

Committee:	<b>AUDIT COMMITTEE</b>
Date:	<b>28 JULY 2005</b>
Title:	<b>FINAL ACCOUNTS 2004 – 2005</b> <b>REPORT OF THE CABINET</b>

## REASON FOR CONSIDERATION

This report sets out the Council's accounts for 2004-05 which require approval on or before 31 July 2005.

## ACTION REQUIRED

The Committee is invited to note the contents of the report and to seek clarification of any issues arising there from. In particular, the Committee is asked to:

- Approve the Statement of Accounts in accordance with the requirements of the Accounts and Audit Regulations 2003

## BACKGROUND

The requirements with regard to approval of the Statement of Accounts by Members are set out in the Accounts and Audit Regulations 2003. One of the main requirements of the Regulations is that the Statement of Accounts should be approved by an appropriate committee of the Council, or otherwise by the Council sitting as a whole, such approval to take place as soon as is reasonably practicable after the year end date, and in any event prior to the date specified in the Regulations. For the year ending 31 March 2005 the date specified is 31 July 2005. Within the next financial year i.e. for the year ending 31 March 2006 and in all subsequent years, the date for approval by Members will be advanced to 30 June each year.

The Chief Financial Officer retains ultimate responsibility for preparation of the Statement of Accounts, and is required to certify that the Statement presents fairly the financial position of the Council. The role of elected members in the process is to demonstrate ownership of the Statement of Accounts, and confidence in the CFO and the systems which are in place to maintain the accounting records and support the preparation of the Statement of Accounts. The Accounts and Audit Regulations require that once the accounts have been approved, they should be signed and dated by the person presiding at the meeting at which approval was given in order to formally represent the completion of the Council's approval process of the accounts.

## STRATEGIC CONTEXT

The Annual Statement of Accounts provides details of how the Council has performed in financial terms during the previous financial year. It also provides broad information on assets, liabilities and financial reserves at the year end date, notes on specific entries, details of potential significant future liabilities, and details with regard to the Council's Pension Fund. The Statement of Accounts is prepared in accordance with the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom.

## CONSULTATION PROCESS

The Accounts and Audit Regulations 2003 require the Council's accounts and accounting records to be available for inspection by members of the public for a period of 20 working days. This year the accounts and supporting accounting records were open for inspection throughout the period from 27 June to 22 July.

## FINANCIAL IMPLICATIONS

The full Statement of Accounts is attached to this report at Appendix A. Details of the Council's revenue outturn position are shown in the Consolidated Revenue Account, with a summary in the Explanatory Foreword. Despite a number of significant budget pressures which arose during the year, net service budgets were underspent by £1,331,900. After setting aside budget carry overs of £1,307,600 to meet commitments which will be met during 2005/06, the net underspend is £24,300 which allows the General Fund to have a balance of £2,054,600 at the year end compared to the revised estimate of £2,030,300.

The main budget pressure areas during the year were on homelessness, community care, bereavement services income and land charges income, which in total amounted to some £800,000 above budget. However, management of those pressure areas both within service cash limits and by using corporate savings, principally on treasury management and arising from capital slippage, has allowed them to be contained without having a detrimental impact on the General Fund balance.

A summary of the capital outturn position is also shown in the Explanatory Foreword in Appendix A. The summary shows that at the year end the capital budget was underspent by £11,225,000. Despite the scale of this delayed expenditure, resources are available to be carried forward to meet that amount of additional capital expenditure now falling in the current financial year.

The most significant areas of change in the preparation of the Statement of Accounts this year have been the consideration of the requirement to prepare Group Accounts, a change in the method of estimation of the Net Pension Liability arising from the requirements of FRS 17 Retirement Benefits, and the disclosure of certain Trading Operations within the notes to the Consolidated Revenue Account. Details of the rationale behind these changes, and their impact on the accounts, are set out in part c) of the Explanatory Foreword and in the Statement of Accounts.

## LEGAL IMPLICATIONS

The Accounts and Audit Regulations 2003 require approval of the Statement of Accounts to be by the Council sitting as a whole, or by a committee with delegated powers to make such a decision. For the accounting period ending on 31 March 2005 the accounts must be approved on or before 31 July 2005.

The audit of the accounts is scheduled to commence during August 2005 and the Audit Commission expect to be able to issue their report before 31 October 2005, the statutory date for publication of the audited Statement of Accounts.

## STATEMENT ON INTERNAL CONTROL

Another of the requirements of the Accounts and Audit Regulations is that each year the Council has to publish a Statement on Internal Control alongside the annual Statement of Accounts. The first financial year such a statement was required was 2003/04, however, transitional arrangements were made with regard to compliance in that year, with a more comprehensive SIC required from 2004/05. Many authorities opt to include the SIC document in the same approval process as that for the Statement of Accounts, however the

reporting requirement is actually linked to the publication date of the accounts rather than the approval date. The Council developed Assurance Statements and a Detailed Procedures document to address the transitional arrangements for 2003/04, however it has been necessary to review the process and update the available documentation to respond to the more comprehensive SIC requirements for 2004/05. For that reason the SIC is not included with the Statement of Accounts for approval on this occasion. However, it is necessary that the SIC is approved by members prior to its being signed by the Chief Executive and Leader of the Council, and published with the Statement of Accounts, so a separate report seeking approval of the SIC will be brought before the members of this Committee during September 2005.

#### EVALUATION/RISK MANAGEMENT

The Accounts and Audit Regulations require the Council to prepare a Statement of Accounts each year in accordance with proper practices, to include specified information. For these purposes, proper practices includes the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice, and other relevant Financial Reporting Standards and Codes of Practice. Compliance with the various Financial Reporting Standards and Codes of Practice is the principal mechanism for identifying, managing and controlling all significant risks associated with the Council's Statement of Accounts, together with the continued pursuit of improved financial management standards and performance management consistent with managing and controlling the identified risk areas.

#### APPENDICES ATTACHED

Isle of Wight Council Statement of Accounts (Appendix A)

#### BACKGROUND PAPERS USED IN THE PREPARATION OF THIS REPORT

Accounts and Audit Regulations 2003  
CIPFA Code of Practice on Local Authority Accounting in the United Kingdom  
CIPFA Guidance on the Statement of Internal Control in Local Government

Contact Point : Stuart Fraser, Tel : 823657 E-mail : [stuart.fraser@iow.gov.uk](mailto:stuart.fraser@iow.gov.uk)

COUNCILLOR JILLY WOOD  
Cabinet Member for Resources, Audit  
and Customer Champion

PAUL WILKINSON  
Chief Financial Officer

# APPENDIX A

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## EXPLANATORY FOREWORD

### 1. Financial Statements

*This foreword provides a brief description of the financial events affecting the Council in 2004-05 and the Council's financial position generally. In preparing its final accounts the Council is required, by law, to produce and publish a number of accounting statements. Supplementary notes are attached to each statement where further explanation is required. The statements are:-*

- *Consolidated Revenue Account*  
*This statement brings together the income and expenditure of all the services provided by the Council, excluding the Collection Fund.*
- *Collection Fund*  
This statement shows the income received from Council Taxpayers and Non-Domestic Ratepayers and how the income is distributed.
- *Consolidated 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 2005.
- *Statement of Total Movement of Reserves*  
This statement brings together all the gains, losses and movements in the year of revenue and capital reserves.
- *Cash Flow Statement*  
This summarises the cash received and payments made by the Council to third parties for both revenue and capital purposes.
- *Group Accounts*  
The 2003 Statement of Recommended Practice required the preparation of a group revenue account and group balance sheet where local authorities have interests in subsidiaries, associated companies and joint ventures that are material in aggregate.
- *Isle of Wight Pension Fund Accounts and Notes*  
These summarise the income and expenditure transactions of the Pension Fund in order to provide information about the financial position, performance and financial adaptability of the fund.

### 2. Financial Summary

The Statement of Accounts brings together all of the financial activities of the Council for the year. It summarises the revenue income and expenditure in providing services and shows how it was financed from Council Tax, Government Grants 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 undertakes a number of major one-off projects that create an asset that have a life beyond one year. Expenditure on capital projects can be financed from a mix of loans, capital receipts, contributions and revenue.

## (a) Revenue Expenditure and Income

The 2004/05 grant settlement from the Government was an improvement on previous years, although the amount allowed for in extra spending fell short of what the council needed to maintain existing service levels by approximately £3 million. By lowering the council tax discount on holiday homes and identifying £1.5 million of savings, the council was able to make some modest improvements in priority areas including highway maintenance and dealing with homelessness. The Council set a net revenue budget of £158,389,794 for 2004/05 (including parish precepts) and this necessitated a 4.9% Council Tax increase. The estimated balance on the General Fund at year-end was £2,077,097.

The actual net revenue expenditure on providing services was £157,104,695 (including Parish Precepts). Normal rules of carryover were applied and these amounted to £1,307,542 in respect of commitments that will be paid in 2005/06. Total expenditure including carryovers amounted to £158,412,237 (including Parish Precepts) which is £22,443 higher than the original estimate and leaves a marginally lower General Fund at 31<sup>st</sup> March 2005 of £2,054,654.

A summarised comparison of actual income and expenditure with the original budget for 2004/05 is set out below:-

	<b>Original Budget £'000s</b>	<b>Actual £'000s</b>	<b>Difference £'000s</b>
Net Operating Expenditure	158,390	158,235	(155)
Less: Revenue Support Grant	(62,658)	(62,658)	0
Non-Domestic Rates	(38,984)	(38,984)	0
Council Tax	(56,748)	(56,748)	0
Net balance before appropriations	0	(155)	(155)
Net appropriations & adjustments	0	177	177
Change in General Fund Balance	0	22	22
Balance brought forward	(2,077)	(2,077)	0
Balance carried forward	(2,077)	(2,055)	22

The principal overspends were in Housing Services (£257,000) and Adult and Community Services (£114,000). In Housing Services, the homelessness budget overspent by £500,000, although this was offset to some extent by other housing budgets. The Adult and Community Services overspend was due to the additional cost of Community Care.

These overspends have been met from underspends on corporate savings, principally on treasury management and capital slippage.

In addition, there were shortfalls on income for bereavement services (£100,000) and Land Charges (£93,000). These shortfalls were met from underspends within the relevant services areas.

The balance of earmarked reserves at 31 March 2005 is £31.3 million. Further details are contained in Note 34 to the Consolidated Balance Sheet.

## (b) Capital Expenditure

In 2004/05 the Council spent £27.6 million on capital projects. This was £11.2 million less than the budget of £38.8 million and resources are available to be carried forward to meet all 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 2005, the total net borrowings were £99.5 million.

The main areas of expenditure related to road improvements and coast protection schemes. Further details are given in Note 23 to the Consolidated Balance Sheet.

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

<b>Service Area</b>	<b>Revised Estimate £000's</b>	<b>Actual Spend £000's</b>	<b>Over/(under) Spend £000's</b>
Children and Family Services	16,620	9,785	(6,835)
Adult & Community Services	1,205	1,026	(179)
Housing Services	3,777	1,434	(2,343)
Environment & Transport Resources	12,054	9,960	(2,094)
Fire & Public Protection	1,387	2,256	869
Economic Development, Tourism & Leisure	291	170	(121)
Other Services	2,590	2,417	(173)
	913	564	(349)
<b>Total Expenditure</b>	<b>38,837</b>	<b>27,612</b>	<b>(11,225)</b>

### Financed by:-

Increase in Capital Financing Requirement	13,784
Grants & Contributions	12,665
Capital Receipts	1,163
<b>Total Financing</b>	<b>27,612</b>

The main areas of variance in the capital programme are as follows:-

- Children's Services - a delay in the commencement of a major scheme at Kitbridge Middle School and slippage on a number of other Primary and Middle Schools.
- Housing - includes a delay in the major schemes at Oakfield.
- Environment and Transport – principally Ryde St John's bridge strengthening and the proposed Park and Ride scheme in Ryde.

- Resources – the costs arising from the Accommodation Review will be financed from programmed asset sales during 2005/06.

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

- Group Accounts – a major change to the 2004 Statement of Recommended Practice (SORP) is the modified Group Accounting requirements. These require local authorities to consider all their interests and to prepare a full set of group financial statements where they will have material interests in subsidiaries, associates or joint ventures.
- FRS17 Retirement Benefits – the 2003/04 accounts were prepared under the 2003 SORP which required a 3.5% real discount rate to be used. The 2004 SORP requires the AA corporate bond rate to be used and is effective from 1 April 2004. This is a change in estimation technique only and no prior year adjustment is required. The Net Pension Liability is £138 million and the implication of this is set out in Note 42 to the Consolidated Balance Sheet.
- Trading Operations – the notes to the Consolidated Revenue Account have been expanded to present a fair summary of the extent to which the authority is exposed to commercial risk.



## STATEMENT OF ACCOUNTING POLICIES

### 1. General

The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting, the Best Value Accounting Code of Practice and guidance notes issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). These ensure compliance with Statements of Standard Accounting Practice (SSAPs) and Financial Reporting Standards (FRSs) as far as they are applicable to Local Authorities.

### 2. Fixed Assets

Expenditure on the acquisition, creation or enhancement of fixed assets is capitalised on an accruals basis. This expenditure is classified as fixed assets provided that the fixed asset yields benefits to the authority and to the services it provides for a period of more than one year.

Fixed assets are recorded in the accounts at the lower of current replacement cost or realisable value in existing use, with the exception of certain community assets which are included at a nominal valuation and infrastructure assets which are valued at historical cost. Assets are re-valued on a rolling five year programme. Current Asset values used in the accounts are based upon the certification by the Property Services Manager as at 31 March 2005.

Where a fixed asset is included in the balance sheet at current value, the difference between that value and its previous valuation in the balance sheet is credited or debited to the fixed asset restatement reserve.

The Authority does not hold in the balance sheet any assets to which finance lease liabilities apply.

Assets are depreciated over their useful economic lives, using the straight line method having regard to the anticipated life of each individual asset as contained in the asset register. Fixed Assets other than non-depreciable land are reviewed for impairment at the end of each reporting period in accordance with FRS11.

The usable part of capital receipts from the disposal of assets are held unapplied until they are used to finance capital expenditure. A proportion of certain receipts are set aside to pay for the repayment of debt or to be used in respect of credit approvals. Interest earned on the capital receipts balance is credited to the Summary Revenue Account.

### 3. Basis of Charges for Capital

In addition to depreciation (see above) service departments are charged for the cost of capital employed based upon the values of the assets at year-end which they employ.

### 4. Grants

Capital Grants received in respect of infrastructure are credited to the Capital Financing Reserve. Revenue grants are shown as income to the Authority in the current year.

5. Interest Charges

External interest receivable on temporary investments is credited to the revenue account in the period to which it relates. Interest payable on external borrowings is fully accrued in order that the period bears the full cost of interest related to its actual borrowing.

6. Leases

Operating leases are held for certain vehicles and equipment. The annual expenditure on these leases is a charge to the Consolidated Revenue Account.

7. Deferred Charges

All deferred charges expenditure is written off to revenue in the year in which it is incurred. An equivalent appropriation is made from the Capital Financing Account so there is no impact on the amount to be met from local taxation.

8. Debtors and Creditors

The accounts of the Council, including capital accounts, are maintained on an accruals basis in accordance with SSAP2. Transactions are included in the financial year to which they relate, regardless of whether the cash has actually been paid or received.

