

# APPENDIX 4

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## EXPLANATORY FOREWORD

### 1. Financial Statements

This foreword provides a brief description of the financial events affecting the Council in 2005-06 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 2006.
- *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 Statement of Recommended Practice requires the preparation of a group revenue account and group balance sheet where a local authority has interests in subsidiaries, associated companies and joint ventures that are material in aggregate.
- *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 combination of loans, capital receipts, contributions and revenue.

#### (a) Revenue Expenditure and Income

The 2005/06 grant settlement from the Government was better than expected owing to a last minute injection of funds announced by the Chancellor of the Exchequer in December 2004. Although the amount allowed for in spending in 2005/06 fell short of the Council requirement by approximately £2.5 million, efficiency savings and other spending reductions of a similar amount were identified. Consequently, the Council set a Council Tax increase of 4.3% whilst making modest improvements to priority service areas, including Fire and Rescue Service modernisation. The Council's net revenue budget for 2005/06 was £169,162,616 (including parish precepts) and the estimated balance on the General Fund at year-end was £2,077,097.

The actual net revenue expenditure on providing services was £168,229,001 (including Parish Precepts). Normal Council rules of carryover were applied and these amounted to £1,049,776 in respect of commitments that will be paid in 2006/07. Total expenditure including carryovers amounted to £169,278,777 (including Parish Precepts) which is £116,161 higher than the original estimate and leaves a General Fund at 31<sup>st</sup> March 2006 of £1,938,493.

A summarised comparison of net expenditure with the original budget for 2005/06 is set out below:-

	<b>Original Budget £'000s</b>	<b>Actual £'000s</b>	<b>Difference £'000s</b>
Net Operating Expenditure	174,742	175,572	830
Less: Revenue Support Grant	(62,558)	(62,558)	0
Non-Domestic Rates	(46,979)	(46,979)	0
Council Tax	(59,625)	(59,625)	0
Net balance before appropriations	5,580	6,410	830
Net appropriations & adjustments	(5,580)	(6,294)	(714)
Change in General Fund Balance	0	116	116
Balance brought forward	(2,077)	(2,055)	22
Balance carried forward	(2,077)	(1,939)	138

The principal overspends were due to Homelessness, Children's mainland placements, reduced Bereavement Services income, increased medical fees within the Coroner's budget, Highways maintenance pressures and increased use of planning consultants.

These pressures have been managed in year as far as possible, and because of fortuitous savings on capital financing costs due to delays in capital schemes and lower interest rates, the overall result is an overspend of £116,000.

The existing policy is that overspendings should fall as a charge against the services concerned in the following financial year, and without this requirement it would not be possible to provide year-end flexibility to carry-forward underspends. However, those services with a structural shortfall provided for in the Medium Term Financial Plan have not been required to carryover the resultant overspend. The overspends that have been deducted from the 2006-07 budget are Planning (£169,000) Transport Fleet (£37,000), Community Development (£24,000) and Building Maintenance (£51,000).

The balance of earmarked reserves at 31 March 2006 is £31.1 million. Further details are contained in Note 34 to the Consolidated Balance Sheet.

## **(b) Capital Expenditure**

In 2005/06 the Council spent £25.7 million on capital projects. This was £6.9 million less than the budget of £32.6 million and resources are available to be carried forward to meet areas of slippage in the capital programme. Most capital investment is financed by borrowing which is agreed by central Government over a period of years. At 31 March 2006, the total net borrowings were £110.9 million.

The main areas of expenditure related to road improvements, coast protection schemes and school building improvements. 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</b>	<b>Actual Spend</b>	<b>Over/(under) Spend</b>
	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>
Children and Family Services	14,760	10,288	(4,472)
Adult & Community Services	989	598	(391)
Housing Services	4,705	2,667	(2,038)
Environment & Transport	9,200	8,949	(251)
Fire & Public Protection	459	279	(180)
Economic Development, Tourism & Leisure	814	816	2
Resources	955	1,504	549
Other Services	706	617	(89)
<b>Total Expenditure</b>	<b>32,588</b>	<b>25,718</b>	<b>(6,870)</b>

**Financed by:-**

Increase in Capital Financing Requirement	18,156
Grants & Contributions	7,149
Capital Receipts	413
<b>Total Financing</b>	<b>25,718</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 (£1.1m), a number of schemes at Primary and Middle Schools (£2.2m) and in respect of numerous devolved budgets held on behalf of schools.
- Housing - includes a delay in the major schemes at Oakfield (£1.1m) and a number of smaller schemes involving Housing Associations.
- Economic Development, Tourism and Leisure expenditure includes £0.6m in respect of programmes run by the Isle of Wight Economic Partnership.
- Resources – the variance arises from the Accommodation Review and will be financed from future asset sales.
- Slippage a year earlier had been £11m and a further significant catch-up is expected in 2006/07 as delayed schemes come on-stream.

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

- The Local Government Act 2003 introduced the Prudential Code as a framework under which a local authority's capital finance decisions are carried out. This Act requires local authorities to demonstrate that capital expenditure plans are affordable, external borrowing is prudent and sustainable and treasury management decisions are taken in accordance with professional good practice. The Code is mandatory and applied from April 2004.
- Group Accounts – the 2005 Statement of Recommended Practice (SORP) requires local authorities to enhance their statement of accounts with information about their interest in subsidiaries, associates and joint ventures in a set of group accounts. This will provide comprehensive accounting requirements for consolidation of the transactions and balances of subsidiaries and of interests in associates and joint ventures that will ensure group accounts provide a complete picture of the authority's control over other entities.
- The Council's Change Management Plan, as set out in the 'Aim High' document, was approved by the Full Council on 23 November 2005. The 'Aim High' document states that the key priorities of the Council are to:
  - Drive the Sustainable Economic Regeneration and Development of the Island
  - Improve the Health and Well-being of Island Communities
  - Create Safer and Stronger Communities
  - Improve Outcomes for Children and Younger People
  - Run a High-Performing, Cost Effective Council

'Aim High' provides a framework within which a medium term financial strategy, and then in turn three consecutive annual budgets, can be adopted. The product of the budget setting process within the context of Aim High will be a resourced series of action and improvement plans designed to give the best possible outcomes in terms of change management of service improvement given the available resources.

**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.

- Single Regeneration Budget (SRB), Market Towns, Area Investment Framework (AIF) and Leader Plus projects, 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.
- The Standing Conference on Problems Associated with the Coastline (SCOPAC). The membership of this organisation is drawn from other local authorities and interested parties.

## STATEMENT OF ACCOUNTING POLICIES

### 1. General Principles

The statement of accounts summarises the Council's transactions for the 2005/06 financial year and its position at the year-end of 31 March 2006. It has been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice 2005* (the SORP). The accounting convention adopted is historical cost, modified by the revaluation of certain categories of tangible fixed assets.

