) in Cash and Cash Equivalents	<b>(8,067)</b>	3,709

41. Analysis of Government Grants

	2007-08 £000's	2006-07 £000's	2007-08 £000's	2006-07 £000's
	<b>Revenue Grants</b>		<b>Capital Grants</b>	
Department for Children, Schools & Families (formerly Education & Skills)	94,778	91,137	11,985	4,343
Department of Health	5,725	5,362	406	94
Home Office	490	1,156	0	0
Dept of Works and Pensions – Housing Benefit	39,851	33,699	0	0
Dept of Works and Pensions – Other	12,698	11,742	0	0
Department of Transport	705	381	1,962	0
Department for Communities & Local Government	10,346	10,500	700	1,367
Other (including European Grants)	1,499	1,886	1,012	1,578
	<b>166,092</b>	<b>155,863</b>	<b>16,065</b>	<b>7,382</b>

42. Dedicated Schools Grant

The council's expenditure on schools is funded by grant monies provided by the Department for Children, Schools and Families, the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget. The Schools budget includes elements for a restricted range of services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each school. Over and underspends on the two elements are required to be accounted for separately. The council is able to supplement the Schools Budget from its own resources, but in 2007-08 no such supplement was made.

Details of the deployment of DSG receivable for 2007-08 are as follows:

**Schools Budget Funded by Dedicated Schools Grant**

	Central Expenditure £000's	Individual Schools Budget £000's	Total £000's
Original grant allocation to Schools Budget for the current year in the authority's budget	9,796	61,308	71,104
Adjustment to finalised grant allocation	(193)	0	(193)
DSG Receivable for the year	9,603	61,308	70,911
Actual expenditure for the year	9,962	61,576	71,538
(Over)/under-spend for the year	(359)	(268)	(627)
Planned top-up funding of ISB from Council resources	0	0	0
Use of School Balances brought forward	0	268	268
Over/Under spend from previous years	321	0	321
(Over)/under-spend carried forward to 2008-09	<b>(38)</b>	<b>0</b>	<b>(38)</b>

43. Section 106 receipts

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

	<b>31 March 2007 £000's</b>	<b>Income £000's</b>	<b>Expenditure £000's</b>	<b>31 March 2008 £000's</b>
Springfield Court, Seaview – Affordable Housing	223	0	(178)	<b>45</b>
B & Q Dodnor Lane/Medina Way – Public Transport in Newport	139	0	0	<b>139</b>
Ashey Road, Ryde	2	160	0	<b>162</b>
Whitecroft, Sandy Lane, Newport	0	250	0	<b>250</b>
Kingston, East Cowes	0	260	0	<b>260</b>
Tesco Store, Ryde	0	222	0	<b>222</b>
Mornington Road, Cowes	0	271	0	<b>271</b>
Windsor Road, Shanklin	0	136	0	<b>136</b>
Other	580	505	(415)	<b>670</b>
<b>Total</b>	<b>944</b>	<b>1,804</b>	<b>(593)</b>	<b>2,155</b>

44. Euro Costs

The precise costs arising from the adaptation of operational and information systems to accommodate a future British participation in the single European currency have not yet been evaluated. At this stage it is considered that costs to be incurred in addition to the Councils' in-house resources will not be material.

45. Financial Instruments

The borrowings and investments disclosed in the Balance Sheet are made up of the following categories of financial instruments:-

	<b>Long-Term</b>		<b>Current</b>	
	<b>31 March 2008 £000's</b>	31 March 2007 £000's	<b>31 March 2008 £000's</b>	31 March 2007 £000's
Financial liabilities at amortised cost	<b>(132,720)</b>	(132,962)	<b>(9,739)</b>	(12,130)
Total Borrowings	<b>(132,720)</b>	(132,962)	<b>(9,739)</b>	(12,130)
Loans and receivables	<b>0</b>	0	<b>34,418</b>	30,446
Available-for-sale financial assets	<b>11</b>	11	<b>0</b>	0
Total investments	<b>11</b>	11	<b>34,418</b>	30,446

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

	<b>31 March 2008 £000's</b>	31 March 2007 £000's
<b>Financial Liabilities</b>		
Interest from Financial Liabilities measured at amortised cost	<b>(7,970)</b>	(7,961)
<b>Financial Assets</b>		
Interest from Loans and Receivables	<b>2,841</b>	2,368
Interest from Available-for-sale assets	<b>0</b>	0
Interest and Investment income	<b>2,841</b>	2,368
Net loss for the year	<b>(5,129)</b>	(5,593)

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

- the fair value of loans from the PWLB has been calculated by reference to the 'premature repayment' rates in force on 31 March
- no early repayment or impairment is recognised
- where an instrument will mature in the next 12 months, carrying amount is assumed to approximate fair value
- the fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair value of long-term PWLB loans is calculated as follows:

	<b>31 March 2008</b>		31 March 2007	
	<b>Carrying amount £000's</b>	<b>Fair value £000's</b>	Carrying amount £000's	Fair value £000's
Financial liabilities	<b>132,720</b>	<b>144,748</b>	132,962	138,087

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

There are three Lender Option Borrower Option (LOBO) loan amounting to £9 million included in the 'Repayable within one year' category. The lenders have the option to request a change in the interest rate which could lead the Council to make an early repayment. None of the lenders have exercised their option to change the interest rate.