9. Stocks and Work in Progress

Stocks are valued at the lower of cost or net realisable value. Work in progress which will ultimately be charged to outside persons is included in the accounts at the lower of cost price or net realisable value.

10. Support Service Costs

The Best Value Accounting Code of Practice requires authorities to adopt consistent policies when allocating the costs of these services to users. All costs of management and administration have been fully allocated to services. The main bases of allocation used are as follows:

Staff time:	Accountancy, human resources, estates and audit
Floor area:	County Hall accommodation
Actual use:	Printing, telephones, computing and business support services

*Service level agreements: Legal and payment services*

Service level agreements define the agreed quantity, cost and types of service between providers of support services and their service department 'clients'.

11. Provisions

A provision is an amount set aside in the accounts for a liability where the authority has a present obligation (legal or constructive) arising from a past event, where it is probable that a transfer of economic benefits will be required to settle the obligation and where a reliable estimate can be made of the amount of the obligation.

12. Reserves

Numerous reserves are maintained in respect of the financing of future capital and revenue expenditure, and of other known future liabilities. Under the scheme for local management of schools, each school has a reserve for use in future years. Reserves include earmarked reserves set aside for specific policy purposes and balances which represent resources set aside for contingency purposes.

13. Pensions

Following an actuarial valuation of the Local Government Pensions Fund as at 31 March 2004, the Council's contribution to the Fund was increased from 14% to 16% with effect from 1 April 2005, to 18% with effect from 1 April 2006 and to 20% with effect from 1 April 2007. This takes into account the actuary's view of the Fund's liabilities and assets and various changes in benefits and in the funding of index linking of pensions. The valuation reflected the return over a period to the funding of 100% of liabilities.

The Fire-fighters' pension scheme is financed on a pay-as-you-go basis, with the authority paying emerging benefit expenditure (net of officers' contributions). There are no assets held against the liabilities.

The impact of the full implementation of Financial Reporting Standard No. 17 (FRS17) has implications on the presentation of the Consolidated Revenue Account, the Consolidated Balance Sheet and the Statement of Total Movement in Reserves. In assessing liabilities for retirement benefits at 31 March 2004 for the 2003/04 Statement of Accounts, the actuary was required by the Code of Practice to use a discount rate of 3.5% real (6.5% actual). For the 2004/05 Statement of Accounts, a rate based on the current rate of return on a high-quality corporate bond of equivalent currency and term to scheme liabilities is to be used. The actuary has advised that a rate of 2.4% real (5.5% actual) is appropriate. Application of this rate has resulted in an increase in liabilities measured at today's prices of £41.4m for the Local Government Scheme and £4.6m for the Fire-fighters' scheme, adjusted for by a net increase in actuarial gains recognised for the year in the Statement of Total Movements on Reserves.

Teachers' pension liabilities are not covered by the Local Government Pension Scheme and payment is made to the Teachers' Pension Agency.

14. Investments

Short-term cash surpluses are invested with other local authorities, banks and building societies in accordance with the CIPFA Code on Treasury Management. Investments are shown in the Consolidated Balance Sheet at cost. Pension Fund investments are shown at market value on 31 March 2005. Pension Fund investments held in foreign currencies are shown at market value translated into the equivalent sterling rate ruling at 31 March 2005.

15. 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 2003 require local authorities to progressively advance the date the accounts are approved by members to the point where they are approved on or before 30 June each year. The use of estimates instead of waiting for actual figures is one method of achieving the earlier date.

There are no estimates in the 2004/05 accounts which would materially affect the fair presentation of the accounts had a different estimation technique been applied.

16. Isle of Wight Council as Accountable Body

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

- The Single Regeneration Budget (SRB), which is operated by the Isle of Wight Economic Partnership.
- Sure Start (Ryde) Ltd is a company limited by guarantee. The principal activity is the provision of educational and health services to people who live in the Sure Start (Ryde) area. The expenditure is wholly grant funded by the Department of Education and Skills.
- Connexions is the government's support service for all young people aged 13 to 19 in England. The Isle of Wight Council had a number of contracts with South Central Connexions, but as a result of changes in government funding, the company adopted a direct delivery model rather than a sub-contract basis. As a result, the Council's contract with South Central Connexions was terminated on 31<sup>st</sup> July 2004.
- The Standing Conference on Problems Associated with the Coastline (SCOPAC). The membership of this organisation is drawn from other local authorities and interested parties.

## 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 2005 required by the Accounts and Audit Regulations 2003 is set out on pages 10 to 61.

I further certify that the Statement of Accounts presents fairly the financial position of the Authority at 31 March 2005 and its income and expenditure for the year then ended.

Signed *Paul Wilkinson*

Date 15<sup>th</sup> July 2005

**PAUL WILKINSON**  
Chief Financial Officer

## Statement on Internal Control

The Council has to publish a Statement on Internal Control (SIC) alongside the annual Statement of Accounts. This is a requirement of the Accounts and Audit Regulations 2003, and the first financial year such a statement was required was 2003/04. However, the proper practice guidance issued to support production of the SIC acknowledged the difficulties many authorities would face in fully complying with the requirements of the Regulations in 2003/04 and allowed for transitional arrangements in that year, with a more comprehensive SIC required from 2004/05.

*The purpose of the SIC process is to provide a continuous review of the effectiveness of the Council's internal control and risk management systems, in order to give assurances on their effectiveness and to produce an action plan to address any identified weakness in either control system. The Council developed Assurance Statements and a Detailed Procedures document in order to address the transitional arrangements for 2003/04, however it has been necessary to update the available documentation to respond to the more comprehensive SIC requirements for 2004/05. To achieve the required outcome, the external/internal auditors have recently completed a review of the SIC process and identified areas where improvements can be made. The Detailed Procedures document is being updated to ensure it represents current practices.*

*One of the requirements of the SIC is that it should be signed by the Chief Executive and Leader of the Council, having been approved at a meeting of the Council or delegated committee. Many authorities include the SIC document in the same approval process as that for the Statement of Accounts, however the statutory reporting requirement is linked to publication of the financial statements which is three months after the deadline for approval. Because of the review process this year it is not feasible that the SIC is approved at the same time as the Statement of Accounts (28 July), but it must have been approved prior to its inclusion with the published accounts (by 31 October). On that basis, the SIC will be submitted for approval by the Audit Committee on 22 September 2005.*

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*The Statement of Accounts for the year ended 31<sup>st</sup> March 2005 has been approved by a meeting of the Audit Committee held on 28<sup>th</sup> July 2005.*

Date 28<sup>th</sup> July 2005  
Signature.....

Chairman

## CONSOLIDATED REVENUE ACCOUNT

	2004-05 Gross Expenditure £	2004-05 Gross Income £	2004-05 Net Expenditure £	2003-04 Net Expenditure £
<b>Expenditure on Services</b>				
Education Services	96,813,370	21,191,264	<b>75,622,106</b>	71,650,983
Social Services	59,205,787	21,003,083	<b>38,202,704</b>	33,854,002
Cultural, Environmental & Planning Services	37,936,172	12,862,912	<b>25,073,260</b>	22,273,837
Highways, Roads & Transport	16,851,538	7,829,563	<b>9,021,975</b>	7,990,226
Fire Services	7,764,184	980,647	<b>6,783,537</b>	5,972,124
Housing Services (including Benefits)	54,549,617	50,986,141	<b>3,563,476</b>	3,641,849
Court Services	638,559	0	<b>638,559</b>	649,659
Central Services	3,788,247	2,688,997	<b>1,099,250</b>	1,096,114
Corporate & Democratic Core	4,392,480	43,234	<b>4,349,246</b>	3,970,962
Non-Distributed costs	1,212,130	0	<b>1,212,130</b>	1,655,929
<b>Net Cost of Services</b>	<b>283,152,084</b>	<b>117,585,841</b>	<b>165,566,243</b>	152,755,685
Amounts due to precepting authorities			<b>640,793</b>	637,642
Transfer to Provisions & Reserves in lieu of interest (note 1)			<b>1,027,187</b>	801,038
Transfer from asset management revenue a/c (note 8)			<b>(5,556,726)</b>	(5,773,734)
Interest receivable			<b>(2,310,528)</b>	(1,307,521)
Pension interest cost & expected return on pension assets (note 19)			<b>2,700,000</b>	5,300,000
<b>Net Operating Expenditure</b>			<b>162,066,969</b>	152,413,110
<b>Appropriations and Other Adjustments</b>				
Contributions to reserves (note 2)			<b>3,522,642</b>	1,752,532
Contribution from the Pension reserve (note 19)			<b>(3,346,000)</b>	(5,780,000)
Contributions from Capital Financing Account			<b>(3,831,374)</b>	0
<b>Amount to be met from government grants and local taxpayers</b>			<b>158,412,237</b>	148,385,642
<b>Sources of Finance</b>				
<b>Council Taxpayers</b>			<b>(56,748,008)</b>	(52,067,436)
<b>Central Government Grants</b>			<b>(62,658,121)</b>	(56,057,744)
<b>Non-Domestic Rate income</b>			<b>(38,983,665)</b>	(40,260,462)
<b>Net general fund deficit</b>			<b>22,443</b>	0
Balance on general fund brought forward			<b>(2,077,097)</b>	(2,077,097)
<b>Balance on general fund carried forward</b>			<b>(2,054,654)</b>	(2,077,097)

Signed *Paul Wilkinson*

Date

15<sup>th</sup> July 2005

**Chief Financial Officer**

## NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

1. Interest on Internal Balances

Interest on various funds is credited to the General Fund and is then appropriated to the various provisions and reserves concerned as a 'Transfer in lieu of interest'.

2. Contributions to Reserves

These transfers include unspent budgets in 2004-05 which are committed against 2005-2006.

3. Section 137 Expenditure

The Local Government Act 2000 amended the provisions of Section 137 of the Local Government Act 1972. Actual expenditure in 2004-05 amounted to £4,770 and was in respect of a contribution to RELATE. (£4,650 in 2003-04).

4. Agency Services

Under various statutory powers an authority may agree with other local authorities, water companies and government departments to do work on their behalf. This Council did not carry out any significant agency work during 2004-05.

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 £629,088 (£500,879 in 2003-04).

6. Local Authority Goods and Services Act 1970

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

	<b>2004-05</b>	2003-04
	£	£
Provision of Administrative, Professional and Technical	<b>145,009</b>	148,219
Hire	<b>1,266</b>	990
Works Relating to Land and Buildings	<b>2,720</b>	1,475
	<b>148,995</b>	150,684

The services were provided to the Riverside Centre, South Wight Housing Association, Isle of Wight Youth Trust, Isle of Wight Law Centre, Parish Councils, Court Services, Citizens Advice Centre, Not Just Enterprises, Victim Support, HM Prison Service, local Health Trusts and another local authority.

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



7. Building Regulations Charging Account 2004-05

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>2004-05</b>	<b>2004-05</b>	<b>2004-05</b>	<b>2003-04</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
<b>Expenditure</b>				
Employee expenses	299,345	100,330	<b>399,675</b>	292,046
Premises	0	0	<b>0</b>	2,370
Transport	13,504	4,745	<b>18,249</b>	17,057
Supplies and Services	37,345	9,156	<b>46,501</b>	52,933
Central and support services	106,474	33,733	<b>140,207</b>	165,401
Total Expenditure	456,668	147,964	<b>604,632</b>	529,807
<b>Income</b>				
Building Regulation charges	472,544	0	<b>472,544</b>	472,342
Miscellaneous income	0	2,705	<b>2,705</b>	2,822
Total Income	472,544	2,705	<b>475,249</b>	475,164
<b>Surplus/(Deficit) for Year</b>	<b>15,876</b>	<b>(145,259)</b>	<b>(129,383)</b>	<b>(54,643)</b>

8. Asset Management Revenue Account

The Asset Management Revenue account receives the charges to service departments for the use of capital assets and meets the cost of debt redemption and interest paid on external borrowing. The balance on the account as at 31st March 2005 is transferred to the Consolidated Revenue Account.

	<b>2004-05</b>	<b>2003-04</b>
	<b>£</b>	<b>£</b>
<b>Expenditure</b>		
Provision for Depreciation	<b>6,415,316</b>	6,095,284
Less: Excess over Minimum Revenue Provision	<b>(1,615,490)</b>	(2,386,658)
External Interest	<b>7,494,829</b>	6,650,013
	<b>12,294,655</b>	10,358,639
<b>Income</b>		
Capital Charges to Services	<b>(17,851,381)</b>	(16,132,373)
Excess of capital charges over MRP & interest	<b>(5,556,726)</b>	(5,773,734)

9. Government Grants

Central Government and European Community revenue grants towards specific services were received during the year totalling £80,350,457 (£72,555,828 in 2003/04). These are included as income offsetting service expenditure in the revenue account and are subject to certification by the Audit Commission.

10. 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 2004/05 was £553,710 (£545,937 in 2003/04). Future liabilities on these leases amount to £2,556,095.

11. 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 these entities have not been consolidated into the financial statements of the Council.

**Island 2000 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:- The Gatehouse, Forest Road, Newport, Isle of Wight, PO30 5YS.

**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 (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. Further information can be obtained from the registered office:- County Hall, Newport, Isle of Wight, PO30 1UD.

**Cowes Town Waterfront Trust** 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.

12. Health Act 1999 Section 31 Pooled Funds

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 have been prepared relating to pooled budget agreements between the Isle of Wight Council and Isle of Wight Primary Care Trust during 2004/05. All relevant income and expenditure has been included in the Social Services division of service in the Consolidated Revenue 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 following shows the pool income, expenditure and balance as at 31<sup>st</sup> March.

<b>Amounts Received from Partners</b>	<b>2004/05</b>		<b>2003/04</b>
	<b>%</b>	<b>£</b>	<b>£</b>
Contribution from IW Council	<b>75.5</b>	<b>4,358,075</b>	4,370,857
Contribution from IW Primary Care Trust	<b>24.5</b>	<b>1,411,000</b>	1,354,000
<b>Total Income</b>		<b>5,769,075</b>	5,724,857
<b>Amount Spent from Pool</b>		<b>£</b>	
Preserved Rights	-	-	287,405
IWC Funded Island Clients	<b>4,647,195</b>		4,113,418
IWC Funded Mainland Clients	<b>178,190</b>		189,846
RNCC Island Placed Self Carers	<b>565,841</b>		426,182
RNCC Island Self Funders Placed by Mainland Authorities	<b>37,851</b>		47,447
Continance Products	<b>91,439</b>		100,620
Administration/Assessment	<b>32,770</b>		35,868
<b>Total Expenditure</b>		<b>5,553,286</b>	5,200,786
<b>Amount Remaining in Pool</b>		<b>215,789</b>	524,071
To be shared between partners pro rata to contributions made	<b>%</b>		
I W Council	<b>75.5</b>	<b>162,921</b>	399,866
I W Primary Care Trust	<b>24.5</b>	<b>52,868</b>	124,205
<b>Total</b>		<b>215,789</b>	524,071

### **Substance Misuse**

This agreement is to provide a pooled budget and lead commissioning arrangement for Substance Misuse Services. The pooled budget arrangement was operational from 1<sup>st</sup> February 2005 and is hosted by the Isle of Wight Council. The following shows the pool income, expenditure and balance as at 31<sup>st</sup> March 2005.