### 2. Accruals of Income and Expenditure

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

- Fees, charges and rents due from customers are accounted for as income at the date the Council provides the relevant goods or services.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as stocks on the balance sheet.
- Works are charged as expenditure when they are completed, before which they are carried as works in progress on the balance sheet.
- Interest payable and receivable on borrowings is accounted for in the year to which it relates, on a basis that reflects the overall effect of the loan or investment.
- Where income and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- Income and expenditure are credited and debited to the relevant revenue account, unless they properly represent capital receipts or capital expenditure.

### 3. Provisions

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

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

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

### 4. Reserves

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

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

## 5. Government Grants and Contributions (Revenue)

Whether paid on account, by instalments or in arrears, Government grants and third party contributions and donations are recognised as income at the date that the authority satisfies the conditions of entitlement to the grant/contribution and there is reasonable assurance that the monies will be received. Revenue grants are matched in revenue accounts with the service expenditure to which they relate. Grants to cover general expenditure (eg Revenue Support Grant) are credited to the foot of the Consolidated Revenue Account after Net Operating Expenditure and appropriations to and from reserves.

## 6. Retirement Benefits

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

- The Local Government Pension Scheme, administered by the Isle of Wight Council.
- The Teachers' Pension Scheme, administered by the Department for Education and Science (DfES)
- The Fire-fighters' pension scheme which 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.

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

However, the arrangements for the Teachers' scheme mean that liabilities for these benefits cannot be identified to the Council. The scheme is therefore accounted for as if it were a defined contributions scheme – no liability for future payments of benefits is recognised in the balance sheet and revenue accounts are charged with the employer's contributions payable to the DfES in the year.

### The Local Government Pension scheme

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

- The liabilities of the Isle of Wight Council pension scheme are included in the balance sheet on an actuarial basis using the projected unit method – ie an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 1.7% real (4.9% actual) based on the indicative rate of return on high quality corporate bond as measured by the yield on iboxx Sterling Corporates Index , AA over 15 years.
- The assets of the Isle of Wight Council pension fund are included in the balance sheet at their fair value:
  - quoted securities – mid-market value
  - unquoted securities – professional estimate
  - unitised securities – average of the bid and offer rates property – market value
  - property – market value
- The change in the net pensions liability is analysed into seven components:
  - current service cost – the increase in liabilities as result of years of service earned this year - allocated to the revenue accounts of services for whom the employees worked
  - past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Net Cost of Services as part of Non Distributed Costs

- interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to Net Operating Expenditure
- expected return on assets – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return – credited to Net Operating Expenditure
- gains/losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees - debited to the Net Cost of Services as part of Non-Distributed Costs
- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – not charged to revenue
- contributions paid to the Isle of Wight Council pension fund – cash paid as employer’s contributions to the pension fund.

Statutory provisions limit the Council to raising council tax to cover the amounts payable by the Council to the pension fund in the year. In the Consolidated Revenue Account this means that there is an appropriation to the Pensions Reserve after Net Operating Expenditure to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and any amounts payable to the fund but unpaid at the year-end.

#### **Discretionary Benefits**

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

#### **7. VAT**

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

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

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA *Best Value Accounting Code of Practice 2005*. The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council’s status as a multi-functional, democratic organisation
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early.

These two cost categories are accounted for as separate headings in the Consolidated Revenue Account, as part of Net Cost of Services.

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

Expenditure on assets that do not have physical substance but are identifiable and controlled by the Council (eg software licences), is charged to the revenue account in the year of acquisition and not capitalised. There are therefore no intangible assets shown on the balance sheet.

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

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



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

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

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

Net current replacement cost is assessed as:

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

Assets included in the balance sheet at current value are revalued where there have been material changes in the value, but as a minimum every five years. Increases in valuations are matched by credits to the Fixed Asset Restatement Account to recognise unrealised gains.

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

- where attributable to the clear consumption of economic benefits – the loss is charged to the relevant service revenue account
- otherwise –written off against the Fixed Asset Restatement Reserve.

**Disposals:** when an asset is disposed of or decommissioned, the value of the asset in the balance sheet is written off to the Fixed Asset Restatement Reserve.

Amounts received from disposals are credited to the Usable Capital Receipts reserve, which can then only be used for new capital investment or set aside to reduce the Council's borrowing requirement.

A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of deductions and allowances) is payable into a Government Pool.

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

Depreciation is calculated on the following bases:

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

Where an asset has major components with different estimated useful lives, these are depreciated separately.

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

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

- capital charges on tangible fixed assets – comprising depreciation attributable to the assets used by the relevant service, plus a capital financing charge based on a percentage of the value of the asset in the balance sheet (3.5% and 4.8% for assets carried at current value and historical cost respectively)
- impairment losses attributable to the clear consumption of economic benefits on tangible fixed assets used by the service

The charges made to service revenue accounts and support services are reversed out of the Consolidated Revenue Account after the Net Cost of Services by way of a credit to the Asset Management Revenue Account (AMRA). The following transactions are then made in the AMRA to represent the expenditure of the Council relating to fixed assets, reflected in Net Operating Expenditure:

- debit for total depreciation of fixed assets for the year
- debits for total impairment losses attributable to the clear consumption of economic benefits
- debit for external interest payable by the Council

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

## **12. Deferred Charges**

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

## **13. Leases**

### **Finance Leases**

The Council operate two fire tender vehicle assets that have been obtained by finance leases. Such fixed assets recognised as finance leases are normally accounted for using the policies applied generally to Tangible Fixed Assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life. However, these assets have been treated as if they are operating leases.

### **Operating Leases**

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

## **14. Repurchase of Borrowing**

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to Net Operating Expenditure in the Consolidated Revenue Account in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio with substantially the same overall effect when viewed as a whole, gains and losses are recognised on the

balance sheet and written down to revenue on a straight-line basis over the term of the replacement loans.

**15. Investments**

Investments are carried at cost. If the value of an investment falls below its cost, the investment is written down to market value and a provision for the unrealised loss made in the Consolidated Revenue Account if this is unlikely to be a temporary fall.

**16. Stocks and Work in Progress**

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

**17. Interests in Companies and Other Entities**

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

**18. 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 have the accounts approved by members on or before 30 June each year. Where necessary and appropriate, estimates have been used where the approval process would be delayed by waiting for actual figures to be available.

There are no estimates in the 2005/06 accounts which would materially affect the fair presentation of the accounts had a different estimation technique been applied.

## THE STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

### The Authority's responsibilities

The authority is required to:

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

### The Chief Financial Officer's responsibilities

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

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

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

The Chief Financial Officer has also:

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

I certify that the Statement of Accounts for the year ended 31 March 2006 required by the Accounts and Audit Regulations 2003 is set out on pages 13 to 66.