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

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

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

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

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

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

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

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

### **Credit risk**

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the authority's customers. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above.



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

	<b>Amount at 31 March 2008</b>	<b>Historical experience of default</b>	<b>Historical experience adjusted for market conditions at 31 March 2008</b>	<b>Estimated maximum exposure to default &amp; uncollectability</b>
	<b>A £000's</b>	<b>B %</b>	<b>C %</b>	<b>(A x C) £000's</b>
Deposits with banks and financial institutions	34,418	0.0	0.0	0
Customers	4,158	4.34	16.62	691
				691

No credit limits were exceeded during the reporting period and the authority does not expect any losses from non-performance by any of its counterparties in relation to deposits. The amount shown as the exposure due to default and uncollectability is covered by the Provision for Bad Debts.

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

	<b>£000's</b>
Less than two months	2,599
Two to six months	381
Six months to one year	321
More than one year	857
	4,158

### **Liquidity Risk**

As the authority has ready access to borrowings from the Public Works Loan Board, there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the authority will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates.

Under the arrangement for the £9 million of the authority's borrowing which is through three LOBO loans, the lenders have the option to increase the interest rate each year. If the lenders were to increase the interest rate, the authority has the right to repay the loan without penalty. In this case, it is possible that the Council would have to pay higher interest if it chose to replace the loan.

The remainder of the Council's borrowing consists of fixed rate PWLB debt. The PWLB allows debt to be rescheduled prior to maturity, although this may necessitate paying a premium to PWLB.

The maturity analysis of financial liabilities is as follows:

	<b>£000's</b>
Less than one year	9,739
Between one and two years	3,068
Between two and five years	6,151
More than five years	123,501
<b>Total</b>	<b>142,459</b>

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

## **Market Risk**

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

- borrowings at variable rates – the interest expense charged to the Income and Expenditure Account would rise.
- borrowings at fixed rates – the fair value of the borrowing will fall
- investments at variable rates – the interest income credited to the Income and Expenditure Account will rise
- investments at fixed rates – the fair value of the assets will fall.

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Income and Expenditure Account or the STRGL. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Income and Expenditure Account and affect the General Fund balance £ for £.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together the Council's prudential indicators and its expected treasury operations, including an expectation of interest rate movements. From this strategy, a prudential indicator is set which provides minimum and maximum limits for fixed and variable rate exposure. Market and forecast interest rates are monitored within the year to adjust exposures appropriately. The analysis will also advise whether new borrowing taken out is fixed or variable.

According to this assessment strategy, at 31 March 2007, 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 £0.473 million. The impact of a 1% fall in interest rates would be as above, but with the movements being reversed.

## **Price Risk**

The Council has no equity shares or shareholdings. It therefore has no exposure to loss arising from movements in share prices.

## **Foreign Exchange Risk**

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

## **Balance Sheet Disclosures**

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

- the Available-for-Sale Financial Instruments Reserve – records unrealised revaluation gains arising from holding available-for-sale investments, plus any unrealised losses that have not arisen from impairment of the assets.
- the Financial Instruments Adjustment Account – provides a balancing mechanism between the different rates at which gains and losses (such as premiums on the early repayment of debt) are recognised under the SORP and are required by statute to be met from the General Fund.

Due to the nature of the Council's financial instruments, there are no entries to be made under these headings in respect of the 2007-08 financial year.

## Group Accounts

The 2007 Statement of Recommended Practice (SORP) requires local authorities to consider all their interests and to prepare a full set of group financial statements where they have material interests in subsidiaries, associates or joint ventures. The financial statements will include:-

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

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

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

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

- Entities included in the accounts of the Isle of Wight Council as shown in Note 2(c) to the Explanatory Foreword.
- Interests in other entities as shown in Note 34 to the Accounts

There are no entities where the Council's interest is such that it would give rise to the requirement to prepare group accounts.

This position is reviewed and updated on an annual basis.