<b>Amounts Received from Partners</b>	<b>%</b>	<b>£</b>
Contribution from IW Council	46.2	135,341
Contribution from IW Primary Care Trust	53.8	157,292
<b>Total Income</b>		<b>292,633</b>
<b>Amount Spent from Pool</b>		<b>£</b>
Drug Strategies		232,008
Island Drug and Alcohol Service		60,625
<b>Total Expenditure</b>		<b>292,633</b>
<b>Amount Remaining in Pool</b>		<b>0</b>

### **Integrated Community Equipment Store Pooled Budget**

This agreement has been entered into to provide a single integrated community equipment service. The pooled budget arrangement was hosted by the Isle of Wight Primary Care Trust in 2004/05. The following shows the pool income, expenditure and balance as at 31<sup>st</sup> March 2005.

<b>Amounts Received from Partners</b>	<b>%</b>	<b>£</b>
Contribution from IW Council	65.5	284,800
Contribution from IW Primary Care Trust	34.5	150,210
Total Income		<u>435,010</u>
<b>Amount Spent from Pool</b>	<b>£</b>	
Staff Costs	117,723	
Non-Pay Costs	263,306	
Total Expenditure		<u>381,029</u>
<b>Amount Remaining in Pool</b>		<b><u>53,981</u></b>
To be shared between partners pro rata to contributions made	<b>%</b>	
I W Council	65.5	35,341
I W Primary Care Trust	34.5	18,640
<b>Total</b>		<b><u>53,981</u></b>

13. Disclosure of Employees' Emoluments

The number of officers, teachers and other staff whose remuneration, excluding pension contributions, exceeded £50,000 were:-

Remuneration Fund	2004-05		2003-04	
	Number of Employees		Number of Employees	
	Total	Left during year	Left during year	Left during year
£50,000 to £59,999	22	0	20	1
£60,000 to £69,999	12	0	4	0
£70,000 to £79,999	4	2	5	2
£80,000 to £89,999	2	0	0	0
£90,000 to £99,999	0	0	1	0
£100,000 to £109,999	0	0	0	0
£110,000 to £119,999	1	0	0	0

14. Members' Allowances

The total amount of members' allowances paid in the year were £444,084 (£438,871 in 2003-04).

15. 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 Consolidated Revenue Account. For the financial year ending 31<sup>st</sup> March 2005, all such activities are included in the total cost of the relevant services and are therefore consolidated into the net cost of services. The amounts include any capital charges or FRS 17 charges attributable to the particular service. In certain instances, the council may subsidise a service by accepting a deficit or a lower surplus in order to achieve specific service objectives.

Operation	Description		£000's
Industrial Units	The Council let industrial units in a variety of locations.	Turnover	104
		Expenditure	145
		Deficit 2004/05	(41)
		Deficit 2003/04	(29)
Markets	The Council runs Newport market and provides supervisory support for other local markets	Turnover	45
		Expenditure	33
		Surplus	12
		Surplus 2003/04	10
Cowes Ferry	Cowes Floating Bridge contains the costs of providing the ferry link between East and West Cowes. Income is generated by charges for	Turnover	403
		Expenditure	506
		Deficit 2004/05	(103)
		Deficit 2003/04	(211)
Car Parks	This service includes the full costs of operating car parks across the Island. Income is derived from charges levied on users, in particular ticket sales and excess charges. The excess of income generated by this service is reinvested to improve the transport	Turnover	3,242
		Expenditure	1,549
		Surplus	1,693
		Surplus 2003/04	1,677
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	Turnover	2,389
		Expenditure	2,416
		Deficit 2004/05	(27)
		Deficit 2003/04	(19)

Legal Services	Service Level Agreements allow users of the Legal Services section to buy expertise. The charges are based on time allocated to individual cases and the aim of the service is to cover its costs as a minimum.	Turnover	721
		Expenditure	674
		Surplus	47
		Deficit 2003/04	(13)

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	Turnover	706
		Expenditure	866
		Deficit 2004/05	(160)
		Deficit 2003/04	(253)

Harbours and Coastal	This includes Newport and Ryde Harbours, Ventnor Haven, Folly Moorings and Whitegates Pontoon	Turnover	188
		Expenditure	319
		Deficit 2004/05	(131)
		Deficit 2003/04	(91)

Leisure Facilities	The running of Leisure facilities at Waterside Pool, Medina Leisure Centre and The Heights. Due to changes in the apportionment of management and administration costs, figures for the previous year are not comparable. These will be shown in future years.	Turnover	1,352
		Expenditure	2,559
		Deficit 2004/05	(1,207)

Seasonal Sites	The running of tourism related sites including Browns and Road Trains. Due to changes in the apportionment of management and administration costs, figures for the previous year are not comparable. These will be shown in future years.	Turnover	656
		Expenditure	1,031
		Deficit 2004/05	(375)



## 16. 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.

For the purposes of this disclosure, related parties to Isle of Wight Council are deemed to be:

- Central Government and other Public Bodies
- Any joint venture partners of Isle of Wight Council
- Any subsidiary company or associated companies of Isle of Wight Council
- Elected members
- Directors
- The Council's pension fund

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. Details of transactions with government departments are set out in a note to the Cash Flow Statement.

For elected members and directors, related parties also include:

- Members of close family
- Members of same household
- Companies, partnerships, trusts or other entities in which close family or members of the same household have a controlling interest.*

A transaction is deemed to be:

- A transfer of assets (including cash) or liabilities
- Performance of services, irrespective of whether a charge is made
- Provision of a loan
- Provision of a guarantee

Elected members and directors were requested to disclose any related party transactions.

There are nine relevant and material disclosures from members, directors and senior officers. The total value of these disclosures is £495,768. Three members have not responded to requests for information.

During the financial year, the pension fund had an average balance of £352,562 of surplus cash deposited with the council. The council paid the fund a total of £11,099 on these deposits. The council charged the fund £335,055 for expenses incurred in administering the fund.

17. Audit Costs

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

	<b>2004-05</b>	2003-04
	£	£
Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor	<b>218,500</b>	185,350
Fees payable to the Audit Commission - improvement work resulting from Comprehensive Performance Assessment	<b>32,500</b>	-
Fees payable to the Audit Commission in respect of statutory inspection	<b>63,000</b>	106,100
Fees payable to the Audit Commission for certification of grant claims and returns	<b>78,517</b>	97,184
Fees payable in respect of other services provided by the appointed auditor	<b>10,385</b>	7,020
	<hr/> <b>402,902</b> <hr/>	<hr/> 395,654 <hr/>

The fees for other services payable in both years relate to joint working arrangements, the investigation of queries raised by Local Government electors and additional work required to verify the Best Value Performance Indicators.

18. Local Public Service Agreement (LPSA)

Isle of Wight Council has entered into a LPSA with the Government, in which the Council has pledged to improve a range of services as measured by a number of targets. To assist the Council in achieving the targets set out by the LPSA, the Government paid over a pump-priming grant of £879,448 in 2002/03. This was intended as a contribution towards expenditure of an 'invest to save' nature.

In 2004/05 £407,346 was used to meet the cost of planned expenditure, which in addition to the £135,232 spent previously, leaves £336,870 to be carried forward. This balance can be spent at any time during the period of the agreement, which runs until 31<sup>st</sup> March 2006.

19. 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 need 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 an unfunded scheme, meaning that there are no investment assets built up to meet the pensions liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due.
- 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 of the Consolidated Revenue Account after Net Operating Expenditure. The transactions that have been made in the Consolidated Revenue Account 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>2004-05</b>	<b>2003-04</b>	<b>2004-05</b>	<b>2003-04</b>	<b>2004-05</b>	<b>2003-04</b>
	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>
<b>Net cost of services:</b>						
Current Service cost	<b>7,500</b>	5,600	<b>700</b>	500	<b>8,200</b>	6,100
Past service costs	<b>100</b>	200	<b>146</b>	-	<b>246</b>	200
Settlements and Curtailments	<b>800</b>	1,300	<b>0</b>	0	<b>800</b>	1,300
<b>Net Operating Expenditure</b>						
Interest cost	<b>11,600</b>	12,100	<b>1,500</b>	1,600	<b>13,100</b>	13,700
Expected return on assets	<b>(10,400)</b>	(8,400)	-	-	<b>(10,400)</b>	(8,400)
<b>To be met from Government Grants and Local Taxation:</b>						
Movement on pensions reserve	<b>(2,200)</b>	(4,700)	<b>(1,146)</b>	(1,080)	<b>(3,346)</b>	(5,780)
<b>Actual amount charged against council tax for pensions in the year:</b>						
Employers' contributions payable to the scheme (including unfunded benefits)	<b>(7,400)</b>	(6,100)	-	-	<b>(7,400)</b>	(6,100)
Retirement benefits payable to Pensioners (net of member contributions)	-	-	<b>(1,200)</b>	(1,020)	<b>(1,200)</b>	(1,020)

Note 42 to the Consolidated Balance Sheet contains details of the assumptions made in estimating the figures included in this note. Note 6 to the Statement of Total Movements in Reserves details the costs that have arisen through the year as estimates made in preparing the figures for previous years have had to be revised (for example the expected return on investments).

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

Teachers are provided with defined benefits upon their retirement, and the authority contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

Contributions were as follows:-

	<b>2004-05</b>	2003-04
	<b>£000's</b>	£000's
Basic Contribution	<b>4,712</b>	4,563
(as a % of pensionable pay)	<b>13.50</b>	13.50

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

**THE COLLECTION FUND**

	<b>2004-05</b>	<b>2003-04</b>
	<b>£</b>	<b>£</b>
<b>Income</b>		
Council Tax (note 21)	<b>53,174,053</b>	48,762,807
Transfers from General Fund:-		
Council Tax Benefits	<b>9,205,255</b>	8,252,544
Contribution re: Discretionary Relief	<b>60,874</b>	60,354
	<hr/>	<hr/>
	<b>9,266,129</b>	8,312,898
Income collectable from business ratepayers (note 20)	<b>21,956,918</b>	21,556,746
	<hr/>	<hr/>
	<b>84,397,100</b>	78,632,451
<b>Expenditure</b>		
Isle of Wight Council Precept	<b>56,748,008</b>	52,067,436
Police Precept	<b>5,657,808</b>	4,884,852
Business Rate:-		
Payment to National Pool	<b>21,689,497</b>	21,485,184
Costs of Collection	<b>240,200</b>	239,142
	<hr/>	<hr/>
	<b>21,929,697</b>	21,724,326
Provision for Bad Debts	<b>160,123</b>	2,727
Adjustment of previous years' community charge	<b>0</b>	(374)
	<hr/>	<hr/>
	<b>84,495,636</b>	78,678,967
	<hr/>	<hr/>
<b>Collection Fund Balance at 31st March</b>		
	<b>2004-05</b>	<b>2003-04</b>
	<b>£</b>	<b>£</b>
Balance on Fund at start of year	<b>(58,937)</b>	(105,453)
Deficit for Year	<b>98,536</b>	46,516
	<hr/>	<hr/>
Balance on Fund Carried Forward	<b>39,599</b>	(58,937)
	<hr/>	<hr/>

## NOTES TO THE COLLECTION FUND

20. The total non-domestic rateable value at 31 March 2005 was £55,415,915 and the non-domestic rate multiplier for the year was 45.6p.
21. The following details the number of properties in each valuation band of the tax base for 2004-05:-

A	B	C	D	E	F	G	H
7,237	13,607	14,080	11,165	6,153	2,590	1,275	80

These equated to 52,636.5 Band D equivalent properties and after making a 1.3% allowance for non- collection and changes in the valuation list, a tax base of 51,951.8 was approved.

22. The following precepts were made on the fund in 2004-05:-

	£
Isle of Wight Council	56,748,008
Hampshire Police	5,657,808
Total	<u>62,405,816</u>

## CONSOLIDATED BALANCE SHEET

31 March 2004

31 March  
2005

£		£	£
	Net Fixed Assets (note 23)		
201,266,298	Land and Building	217,306,608	
56,560,474	Infrastructure	63,208,663	
2,370,217	Vehicles, Plant, Furniture & Equipment	4,644,274	
3,440,981	Community Assets	4,823,725	
263,637,970			289,983,270
455,153	Deferred Charges (note 23)		0
15,394	Investments (note 26)		5,011,036
506,945	Long Term Debtors (note 24)		319,991
264,615,462	<b>Total Long Term Assets</b>		<b>295,314,297</b>
	Current Assets		
759,146	Stock & Work in Progress (note 25)	593,441	
11,271,692	Debtors & Payments in Advance (note 27)	13,314,636	
40,325,000	Temporary Advances (note 29)	39,950,000	
1,441,411	Cash in bank and in hand	1,690,020	
53,797,249			55,548,097
	Current Liabilities		
22,550,164	Creditors & Receipts in Advance (note 28)	19,863,836	
554,994	External Borrowing repayable within one year (note 30)	2,142,618	
1,545,456	Bank Overdraft	2,416,434	
24,650,614			24,422,888
29,146,635	<b>Net Current Assets</b>		<b>31,125,209</b>
	Long Term Liabilities		
128,494,522	External Borrowing repayable in more than one year (note 30)		142,307,572
208,030	Deferred Credits (note 35)		165,117
2,921,296	Provisions (note 33)		3,291,222
94,500,000	Liability related to defined benefit pension schemes (note 42)		138,000,000
226,123,848			283,763,911
67,638,249	<b>Total Net Assets</b>		<b>42,675,595</b>
	Financed By		
26,913,541	Earmarked Reserves (note 34)		31,330,126
(94,500,000)	Pensions Reserves (note 42)		(138,000,000)
86,201,206	Fixed Asset Restatement Account (note 36)		95,488,457
43,532,974	Capital Financing Account (note 37)		51,345,980
0	Capital Receipts Unapplied (note 31)		0
3,354,494	Capital Grants Unapplied (note 32)		495,977
2,077,097	General Fund Balance		2,054,654
58,937	Surplus/(Deficit) on Collection Fund		(39,599)
67,638,249	<b>Total Reserves</b>		<b>42,675,595</b>

Signed *Paul Wilkinson*

Date

15<sup>th</sup> July 2005

**Chief Financial Officer**



## NOTES TO THE CONSOLIDATED BALANCE SHEET

### 23. Fixed Assets

Movement in fixed assets were as follows:

	Land and Buildings £	Infrastructu re £	Vehicles Plant Furniture & Equipment £	Communit y Assets £	Total £
Balance at 1 April	201,266,29	56,560,47	2,370,217	3,440,981	263,637,97
Expenditure in	7,966,740	9,072,672	1,408,778	3,727	18,451,917
Depreciation	(3,207,210)	(2,424,483)	(698,192)	(85,431)	(6,415,316)
Disposals	(1,149,772)	0	0	0	(1,149,772)
Revalued in year	12,430,552	0	1,563,471	1,464,448	15,458,471
<b>Balance at 31 March</b>	<b>217,306,60 8</b>	<b>63,208,66 3</b>	<b>4,644,274</b>	<b>4,823,725</b>	<b>289,983,27 0</b>

The valuation of all properties were undertaken by either Mr A J Flower FRICS, Mr B Cooke FRICS or Mr K J Gillett, all of Property Services, Isle of Wight Council.