I further certify that the Statement of Accounts presents fairly the financial position of the Authority at 31 March 2006 and its income and expenditure for the year then ended.

Signed ***P Wilkinson***

Date **16 June 2006**

**PAUL WILKINSON**  
**Chief Financial Officer**

I certify that the Statement of Accounts for 2005/06 was approved at the Audit & Performance Committee meeting held on 29 June 2006.

Signed.....

Date

**ANNE BISHOP**  
**Chairman, Audit & Performance Committee**

## CONSOLIDATED REVENUE ACCOUNT

	2005-06 Gross Expenditure £	2005-06 Gross Income £	2005-06 Net Expenditure £	2004-05 Net Expenditure £
<b>Expenditure on Services</b>				
Education Services	108,692,214	24,930,941	<b>83,761,273</b>	79,467,441
Social Services	64,132,051	21,242,151	<b>42,889,900</b>	38,694,784
Cultural, Environmental & Planning Services	40,379,841	13,587,968	<b>26,791,873</b>	25,994,152
Highways, Roads & Transport	18,311,276	8,156,447	<b>10,154,829</b>	9,157,840
Fire Services	8,642,632	1,669,444	<b>6,973,188</b>	6,824,819
Housing Services (including Benefits)	57,870,627	52,784,915	<b>5,085,712</b>	3,911,909
Court Services	505,289	0	<b>505,289</b>	638,559
Central Services	4,403,009	2,642,563	<b>1,760,446</b>	1,099,250
Corporate & Democratic Core	4,750,199	27,048	<b>4,723,151</b>	4,349,246
Non-Distributed costs	2,130,773	0	<b>2,130,773</b>	1,212,130
<b>Net Cost of Services</b>	<b>309,817,911</b>	<b>125,041,477</b>	<b>184,776,434</b>	171,350,130
Amounts due to precepting authorities			<b>713,616</b>	640,793
Transfer to Provisions & Reserves in lieu of interest (note 1)			<b>936,804</b>	1,027,187
Transfer from asset management revenue a/c (note 8)			<b>(8,634,237)</b>	(9,062,965)
Contribution of housing capital receipts to Government Pool			<b>27,672</b>	0
Interest receivable			<b>(2,220,734)</b>	(2,310,528)
Pension interest cost & expected return on pension assets (note 19)			<b>4,700,000</b>	2,700,000
<b>Net Operating Expenditure</b>			<b>180,299,555</b>	164,344,617
<b>Appropriations and Other Adjustments</b>				
Contributions to reserves (note 2)			<b>(1,194,040)</b>	2,760,203
Contribution from the Pension reserve (note 19)			<b>(5,100,000)</b>	(3,346,000)
Transfer of Useable Capital Receipts equal to the contribution to Housing Pooled Capital Receipts			<b>(27,672)</b>	0
Contributions from Capital Financing Account			<b>(4,955,842)</b>	(5,346,583)
Revenue Support Grant Amending Order			<b>256,776</b>	0
<b>Amount to be met from government grants and local taxpayers</b>			<b>169,278,777</b>	158,412,237
<b>Sources of Finance</b>				
<b>Council Taxpayers</b>			<b>(59,625,145)</b>	(56,748,008)
<b>Central Government Grants</b>			<b>(62,558,490)</b>	(62,658,121)
<b>Non-Domestic Rate income</b>			<b>(46,978,981)</b>	(38,983,665)
<b>Net general fund deficit</b>			<b>116,161</b>	22,443
Balance on general fund brought forward			<b>(2,054,654)</b>	(2,077,097)
<b>Balance on general fund carried forward</b>			<b>(1,938,493)</b>	(2,054,654)

## 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 2005-06 which are committed against 2006-2007.

3. Section 137 Expenditure

The Local Government Act 2000 amended the provisions of Section 137 of the Local Government Act 1972. Actual expenditure in 2005-06 amounted to £4,860 and was in respect of a contribution to RELATE. (£4,770 in 2004-05).

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 2005-06.

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 £608,217 (£629,088 in 2004-05).

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>2005-06</b>	2004-05
	£	£
Provision of Administrative, Professional and Technical Services	<b>118,769</b>	145,009
Hire	<b>530</b>	1,266
Works Relating to Land and Buildings	<b>3,166</b>	2,720
	<hr/> <b>122,465</b>	<hr/> 148,995

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, HM Prison Service, local Health Trusts, coastal management bodies, Isle of Wight Economic Partnership, the Valuation Office 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 2005-06

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.

	Chargeable	Non Chargeable	Total Building Control	Total Building Control
	2005-06	2005-06	2005-06	2004-05
	£	£	£	£
<b>Expenditure</b>				
Employee expenses	325,106	107,226	<b>432,332</b>	399,675
Transport	14,014	4,425	<b>18,439</b>	18,249
Supplies and Services	62,486	17,887	<b>80,373</b>	46,501
Central and support services	116,505	52,324	<b>168,829</b>	140,207
Total Expenditure	518,111	181,862	<b>699,973</b>	604,632
<b>Income</b>				
Building Regulation charges	476,771	0	<b>476,771</b>	472,544
Miscellaneous income	0	1,726	<b>1,726</b>	2,705
Total Income	476,771	1,726	<b>478,497</b>	475,249
<b>Surplus/(Deficit) for Year</b>	<b>(41,340)</b>	<b>(180,136)</b>	<b>(221,476)</b>	(129,383)

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 2006 is transferred to the Consolidated Revenue Account.

	2005-06	2004-05
	£	£
<b>Expenditure</b>		
Provision for Depreciation	<b>8,869,156</b>	9,921,555
Less: Excess over Minimum Revenue Provision	<b>(3,638,533)</b>	(5,121,729)
External Interest	<b>7,939,708</b>	7,494,829
	<b>13,170,331</b>	12,294,655
<b>Income</b>		
Capital Charges to Services	<b>(21,804,568)</b>	(21,357,620)
Excess of capital charges over MRP & interest	<b>(8,634,237)</b>	(9,062,965)

9. Government Grants

Central Government and European Community revenue grants towards specific services were received during the year totalling £83,755,784 (£80,350,457 in 2004/05). 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 2005/06 was £538,941 (£570,683 in 2004/05). Future liabilities are as follows:-

<b>Leases expiring</b>	<b>Future liability £</b>
In 2006-07	0
Between 2007-08 and 2011-12	591,589
After 2011-12	1,776,566

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.



Interests in other entities (continued)

**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 2005-06. 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 pooled budget arrangement is hosted by the Isle of Wight Council. The following shows the pool income, expenditure and balance as at 31<sup>st</sup> March.