## THE COLLECTION FUND

	<b>£000's</b>	<b>2007-08 £000's</b>	<b>2006-07 £000's</b>
<b>Income</b>			
Council Tax (note 2)		<b>60,512</b>	57,815
Transfers from General Fund:-			
Council Tax Benefits	<b>10,459</b>		10,429
Contribution re: Discretionary Relief	<b>80</b>		64
		<b>10,539</b>	10,493
Income collectable from business ratepayers (note 1)		<b>26,752</b>	26,332
Contribution towards previous year's Collection Fund (deficit)/surplus			
Isle of Wight Council	<b>(129)</b>		415
Hampshire Police Authority	<b>(13)</b>		42
		<b>(142)</b>	457
		<b>97,661</b>	95,097
<b>Expenditure</b>			
Isle of Wight Council Precept		<b>64,142</b>	62,759
Police Precept		<b>6,740</b>	6,405
Business Rate:-			
Payment to National Pool	<b>26,632</b>		26,032
Costs of Collection	<b>251</b>		253
		<b>26,883</b>	26,285
Bad and doubtful debts:-			
Council Tax:			
Write-offs	<b>106</b>		117
Provisions	<b>(51)</b>		(48)
		<b>55</b>	69
Business Rates:			
Write-offs	<b>7</b>		106
Provisions	<b>(58)</b>		5
		<b>(51)</b>	111
		<b>97,769</b>	95,629
<b>Collection Fund Balance at 31st March</b>		<b>2007-08 £000's</b>	<b>2006-07 £000's</b>
Balance on Fund at start of year		<b>272</b>	(260)
Deficit for Year		<b>108</b>	532
Balance on Fund Carried Forward		<b>380</b>	272

## NOTES TO THE COLLECTION FUND

1. The total non-domestic rateable value at 31 March 2008 was £71.9 million and the non-domestic rate multiplier for the year was 44.4p. A reduced multiplier of 44.1p was applicable where there was eligibility for Small Business Rate Relief. The gross yield for the year was £30.6million and the net yield was £26.8 million. Several nationally defined adjustments and reliefs contribute towards this reduction as shown below:-

	<b>£000's</b>	<b>£000's</b>
Gross Non-domestic rate yield at 31 March 2008		30,636
Less:-		
Mandatory relief to charities etc	(1,378)	
Empty rate relief	(869)	
Small Business Rate relief	(1,107)	
Transitional relief	(503)	
Interest on refunds	(38)	
Write-backs	11	
		(3,884)
Net Non-domestic rate yield at 31 March 2008		26,752

2. The following details the number of properties in each valuation band of the tax base for 2007-08:-

<b>Band</b>	<b>Net Chargeable Dwellings</b>	<b>Relevant Proportion</b>	<b>Band D equivalents</b>
Band A (disabled)	12	5/9	7
Band A	7,465	6/9	4,976
Band B	14,177	7/9	11,027
Band C	14,549	8/9	12,933
Band D	11,532	9/9	11,532
Band E	6,277	11/9	7,671
Band F	2,671	13/9	3,858
Band G	1,277	15/9	2,129
Band H	83	18/9	166
<b>Total</b>	<b>58,043</b>		<b>54,299</b>
Less reduction for bad debts & valuation changes (0.8%)			(434)
2007-08 Council Tax Base			<b>53,865</b>
Council Tax per Band D property (£)			1,170.16

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

3. The following precepts were made on the fund in 2007-08:-

	<b>£000's</b>
Isle of Wight Council Precept	63,030
Estimated Collection Fund deficit	(129)
Parish & Town Council Precepts	852
Special Expense areas	389
Demand on the Collection Fund	64,142
Hampshire Police	6,740
<b>Total Precepts</b>	<b>70,882</b>

## ISLE OF WIGHT COUNCIL FIREFIGHTERS' PENSION FUND

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

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

### Accounting Policies

1. As the Pension Fund has no investment assets and does not account for benefits payable in the future, there are no accounting policies that diverge from those set out in the main Statement of Accounting Policies.
2. The Net Assets Statement does not include liabilities to pay pensions and other benefits after the Balance Sheet date. The Authority's liability calculated under FRS17 is disclosed in Note 27 to the Core Financial Statements.

## FIREFIGHTERS' PENSION FUND ACCOUNT

	2007-08		2006-07
	£000's	£000's	£000's
<b>Contributions receivable:</b>			
Employers' contributions in relation to pensionable pay	(469)		(402)
Early retirements	0		0
Firefighters' contributions	(254)		(209)
		(723)	(611)
Transfers in from other authorities		(29)	(6)
<b>Benefits payable:</b>			
Pensions	1,056		990
Commutations and lump sum retirement benefits	0		287
Lump sum death benefits	0		0
		1,056	1,277
<b>Payments to and on account of leavers:</b>			
Transfers out to other authorities	0		0
Refunds of contributions	0		0
		0	0
<b>Net amount payable for the year</b>		<b>304</b>	<b>660</b>
<b>Top-up grant payable by the Government</b>		<b>(304)</b>	<b>(660)</b>
		<b>0</b>	<b>0</b>

## NET ASSETS STATEMENT

	2007-08	2006-07
	£000's	£000's
Creditors – Top-up payable to the Government	(121)	(362)
Amount owing from General Fund	121	362
	<b>0</b>	<b>0</b>