The main items of capital expenditure were:-

	£
Road Improvements	6,340,310
Castle Haven Coast Protection	2,591,785
Nine Acres Remodelling and Mobile Replacement	995,904
Social Services – Client Database System	873,495
Disabled Facilities Grants	809,229
Kitbridge Middle School Extension	791,332
Education – New Opportunities Fund Sport project	765,503
Purchase of Maurick Farm, Pan	531,277
Five Dennis Dart Buses	463,120
ICT in Schools Infrastructure (National Grid for Learning)	424,402
Solent Middle – Office & Dining Area	375,174

In addition, major contracts had been entered into with the following outstanding sums at 31 March 2005:-

	£
Kitbridge Middle School Extension	1,370,241
Greenmount Primary School Extension	382,500
Solent Middle School – Replace Mobiles	357,000

## Deferred Charges

*Deferred Charges are no longer applicable as a category on the Consolidated Balance Sheet. The brought forward balance of Deferred Charges relating to the funding of the costs of local government reorganisation has been written off to revenue in the year.*

### Movement in Deferred Charges

	Balance at 1 April £	Expenditure In year £	Written out In year £	Balance at 31 March £
Improvement Grants	0	926,849	(926,849)	0
Housing Association Grant	0	507,286	(507,286)	0
Reorganisation Costs	455,153	0	(455,153)	0
Isle of Wight Economic Partnership	0	2,245,206	(2,245,206)	0
Sure Start	0	459,319	(459,319)	0
<b>Total</b>	<b>455,153</b>	<b>4,138,660</b>	<b>(4,593,813)</b>	<b>0</b>

### Capital Expenditure in 2004-05 was financed as follows:-

	£
Capital Receipts	1,162,605
Capital Grants	12,665,551
Increase in Capital Financing Requirement (CFR)	13,783,870
<b>Total</b>	<b>27,612,026</b>

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. The opening balance on the following Capital Financing Requirement statement was calculated from the balance sheet as at 31<sup>st</sup> March 2005 in accordance with the Prudential Code for Capital Accounting.

### Capital Financing Requirement (memorandum account)

	£
Balance at 1 April 2004	134,358,943
Capital Expenditure in year	27,612,026
Application of Capital Receipts	(1,162,605)
Application of Capital Grants	(12,665,551)
Statutory Charge to Revenue re: past expenditure	(4,508,685)
<b>Balance at 31 March 2005</b>	<b>143,634,128</b>

## Information on Fixed Assets

An analysis of fixed assets at 31 March is:

	<b>2005</b>	2004
Libraries	11	11
Museums	4	4
Tourist Information Centres	3	3
Allotment sites	21	21
Park areas & amenity sites	209	209
Theatres	2	2
Shanklin Lift	1	1
Leisure Centres	2	2
Schools *	69	69
with a - sports centre	3	3
- theatre	1	1
- swimming pool	1	1
Other Educational properties	18	19
Fire Stations	10	10
Crematorium	1	1
Courts	1	1
Cemeteries	12	12
Guildhall	1	1
Waste Derived Fuel Plant	1	1
Refuse Disposal Sites	2	2
Toilet Blocks	81	81
Car Parks	78	78
Harbours	2	2
Residential Homes for the Elderly	2	4
Resource Centres for the Elderly	2	2
Group Homes	6	7
Family Centre	1	1
Day/Community Centres	12	12
Other Social Services Properties	19	18
Hostels	1	1
Highways Depots and Other Premises	10	10
Chain Ferry and Terminals	1	1
Industrial Estates	8	8
Council Dwellings	5	5
Garage Sites	2	2
County Hall	1	1
Other Office Premises	21	21
Other Premises & Land Sites	38	37
Vehicles and Major Plant - owned	112	98
- leased	124	123
Roads and Bridges (Km)	<b>797.3</b>	797.3
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.

24. 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 2005 the balance amounted to £319,991.

25. Stocks and Work-in-Progress

	<b>31 March 2005 £</b>	31 March 2004 £
Works-in-Progress	<b>40,958</b>	60,929
Stocks	<b>552,483</b>	698,217
	<hr/>	<hr/>
Balance at end of year	<b>593,441</b>	759,146
	<hr/>	<hr/>

26. Investments

These comprise £11,036 in Government and other stocks (2003-04 £11,036). The equity holding with the former Wiltshire County Council based Consortium for Purchasing and Distribution (CPD), of which the Council is a member, has now been repaid. In addition, there is £5,000,000 invested with a Building Society for a period in excess of 364 days.

27. Debtors and Payments in Advance

	<b>31 March 2005 £</b>	31 March 2004 £
Government Departments	<b>3,788,987</b>	2,836,710
Local Taxpayers	<b>2,275,612</b>	1,930,498
Other Organisations and Individuals	<b>9,944,101</b>	8,789,210
	<hr/>	<hr/>
	<b>16,008,700</b>	13,556,418
less Provision for Bad Debts	<b>(2,694,064)</b>	(2,284,726)
	<hr/>	<hr/>
Balance at end of year	<b>13,314,636</b>	11,271,692
	<hr/>	<hr/>

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

28. Creditors and Receipts in Advance

	<b>31 March 2005</b>	31 March 2004
	<b>£</b>	£
Government Departments	<b>5,353,652</b>	5,593,306
Local Taxpayers	<b>1,847,051</b>	718,177
Other Organisations & Individuals	<b>12,663,133</b>	16,238,681
	<hr/>	<hr/>
Balance at end of year	<b>19,863,836</b>	22,550,164
	<hr/>	<hr/>

29. Temporary Advances

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 2005 £19,450,000 was invested with Banks and £20,500,000 with Building Societies.

30. External Borrowing

	<b>31 March 2005</b>	31 March 2004
	<b>£</b>	£
Repayable in 1 - 2 years	<b>1,052</b>	1,186,951
Repayable in 2 - 5 years	<b>5,003,317</b>	2,003,234
Repayable in 5 - 10 years	<b>15,504,492</b>	15,005,025
Repayable in 10 - 15 years	<b>26,503,199</b>	25,003,106
Repayable in 15 - 20 years	<b>31,103,952</b>	30,203,787
Repayable in 20 - 25 years	<b>36,191,285</b>	42,091,603
Repayable in more than 25 years	<b>28,000,275</b>	13,000,816
	<hr/>	<hr/>
Repayable in more than one year	<b>142,307,572</b>	128,494,522
Repayable within one year	<b>2,142,618</b>	554,994
	<hr/>	<hr/>
Total External Borrowing	<b>144,450,190</b>	129,049,516
	<hr/>	<hr/>
Of which, Public Works Loan Board (PWLB)	<b>132,493,158</b>	117,494,008
	<hr/>	<hr/>

31. Useable 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 2005 £</b>	31 March 2004 £
Balance at beginning of year	<b>0</b>	0
Sale of Capital Assets	<b>1,162,605</b>	2,473,524
	<b>1,162,605</b>	2,473,524
Less: Applied to capital	<b>(1,162,605)</b>	(2,473,524)
Balance at end of year	<b>0</b>	0

32. Capital Grants

Capital Grants towards the cost of capital projects are generally applied as expenditure is incurred.

	<b>31 March 2005 £</b>	31 March 2004 £
Balance at beginning of year	<b>3,354,494</b>	218,832
Capital Grants Received	<b>9,807,034</b>	12,507,205
	<b>13,161,528</b>	12,726,037
Less: Applied to Capital	<b>(12,665,551)</b>	(9,371,543)
Balance at end of year	<b>495,977</b>	3,354,494

33. Provisions

	Balance 1 April £	Receipts £	Payments £	<b>Balance 31 March £</b>
Insurance Liabilities Fund	2,536,000	260,031	0	<b>2,796,031</b>
Waste Management Contract Claims	385,296	109,895	0	<b>495,191</b>
Total	<b>2,921,296</b>	<b>369,926</b>	<b>0</b>	<b>3,291,222</b>

The Insurance Liabilities Fund represents the potential liabilities identified in an actuarial valuation of outstanding insurance claims. The Waste Management Contract claim relates to a green waste arbitration dispute.

34. Earmarked Reserves

			Balance 1 April £	Contributions £	Payments £	Balance 31 March £
Earmarked Revenue & Capital			4,404,948	1,799,736	2,091,031	<b>4,113,653</b>
Repairs & Renewals Fund			3,570,502	586,981	724,704	<b>3,432,779</b>
Earmarked Reserves - Education		-	1,296,898	1,153,208	711,898	<b>1,738,208</b>
Earmarked Reserves - Social Services		-	287,343	72,766	148,156	<b>211,953</b>
Earmarked Reserves - Other Services		-	4,351,861	4,559,930	1,397,234	<b>7,514,557</b>
School Balances			3,371,506	1,480,188	676,060	<b>4,175,634</b>
Insurance Funds			9,630,483	1,548,520	1,035,661	<b>10,143,342</b>
<b>Total</b>			<b>26,913,541</b>	<b>11,201,329</b>	<b>6,784,744</b>	<b>31,330,126</b>

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

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 are made up of the likely level of the Special Educational Needs mainland placement contingency, Standards Fund monies and pupil numbers contingency.

The Social Services earmarked reserves principally relate to the Acciss replacement computer project.

Other Services earmarked reserves represent specific sums set aside to meet future requirements. They include the Fire Fighters' Pension Reserve, the Redundancy and Cost of Savings Fund, the Invest to Save Reserve as well as individual service project funds.

School balances represent cumulative underspendings 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 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 80% of the total potential liabilities.

35. Deferred Credits

This item principally comprises outstanding amounts on mortgages made to private householders (former Council tenants) and other sundry loans.

36. Fixed Asset Restatement Account

Changes to asset values on revaluation or disposal are transferred to this reserve. It is not available to finance expenditure.

37. Capital Financing Account

The Local Government and Housing Act 1989 provides for certain sums to be 'set aside' for the redemption of debt or for financing new capital expenditure for which borrowing would otherwise have been required. Each year, the Council is required to set aside a proportion of its credit limit at the start of the year, plus Government prescribed proportions of the proceeds of asset sales. This reserve is not available to finance Capital Expenditure.

	<b>31 March 2005 £</b>	31 March 2004 £
Balance at beginning of year	<b>43,532,974</b>	37,783,167
Minimum Revenue Provision Adjustment	<b>(1,615,490)</b>	(2,386,658)
Financing of Deferred Charges	<b>(4,429,804)</b>	(3,658,001)
Set Aside Receipts	<b>30,144</b>	7,696
Useable Receipts Applied	<b>1,162,605</b>	2,473,524
Capital Grants Applied	<b>12,665,551</b>	9,371,543
Prior year adjustment	<b>0</b>	(58,297)
Balance at end of year	<b>51,345,980</b>	43,532,974

38. Government Grants

Capital Grants of £9,807,035 relating to capital investment have been credited to the Capital Financing Reserve. These principally relate to Education and Single Regeneration Budget.

39. 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 Consolidated 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 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 £90,932 at 31<sup>st</sup> March 2005.

	<b>31 March 2005 £</b>	31 March 2004 £
Trust Funds Etc	<b>132,993</b>	144,441
Cash in Safekeeping	<b>19,965</b>	11,779
Amenity Funds	<b>86,292</b>	85,669
Total	<b>239,250</b>	241,889



40. 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.

41. 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 fifteen years, there is a diminishing probability of a claim against the Council.

There are five on-going court actions with an estimated potential total liability of £341,000.

42. Pension Assets and Liabilities

*Note 19 to the Consolidated Revenue Account contains details of the Authority's participation in the Local Government Pension Scheme, the Fire-Fighters' Pension Scheme and the Teachers' Pension Scheme in providing retirement benefits to employees.*

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

	Local Government Pension Scheme £000's		Fire-fighters' Pension Scheme £000's		Total £000's	
	2005	2004	2005	2004	2005	2004
<b>At 31 March</b>						
Estimated liabilities in scheme	<b>(270,600)</b>	(210,200)	<b>(33,900)</b>	(27,700)	<b>(304,500)</b>	(237,900)
Estimated assets in scheme	<b>166,500</b>	143,400	<b>0</b>	0	<b>166,500</b>	143,400
<b>Net Pension Liability</b>	<b>(104,100)</b>	(66,800)	<b>(33,900)</b>	(27,700)	<b>(138,000)</b>	(94,500)

The liabilities show the underlying commitments that the authority has in the long run to pay retirement benefits. The total liability of £138 million has a substantial impact on the net worth of the authority as recorded in the balance sheet, resulting in an overall balance of £42.7 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 working life of employees, as assessed by the scheme actuary

- finance is only required to be raised to cover fire-fighters' pensions when the pensions are actually paid.

In assessing liabilities for retirement benefits at 31 March 2004 for the 2003/04 Statement of Accounts, the actuary was required by the Code of Practice to use a discount rate of 3.5% real (6.5% actual). For the 2004/05 Statement of Accounts, a rate based on the current rate of return on a high-quality corporate bond of equivalent currency and term to scheme liabilities is to be used. The actuary has advised that a rate of 2.4% real (5.5% actual) is appropriate. Application of this rate has resulted in an increase in liabilities measured at today's prices of £41.4m for the Local Government Scheme and £4.6m for the Fire-fighters' scheme.

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 and salary levels. 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>2004/05</b>	<b>2003/04</b>	<b>2004/05</b>	<b>2003/04</b>
Price increases	<b>2.9%</b>	2.9%	<b>2.9%</b>	2.9%
Salary increases	<b>4.4%</b>	4.4%	<b>4.4%</b>	4.4%
Pension increases	<b>2.9%</b>	2.9%	<b>2.9%</b>	2.9%
Discount rate	<b>5.4%</b>	6.5%	<b>5.4%</b>	6.5%

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)**

	<b>Long Term Return at 31 March 2005 per annum</b>	<b>Assets at 31 March 2005 £000's</b>	<b>Long Term Return 31 March 2004 per annum</b>	<b>Assets at 31 March 2004 £000's</b>
Equities	<b>7.7%</b>	<b>124,130</b>	7.7%	111,800
Bonds	<b>4.8%</b>	<b>21,740</b>	5.1%	16,100
Property	<b>5.7%</b>	<b>15,910</b>	6.5%	12,000
Cash	<b>4.8%</b>	<b>4,720</b>	4.0%	3,500
<b>Total</b>	<b>7.0%</b>	<b>166,500</b>	7.2%	143,400

**Teachers' Pension Scheme**

With regard to the Teachers' Pension Scheme, there were no contributions remaining payable at the year-end.

The scheme is a defined benefit scheme, administered by the Teachers' Pension Agency (TPA). Although the scheme is unfunded, the TPA uses 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 Consolidated Balance Sheet.