		2005/06	2004/05
<b>Amounts Received from Partners</b>	%	£	£
Contribution from IW Council	<b>73.02</b>	<b>3,974,421</b>	4,358,075
Contribution from IW Primary Care Trust	<b>26.98</b>	<b>1,468,353</b>	1,411,000
Total Income		<b>5,442,774</b>	5,769,075
<b>Amount Spent from Pool</b>	£		
IWC Funded Island Clients		<b>4,898,150</b>	4,647,195
IWC Funded Mainland Clients		<b>263,438</b>	178,190
RNCC Island Placed Self Funders		<b>577,972</b>	565,841
RNCC Island Self Funders Placed by Mainland Authorities		<b>32,295</b>	37,851
Continence Products		<b>100,390</b>	91,439
Administration/Assessment		<b>47,855</b>	32,770
Total Expenditure		<b>5,920,100</b>	5,553,286
<b>Amount Remaining in Pool</b>		<b>(477,326)</b>	215,789

<b>Free Nursing Care (RNCC) (cont)</b>	<b>2005/06</b>	<b>2004/05</b>
To be shared between partners pro rata to contributions made	%	
I W Council	<b>73.02</b>	(348,553) 162,921
I W Primary Care Trust	<b>26.98</b>	(128,773) 52,868
<b>Total</b>		<b>(477,326)</b> 215,789

#### **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 2006.

	<b>2005/06</b>	<b>2004/05</b>
<b>Amounts Received from Partners</b>	%	£
Contribution from IW Council	<b>34.4</b>	<b>612,293</b> 135,341
Contribution from IW Primary Care Trust	<b>65.6</b>	<b>1,166,790</b> 157,292
Total Income		<b>1,779,083</b> 292,633
<b>Amount Spent from Pool</b>	£	£
Drug Strategies	<b>1,391,094</b>	232,008
Island Drug and Alcohol Service	<b>387,989</b>	60,625
Total Expenditure		<b>1,779,083</b> 292,633
<b>Amount Remaining in Pool</b>		<b>0</b> 0

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

This agreement has been entered into to provide a single integrated community equipment service. The pooled budget arrangement is hosted by the Isle of Wight Council. The following shows the pool income, expenditure and balance as at 31<sup>st</sup> March 2006.

	<b>2005/06</b>	<b>2004/05</b>
<b>Amounts Received from Partners</b>	%	£
<b>Community Equipment Service:</b>		
Contribution from IW Council	65.2	<b>287,704</b> 284,800
Contribution from IW Primary Care Trust	34.8	<b>153,686</b> 150,210
Income		<b>441,390</b> 435,010
<b>Stores Relocation Project:</b>		
Contribution from IW Council	50.3	<b>55,789</b> -
Contribution from IW Primary Care Trust	49.7	<b>55,078</b> -
Income		<b>110,867</b> -
Total Amount Received		<b>552,257</b> 435,010

<b>Integrated Community Equipment Store Pooled Budget</b>		<b>2005/06</b>	<b>2004/05</b>
<b>(cont)</b>			
<b>Amount Spent from Pool</b>		<b>£</b>	<b>£</b>
Staff Costs		<b>89,944</b>	117,723
Non-Pay Costs		<b>343,318</b>	263,306
Total Expenditure		<b>433,262</b>	381,029
Stores Relocation Project		<b>111,578</b>	-
<b>Total Spent from Pool</b>		<b>544,840</b>	381,029
Amount remaining in Pool: Community Equipment Service		<b>8,128</b>	53,981
To be shared between partners pro rata to contributions made	<b>%</b>	<b>£</b>	<b>£</b>
I W Council	65.2	5,300	35,341
I W Primary Care Trust	34.8	2,828	18,640
<b>Total</b>		<b>8,128</b>	53,981
<b>Stores Relocation Project (overspend)</b>		<b>(711)</b>	-
Amount due from IW Primary Care Trust		(711)	-
<b>Total Amount Remaining in Pool</b>		<b>7,417</b>	-
To be shared between partners:			
I W Council		5,300	-
I W Primary Care Trust		2,117	-
<b>Total</b>		<b>7,417</b>	-

13. Disclosure of Employees' Emoluments

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

Remuneration Band	<b>2005-06</b>		<b>2004-05</b>	
	<b>Total</b>	<b>Left during year</b>	<b>Total</b>	<b>Left during year</b>
£50,000 to £59,999	<b>17</b>	<b>1</b>	22	0
£60,000 to £69,999	<b>14</b>	<b>2</b>	12	0
£70,000 to £79,999	<b>6</b>	<b>2</b>	4	2
£80,000 to £89,999	<b>2</b>	<b>1</b>	2	0
£90,000 to £99,999	<b>0</b>	<b>0</b>	0	0
£100,000 to £109,999	<b>1</b>	<b>1</b>	0	0
£110,000 to £119,999	<b>0</b>	<b>0</b>	0	0
£120,000 to £129,999	<b>0</b>	<b>0</b>	0	0
£130,000 to £139,999	<b>1</b>	<b>1</b>	1	0
£140,000 to £149,999	<b>0</b>	<b>0</b>	0	0
£150,000 to £159,999	<b>0</b>	<b>0</b>	0	0
£160,000 to £169,999	<b>1</b>	<b>1</b>	0	0

14. Members' Allowances

The total amount of members' allowances paid in the year were £428,199 (£444,084 in 2004-05).

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 2006, 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.

<b>Operation</b>	<b>Description</b>		<b>£000's</b>
Industrial Units	The Council let industrial units in a variety of locations.	Turnover	118
		Expenditure	165
		Deficit 2005/06	(47)
		Deficit 2004/05	(41)
Markets	The Council runs Newport market and provides supervisory support for other local markets	Turnover	40
		Expenditure	21
		Surplus 2005/06	19
		Surplus 2004/05	12
Cowes Ferry	Cowes Floating Bridge contains the costs of providing the ferry link between East and West Cowes. Income is generated by charges for vehicles only with 1.5 million passengers	Turnover	456
		Expenditure	584
		Deficit 2005/06	(128)
		Deficit 2004/05	(103)
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 infrastructure on the Island.	Turnover	3,238
		Expenditure	1,530
		Surplus 2005/06	1,708
		Surplus 2004/05	1,693