**ISLE OF WIGHT COUNCIL PENSION FUND**

**Fund Account for year ended 31 March 2008**

	<u>Note</u>	<b>2007-08</b>	2006-07
		<b>£000</b>	£000
<b>Contributions and Benefits</b>			
Contributions receivable:			
From Employers	2	<b>12,776</b>	11,256
From Employees or Members	2	<b>3,671</b>	3,525
Transfers in	3	<b>3,516</b>	2,060
Other Income	4	<b>39</b>	49
		<hr/>	<hr/>
		<b>20,002</b>	16,890
Benefits Payable			
Pensions	5	<b>10,496</b>	9,900
Lump Sums (including retirement & death benefits)	5	<b>2,127</b>	2,514
Payments to and on account of leavers:			
Refunds of contributions		<b>6</b>	10
Transfers out		<b>1,330</b>	944
Administrative and other expenses	6	<b>365</b>	388
		<hr/>	<hr/>
		<b>14,324</b>	13,756
		<hr/>	<hr/>
Sub total – Net additions from dealings with members		<b>5,678</b>	3,134
<b>Returns on Investments</b>			
Investment income (see analysis below)	7	<b>11,604</b>	8,810
Change in market value of investments (realised & unrealised)	8	<b>(19,802)</b>	10,763
Irrecoverable withholding tax	9	<b>(475)</b>	0
Investment management expenses	10	<b>(357)</b>	(279)
		<hr/>	<hr/>
Sub total – Net returns on investments		<b>(9,030)</b>	19,294
		<hr/>	<hr/>
Net increase (decrease) in the fund during the year		<b>(3,352)</b>	22,428
Opening Net assets of the scheme		<b>261,214</b>	238,786
		<hr/>	<hr/>
Closing Net assets of the scheme		<b>257,862</b>	261,214
		<hr/>	<hr/>



**ISLE OF WIGHT COUNCIL PENSION FUND**

**Net Assets Statement as at 31 March 2008**

	<b>2007-08</b>	2006-07
	<b>£000</b>	£000
Investments at market value:		
Fixed Interest – Treasury Bonds	<b>18,759</b>	14,753
Equities	<b>137,569</b>	146,312
Unit Trusts – Property	<b>16,957</b>	20,356
Unit Trusts – Other	<b>72,322</b>	66,222
Currency Forwards	<b>(98)</b>	15
Margin Account	<b>425</b>	758
Cash Backing Offset	<b>255</b>	(570)
Cash – JP Morgan	<b>10,565</b>	10,925
Futures	<b>(324)</b>	634
	<hr/>	<hr/>
	<b>256,430</b>	259,405
Temporary Advance – Isle of Wight Council	<b>228</b>	577
Other net assets:		
Debtors - Government	<b>74</b>	66
- admitted bodies	<b>118</b>	127
- interest	<b>296</b>	235
- security sales	<b>90</b>	32
- dividends	<b>974</b>	1,109
- other	<b>2</b>	2
	<hr/>	<hr/>
	<b>1,554</b>	1,571
Less:		
Creditors - security purchases	<b>(225)</b>	(234)
- other	<b>(125)</b>	(105)
	<hr/>	<hr/>
	<b>(350)</b>	(339)
Net Assets	<hr/> <b>257,862</b> <hr/>	<hr/> 261,214 <hr/>

## ISLE OF WIGHT COUNCIL PENSION FUND

### 1. Operation and Membership

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

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

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

Cowes Harbour Commissioners  
 Yarmouth (IW) Harbour Commissioners  
 St Catherines School Ltd  
 Trustees of Carisbrooke Castle Museum  
 IW Society for the Blind  
 Isle of Wight Magistrates' Courts Committee  
 Isle of Wight Rural Community Council  
 South Wight Housing Association Ltd  
 Medina Housing Association Ltd  
 The Quarr Group (formerly Island Group 90 Ltd)  
 Isle of Wight College  
 Riverside Centre Ltd  
 Osel Enterprises Ltd  
 Planet Ice (IOW) Ltd  
 Island 2000 Trust Ltd  
 First Wessex Housing Group Ltd formerly Atlantic Housing Group Ltd

At 31 March 2008

	<b>Administering Authority</b>	<b>Scheduled Bodies</b>	<b>Admitted Bodies</b>	<b>Total</b>
Number of Contributors	4,515	183	110	<b>4,808</b>
	£000's	£000's	£000's	<b>£000's</b>
Employees Contributions	3,354	171	146	<b>3,671</b>
Pensions paid	11,158	386	1,077	<b>12,621</b>
Employers Contributions	10,943	504	922	<b>12,369</b>

A deficit-funding sum of £0.104 million was paid by South Wight Housing Association, as required by the actuarial valuation 31.3.2004 and is included in the above admitted bodies employers contributions.

Contributions to the Fund by employees were made at 6% pensionable pay. However, employees who hold lower rate rights are entitled to make contributions at 5% of pensionable pay.

The rate at which the employers contribute to the Fund is determined by the actuarial valuations of the Fund (See Notes 14, 15 and 16).

During 2007-08, 723 purchases and 478 sales of investments took place following broad guidelines accepted by an investment panel which comprised Councillors Miss Humby, Mrs Wood, West, Abraham, Fitzgerald-Bond, Brown, and the Director of Finance, in addition a non voting representative of both the admitted bodies and staff union attend the investment panel meetings.

The cost of purchases amounted to £70.7 million and the net proceeds received from the sales totalled £53 million. The Fund's managing agents for the period were Schroder Investment Management (UK) Ltd.