## CASH FLOW STATEMENT FOR YEAR ENDED 31 MARCH 2005

	2004-05	2003-04
Revenue Activities	£	£
<u>Cash Outflows</u>		
Cash paid to and on behalf of employees	112,262,077	104,058,862
Precepts paid	640,793	637,642
Housing Benefit paid	31,452,724	30,115,063
Payment to NNDR Pool	854,265	0
Other operating cash payments	110,166,683	99,053,722
	<b>255,376,542</b>	233,865,289
<u>Cash Inflows</u>		
Rents	(619,330)	(607,726)
Council Tax Income	(48,512,140)	(49,474,151)
Non-Domestic Rate Income	(40,516,757)	(42,761,910)
Payment from NNDR Pool	0	(826,097)
Revenue Support Grant	(62,658,121)	(56,057,744)
DWP Grants for Housing Benefit	(31,714,087)	(28,912,971)
Other Government Grants (note 46)	(48,879,116)	(42,815,805)
Cash Received for Goods and Services	(35,647,399)	(30,188,006)
Revenue Activities Cash Flow (note 44)	<b>(13,170,408)</b>	(17,779,121)
<u>Servicing of Finance</u>		
Interest paid	7,394,425	6,531,526
Interest Received	(2,302,775)	(1,165,972)
	<b>(8,078,758)</b>	(12,413,567)
<u>Capital Activities</u>		
<u>Cash Outflows</u>		
Purchase of Fixed Assets	27,612,026	26,432,151
Other Capitalised Expenditure	4,138,660	3,366,858
<u>Cash Inflows</u>		
Sale of Fixed Assets	(1,162,605)	(2,473,524)
Capital Grants Received	(9,925,179)	(12,507,205)
	<b>(11,087,784)</b>	(14,980,729)
	<b>20,662,902</b>	14,818,280
Net Cash (Inflow) Outflow Before Financing	<b>12,584,144</b>	2,404,713
<u>Financing</u>		
Repayments of Amounts Borrowed & Temporary Advances	849	1,500,000
New Loans Raised	(15,000,000)	(21,000,000)
	<b>(14,999,151)</b>	(19,500,000)
(Increase)/Reduction in cash and cash equivalents (note 45)	<b>(2,415,007)</b>	(17,095,287)

### Note 43

The cash flow statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes. Reconciliation to the Consolidated Revenue Account surplus and the Consolidated Balance Sheet cash figure is provided in Notes 44 and 45.

**Note 44**

	<b>2004-05</b>	<b>2003-04</b>
	£	£
General Fund movement as per Consolidated Revenue Account	<b>22,443</b>	0
Increase/ (reduction) in Stock and Work in Progress	<b>(165,705)</b>	49,293
Increase/ (reduction) in Debtors	<b>2,042,944</b>	(1,179,723)
(Increase)/reduction in Creditors	<b>2,686,328</b>	(2,683,036)
Transfer to/(from) Reserve & other non-cash transactions	<b>(12,664,768)</b>	(8,600,101)
Interest Payments	<b>(7,394,425)</b>	(6,531,526)
Interest Receipts	<b>2,302,775</b>	1,165,972
	<hr/>	<hr/>
Revenue Activities Net Cash Flow	<b>(13,170,408)</b>	(17,779,121)

**Note 45**

	<b>2004-05</b>	2003-04
	£	£
Consolidated Balance Sheet Movements		
Increase/(Reduction) in Bank Overdrawn	<b>870,978</b>	(2,200,441)
(Increase)/Reduction in Cash in Hand	<b>(248,609)</b>	(506,710)
Increase/(Reduction) in Short Term Loans	<b>1,587,624</b>	(1,483,136)
Increase in Long Term Investments	<b>(5,000,000)</b>	0
(Increase)/Reduction in Bank Advances	<b>375,000</b>	(12,905,000)
	<hr/>	<hr/>
Increase/(Reduction) in Cash and Cash Equivalents	<b>(2,415,007)</b>	(17,095,287)

**Note 46**

	<b>2004-05</b>	2003-04
<b>Analysis of Government Grants</b>		
Department for Education & Skills	<b>17,706,160</b>	15,124,919
Department of Health	<b>7,925,498</b>	7,476,424
Home Office	<b>266,365</b>	95,342
Department of Works and Pensions	<b>42,562,961</b>	38,079,779
Department of Transport	<b>404,540</b>	273,558
Office of Deputy Prime Minister	<b>10,829,344</b>	9,682,624
Other (including European Grants)	<b>898,335</b>	996,130
	<hr/>	<hr/>
	<b>80,593,203</b>	71,728,776

## STATEMENT OF TOTAL MOVEMENTS ON RESERVES

	<b>2004-05</b>	<b>2003-04</b>
	<b>£</b>	<b>£</b>
Surplus /(deficit) for the year:		
General Fund	(22,443)	0
Collection Fund	(98,536)	(46,516)
Add back Movements on specific revenue reserves	4,416,585	2,439,916
Deduct Appropriation from Pension Reserve	(3,346,000)	(5,780,000)
Actuarial gains & losses relating to pensions (note 6)	<u>(40,179,000)</u>	<u>19,995,000</u>
<b>Total Increase/(decrease) in revenue resources (note 1)</b>	<b>(39,229,394)</b>	16,608,400
Increase/(decrease) in usable capital receipts	0	0
Increase/(decrease) in unapplied capital grants & contributions	(2,858,517)	<u>3,135,662</u>
<b>Total Increase/(decrease) in realised capital resources (note 2)</b>	<b>(2,858,517)</b>	3,135,662
Gains/(losses) on revaluation of fixed assets	<u>10,437,023</u>	3,705,524
Impairment losses on fixed assets due to general changes in prices	0	0
<b>Total Increase/(decrease) in unrealised value of fixed assets (note 3)</b>	<b>10,437,023</b>	3,705,524
<b>Value of assets sold, disposed of or decommissioned (note 4)</b>	<b>(1,149,772)</b>	(3,479,500)
Capital receipts set aside	1,192,749	2,422,923
Revenue resources set aside	(1,615,490)	(2,386,658)
Movement on Government Grants Deferred	<u>8,235,747</u>	<u>5,713,542</u>
<b>Total Increase/(decrease) in amounts set aside to finance capital investment (note 5)</b>	<b>7,813,006</b>	5,749,807
<b>Increase/(decrease) on the pensions reserve (note 6)</b>	<b>25,000</b>	(15,000)
<b>Total recognised gains &amp; losses</b>	<b>(24,962,654)</b>	<u>25,704,893</u>

## Notes to the Statement of Total Movements on Reserves

### 1. Movements in revenue resources

	General Fund Balances £	Collection Fund £	Earmarked Reserves £	Pension Reserve £
Deficit for 2004/05	(22,443)	(98,536)		
Appropriations (to)/from Revenue			4,416,585	(3,346,000)
Transfers with other authorities				25,000
Actuarial losses relating to pensions				(40,179,000)
Brought forward at 1 April 2004	2,077,097	58,937	26,913,541	(94,500,000)
<b>Carried forward at 31 March 2005</b>	<b>2,054,654</b>	<b>(39,599)</b>	<b>31,330,126</b>	<b>(138,000,000)</b>

*The appropriations from Revenue to Earmarked Reserves represent sums set aside by services to finance future expenditure, together with transfers in lieu of interest. Further details of the movement on the Pension Reserve are given in Note 6 below.*

### 2. Movements in realised capital resources

	Usable capital Receipts £	Unapplied Capital grants & Contributions £
Amounts receivable in 2004/05	1,162,605	9,807,034
Amounts applied to finance new capital investment in 2004/05	(1,162,605)	(12,665,551)
Total increase/(decrease) in realised capital resources in 2004/05	0	(2,858,517)
Balance brought forward at 1 April 2004	0	3,354,494
<b>Balance carried forward at 31 March 2005 (see notes 31 &amp; 32)</b>	<b>0</b>	<b>495,977</b>

Capital receipts are generated mainly from the sale of fixed assets and are used to support the Council's capital programme. Capital Grants towards the cost of capital projects are generally applied as expenditure is incurred.

### 3. Movements in unrealised value of fixed assets

	Fixed asset Restatement Reserve £
Gains/losses on revaluation of fixed assets in 2004/05	15,458,471
Enhancement of Fixed Assets	(5,021,448)
Impairment losses on fixed assets due to general changes in prices in 2004/05	0
<b>Total increase/(decrease) in unrealised capital resources in 2004/05</b>	<b>10,437,023</b>

### 4. Value of assets sold, disposed of or decommissioned

Amounts written off fixed asset balances for disposals in 2004/05	(1,149,772)
Total movement on reserve in 2004/05	9,287,251
Balance brought forward at 1 April 2004	86,201,206
<b>Balance carried forward at 31 March 2005 (see note 36)</b>	<b>95,488,457</b>

The Fixed Asset Restatement Account reflects movements in fixed assets resulting from revaluations and disposals.

	<b>Capital Financing Reserve £</b>
<b>5. Movements in amounts set aside to finance capital investment</b>	
Capital receipts set aside in 2004/05	
- reserved receipts	30,144
- usable receipts applied	1,162,605
<b>Total Capital receipts set aside in 2004/05</b>	<hr/> 1,192,749
Revenue resources set aside in 2004/05	
Capital expenditure financed from revenue	0
<b>Total Revenue resources set aside in 2004/05</b>	<hr/> 0
Capital Slippage Reserve Applied	0
Grants applied to capital investment in 2004/05	12,665,551
Amounts credited to the asset management revenue account in 2004/05	(1,615,490)
Deferred Charges written down	(4,429,804)
<b>Movement on Government Grants Deferred</b>	<hr/> 6,620,257
<b>Total increase/(decrease) in amounts set aside in finance Capital investment</b>	<hr/> <b>7,813,006</b>
Total movement on reserve in 2004/05	7,813,006
Balance brought forward at 1 April 2004	43,532,974
<b>Balance carried forward at 31 March 2005 (see note 37)</b>	<hr/> <b>51,345,980</b> <hr/>

The Capital Financing Account contains the amounts which are required by statute to be set aside from capital receipts and revenue for the repayment of external loans, together with the amounts of revenue, useable capital receipts and contributions which have been used to finance capital expenditure.

Government grants deferred represents amounts received to fund capital expenditure which will be released to offset the depreciation in respect of the fixed assets to which they relate. For assets which will not attract depreciation, the grants and contributions are transferred to the Capital Financing Account in the year in which they are used to finance expenditure.



## 6. Movements in Pension Reserve

Analysis of the attributable movements in the deficit in the scheme during the year:-

Year to 31 March	Local Government Pension Scheme		Fire-fighters' Pension Scheme		Total	
	£000's		£000's		£000's	
	2005	2004	2005	2004	2005	2004
Deficit at beginning of the year	<b>(66,800)</b>	(82,100)	<b>(27,700)</b>	(26,600)	<b>(94,500)</b>	(108,700)
Current Service Cost	<b>(7,500)</b>	(5,600)	<b>(700)</b>	(500)	<b>(8,200)</b>	(6,100)
Employer Contributions	<b>6,400</b>	5,100	<b>1,200</b>	1,020	<b>7,600</b>	6,120
Contributions in respect of Unfunded Benefits	<b>1,000</b>	1,000	-	-	<b>1,000</b>	1,000
Transfers from other authorities	-	-	<b>25</b>	(15)	<b>25</b>	(15)
Past Service costs	<b>(100)</b>	(200)	<b>(146)</b>	0	<b>(246)</b>	(200)
Impact of settlements and curtailments	<b>(800)</b>	(1,300)	-	-	<b>(800)</b>	(1,300)
Expected Return on assets	<b>10,400</b>	8,400	-	-	<b>10,400</b>	8,400
Interest cost on liabilities	<b>(11,600)</b>	(12,100)	<b>(1,500)</b>	(1,600)	<b>(13,100)</b>	(13,700)
Actuarial gains/(losses)	<b>(35,100)</b>	20,000	<b>(5,079)</b>	(5)	<b>(40,179)</b>	19,995
	<b>(104,100)</b>	(66,800)	<b>(33,900)</b>	(27,700)	<b>(138,000)</b>	(94,500)

The actuarial gains or losses identified in the above table 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

	2002/03		2003/04		2004/05	
	£000's	%	£000's	%	£000's	%
Differences between the expected and actual return on assets	(41,900)	(36.40)	20,000	13.90	<b>7,100</b>	4.30
Differences between actuarial assumptions about liabilities and actual experience	(17,300)	(9.40)	0	0.00	<b>(800)</b>	(0.30)
Changes on the demographic and financial assumptions used to estimate liabilities	-	-	-	-	<b>(41,400)</b>	(15.30)
<b>Total</b>	<b>(59,200)</b>		<b>20,000</b>		<b>(35,100)</b>	

## Fire-Fighters' Pension Scheme

	2002/03		2003/04		2004/05	
	£000's	%	£000's	%	£000's	%
Experience gains/(losses) on liabilities arising from pension and salary increases	200	0.75	(5)	(0.02)	<b>(481)</b>	(1.40)
Other experience gains/(losses) on liabilities	(507)	(1.91)	0	0.00	<b>0</b>	0.00
Changes on the demographic assumptions underlying the present value of the scheme liabilities	-	-	-	-	<b>(4,598)</b>	(13.56)
<b>Total</b>	<u>(307)</u>		<u>(5)</u>		<u><b>(5,079)</b></u>	

## Group Accounts

A major change to the 2004 Statement of Recommended Practice (SORP) is modified Group Accounting requirements. These require 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 consolidated accounts of the Isle of Wight Council as shown in Note 17 to the Statement of Accounting Policies
- Interests in other entities as shown in Note 11 to the Consolidated Revenue Account

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 will be reviewed and updated on an annual basis.

**ISLE OF WIGHT COUNCIL PENSION FUND**

**Fund Account for year ended 31 March 2005**

	£	2004-05 £	2003-04 £
<b>Contributions and Benefits</b>			
Contributions receivable:			
From Employers	7,324,110		5,710,508
From Employees or Members	3,168,419		2,863,470
From Employees (AVCs)	145,912		0
Transfers in	1,918,068		2,875,519
Other Income	20,086		16,809
		<b>12,576,595</b>	11,466,306
Benefits Payable			
Pensions	8,615,321		8,073,545
Lump Sums (including retirement & death benefits)	1,639,682		1,286,204
Payments to and on account of leavers:			
Refunds of contributions	38,696		58,671
Transfers out	1,578,502		1,398,544
AVC purchase of investments	145,912		0
Administrative and other expenses	335,055		297,970
		<b>12,353,168</b>	11,114,934
Sub total – Net additions from dealings with members		<b>223,427</b>	351,372
<b>Returns on Investments</b>			
Investment income (see analysis below)		4,935,834	4,197,822
Change in market value of investments (realised & unrealised)		17,171,719	29,119,997
Investment management expenses		(263,684)	(218,955)
Sub total – Net returns on investments		<b>21,843,869</b>	33,098,864
Net increase (decrease) in the fund during the year		<b>22,067,296</b>	33,450,236
Opening Net assets of the scheme		166,417,720	132,967,484
Closing Net assets of the scheme		<b>188,485,016</b>	166,417,720
<b>Analysis of Investment Income:</b>			
Fixed Interest	295,026		182,522
Equities	3,073,910		2,969,153
Index Linked	45,042		61,008
Unit Trusts - Property	665,731		653,321
- Other	626,764		344,700
Interest	175,982		77,673
Currency Trade Net	0		(90,555)
AVCs Interest Earned	53,379		0
		<b>4,935,834</b>	4,197,822

## ISLE OF WIGHT COUNCIL PENSION FUND

### Net Assets Statement as at 31 March 2005

	£	2004-05 £	2003-04 £
Investments at market value:			
Fixed Interest	7,091,570		16,006,668
Equities	105,821,320		96,908,484
Index Linked	1,703,215		2,529,234
Unit Trusts – Property	17,680,306		13,877,382
Unit Trusts – Other	50,351,236		33,906,790
Cash Instrument	50,530		0
AVC – Insurance	1,002,127		0
AVC – Fixed Interest	175,715		0
		<b>183,876,019</b>	163,228,558
Cash – Schroder Investment Management		<b>3,084,820</b>	1,914,489
Temporary Advance – Isle of Wight Council		<b>602,223</b>	215,729
Other net assets:			
Debtors - Government	28,922		56,083
- admitted bodies	102,291		74,250
- interest	107,487		47,828
- security sales	123,948		437,370
- dividends	812,469		919,693
- other	253,117		106,608
		<b>1,428,234</b>	1,641,832
Less:			
Creditors - security purchases	(286,411)		(464,321)
- other	(219,869)		(118,567)
		<b>(506,280)</b>	(582,888)
Net Assets		<b>188,485,016</b>	166,417,720

## 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 the following 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  
 Atlantic Housing Group Ltd

At 31 March 2005

	<b>Administering Authority</b>	<b>Schedule d Bodies</b>	<b>Admitted Bodies</b>	<b>Total</b>
Number of Contributors	4,276	151	143	<b>4,570</b>
Contributing	£2,868,075	£133,565	£164,615	<b>£3,166,255</b>
Pensions paid	£8,939,528	£390,083	£903,976	<b>£10,233,587</b>

#### **Membership Analysis**

<b>Status</b>	<b>Numbers at 31 March</b>	<b>2004</b>	<b>2005</b>
Actives		4,250	4,570
Frozen Refunds		778	883
Deferred		1,806	1,970
Pensioners		1,858	1,951
Widows/Dependants		413	422
<b>Total Membership</b>		<b>9,105</b>	<b>9,796</b>

The number of employees in the scheme increased by 320 (7.5%) to 4,570

The number of pensioners being paid increased by 102 (4.6%) to 2,373

The number of early retirements through redundancy or for reason of efficiency or employers discretion was 42 (65 in the previous year)

The number of ill health retirements was 15 (12 in the previous year)

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 7 and 8)

During 2004-05 600 purchases and 555 sales of investments took place following broad guidelines accepted by an investment panel which comprised Councillors Mrs Lawson and Smart, Barry, Harris, Mundy, Pearson, Sutton and the Chief Financial Officer. The cost of purchases amounted to £43,038,959 and the net proceeds received from the sales totalled £39,616,597. The Funds managing agents for the period were Schroder Investment Management (UK) Ltd.