School Buy-Backs	LEA/LA Central Services purchased by schools. Schools are free to choose whether they purchase these services from the authority, or from an external provider. Some service contracts, eg School meals, contain a minimum notice to terminate period. Charges are estimated in October and assumptions are made about rate of buy-back. Schools decide whether to buy-back when they receive their budgets in the following March, hence the potential for a deficit when the buy-back rate does not match that assumed in October.	Turnover	2,452
		Expenditure	2,514
		Deficit 2005/06	(62)
		Deficit 2004/05	(27)
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	605
		Expenditure	680
		Deficit 2005/06	(75)
		Surplus 2004/05	47
Bereavement Services	Burial service and maintenance of twelve cemeteries and eleven closed churchyards, together with provision for a Crematorium service including maintenance of site and buildings. Income derived from cremation fees, charges and sales and cemetery burial fees and charges.	Turnover	614
		Expenditure	829
		Deficit 2005/06	(215)
		Deficit 2004/05	(81)
Harbours and Coastal	This includes Newport and Ryde Harbours, Ventnor Haven, Folly Moorings and Whitegates Pontoon	Turnover	199
		Expenditure	355
		Deficit 2005/06	(156)
		Deficit 2004/05	(131)
Leisure Facilities	The running of Leisure facilities at Waterside Pool, Medina Leisure Centre, The Heights, Rew Valley and the squash courts at Westridge. These are subsidised facilities and the deficit has increased partly as a result of a job evaluation exercise	Turnover	1,448
		Expenditure	3,001
		Deficit 2005/06	(1,553)
		Deficit 2004/05	(1,270)
Seasonal Sites	The running of tourism related sites including Browns and Shanklin Lift. The 2004/05 figures included the Sandown, Shanklin and Ryde Road trains, which are now run by a private operator.	Turnover	515
		Expenditure	604
		Deficit 2005/06	(89)
		Deficit 2004/05	(237)

## 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 and Senior Officers
- 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. Transactions with the Isle of Wight Primary Care Trust in respect of the Pooled budget arrangements are shown in Note 12 to the Consolidated Revenue Account.

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.

The large majority of elected members disclosed positions of interest with Parish or Town Councils, voluntary bodies or community forums.

There are 4 relevant and material disclosures from members, directors and senior officers. The total value of these disclosures is £512,701.

During the financial year, the pension fund had an average balance of £534,918 of surplus cash deposited with the council. The council paid the fund a total of £24,155 on these deposits. The council charged the fund £332,202 for expenses incurred in administering the fund.

17. Audit Costs

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

	<b>2005-06</b>	2004-05
	£	£
Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor	<b>287,000</b>	281,500
Fees payable to the Audit Commission - improvement work resulting from Comprehensive Performance Assessment	<b>0</b>	32,500
Fees payable to the Audit Commission for certification of grant claims and returns	<b>73,799</b>	78,517
Fees payable in respect of other services provided by the appointed auditor	<b>0</b>	10,385
	<hr/> <b>360,799</b> <hr/>	<hr/> 402,902 <hr/>

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 2005/06, £336,870 was used to meet the cost of planned expenditure, in addition to the £542,578 spent in previous years.

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:-

	Local Government Pension Scheme		Firefighters' Pension Scheme		Total	
	2005-06	2004-05	2005-06	2004-05	2005-06	2004-05
	£000's	£000's	£000's	£000's	£000's	£000's
<b>Net cost of services:</b>						
Current Service cost	<b>8,600</b>	7,500	<b>700</b>	700	<b>9,300</b>	8,200
Past service costs	<b>1,300</b>	100	<b>0</b>	146	<b>1,300</b>	246
Settlements and Curtailments	<b>800</b>	800	<b>0</b>	0	<b>800</b>	800
<b>Net Operating Expenditure</b>						
Interest cost	<b>14,700</b>	11,600	<b>1,800</b>	1,500	<b>16,500</b>	13,100
Expected return on assets	<b>(11,800)</b>	(10,400)	-	-	<b>(11,800)</b>	(10,400)
<b>To be met from Government Grants and Local Taxation:</b>						
Movement on pensions reserve	<b>(4,400)</b>	(2,200)	<b>(700)</b>	(1,146)	<b>(5,100)</b>	(3,346)
<b>Actual amount charged against council tax for pensions in the year:</b>						
Employers' contributions payable to the scheme (including unfunded benefits)	<b>(9,200)</b>	(7,400)	-	-	<b>(9,200)</b>	(7,400)
Retirement benefits payable to Pensioners (net of member contributions)	-	-	<b>(1,800)</b>	(1,200)	<b>(1,800)</b>	(1,200)

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:-

	2005-06	2004-05
	£000's	£000's
Basic Contribution	<b>4,911</b>	4,712
(as a % of pensionable pay)	<b>13.5</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**

	2005-06 £	2004-05 £
<b>Income</b>		
Council Tax (note 21)	<b>56,092,053</b>	53,174,053
Transfers from General Fund:-		
Council Tax Benefits	<b>9,970,042</b>	9,205,255
Contribution re: Discretionary Relief	<b>61,535</b>	60,874
	<b>10,031,577</b>	9,266,129
Income collectable from business ratepayers (note 20)	<b>24,046,956</b>	21,956,918
	<b>90,170,586</b>	84,397,100
<b>Expenditure</b>		
Isle of Wight Council Precept	<b>59,625,145</b>	56,748,008
Police Precept	<b>5,981,325</b>	5,657,808
Business Rate:-		
Payment to National Pool	<b>23,876,887</b>	21,689,497
Costs of Collection	<b>253,614</b>	240,200
	<b>24,130,501</b>	21,929,697
Provision for Bad Debts	<b>134,067</b>	160,123
	<b>89,871,038</b>	84,495,636
 <b>Collection Fund Balance at 31st March</b>		
	<b>2005-06</b>	2004-05
	£	£
Balance on Fund at start of year	<b>39,599</b>	(58,937)
(Surplus)/Deficit for Year	<b>(299,548)</b>	98,536
Balance on Fund Carried Forward	<b>(259,949)</b>	39,599

## NOTES TO THE COLLECTION FUND

20. The total non-domestic rateable value at 31 March 2006 was £74,203,885 and the non-domestic rate multiplier for the year was 42.2p. A reduced multiplier of 41.5p was applicable where there was eligibility for Small Business Rate Relief.

21. The following details the number of properties in each valuation band of the tax base for 2005-06:-

A	B	C	D	E	F	G	H
7,086	13,746	14,180	11,294	6,136	2,580	1,270	80

These equated to 52,816.0 Band D equivalent properties and after making a 0.8% allowance for non-collection and changes in the valuation list, a tax base of 52,393.4 was approved.