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

At 31 March 2008 the number of individual holdings was as follows:

UK Equities	52
Overseas Securities	119
UK Government Securities	9
Non UK Government Securities	1
International Bond	1
Unit Trusts	7
Property Unit Trusts	1
Cash Instruments	3
Futures	4
	197

Net new money coming into the Fund in 2007-08, that is to say the **excess** of contributions and investment income over benefit payments and expenses, amounted to £16.4 million compared to £11.7 million in 2006-07.

The net assets of the fund at 31 March 2008 totalled £257.9 million, a reduction of 1.3% on the 2006-07 valuation of £261.2 million.

Notes relating to Fund Account and net assets statement

2	<u>Contributions receivable</u>	<b>2007-08</b>	2006-07
	<u>Employers</u>	<b>£000's</b>	£000's
	Normal	<b>11,906</b>	10,144
	Special (Capitalisations)	<b>408</b>	634
	Additional (deficit funding and cessations)	<b>462</b>	478
		<b>12,776</b>	11,256
	<u>Members</u>		
	Normal	<b>3,666</b>	3,511
	Additional	<b>5</b>	14
		<b>3,671</b>	3,525

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

Deficit funding was payable as required by the actuarial valuation dated 31 March 2004 by the South Wight Housing Association for 2007-08 £0.104 million (2006-07 £0.099 million).

A sum of £0.378 million was paid by the First Wessex Housing Group Ltd (formerly Atlantic Housing Group Ltd) in 2006-07 as an admitted body cessation valuation carried out by the funds actuary Hymans Robertson and a similar calculation was undertaken in 2007-08 resulting in a sum of £0.359 million payable by the Quarr Group (formerly Island Group 90 Ltd) also as an admitted body cessation valuation.

3	<u>Transfers in</u>	<b>2007-08</b>	2006-07
		<b>£000's</b>	£000's
	Payments in relation to individual fund members	<b>3,516</b>	2,060
4	<u>Other income</u>	<b>2007-08</b>	2006-07
		<b>£000's</b>	£000's
	Interest paid by Isle of Wight Council	<b>24</b>	40
	Miscellaneous income	<b>12</b>	9
	Contribution Equivalent Premiums	<b>3</b>	0
		<b>39</b>	49

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

5	<u>Benefits payable</u>	<b>2007-08</b>	2006-07
		<b>£000's</b>	£000's
	Annual retirement pension	7,555	7,207
	Pension increase on annual pension	2,941	2,693
		<b>10,496</b>	<b>9,900</b>
	Commutation of pension	2	0
	Retirement allowance lump sum	1,847	2,142
	Death Grants	152	234
	Pension increase on lump sum	126	138
		<b>2,127</b>	<b>2,514</b>
6	<u>Administrative expenses</u>	<b>2007-08</b>	2006-07
		<b>£000's</b>	£000's
	Administering authority	295	282
	IT Costs	50	42
	Other expenses	20	64
		<b>365</b>	<b>388</b>
7	<u>Investment income</u>	<b>2007-08</b>	2006-07
		<b>£000's</b>	£000's
	Fixed interest	777	642
	Equities	5,099	4,693
	Index linked	0	0
	Unit trusts – property	587	738
	Unit trust – other	4,248	2,268
	Interest	703	508
	Currency trade net	190	(39)
		<b>11,604</b>	<b>8,810</b>

8	<u>Change in Market value of assets</u>	Value at 1.4.07	Purchases at Cost	Sales Proceeds	Change in Market Value	Cash Movement	Futures Market exposure	Value at 31.3.08
		£000's	£000's	£000's	£000's	£000's	£000's	£000's
	Fixed Interest treasury					----	----	
	Bonds	14,753	18,516	(13,447)	(1,063)			18,759
	Equities	146,312	45,061	(39,435)	(14,369)			137,569
	Unit Trusts - Property	20,356	----	----	(3,399)			16,957
	Unit Trust - Other	66,222	7,000	----	(900)			72,322
	Cash Currency Forwards	15	----	----	(113)			(98)
	Futures Margin Account	758	----	----	(333)			425
	Futures Cash Backing							
	Offset	(570)	----	----	----		825	255
	Futures Broker Margins	----	----	----	508	(508)	----	----
	Movements							
	Futures	634	58,274	(59,416)	(133)		317	(324)
	Cash – JP Morgan	10,925	226	(90)	----	(496)		10,565
		<b>259,405</b>	<b>129,077</b>	<b>(112,388)</b>	<b>(19,802)</b>	<b>(1,004)</b>	<b>1,142</b>	<b>256,430</b>

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

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

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

This exemption no longer entitles the pension fund to repayment of tax paid on UK dividends. The sum of UK withholding tax, which was irrecoverable in the year 2007-08, amounted to £0.475 million.