At 31 March 2005 the number of individual holdings was as follows:

UK Equities	61
Overseas Securities	124
UK Government Securities	7
Non UK Government Securities	1
International Bond	1
Unit Trusts	8
Property Unit Trusts	2
Index Linked Gilts	8
	<hr/>
	212

Net new money coming into the Fund in 2004-05, that is to say the surplus of contributions and investment income over benefit payments and expenses, amounted to £4,895,577 compared to £4,330,239 in 2003-04.

The net assets of the fund at 31 March 2005 totalled £188,485,016, an increase of 13.25% on the 2004-05 valuation of £166,417,720

Provided below is a list of the 10 largest investments at 31 March 2005 including the percentage of the total market value.

Stock	Value	%
Schroder Exempt Property Units	14,878,986	8.15
Schroder Global Series Trust Schroder N. America Equity Fund	13,845,082	7.58
Schroder Unit Trusts Ltd All Maturities Corporate Bond Fund 'X' Acc	13,368,765	7.32
Schroder Instl Pacific Fund 'I' Income Units	7,310,285	4.00
Vodafone Group PLC Ordinary USD0.10 (UK Listing)	5,626,158	3.08
BP PLC Ordinary USD0.25	5,264,673	2.88
HSBC Holdings PLC Ordinary USD0.50 (London)	4,576,046	2.51
Schroder Instl Developing Markets Fund 'A' Units	4,508,374	2.47

GlaxoSmithkline PLC Ordinary 25p	4,300,54 6	2.35
Shell Transport & Trading Company Ord 25p (Registered)	3,950,49 9	2.16

Analysis of market value under the management of Schroder Investment Management (UK) Ltd at 31 March 2005:-

	<b>UK £</b>	<b>Foreign £</b>	<b>Total £</b>
Listed	112,591,856	54,316,628	166,908,484
Unlisted	15,739,170	0	15,739,170
<b>Total</b>	<b>128,331,026</b>	<b>54,316,628</b>	<b>182,647,654</b>



Analysis of Market value at 31 March 2005 by Industrial Sector see Appendix A.

	31 March 2005	31 March 2004	% Change
FT Actuaries - All Share Index	<b>2457.73</b>	2340.24	+5.02
FT Actuaries - World (ex-UK) Index	<b>210.88</b>	328.18	-35.75

## 2. 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 2005 they were as named in Note 1 above, although following the local elections in May 2005 all of the voting membership has changed.

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.

2004-05 saw further improved equity performance, although not at the levels experienced in 2003-04. The net assets of the fund at 31<sup>st</sup> March 2005 were £188,485,016, an increase of 13.3% on the 31<sup>st</sup> March 2004 valuation of £166,417,720.

A full triennial actuarial valuation of the Fund took place as at 31<sup>st</sup> March 2004. This showed that in common with most funds across the Country the funding level had dropped significantly since 31<sup>st</sup> March 2001, due both to poor market performance prior to March 2003, and significant increases in life expectancy. At the date of the valuation, the assets of the Fund equated to 71% of its liabilities, and the employers' contribution rate has in consequence been set to increase by 2% per annum in each of the subsequent three years in order to achieve a return to full funding within a 20 year period.

## 3. Investment Review (Produced by Schroder Investment Management (UK) Ltd) Market Review

It has been another good period for financial assets, as equity markets ended the period higher, building on last year's strong gains. Evidence of an ongoing recovery in many of the world's major economies and stronger corporate results and profitability has encouraged investors. However, as attention turned to the prospect of further US interest rate rises and the renewed strength in the price of oil, investors' appetite for risk began to weaken.

Equity and bond performance, which have both trended upwards for most of the 12 months, began to diverge towards the end of the period, as perceptions grew of stronger economic activity, favouring equity markets. The trigger of this outbreak of optimism was increasing signs that the US economy remains on a firm footing whilst the Federal Reserve is not planning to increase the pace of interest rate rises. Oil prices, which have fluctuated throughout the year, ended the period higher, increasing worries that inflation pressures are building.

Despite soothing words from Alan Greenspan on the twin budget and current account deficits in the US, the US dollar has fallen over the year. It suffered further in the wake of

an announcement from the Bank of Korea that it was planning to diversify its foreign exchange reserves, prompting fears about how the US would continue to fund its deficits.

US equities were modestly positive, returning +4.5% over the period in sterling terms. Japanese equities returns were negative, down – 4.3% for the year. Pacific Basin markets were strongly positive, returning +18.5%. The UK market returned +15.6% and Europe +18.2%.

After a strong rally in bond markets, largely down to price-insensitive demand for US-denominated assets from Asian central bank, price started to fall towards the end of the period as inflation fears began to appear. Corporate bonds again outperformed government bonds benefiting from a combination of strong profits and low default rates, as credit spreads have narrowed to record levels.

#### Portfolio Performance

The portfolio rose strongly in the 12 months to 31 March 2005 with a return of +12.7% and outperformed the benchmark, which rose 12.5%. Stock selection added value in the majority of markets, especially in the mid and small cap universe. In three years, the portfolio returned 3.8% pa against the 3.9% pa benchmark return.

#### Investment Activity

Within equity markets, we moved from a modest overweight position in Continental Europe to neutral towards the end of the year. The European economy remains disappointing, with weakening growth in 2005 and a lack of recovery in consumer spending. We have also added to our position in government bonds as we believe interest rate increases by the Federal Reserve will continue to be measured. Many investors have extreme short position in bonds, which suggests a reassessment is coming and government bonds will rally as the pace of interest rate rises proves to be gradual.

#### Outlook

We are maintaining a modest overweight position in equities, although we have progressively been reducing risk in the portfolio, both at the asset allocation and stock selection level. The economic backdrop remains relatively benign, but inflation is beginning to rise and we expect equity markets to enter a consolidation phase.

Within equities, we remain underweight in the US. Although our increased expectations for US economic activity means the decline in profit growth will not be as sharp as we previously expected, upside in this market remains limited. We see better value in the UK and Japanese markets where the outlook for corporate profits is relatively good. We are also slightly overweight in emerging markets, but are remaining vigilant as they will suffer if there are signs of global growth slowing.

We are underweight corporate bonds, which we believe are now overvalued. Spreads are so tight that, despite supportive fundamentals, the scope for further out performance is limited.

## Asset Allocation

The following table shows the Fund's asset allocation against the benchmark over the 12 months.

	<b>Portfolio 31.3.04 %</b>	<b>Portfolio 31.3.05 %</b>	<b>Benchmark 31.3.05 %</b>
<b>Equities Total</b>	<b>78.8</b>	<b>74.8</b>	<b>75.0</b>
UK	45.7	45.7	45.0
North America	7.6	7.4	10.0
Europe	10.4	9.9	10.0
Japan	6.7	5.2	4.0
Pacific ex Japan	4.2		4.0
		3.9	
Emerging Markets	4.2	2.7	2.0
<b>Other Assets Total</b>		<b>25.2</b>	<b>25.0</b>
	<b>21.2</b>		
UK Gilts	2.1	3.8	4.0
UK Corporate Bonds	5.7	7.2	8.0
Overseas Bonds	1.8	1.7	2.5
UK Index Linked Bonds	1.5	0.9	2.5
Cash	1.7	2.1	0.0
Property	8.4	9.5	8.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

#### 4. Actuary's Report (Produced by Hymans Robertson.)

Equity markets enjoyed a good year, supported by strong economic growth and, toward the end of the period, merger and acquisition activity. Increases in short-term interest rates in the UK and US, implemented in response to concerns over the emergence of inflationary pressures, appeared to have little impact on investor sentiment.

In the UK, the FTSE All Share Index advanced by 15.6%. The strongest group was mid size companies, +17.1%. Large and small companies performed less well, +15.4% and 12.9% respectively. Value stocks advanced by 18.0% compared with the more modest 12.8% achieved by growth stocks, extending the trend in favour of value to 5 years. In general the corporate sector was strong with the major clearing banks, including HBOS, HSBC, the Royal Bank of Scotland and Barclays, and major oil companies, Shell and BP, announcing significant profit increases during 2004. In contrast, certain retailers including Marks & Spencer and Boots struggled to maintain market share in a very competitive sector.

Expressed in local currencies, overseas equity markets produced mixed returns. Europe (ex UK) rose by 15.1% and North America by 7.3%. For UK investors, European equity returns were enhanced (to 18.6%) by the appreciation of the Euro against Sterling, but Dollar depreciation reduced returns from North America to 4.8%. Japan advanced by a modest 1.2%, reflecting the uneven pattern of economic growth during the year. Pacific markets (ex Japan) rose by 12.3%.

Despite the rise in short-term interest rates, long dated bond yields, in both the UK and US, declined for much of the period. In a now famous speech made in February 2005, the Chairman of the US Central Bank stated that 'the broadly unanticipated behaviour of world bond markets remains a conundrum'. From that point, yields on long dated bonds in the US and UK increased, as markets started to focus on the implications of increasing inflationary pressures. The reversal of the prolonged decline in long bond yields had a modestly beneficial impact on pension scheme funding levels.

In the March Budget, the Chancellor announced the creation of a fifty year, fixed interest gilt. The first issue will be in late May; an Index-Linked issue of similar maturity may follow in October. These bond issues will appeal, amongst others, to insurance companies and pension funds seeking to match long term liabilities with more appropriate assets, in addition to enabling the Government to lock into historically low nominal and real interest rates for a long period.

In currency markets, the long slide in the US dollar was arrested during the first quarter of 2005 but the currency still declined by 3.5% on a trade weighted basis between March 2004 and March 2005. Comments from certain Central Banks on the need to 'diversify' their asset base merely acted to unsettle the Dollar and raised fundamental questions over its future direction. The twin deficits (current account and fiscal) continue to threaten the long term stability of the Dollar.

The price of oil was a major concern to investors as it touched record levels and encouraged forecasts that it might reach \$100 per barrel sometime during 2005. Market participants are not sure about the impact of higher oil prices on activity and inflation; the depressing impact of lower economic activity might compensate for the direct inflationary pressures.

## 5. Status of the Scheme

- 5.1 The Local Government Pension Scheme is 'contracted out' of SERPS.
- 5.2 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.
- 5.3 The Isle of Wight Council Pension Scheme is an Exempt Approved Scheme under Chapter 1 Part X1V 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.

## 6. Accounting Policies

- 6.1 The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), and with guidance notes issued by CIPFA on the application of accounting standards to Local Authorities. 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 7 and 8.
- 6.2 Income and expenditure have been accounted for on an accruals basis for contributions and investment income.
- 6.3 Investments have been valued at the middle Stock Exchange quoted price 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 2005
- 6.4 *Additional Voluntary Contributions (AVCs) 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 that assets of £1,177,842 included in the net

assets statement accordingly do not form a common pool of assets available for members generally. 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 or the Nationwide Building Society to purchase enhanced pension benefits and in the case of the Prudential, term life cover.

During 2004-05 AVCs of £133,263 were separately invested with Prudential Life and Pensions. Of this amount, £6,186.34 was for the purchase of death in service cover. AVCs invested with the Nationwide Building Society in 2004-05 amounted to £12,648.

6.5 Administration costs of £598,739 (2003-04 £516,925) have been charged directly to the Fund in 2004-05. Of this, investment management fees were £263,684 (2003-04 £218,955) and Isle of Wight Council administration costs were £335,055 (2003-04 £297,970).

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

## 7. Actuarial Valuation at 31 March 2001

7.1 Regulations require an actuarial valuation to be undertaken every three years.

7.2 This valuation showed that the Common Rate of Contribution payable by each employing authority to the Fund with effect from 1 April 2002 should be 14% of pensionable pay.

As a result of this actuarial valuation the employers' contributions to the fund changed with effect from 1 April 2002.

	<b>Required Contribution for the year ending</b>		
	<b>31 March</b>		
	<b>2003</b>	<b>2004</b>	<b>2005</b>
Isle of Wight Council	10.5%	12.0%	14.0%
Isle of Wight College	11.1%	11.8%	12.5%
Yarmouth Harbour Commissioners	12.3%	13.7%	15.0%
Cowes Harbour Commissioners	12.3%	13.7%	15.0%
St Catherine's School Ltd	12.3%	13.7%	15.0%
Trustees of Carisbrooke Castle Museum	12.3%	13.7%	15.0%
IW Society for the Blind	12.3%	13.7%	15.0%
Isle of Wight Rural Community Council	12.3%	13.7%	15.0%
South Wight Housing Association Ltd	18.4%	19.6%	20.8%
Medina Housing Association Ltd	13/1%	13.4%	13.7%
The Quarr Group (formerly Island Group 90 Ltd)	10.5%	10.5%	10.5%
Riverside Centre Ltd	11.0%	13.0%	15.0%
Osel Enterprises Ltd	11.0%	13.0%	15.0%
Planet Ice (IOW) Ltd	10.0%	10.0%	10.0%
Island 2000 Trust Ltd	10.0%	10.0%	10.0%
Atlantic Housing Group Ltd	12.0%	12.0%	12.0%
Isle of Wight Council Councillors (see note below)	N/A	12.0%	14.0%

The meeting of the Full Council held on 26<sup>th</sup> November 2003 resolved that under the Local Authorities (Members' Allowances) (England) Regulations 2003 and in accordance with the scheme made under Section 7 of the Superannuation Act 1972, eligible councillors of the Isle of Wight Council be allowed to join the Local Government Pension Scheme.