22. The following precepts were made on the fund in 2005-06:-

	£
Isle of Wight Council	59,625,145
Hampshire Police	5,981,325
Total	<u>65,606,470</u>

## CONSOLIDATED BALANCE SHEET

31 March 2005		31 March 2006
£		£
	Net Tangible Fixed Assets (note 23)	
215,351,729	Land and Building	228,230,620
63,208,663	Infrastructure	69,024,201
4,644,274	Vehicles, Plant, Furniture & Equipment	4,175,180
3,473,725	Community Assets	1,072,438
286,678,391		302,502,439
11,036	Investments (note 26)	11,036
319,991	Long Term Debtors (note 24)	227,981
287,009,418	<b>Total Long Term Assets</b>	<b>302,741,456</b>
	Current Assets	
593,441	Stock & Work in Progress (note 25)	611,956
13,314,636	Debtors & Payments in Advance (note 27)	14,492,409
39,000,000	Temporary Advances (note 29)	20,800,000
7,640,020	Cash in bank and in hand	13,382,827
60,548,097		49,287,192
	Current Liabilities	
19,863,836	Creditors & Receipts in Advance (note 28)	22,244,335
2,142,618	External Borrowing repayable within one year (note 30)	12,107,045
2,416,434	Bank Overdraft	3,286,040
24,422,888		37,637,420
36,125,209	<b>Net Current Assets</b>	<b>11,649,772</b>
	Long Term Liabilities	
142,307,572	External Borrowing repayable in more than one year (note 30)	131,306,520
165,117	Deferred Credits (note 35)	146,574
3,291,222	Provisions (note 33)	3,326,319
138,000,000	Liability related to defined benefit pension schemes (note 42)	151,300,000
283,763,911		286,079,413
39,370,716	<b>Total Net Assets</b>	<b>28,311,815</b>
	Financed By	
31,494,136	Earmarked Reserves (note 34)	31,106,039
(138,000,000)	Pensions Reserves (note 42)	(151,300,000)
97,205,026	Fixed Asset Restatement Account (note 36)	101,135,788
46,160,522	Capital Financing Account (note 37)	45,127,688
0	Capital Receipts Unapplied (note 31)	0
495,977	Capital Grants Unapplied (note 32)	43,858
2,054,654	General Fund Balance	1,938,493
(39,599)	Surplus/(Deficit) on Collection Fund	259,949
39,370,716	<b>Total Reserves</b>	<b>28,311,815</b>

## NOTES TO THE CONSOLIDATED BALANCE SHEET

### 23. Tangible Fixed Assets

Movement in tangible fixed assets were as follows:

	Land and Buildings £	Infrastructure £	Vehicles Plant Furniture & Equipment £	Community Assets £	Total £
Balance at 1 April	215,351,729	63,208,663	4,644,274	3,473,725	286,678,391
Adjustments	1,144,194	0	0	(2,531,982)	(1,387,788)
Expenditure in year	11,805,190	8,448,619	367,757	140,876	20,762,442
Depreciation	(5,389,043)	(2,633,081)	(836,851)	(10,181)	(8,869,156)
Disposals	(57,000)	0	0	0	(57,000)
Revalued in year	5,375,550	0	0	0	5,375,550
<b>Balance at 31 March</b>	<b>228,230,620</b>	<b>69,024,201</b>	<b>4,175,180</b>	<b>1,072,438</b>	<b>302,502,439</b>

The valuation of all properties were undertaken by Mr B Cooke FRICS of Property Services, Isle of Wight Council.

The Council has no intangible fixed assets.

The main items of capital expenditure were:-

	£
Road Improvements	7,542,899
Castle Haven Cost Protection	647,830
Ryde High School – remodelling	625,579
Kitbridge Middle School extension	565,548
Downside Middle School extension	528,193
Solent Middle School – replace Mobiles	517,846
Nettlestone Primary School – 2 classrooms & staff room	513,951
Bishop Lovett Middle School – reception area & classroom	513,433
National Grid for Learning	464,909
Shanklin CE Primary School – staff room & hall development	441,076
Carisbrooke High School – refurbishment	439,049
Medina High School – new classroom block	434,301

In addition, major contracts had been entered into with the following outstanding sums at 31 March 2006:-

	£
Arreton Primary School – remodelling	1,111,608
Summerfields Primary School – 3 classrooms	575,000
Greenmount Primary School - 2 classroom extension	385,817
Ryde Tunnel Maintenance	385,207

### Deferred Charges

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

### Movement in Deferred Charges

	Balance at 1 April £	Expenditure In year £	Written out In year £	Balance at 31 March £
Improvement Grants	0	1,014,265	(1,014,265)	0
Housing Association Grant	0	1,652,943	(1,652,943)	0
Isle of Wight Economic Partnership	0	634,678	(634,678)	0
Sure Start	0	221,169	(221,169)	0
Other	0	1,432,787	(1,432,787)	0
<b>Total</b>	<b>0</b>	<b>4,955,842</b>	<b>(4,955,842)</b>	<b>0</b>

### Capital Expenditure in 2005-06 was financed as follows:-

	£
Capital Receipts	412,677
Capital Grants	7,148,864
Increase in Capital Financing Requirement (CFR)	18,156,743
<b>Total</b>	<b>25,718,284</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.

### Capital Financing Requirement (memorandum account)

	£
Balance at 1 April 2005	143,634,128
Capital Expenditure in year	25,718,284
Application of Capital Receipts	(412,677)
Application of Capital Grants	(7,148,864)
Statutory Charge to Revenue re: past expenditure	(5,230,623)
<b>Balance at 31 March 2006</b>	<b>156,560,248</b>

## Information on Fixed Assets

An analysis of fixed assets at 31 March is:

	<b>2006</b>	2005
Libraries	<b>11</b>	11
Museums	<b>4</b>	4
Tourist Information Centres	<b>3</b>	3
Allotment sites	<b>21</b>	21
Park areas & amenity sites	<b>209</b>	209
Theatres	<b>2</b>	2
Shanklin Lift	<b>1</b>	1
Leisure Centres	<b>2</b>	2
Schools *	<b>69</b>	69
with a - sports centre	<b>3</b>	3
- theatre	<b>1</b>	1
- swimming pool	<b>1</b>	1
Other Educational properties	<b>18</b>	18
Fire Stations	<b>10</b>	10
Crematorium	<b>1</b>	1
Courts	<b>1</b>	1
Cemeteries	<b>12</b>	12
Guildhall	<b>1</b>	1
Waste Derived Fuel Plant	<b>1</b>	1
Refuse Disposal Sites	<b>2</b>	2
Toilet Blocks	<b>81</b>	81
Car Parks	<b>78</b>	78
Harbours	<b>2</b>	2
Residential Homes for the Elderly	<b>2</b>	4
Resource Centres for the Elderly	<b>2</b>	2
Group Homes	<b>6</b>	6
Family Centre	<b>1</b>	1
Day/Community Centres	<b>12</b>	12
Other Social Services Properties	<b>19</b>	19
Hostels	<b>1</b>	1
Highways Depots and Other Premises	<b>10</b>	10
Chain Ferry and Terminals	<b>1</b>	1
Industrial Estates	<b>8</b>	8
Council Dwellings	<b>5</b>	5
Garage Sites	<b>2</b>	2
County Hall	<b>1</b>	1
Other Office Premises	<b>22</b>	21
Other Premises & Land Sites	<b>39</b>	38
Vehicles and Major Plant - owned	<b>123</b>	112
- leased	<b>131</b>	124
Roads and Bridges (Km)	<b>791.8</b>	791.8
Cycleways (km)	<b>36.3</b>	36.3
Coastal Defences (km)	<b>41</b>	41

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

## 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 2006 the balance amounted to £227,981.

25. Stocks and Work-in-Progress

	<b>31 March 2006 £</b>	31 March 2005 £
Works-in-Progress	<b>30,293</b>	40,958
Stocks	<b>581,663</b>	552,483
	<hr/>	<hr/>
Balance at end of year	<b>611,956</b>	593,441
	<hr/>	<hr/>

26. Investments

These comprise £11,036 in Government and other stocks (2004-05 £11,036).