10 <u>Investment management</u>	<b>2007-08</b>	2006-07
	<b>£000's</b>	£000's
Investment management expenses	<b>(279)</b>	(205)
Actuary fees	<b>(78)</b>	(74)
	<b>(357)</b>	(279)

11 Accounting Policies

11.1 The accounts have been prepared in accordance with the CIPFA Local Government SORP 2007/08 and the Financial Reports of Pension Schemes SORP (revised 2002). They do not take account of liabilities to pay pensions and other benefits in the future. The actuarial position of the Scheme which takes account of such liabilities is dealt with in Notes 14, 15 and 16).

11.2 Benefits and Withholding tax are accounted for on a payments basis. Contributions and investment income are accounted for on an accruals basis.

11.3 Listed Investments are shown at Market value. The market value is based on the middle market quotation on the relevant Stock Exchange on 31 March in each year. Investments held in foreign currencies are shown at market value translated into the equivalent sterling rate ruling at 31 March 2008. Collective investment schemes are valued at the middle of bid and offer price or functional equivalent.

11.4 Additional Voluntary Contributions (AVCs) are separately invested for the benefit of individual members. To comply with the Pension SORP and Regulation 5(2)(b) of the Local Government Pension Scheme (Management and Investment Funds) Regulations 1998, AVC's are accounted for and disclosed separately from the net assets statement and fund account of the pension fund see note 23 for details. AVC assets and returns on these assets are based on figures supplied by the Prudential Life and Pensions. Deductions are made from members salaries during the year and invested on an accruals basis.

11.5 The Isle of Wight Council administration costs represent the operating costs of the pension department plus recharges made by other departments for services provided to the pension fund.

The investment management fees were payable to Schroder Investment Management and calculated on the performance of the portfolio (The Base Fee) chargeable on a quarterly basis plus an additional annual sum computed on performance against an agreed benchmark. These fees are accounted for on an accruals basis.

The additional performance fee of 8% of the difference between performance and benchmark is payable if the annualised return on the Fund over any three-year period ended 31<sup>st</sup> March exceeds the annualised return on the Composite Benchmark over the same three-year period.

Monthly custody fees are payable to JP Morgan Chase and are accounted for on an accruals basis.

11.6 Transfer values to and from other pension funds have been included in the accounts on the basis of the actual amounts received and paid out in the year.

11.7 As required by the Local Government Pension Scheme (Amendment) (No 3) Regulations 2007 a separate additional detailed Pension Fund Annual Report and Accounts has been produced.

- 11.8 Currency translation  
Assets and liabilities in foreign currency are translated into Sterling at exchange rates ruling at the financial year-end. Any gains or losses arising are treated as part of the investment income.
12. Status of the Scheme
- 12.1 The Local Government Pension Scheme is ‘contracted out’ of SERPS.
- 12.2 The Scheme is a ‘final salary scheme’. This means that benefits do not depend on investment performance, but generally on the level of salary during the last 12 months before retirement and the length of total Local Government service during which contributions have been paid in to the Fund.
- 12.3 The Isle of Wight Council Pension Scheme is an Exempt Approved Scheme under Chapter 1 Part XIV of the Income and Corporation Taxes Act 1988.
- Income arising from deposits or investments held for the purpose of the scheme is exempt from tax. This exemption no longer entitles the pension fund to repayment of tax paid on UK dividends. The sum of UK withholding tax, which was irrecoverable in the year 2007-08, amounted to £0.5 million.
13. Actuary’s Report (Produced by Hymans Robertson.)
- The year to 31 March 2008 will be remembered for the global ‘credit-crunch’ and perhaps, more poignantly in the UK, for the spectacle of anxious depositors queuing outside Northern Rock to withdraw their savings, the first run on a UK bank for over a century.
- Global equity markets suffered their first sharp falls during July and early August 2007. What appeared, initially, to be a local problem, restricted to a few sub-prime mortgage lenders in the US, soon spread across global credit markets. Banks became increasingly reluctant to lend to each other, thus compounding the difficulties faced by financial institutions. Major banks suffered significant losses and write-downs; for a small number the pressures were such that survival was not possible.
- The returns from equity markets were mixed, but generally negative with a stark contrast between the performance of developed and emerging markets. The impact of Sterling’s sharp depreciation against the Yen and Euro was evident.
- 14 Actuarial position of the fund
- The funds most recent triennial actuarial valuation was undertaken by its independent actuarial advisors Hymans Robertson and based on the position as at 31 March 2007. The position at that time showed an improvement in the funding position relative to the previous valuation, which was undertaken as at 31 March 2004. This latest valuation shows that the assets of the Fund equated to 80% compared to the previous valuation of only 71%. The latest review of the funding level took place at 30 June 2008 and showed a level of 67%.
- 15 Actuarial Valuation provided by Hymans Robertson  
The last valuation relevant to the year 2007-08 was completed at 31 March 2004.
- Reference to this particular valuation can be found in the Pension Fund Annual Report and Accounts.
- 16 Valuation 31 March 2007  
This valuation was carried out to calculate employer’s contribution rates for the years 2008-9, 2009-10 and 2010-11.
- 16.1 Statement provided by the actuary  
As required by regulation 77 of the Local Government Pension Scheme Regulations 1997, the last actuarial valuation of the Isle of Wight Council Pension Fund’s assets and liabilities was carried out as at 31 March 2007.