7.3 Actuarial Statement provided by Hymans Robertson. Date of Valuation 31 March 2001

In the actuaries opinion, the resources of the Scheme are likely in the normal course of events to meet the liabilities of the Scheme, as required by the Local Government Pension Scheme Regulations 1997. In giving this opinion it is assumed that the following amounts will be paid to the Scheme: -

Contributions by the members in accordance with the Regulations at the rate of 6% of pensionable pay for all members, except manual staff who joined before 1<sup>st</sup> April 1998 and contribute at the rate of 5% of pensionable pay.

7.4 Summary of Methods and Assumptions Used

The valuation method and assumptions are described in the valuation report dated January 2002.

The opinion on the security of the prospective rights is based on the projected unit valuation method. This assesses the cost of benefits accruing to existing members during the year following the valuation, allowing for future salary increases. The resulting contribution rate is adjusted to allow for any differences in the value of accrued liabilities (allowing for future salary increases) and the assessed value of assets.

The main long term actuarial assumptions are: -

Financial Assumptions

	March 2001 Smoothed	
	% p.a. Nominal	%p.a. Real
Discount Rate	6.0%	3.2%
Pay Increases	4.3%	1.5%
Price Inflation/Pension Increases	2.8%	-

For liabilities which will accrue in respect of service after the valuation date the actuary have adopted a discount rate which is initially the expected return from the existing assets at current market conditions but which in the long term reverts to their longer term assumptions.

Assets of £190.9m were valued at their market value smoothed over 12 months to the valuation date.

The valuation showed that the value of the Fund as at 31 March 2001 fell short of the value of accrued liabilities by £5.5m. This represented 97% of the Fund's accrued liabilities, allowing for future pay increases.

The next actuarial valuation is due with an effective date of 31 March 2004

8 Actuarial Valuation at 31 March 2004

8.1 Regulations require an actuarial valuation to be undertaken every three years.

8.2 This valuation showed that the Common Rate of Contribution payable by each employing authority to the Fund with effect from 1 April 2005 should be 21.3% of pensionable pay.

As a result of this actuarial valuation the employers' contributions to the fund changed with effect from 1 April 2005.

	<b>Required Contribution for the year ending</b>		
	<b>31 March</b>		
	<b>2006</b>	<b>2007</b>	<b>2008</b>
Isle of Wight Council	16.0%	18.0%	20.0%
Isle of Wight College	14.5%	16.5%	18.5%
Yarmouth Harbour Commissioners	17.0%	19.0%	21.0%
Cowes Harbour Commissioners	17.0%	19.0%	21.0%
St Catherine's School Ltd	17.0%	19.0%	21.0%
Trustees of Carisbrooke Castle Museum	17.0%	19.0%	21.0%
IW Society for the Blind	17.0%	19.0%	21.0%
Isle of Wight Rural Community Council	17.0%	19.0%	21.0%
South Wight Housing Association Ltd	15.0%	15.0%	15.0%
	Plus	Plus	Plus
	£95,200	£99,400	£103,800
Medina Housing Association Ltd	15.7%	17.7%	19.7%
The Quarr Group (formerly Island Group 90 Ltd)	19.0%	19.0%	19.0%
	Plus	Plus	Plus
	£67,200	£70,200	£73,300
Riverside Centre Ltd	16.8%	16.8%	16.8%
Osel Enterprises Ltd	16.8%	16.8%	16.8%
Planet Ice (IOW) Ltd	12.0%	12.5%	12.5%
Island 2000 Trust Ltd	12.0%	12.5%	12.5%
Atlantic Housing Group Ltd	13.2%	13.2%	13.2%
Isle of Wight Council Councillors	16.0%	18.0%	20.0%

### 8.3 Actuarial Statement provided by Hymans Robertson. Date of Valuation 31 March 2004

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

Contributions by the members in accordance with the Local Government Pension Scheme Regulations 1997 at the rate of 6% of pensionable pay for all members, except manual staff who joined before 1<sup>st</sup> April 1998 and contribute at the rate of 5% of pensionable pay.

### 8.4 Summary of Methods and Assumptions Used

The valuation method and assumptions are described in the valuation report dated March 2005.

The opinion on the security of the prospective rights is based on the projected unit valuation method where there was an expectation that new employees were likely to join the employer or the attained Age Method for employers that were closed to new entrants. This assesses the cost of benefits accruing to existing members during the year following the valuation or the remaining working lifetime, allowing for future salary increases. The resulting contribution rate is adjusted to allow for any differences in the value of accrued liabilities (allowing for future salary increases) and the assessed value of assets.

The main actuarial assumptions are: -

Financial Assumptions	March 2004 Unsmoothed	
	% p.a. Nominal	%p.a. Real
Investment Return/Discount Rate	6.30%	3.40%
Pay Increases	4.40%	1.50%
Price Inflation/Pension Increases	2.90%	-

Assets of £166.6m were valued at their market value.

*The valuation showed that the values of the Fund as at 31 March 2004 fell short of the value of accrued liabilities by £67.2m, leaving 71% of accrued liabilities funded.*

*The next actuarial valuation is due with an effective date of 31 March 2007*

- 9 Statement of Investment Principles of the Isle of Wight Council Pension Fund:- see appendix B
- 10 Funding Strategy Statement of the Isle of Wight Council Pension Fund :- see appendix C
11. Notes to the Accounts
  - 11.1 Capital Commitments: - There were no capital commitments as at 31 March 2005.
  - 11.2 Contingencies: - There were no contingencies as at 31 March 2005.
  - 11.3 Net Assets Statement:- There were no events subsequent to the Net Assets Statement at 31 March 2005 which would have a material effect on the Net Assets Statement as at that date.
  - 11.4 No Members or Chief Officers have disclosed any Related Party Transactions with the Pension Fund. During the financial year, the Pension Fund had an average balance of £352,562 of surplus cash invested with the Isle of Wight Council. The Pension Fund received £11,099 as interest on this investment.



APPENDIX A

**ANALYSIS OF SCHRODER MARKET VALUE AT 31 MARCH 2005 BY INDUSTRIAL**

**SECTOR**

	UK £000's	USA & CANADA £000'S	JAPAN £000'S	EUROPE £000'S	FAR EAST (Exc Japan) £000's	EMERGING MARKETS £000'S	TOTAL £000'S
Mining	2,053	0	0	207	0	0	2,260
Oil and Gas	11,172	0	97	1,501	0	0	12,770
Chemicals	560	0	185	917	0	0	1,662
Construction & Building Materials	1,585	0	0	226	0	0	1,811
Metals & Other Materials	0	0	248	0	0	0	248
Aerospace & Defence	1,132	0	0	0	0	0	1,132
Electronic & Electrical Equipment	0	0	1,494	964	0	0	2,458
Engineering & Machinery	0	0	204	408	0	0	612
Automobiles	0	0	0	183	0	0	183
Beverages	3,574	0	0	115	0	0	3,689
Pharmaceuticals & Biotechnology	6,261	0	975	1,559	0	0	8,795
Tobacco/Food	4,323	0	52	630	0	0	5,005
Retailers, General	2,024	0	371	0	0	0	2,395
Leisure & Hotels	2,783	0	0	0	0	0	2,783
Media & Entertainment	3,798	0	0	0	0	0	3,798
Glass & Ceramics	0	0	55	0	0	0	55
Support Services	1,659	0	0	336	0	0	1,995
Transport	3,257	0	574	61	0	0	3,892
Food & Drug Retailers	2,953	0	0	254	0	0	3,207
Telecommunications	9,194	0	0	1,700	0	0	10,894
Electricity	0	0	0	353	0	0	353
Utilities - Other	1,357	0	190	665	0	0	2,212
Transport Equipment	0	0	966	0	0	0	966
Banks	14,358	0	292	4,110	0	0	18,760
Investment Companies	2,024	0	0	385	0	0	2,409
Life Assurance	2,250	0	0	0	0	0	2,250
Real Estate	1,909	0	186	0	0	0	2,095
IT Hardware	0	0	0	463	0	0	463
IT Software & Computer Services	406	0	0	69	0	0	475
Unit Trusts	6,291	13,845	558	799	7,310	5,029	33,832
Cyclical Services	0	0	0	510	0	0	510
Household Goods	0	0	0	584	0	0	584
Insurance	413	0	341	1,435	0	0	2,189
Miscellaneous Financial	0	0	141	0	0	0	141
Textiles, Paper & Pulp	0	0	387	41	0	0	428
Rubber Goods	0	0	283	0	0	0	283
Precision Machinery	0	0	626	0	0	0	626
Services	0	0	69	0	0	0	69
Communications	0	0	611	0	0	0	611
Wholesale	0	0	449	0	0	0	449
Securities	0	0	304	0	0	0	304
Fixed interest - UK Govt	7,092	0	0	0	0	0	7,092
Fixed interest - Non UK Govt UT	13,369	0	0	0	0	0	13,369

Treasury Index linked	1,703	0	0	0	0	0	1,703
Cash Instrument	0	0	50	0	0	0	50
Property Unit Trusts	17,680	0	0	0	0	0	17,680
Fixed Interest - Other	3,151	0	0	0	0	0	3,151
	<u>128,331</u>	<u>13,845</u>	<u>9,708</u>	<u>18,475</u>	<u>7,310</u>	<u>5,029</u>	<u>182,698</u>

## APPENDIX B

### ISLE OF WIGHT COUNCIL PENSION FUND STATEMENT OF INVESTMENT PRINCIPLES

#### Introduction

- 1.1 This Statement of Investment Principles has been adopted by Isle of Wight Council ("the Council") in relation to the investment of assets of the Council's Pension Fund. This revised Statement was agreed by the Investment Panel at their meeting on 26<sup>th</sup> November 2004.
- 1.2 Investments are monitored on a regular basis by the Pension Fund Investment Panel (the Panel) of the Council acting on the delegated authority of the Isle of Wight Council. Advice is received as required from professional advisers. In addition, the Panel formally review the performance of investments quarterly and the overall strategy on an annual basis.
- 1.3 In preparing this statement the Panel has taken written advice from the investment practice of Hymans Robertson Consultants and Actuaries. Due account has been taken of the maturity profile of the Fund (in terms of the relative proportions of liabilities in respect of pensioners and active members), together with the level of disclosed surplus or deficit.
- 1.4 The Panel has agreed an asset allocation benchmark, a performance target and various controls on the Fund's investments following an asset liability study. They reflect the Panel's views on the appropriate balance between maximising the long-term return on investments and minimising short term volatility and risk. The benchmark reflects the position following the Actuarial Valuation of the Fund as at 31<sup>st</sup> March 2001 and an asset liability study carried out in March 2002. Asset allocations were reviewed in July 2004, and although the benchmark is currently unchanged, the Panel is actively reviewing investment arrangements, and in particular the balance between risk incurred and performance expectation. It is intended that strategy will be fundamentally reviewed at least every three years following actuarial valuations of the Fund.

#### Objectives

##### 2.1 Primary Objective

The primary objective of the Fund is as follows:

To provide for members pension and lump sum benefits on their retirement or for their dependants benefits on death before or after retirement, on a defined benefits basis.

In order that this primary objective can be achieved, the following funding and investment objectives have been agreed.

##### 2.2 Funding Objectives - Ongoing Basis

To fund the Fund such as to target, in normal market conditions, that accrued benefits are fully covered by the value of the assets of the Fund and that an appropriate level of contributions is agreed by the administering authority to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed but will take account of future salary increases.

The assumptions used for this test, corresponding with the assumptions used in the latest Actuarial Valuation, are shown in Annexe 1 and the liability mix is shown in Annexe 2. This position will be reviewed at least at each triennial Actuarial Valuation.

## **Investment Objectives**

### **3.1 Funding Objectives**

To achieve a return on Fund assets which is sufficient, over the long-term, to meet the funding objectives set out above on an ongoing basis. To achieve these objectives the following parameters have been agreed.

### **3.2 Choosing Investments**

The Panel will ensure that one or more investment managers are appointed who are authorised according to appropriate Local Government Regulations to manage the assets of the Fund.

Details of the manager appointed to manage the Fund's assets are summarised in Annexe 3. The investment manager will be given full discretion over the choice of individual stocks and is expected to maintain a diversified portfolio.

### **3.3 Types of Investments to be held**

The investment manager may invest in UK and overseas investments including equities, fixed and index linked bonds, cash and property, using pooled funds where agreed. At any time, the proportions held in each asset class will reflect the manager's views relative to its benchmark and subject to certain control limits imposed by the Panel.

### **3.4 Balance between different kinds of investments**

The benchmark adopted by the Panel has been based on consideration of the liability profile of the Fund; it is summarised in Annexe 3. Within each major market the investment manager will hold a diversified portfolio of stocks or will invest in pooled funds to achieve this diversification. The policy implied by this benchmark will result in a significant weight being given to "real" as opposed to "monetary" assets which the Panel acknowledges as appropriate given the current liability profile and funding position of their Fund.

### **3.5 Risk**

Currently the Panel has appointed Schroder Investment Management Limited as the sole investment manager. The adoption of an asset allocation benchmark and control ranges for each asset class (as summarised in Annexe 3) and the explicit monitoring of performance relative to a performance target, constrains the investment manager from deviating significantly from the intended approach, while permitting flexibility to manage the Fund in such a way as to enhance returns.

### **3.6 Expected return on investments**

The majority of the Fund's assets are managed on an active basis and are expected to outperform their respective benchmarks over the long term. The investment performance achieved by the Fund over the long term is expected to exceed the rate of return assumed by the Actuary in funding the Fund on an ongoing basis.

### **3.7 Realisation of investments**

The majority of assets held by the Fund are quoted on major stock markets and may be realised quickly if required. Property investments, which are relatively illiquid, currently make up a modest proportion of the Fund's assets.

**3.8 Social, Environment & Ethical Considerations**

The Panel recognises that social, environmental and ethical considerations are among the factors which can affect the financial return on investments.

Having discussed the matter, the Panel has decided that any policy on Socially Responsible Investments should not conflict with the Fund’s investment objective as set out in Section 2.1 above.

The Panel has requested that the manager continue to give due consideration to these factors, particularly in the areas of business sustainability and reputational risk, when deciding on the selection, retention and realisation of individual investments.

**3.9 Exercise of Voting Rights**

The Panel has delegated the exercise of voting rights to the investment manager on the basis that voting power will be exercised by the investment manager with the objective of preserving and enhancing long term shareholder value. Accordingly, the manager has produced written guidelines of its process and practice in this regard. The manager is encouraged to vote at extraordinary general meetings of companies. Voting actions are reported to the Panel on a regular basis and these actions are reviewed and discussed as appropriate.

**3.10 Additional Voluntary Contributions (AVC’s)**

Members have the opportunity to invest in AVC funds as detailed in Annexe 4.