27. Debtors and Payments in Advance

	<b>31 March 2006 £</b>	31 March 2005 £
Government Departments	<b>3,621,663</b>	3,788,987
Local Taxpayers	<b>1,863,749</b>	2,275,612
Other Organisations and Individuals	<b>11,446,064</b>	9,944,101
	<hr/>	<hr/>
	<b>16,931,476</b>	16,008,700
less Provision for Bad Debts	<b>(2,439,067)</b>	(2,694,064)
	<hr/>	<hr/>
Balance at end of year	<b>14,492,409</b>	13,314,636
	<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 2006 £</b>	31 March 2005 £
Government Departments	<b>5,836,096</b>	5,353,652
Local Taxpayers	<b>1,615,319</b>	1,847,051
Other Organisations & Individuals	<b>14,792,920</b>	12,663,133
	<hr/>	<hr/>
Balance at end of year	<b>22,244,335</b>	19,863,836
	<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 2006 £11,550,000 was invested with Banks and £9,250,000 with Building Societies. A further £11,675,000 was invested with the Council's own bankers and this amount is included in the Cash in bank and in hand total.

30. External Borrowing

	<b>31 March 2006 £</b>	31 March 2005 £
Repayable in 1 - 2 years	<b>1,078</b>	1,052
Repayable in 2 - 5 years	<b>6,003,398</b>	5,003,317
Repayable in 5 - 10 years	<b>13,003,920</b>	15,504,492
Repayable in 10 - 15 years	<b>28,003,336</b>	26,503,199
Repayable in 15 - 20 years	<b>30,692,125</b>	31,103,952
Repayable in 20 - 25 years	<b>35,602,663</b>	36,191,285
Repayable in more than 25 years	<b>18,000,000</b>	28,000,275
	<hr/>	<hr/>
Repayable in more than one year	<b>131,306,520</b>	142,307,572
Repayable within one year	<b>12,107,045</b>	2,142,618
	<hr/>	<hr/>
Total External Borrowing	<b>143,413,565</b>	144,450,190
	<hr/>	<hr/>
Of which, Public Works Loan Board (PWLB)	<b>131,306,367</b>	132,493,158
	<hr/>	<hr/>

There are four Lender Option Borrower Option (LOBO) loans amounting to £11 million included in the 'Repayable within one year' category. The lenders have the option to request a change in the interest rate which could lead the Council to make an early repayment. None of the lenders have exercised their option to change the interest rate.

Amount (£)	Interest Rate (%)	Final Maturity Date
2,000,000	7.75	11/4/2007
1,000,000	6.65	24/9/2012
3,000,000	5.34	19/11/2013
5,000,000	4.27	25/11/2041

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 2006 £</b>	31 March 2005 £
Balance at beginning of year	<b>0</b>	0
Sale of Capital Assets	<b>412,677</b>	1,162,605
	<hr/>	<hr/>
	<b>412,677</b>	1,162,605
Less: Applied to capital	<b>(412,677)</b>	(1,162,605)
	<hr/>	<hr/>
Balance at end of year	<b>0</b>	0
	<hr/>	<hr/>



32. Capital Grants

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

	<b>31 March 2006 £</b>	31 March 2005 £
Balance at beginning of year	<b>495,977</b>	3,354,494
Capital Grants Received	<b>7,051,745</b>	9,807,034
	<hr/> <b>7,547,722</b>	<hr/> 13,161,528
Less: Applied to Capital	<b>(7,503,864)</b>	(12,665,551)
Balance at end of year	<hr/> <b>43,858</b>	<hr/> 495,977

33. Provisions

	Balance 1 April £	Receipts £	Payments £	<b>Balance 31 March £</b>
Insurance Liabilities Fund	2,796,031	487,914	0	<b>3,283,945</b>
Waste Management Contract Claims	495,191	83,171	535,988	<b>42,374</b>
Total	<hr/> 3,291,222	<hr/> 571,085	<hr/> 535,988	<hr/> <b>3,326,319</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, which is now in the final stages of being settled.

34. Earmarked Reserves

	Balance 1 April £	Contributions £	Payments £	<b>Balance 31 March £</b>
Earmarked Revenue & Capital	4,277,663	2,967,092	1,387,542	<b>5,857,213</b>
Repairs & Renewals Funds	3,432,779	665,734	2,127,798	<b>1,970,715</b>
Earmarked Reserves - Education	1,738,208	1,539,864	1,566,050	<b>1,712,022</b>
Earmarked Reserves – Social Services	211,953	9,757	62,762	<b>158,948</b>
Earmarked Reserves – Other Services	7,514,557	5,474,741	5,298,391	<b>7,690,907</b>
School Balances	4,175,634	1,161,358	1,911,097	<b>3,425,895</b>
Insurance Funds	10,143,342	2,469,068	2,322,071	<b>10,290,339</b>
Total	<hr/> 31,494,136	<hr/> 14,287,614	<hr/> 14,675,711	<hr/> <b>31,106,039</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 set aside by delegated budget holders under Schemes for Financing Schools. The law requires that these underspendings are carried forward, for future use by the school concerned.

Insurance 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 54% 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 Account. 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 Capital Financing Requirement at the start of the year, plus some asset sales. This reserve is not available to finance Capital Expenditure.

	<b>31 March 2006 £</b>	31 March 2005 £
Balance at beginning of year	<b>46,160,522</b>	43,532,974
Minimum Revenue Provision Adjustment	<b>(3,638,533)</b>	(5,121,729)
Financing of Deferred Charges	<b>(4,955,842)</b>	(6,109,023)
Set Aside Receipts	<b>0</b>	30,144
Useable Receipts Applied	<b>412,677</b>	1,162,605
Capital Grants Applied	<b>7,148,864</b>	12,665,551
Balance at end of year	<b>45,127,688</b>	46,160,522

38. Section 106 receipts

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

	<b>31 March 2005</b> £000's	<b>Income</b> £000's	<b>Expenditure</b> £000's	<b>31 March 2006</b> £000's
Springfield Court, Seaview – Affordable Housing	228	0	0	228
B & Q Dodnor Lane/Medina Way – Public Transport in Newport	139	0	0	139
Sherbourne Avenue – Education	0	100	0	100
Other	212	206	74	344
<b>Total</b>	<b>579</b>	<b>306</b>	<b>74</b>	<b>811</b>

39. Government Grants

Capital Grants of £7,051,745 relating to capital investment have been credited to the Capital Financing Account. These principally relate to Education and to those projects managed on the Council's behalf by the Isle of Wight Economic Partnership, namely the Single Regeneration Budget, Market Towns, Area Investment Framework and Leader Plus Projects.