## 16.2 Security of Prospective Rights

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

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

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

## 16.3 Summary of Methods and Assumptions Used

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

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

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

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

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

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

## 16.4 Valuation of Assets

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

## 16.5 Valuation assumptions

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

Assumption	Derivation	Rate at 31 March 2007	
		Nominal	Real
Price Inflation (RPI)	Market expectation of long term future inflation as measured by the difference between yields on fixed and index linked Government bonds as at the valuation date	3.2%	-
Pay Increases 'Gilt Based'	Assumed to be 1.5% p.a. in excess of price inflation	4.7%	1.5%
Discount Rate Funding Basis	The yield on fixed interest (nominal) and index linked (real) Government bonds	4.5%	1.3%
Discount Rate	Assumed to be 1.6% p.a. above the yield on fixed interest Government bonds	6.1%	2.9%

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

16.6 The next actuarial valuation

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

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

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

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

17 An analysis of Schroder market value at 31 March 2008 by industrial sector can be found in the Pension Fund Annual Report and Accounts.

Market Value and Management of Assets	2007-08	%	2006-07	%
	£000		£000	
Schroder Investment Management	245,865	95.9	248,480	95.8
JP Morgan Custodian (Cash)	10,565	4.1	10,925	4.2

18 Related Party Transactions

No Members or Chief Officers have disclosed any Related Party Transactions with the Pension Fund, other than by virtue of normal membership. During the financial year, the Pension Fund had an average balance of £0.4 million of excess cash invested with the Isle of Wight Council. The Pension Fund received £0.02 million as interest on this investment.

19 Contingencies

19.1 At 31 March 2008 there were contingencies relating to Contribution Equivalent Premiums (CEP's) amounting to a net sum of £0.149 million due to the Pension Fund. Assets amounted to £0.039 million and Liabilities totalled £0.188 million. The sums do not form part of the net assets of the fund. Refunds and payments will only be made on application by the employee.



- 19.2 In 2006 a decision was taken by the Investment Panel to join in a Class Action against the HMRC to recover tax credits on overseas dividends. A sum of £0.880 million has been estimated as the possible Benefit to the pension fund. This case is ongoing. The sums do not form part of the net assets of the fund.
- 20 The Statement of Investment Principles of the Isle of Wight Council Pension Fund is published in the Pension Fund Annual Report and Accounts.
- 21 The Funding Strategy Statement of the Isle of Wight Council Pension Fund is published in the Pension Fund Annual Report and Accounts.
- 22 Notes to the Accounts
- 22.1 Capital Commitments: - There were no capital commitments as at 31 March 2008.
- 22.2 Post Balance Sheet Events  
Three members of the admitted bodies group have indicated their wish to leave the employers contribution rate pooling arrangement. As a result employers contributions payable by other members of the pool may change.
- 23 Additional Voluntary Contributions (AVCs)

These are separately invested for the benefit of individual members.

Money purchase assets are allocated to provide benefits to individuals on whose behalf the contributions were paid, and in total £1.1million were invested on this basis at 31<sup>st</sup> March 2008; these do not form a common pool of assets available for members generally. AVC's are excluded from the Fund Accounts in accordance with Regulation 5(2)(c) of the Pension Scheme (Management and Investments of Funds) Regulations 1998. Members receive an annual statement confirming the contributions paid on their behalf and the value of their money purchase rights.

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

During 2007-08 AVC's of £0.1million were separately invested with Prudential Life and Pensions. Of this amount, £0.005 million was for the purchase of death in service cover, no value accrues on death cover; this sum is not included in the statement below. Following a recommendation from Hymans Robertson in July 2006 the ability to invest with the Nationwide Building Society was withdrawn with effect from 1 April 2007. The cash deposit provision was switched to the Prudential.

	Nationwide Building Society £000's	Prudential Deposit £000's	Prudential with Profits £000's	Prudential Discretionary £000's	<b>Total £000's</b>
Opening Value 1.4.07	132	0	742	189	1,063
Purchase of Investments	0	106	88	14	208
Returns on Investments	2	1	36	(3)	36
Change in Market Value Realised and Unrealised	(134)	25	(56)	(58)	(223)
<b>Closing Value 31.3.08</b>	<b>0</b>	<b>132</b>	<b>810</b>	<b>142</b>	<b>1,084</b>

24 Analysis of market value under the management of Schroder Investment Management (UK) Ltd at 31 March 2008:-

	UK £000's	Foreign £000's	Total £000's
Listed	148,653	79,674	<b>228,327</b>
Unlisted	17,539	0	<b>17,539</b>
Total	166,192	79,674	<b>245,866</b>

Market value of futures and cash instruments included in above

	UK £000's	Foreign £000's	Total £000's
Listed	(799)	475	<b>(324)</b>
Unlisted	1,375	(793)	<b>582</b>
Total	576	(318)	<b>258</b>

Analysis of Market value at 31 March 2008 can be found in the Pension Fund Annual Report and Accounts

	<b>31 March 2008</b>	<b>31 March 2007</b>	<b>% Change</b>
FT Actuaries – All Share Index	<b>2927.05</b>	3283.21	-10.85

25. Trustees Report

The Trustees of the Pension Fund are the members for the time being of the Investment Panel. As at 31<sup>st</sup> March 2008 they were as named in Note 1 above.