**3.11 The ten principles of investment practice**

*The extent to which the Council has complied with the principles is set out in the document entitled Isle of Wight Council Pension Fund – Myners Code Adherence Document published in September 2002 and reviewed in February 2004.*

**ANNEXES**

**Main Longer Term Actuarial Assumptions as at 31<sup>st</sup> March 2001**

	<b>Nominal % per annum</b>	<b>Real Return % per annum</b>
RPI Inflation	2.8	-
Increases in pay (excl. Increments)	4.3	1.5
Investment returns *- equities - bonds	6.75 5.75	3.95 2.95

\* net of investment expenses

## 1. Liability Mix at 31<sup>st</sup> March 2001

	Liability £M	% of Total Liabilities	% of Fund
Employee members	78.7	40	41
Deferred pensioners	21.9	11	12
Pensioners	95.8	49	50
Total Liabilities	196.4	100	103
Deficit	(5.5)	(3)	(3)
Total fund (at actuarial value)	190.9	97	100

## 2. Investment Management Arrangements

A new scheme specific benchmark was introduced on 1<sup>st</sup> July 2002 following an asset/liability study. This benchmark is set out below:-

Asset Class	Benchmark %	Control Ranges %	Index
<b>Equities</b>	<b>75.0</b>	<b>70-80</b>	
UK Equities	45.0	40-50	FTSE All-Share
Overseas Equities	30.0	25-35	Composite
United States	10.0	5-15	FTSE AW North America
Europe	10.0	5-15	FTSE W1 Europe ex UK
Japan	4.0	0-9	FTSE AW Japan
Pacific Basin (ex Japan)	4.0	0-9	FTSE AW Developed Asia Pacific ex Japan
Emerging Markets	2.0	0-7	FTSE AW Advanced Emerging Markets
<b>Other Assets</b>	<b>25</b>	<b>20-30</b>	
UK Gilts	4	0-9	FTSE A Over 15 Years
UK Corporate Bonds	8	3-13	Merrill Lynch Sterling Non-Gilt All Stock Index
UK Index Linked	2.5	0-7.5	FTSE A Over 5 Years Index Linked
Overseas	2.5	0-7.5	Lehman Global Aggregate ex UK
Property	8	3-13	IPD Monthly
Cash	0	0-5	LIBID 7 Day

Schroder Investment Management Limited were appointed to manage the Scheme assets with effect from November 1991. Their investment objective is to out perform the benchmark by 1% per annum over rolling 3 year periods.

### 3. AVC Arrangements

The Investment Panel have set up a number of options for members' additional voluntary contributions (AVCs). The options are set out below. At retirement, the accumulated value of a member's AVCs is used to purchase an annuity on the open market, or the member may elect to buy additional service in the scheme.

Provider	Investment Vehicle
Nationwide Building Society	Cash
Prudential	Discretionary Fund
Prudential	With Profits

The cash option offers interest on deposits.

The Discretionary Fund is a vehicle which allows members to invest in a range of assets including equities, bonds and property.

*The with profits vehicle is designed to provide smoothed medium to long term growth by investing in a range of assets including equities, bonds and property. The investment returns are distributed by way of reversionary and terminal bonuses.*

The Panel has chosen the particular providers and investment vehicles taking into account past investment performance, charging structure, flexibility and the quality of administration.

The Panel review the AVC investment options on a regular basis. The next review is due in July 2005.

## APPENDIX C

### ISLE OF WIGHT COUNCIL PENSION FUND FUNDING STRATEGY STATEMENT

#### 1 Introduction

- 1.1 The Local Government Pension Scheme (Amendment) Regulations 2004 require the Isle of Wight Council Pension Fund to prepare and publish a Funding Strategy Statement (FSS) by 31 March 2005. This must be taken into account by the Fund's actuary when setting employers' contribution rates.
- 1.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) has issued detailed guidance on the content and format of an FSS. This guidance has been followed in preparing this draft.

#### 2 Consultation

- 2.1 All employers in the Isle of Wight Council Pension Fund have been given the opportunity to comment and contribute to this FSS. The Fund's actuary, Hymans Robertson, has also assisted in its preparation.

#### 3 Purpose of the Funding Strategy Statement

- 3.1 The FSS has two main purposes:
- To set out clearly the Fund's strategy for how it intends to meet its liabilities over the long term.
  - To explain how the Fund will work towards the maintenance of stable employers' contribution rates.

#### 4 The Aims of the Fund

- 4.1 The Fund has four main aims:
- To make sure the Fund is always able to meet its liabilities.
  - To enable employers' contribution rates to be kept as stable as possible and affordable for the Fund's employers.
  - To manage the employers' liabilities effectively.
  - To maximise the income from investments within reasonable risk parameters.

These aims are explained in more detail below.

To make sure the Fund is always able to meet its liabilities

- 4.2 The Fund's long-term solvency is the primary aim. Accordingly, employers' contributions will be set to ensure liabilities can be met over the long term.
- 4.3 The Isle of Wight Council as administering authority will make sure that the Fund always has sufficient cash available to pay pensions, transfer values to other pension funds, and other costs and expenses. Such expenditure will normally be met from incoming contributions from employees and employers and investment income to avoid the cost of selling any of the Fund's investments. The Fund reviews the



position on a quarterly basis to make sure that sufficient cash is available to meet its obligations.

To enable employers' contribution rates to be kept as stable as possible and affordable for the Fund's employers

- 4.4 Achieving stability in employers' contribution rates requires investment in assets which 'match' the Fund's liabilities. In this context, 'match' means behaving in a similar manner to the liabilities as economic conditions alter. Index-linked and fixed interest investments are the best match for the Fund's liabilities.
- 4.5 Other asset classes, such as shares and property, offer the potential for higher long-term rates of return. A substantial proportion of the Fund's investments are held in these asset classes with the aim of increasing investment returns. However, these asset classes are more risky and can lead to volatile returns over short-term periods.
- 4.6 This short-term volatility in investment returns can lead to similar volatility in the Fund's solvency level in successive actuarial valuations, which in turn can mean volatility in employers' contribution rates. Such volatility may be reduced by the use of smoothing adjustments as advised by the actuary.
- 4.7 Maintaining stability in employers' contribution rates can run counter to the primary aim of ensuring solvency. There is a balance to be struck between the investment policy, smoothing adjustments used when carrying out actuarial valuations, and the stability of employers' contribution rates from one valuation period to the next.
- 4.8 The position can be even more volatile for admitted bodies with short-term contracts where the use of smoothing adjustments is less appropriate.

To manage the employers' liabilities effectively

- 4.9 The Council as administering authority makes sure that the Fund's liabilities are managed effectively. This is achieved by commissioning actuarial valuations every three years as required by law, which determine the employers' contribution rates required to make sure liabilities can be managed effectively.

To maximise the income from investments within reasonable risk parameters

- 4.10 Returns which are expected to be higher over the long term than those from index-linked stocks are sought by investing in other asset classes such as shares and property. However, investment is restricted as specified in the Local Government Pension Scheme (LGPS) investment regulations.
- 4.11 Risk parameters are controlled by restricting investment to asset classes generally recognized as appropriate for UK pension funds. The potential risks of investing in the various asset classes are reviewed by the Council from time to time with the assistance of the Fund's investment advisor and its investment managers.

## **5 Purposes of the Fund**

5.1 The purposes of the Fund are:

- To pay out pensions and benefits, transfer values for fund members moving to other schemes, and other costs, charges and expenses.
- To receive contributions, transfer values for fund members moving from other schemes, and investment income.

## **6 Responsibilities of the key parties**

- 6.1 The key parties with obligations to the Fund are the Council as administering authority, employers in the Fund (including the Council), and the Fund's actuary.

The Council's obligations

- 6.2 To collect employers' and employees' contributions and, as far as possible, make sure they are paid by the due date as specified in the LGPS regulations.
- 6.3 To invest surplus monies in accordance with the LGPS regulations relating to the investment of funds.
- 6.4 To make sure that cash is always available to meet the Fund's liabilities when they are due.
- 6.5 To manage the valuation process in consultation with the Fund's actuary, ensuring that appropriate timescales are agreed and that accurate data is provided.
- 6.6 To monitor the Fund's investment performance and funding level on a regular basis.
- 6.7 To prepare and maintain a Statement of Investment Principles and a Funding Strategy Statement.

Individual employers' obligations

- 6.8 To deduct contributions from employees' pay, and make employers' contributions at the rates specified by the actuary, paying both to the Council by the due date.
- 6.9 To exercise discretions allowed to employers within the LGPS regulations.
- 6.10 To pay for agreed added years arrangements.
- 6.11 To keep the Council fully informed of all changes to membership, or other changes which could affect the solvency position.

The actuary's obligations

- 6.12 To prepare actuarial valuations every three years as required by law, setting employers' contribution rates after agreeing assumptions with the Council and having regard to this Funding Strategy Statement. The valuation will be prepared in accordance with the latest guidance issued by the Institute and Faculty of Actuaries, as far as it applies to the LGPS.
- 6.13 To prepare advice and calculations in connection with bulk transfers and individual benefit-related matters.

## **7 Solvency**

- 7.1 The Council will seek to ensure the Fund is solvent. Solvency is defined as being achieved when the value of the Fund's assets is greater than or equal to the value of the Fund's liabilities, based on current actuarial methods and assumptions.
- 7.2 The 'projected unit' method of valuation will be used when assessing solvency, using assumptions appropriate for an ongoing pension fund with financially sound member employers.

- 7.3 The financial assumptions used to assess the funding level will have regard to the yields available on long-term fixed interest and index-linked gilt-edged investments.
- 7.4 The Council has agreed with the actuary that the assumptions will make short-term allowance for the higher long-term returns that are expected on the assets actually held by the Fund, and accepts the risks of such an approach if those additional returns fail to materialize. The position will be reviewed in subsequent three-yearly actuarial valuations.
- 7.5 The Council has also agreed with the actuary that explicit smoothing adjustments can be used when measuring solvency. It is unlikely that the use of these adjustments will be extended to employers whose participation in the Fund is for a fixed period (for example non-local authority employers awarded contracts for the provision of local authority services).

## **8 Funding strategy**

- 8.1 When an actuarial valuation shows that the Fund has a past service deficit based on this solvency measure, employers' contribution rates will be adjusted to target solvency over a period of years (the recovery period). A common recovery period of 25 years for all employers in the Fund has been set by the Council in consultation with the Fund's actuary. The length of the recovery period is determined by balancing the Fund's solvency requirements against the financial strength of the main scheduled employers in the Fund.
- 8.2 The Fund's liabilities mostly take the form of benefit payments over long periods of time. The main scheduled employers in the Fund are financed through central and local taxation and can be viewed as very financially secure. As these employers ultimately underwrite the Fund's finances, the Council has agreed a recovery period of 25 years which is longer than the average future working lifetime of the Fund's contributors. This is consistent with keeping employers' contribution rates as stable as possible. Were any member employers to participate in the Fund for a short period only it is unlikely that the Council and actuary would agree a recovery period longer than the remaining term of participation.
- 8.3 Employers in the Fund are split into two groups: scheduled bodies and admitted bodies. Common contribution rates are payable by some smaller bodies in order to minimize volatility in contribution rates. The Council accepts that this can give rise to cross-subsidies between employers. However, employers in the Fund are required to make up-front contributions determined by the actuary to cover the costs of early retirements, other than on health grounds, which minimizes cross-subsidization.
- 8.4 At each actuarial valuation, the Council will consider whether new higher employers' contribution rates should be payable immediately, or phased in. The Council discusses with the actuary the risks of adopting such an approach. The current policy is to phase in over a maximum of three annual steps. However, such increases may be phased in over forthcoming and subsequent valuation periods, on a year by year basis, if budgetary constraints make this necessary, up to a maximum of 6 annual steps in total.

## **9 Identification of risks and counter measures**

- 9.1 The Council's overall policy on risk is to identify all risks to the Fund and to consider the position both in aggregate and at individual risk level. Risks to the Fund will be monitored and action taken to limit them as soon as possible. The main risks are:

## **Demographic**

- 9.2 Demographic risks include changing retirement patterns and increasing life expectancy. The Council will make sure that the Fund's actuary investigates these matters at each valuation, or more frequently if necessary. The actuary will report to the Council as appropriate. The Council will then agree with the actuary any necessary changes to the assumptions used in assessing solvency.
- 9.3 If significant demographic changes become apparent between valuations, the Council will notify all participating employers of the likely impact on their contributions after the next full valuation, and will review any bonds that are in place for transferee admitted bodies.

## **Regulatory**

- 9.4 The risks relate to changes in LGPS regulations, national pensions legislation and Inland Revenue rules. The Council will keep abreast of all proposed changes and, whenever possible, comment on the Fund's behalf during consultation periods. The Council will, if thought necessary, ask the Fund's actuary to assess the impact of any changes on employers' contribution rates.
- 9.5 The Council will then notify employers of the likely effect on employers' contribution rates at the next valuation, if they are significant.

## **Governance**

- 9.6 This covers the risk of unexpected structural changes in the Fund's membership (for example the closure of an employer to new entrants or the large scale withdrawal or retirement of groups of staff), and the related risk of an employer failing to notify the Council promptly.
- 9.7 To limit this risk, the Council requires the other participating employers to communicate regularly with it on such matters.

## **Statistical/Financial**

- 9.8 Risks to the Fund are posed by the performances of the various investment markets, the quality of the Fund's managers, variations in pay and price inflation, and the budget constraints faced by the Fund's employers.
- 9.9 The Council regularly reviews these factors in conjunction with the actuary to decide whether the assumptions used in assessing solvency are still appropriate.

## **Investment returns**

- 9.10 The assumption that investment returns will be in excess of those accruing on Government bonds introduces an element of risk, in that those returns may not materialize. The Council will monitor the underlying solvency position assuming no such excess returns to make sure the funding strategy remains realistic.

## **Smoothing**

- 9.11 The use of a smoothing adjustment to the value of the Fund's assets introduces an element of risk, in that the smoothing adjustment may not provide a correct measure of the underlying position. This adjustment is reviewed at the end of each valuation to ensure it remains within acceptable limits.

## **Recovery period**

- 9.12 Allowing surpluses or deficiencies to be eliminated over 25 years entails a risk that action to restore solvency is inadequate between successive actuarial valuations. The associated risk is reviewed in conjunction with the actuary as part of the three-yearly valuation process, to ensure as far as possible that the action taken to restore solvency is sufficient. In practice, the smoothing and damping arrangements described in this statement deal with this, although more recently the severe reductions in asset values and interest rates have increased the volatility in employers' contribution rates.
- 9.13 Introducing increases in employers' contribution rates in annual steps rather than immediately introduces a risk that action to restore solvency is insufficient in the early years of the process. The Council's policy is to limit the number of permitted steps to three, or, in exceptional circumstances, six. In addition, it accepts that a slightly higher final rate may be necessary at the end of the stepping process to help make up the shortfall.

## **10 Links to investment policy set out in the Fund's Statement of Investment Principles**

- 10.1 The Council has produced this Funding Strategy Statement having taken an overall view of the level of risk inherent in the investment policy set out in the Statement of Investment Principles which forms an appendix to this document.
- 10.2 Both documents are subject to regular review.

## **11 Future monitoring**

- 11.1 The Council plans to review this Statement as part of the three-yearly actuarial valuation process unless circumstances arise which require earlier action.
- 11.2 The Fund's solvency position will be monitored on an approximate basis at regular intervals between valuations in conjunction with the actuary. Discussions will be held with the actuary to establish whether any changes are significant enough to require further action, such as advising employers of the need for different employers' contribution rates after the next valuation.