A scheme specific benchmark is in use, and is reviewed annually. The objective set for the Fund's manager, Schroder Investment Management Limited, is to outperform the benchmark by 1% per annum over rolling three year periods.

The benchmark is one element of compliance with the Myners Code. Other responses by the Trustees to the 10 principles are set out in the Isle of Wight Pension Fund Myners Code Adherence Document.

The net assets of the fund at 31<sup>st</sup> March 2008 were £257.9 million, a fall of 1.3% on the 31<sup>st</sup> March 2007 valuation of £261.2 million.

The funds most recent triennial actuarial valuation was undertaken by its independent actuarial advisors and based on the position as at 31 March 2007. The position at that time showed an improvement in the funding position relative to the previous valuation, which was undertaken as at 31 March 2004.

The latest valuation shows that the assets of the Fund equated to 80% compared to the previous valuation of only 71%. Despite the relative improvement over the three year period, contribution rates need to increase over the next 3 years in order to achieve a fully funded position over a 20 year period.

26. Investment Review

Share prices in most equity markets around the world have fallen over the 12 month period under review. While markets got off to a relatively positive start, news of sub-prime mortgage defaults in the US set off a spiral of bad news in the global financial sector, which has also exacerbated the slowdown in the world's largest economy, the US. In local currency terms, the MSCI World index fell about 9%.

Sub-prime mortgage defaults led to a re-evaluation of lending risk. The consequences were a fall in inter-bank lending and in the drying up of some other forms of finance.

However, central banks have acted together to stave off the credit crunch and to shore up economic growth. Billions of dollars of cash loans were made available to money markets. In the US, interest rates were cut significantly. UK interest rates were also cut three times.

A more detailed investment review is published in the Pension Fund Annual Report and Accounts.

## 27 Fund Performance

The fund outperformed in the 12 months, with a return of -3.1%. This compares to the benchmark return of -3.6%. In three years, the Fund returned +9.7% p.a. against the +9.4% p.a. benchmark return.

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

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

I have audited the Authority accounting statements, the firefighters' pension fund accounting statements, the local government pension fund accounts, and related notes of Isle of Wight Council for the year ended 31 March 2008 under the Audit Commission Act 1998. The Authority accounting statements comprise the Authority Income and Expenditure Account, the Authority Statement of the Movement on the General Fund Balance, the Authority Balance Sheet, the Authority Statement of Total Recognised Gains and Losses, the Authority Cash Flow Statement, the Collection Fund and the related notes. The firefighters' pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. The local government pension fund accounts comprise the Fund Account, the Net Assets Statement and the related notes. The accounting statements, the firefighters' pension fund accounting statements and local government pension fund accounts have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Isle of Wight Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

### **Respective responsibilities of the Chief Finance Officer and auditor**

The Chief Finance Officer's responsibilities for preparing the financial statements, including the firefighters' pension fund accounting statements and local government pension fund accounts, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 are set out in the Statement of Responsibilities for the Statement of Accounts.

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

I report to you my opinion as to whether the Authority accounting statements, firefighters' pension fund accounting statements and the local government pension fund accounts present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007:

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

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

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

## **Basis of audit opinion**

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

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the Authority accounting statements, firefighters' pension fund accounting statements, the local government pension fund accounts and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the Authority accounting statements, firefighters' pension fund accounting statements, the local government pension fund accounts and related notes.

## **Opinion**

In my opinion:

- The Authority financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Authority as at 31 March 2008 and its income and expenditure for the year then ended;
- The firefighters' pension fund accounting statements present fairly, in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial transactions of the firefighters' pension fund during the year ended 31 March 2008 and the amount and disposition of the fund's assets and liabilities as at 31 March 2008, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- The local government pension fund accounts and related notes present fairly, in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial transactions of the local government pension fund during the year ended 31 March 2008 and the amount and disposition of the fund's assets and liabilities as at 31 March 2008, other than liabilities to pay pensions and other benefits after the end of the scheme year.

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

### **Authority's Responsibilities**

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

### **Auditor's Responsibilities**

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

### **Conclusion**

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities and fire and rescue authorities specified by the Audit Commission and published in December 2006, I am satisfied that, in all significant respects, Isle of Wight Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2008 except that it did not put in place:

- arrangements for the management of its asset base

### **Best Value Performance Plan**

I have issued our statutory report on the audit of the authority's best value performance plan for the financial year 2007/08 on 19 November 2007. I did not identify any matters to be reported to the authority and did not make any recommendations on procedures in relation to the plan.

## **Certificate**

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

*Stephen Taylor*

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**30 September 2008**