40. 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 main Trust Funds are as follows:-

- The Brenda James Trust Fund, which was established with the object of the advancement of music education on the Isle of Wight for the benefit of pupils and young musicians, has a balance of £92,700 at 31<sup>st</sup> March 2006.
- The charity of Tom Woolgar which was established in 1929 to give relief to the poor and aged in the Borough of Newport, has a balance of £42,285 at 31<sup>st</sup> March 2006.

	<b>31 March 2006</b> £	31 March 2005 £
Trust Funds Etc	<b>140,838</b>	132,993
Cash in Safekeeping	<b>14,364</b>	19,965
Amenity Funds	<b>89,460</b>	86,292
<b>Total</b>	<b>244,662</b>	239,250

41. 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.

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		Fire-fighters' Pension Scheme		Total	
	£000's		£000's		£000's	
<b>At 31 March</b>	<b>2006</b>	2005	<b>2006</b>	2005	<b>2006</b>	2005
Estimated liabilities in scheme	<b>(324,300)</b>	(270,600)	<b>(39,300)</b>	(33,900)	<b>(363,600)</b>	(304,500)
Estimated assets in scheme	<b>212,300</b>	166,500	<b>0</b>	0	<b>212,300</b>	166,500
<b>Net Pension Liability</b>	<b>(112,000)</b>	(104,100)	<b>(39,300)</b>	(33,900)	<b>(151,300)</b>	(138,000)

The liabilities show the underlying commitments that the authority has in the long run to pay retirement benefits. The total liability of £151.3 million has a substantial impact on the net worth of the authority as recorded in the balance sheet, resulting in an overall balance of £28.3 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, as assessed by the scheme actuary
- finance is only required to be raised to cover fire-fighters' pensions when the pensions are actually paid.

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:

Assumptions as at 31 March	Local Government Pension Scheme		Fire-fighters' Pension Scheme	
	2006	2005	2006	2005
Price increases	<b>3.1%</b>	2.9%	<b>3.1%</b>	2.9%
Salary increases	<b>4.6%</b>	4.4%	<b>4.6%</b>	4.4%
Pension increases	<b>3.1%</b>	2.9%	<b>3.1%</b>	2.9%
Discount rate	<b>4.9%</b>	5.4%	<b>4.9%</b>	5.4%

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 2006 per annum</b>	<b>Assets at 31 March 2006 £000's</b>	<b>Assets at 31 March 2006 %</b>	<b>Long Term Return 31 March 2005 per annum</b>	<b>Assets at 31 March 2005 £000's</b>	<b>Assets at 31 March 2006 %</b>
Equities	7.4%	157,600	74.2	7.7%	124,130	74.5
Bonds	4.6%	26,300	12.4	4.8%	21,740	13.1
Property	5.5%	19,800	9.3	5.7%	15,910	9.6
Cash	4.6%	8,600	4.1	4.8%	4,720	2.8
<b>Total</b>		<b>212,300</b>	<b>100.0</b>		<b>166,500</b>	<b>100.0</b>

#### 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.

#### 43. 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 sixteen years, there is a diminishing probability of a claim against the Council.

There are in addition, six legal claims pending settlement with an estimated potential total liability of £270,000.

#### 44. Events after the Balance Sheet Date

The Chief Financial Officer authorised the financial statements for issue on 16<sup>th</sup> June 2006. There were no Post Balance Sheet Events prior to this date and any events that occurred after this date have not been recognised in the statement of accounts.

## CASH FLOW STATEMENT FOR YEAR ENDED 31 MARCH 2006

	2005-06	2004-05
Revenue Activities	£	£
<u>Cash Outflows</u>		
Cash paid to and on behalf of employees	122,153,730	112,262,077
Precepts paid	713,616	640,793
Housing Benefit paid	32,937,198	31,452,724
Payment to NNDR Pool	0	854,265
Payments to Housing Capital Receipts Pool	27,672	0
Other operating cash payments	129,214,590	113,647,535
	<b>285,046,806</b>	258,857,394
<u>Cash Inflows</u>		
Rents	(608,981)	(619,330)
Council Tax Income	(51,370,070)	(48,512,140)
Non-Domestic Rate Income	(47,635,937)	(40,516,757)
Payment from NNDR Pool	(713,335)	0
Revenue Support Grant	(62,558,490)	(62,658,121)
DWP Grants for Housing Benefit	(33,828,299)	(31,714,087)
Other Government Grants (note 48)	(51,556,465)	(48,879,116)
Cash Received for Goods and Services	(38,208,150)	(34,989,591)
Revenue Activities Cash Flow (note 46)	(1,432,921)	(9,031,748)
Servicing of Finance		
Interest paid	7,934,448	7,394,425
Interest Received	(2,467,910)	(2,302,775)
	<b>4,033,617</b>	(3,940,098)
Capital Activities		
<u>Cash Outflows</u>		
Purchase of Fixed Assets	20,762,442	21,958,157
Other Capitalised Expenditure	4,955,842	5,653,869
<u>Cash Inflows</u>		
Sale of Fixed Assets	(412,677)	(1,162,605)
Capital Grants Received	(7,234,789)	(9,925,179)
	<b>(7,647,466)</b>	(11,087,784)
	<b>18,070,818</b>	16,524,242
Net Cash (Inflow) Outflow Before Financing	<b>22,104,435</b>	12,584,144
Financing		
Repayments of Amounts Borrowed & Temporary Advances	1,186,791	849
New Loans Raised	0	(15,000,000)
	<b>1,186,791</b>	(14,999,151)
(Increase)/Reduction in cash and cash equivalents (note 47)	<b>23,291,226</b>	(2,415,007)

**Note 45**

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 46**

	<b>2005-06</b>	2004-05
	£	£
General Fund movement as per Consolidated Revenue Account	<b>116,161</b>	22,443
Increase/ (reduction) in Stock and Work in Progress	<b>18,515</b>	(165,705)
Increase/ (reduction) in Debtors	<b>1,177,773</b>	2,042,944
(Increase)/reduction in Creditors	<b>(2,380,499)</b>	2,686,328
Transfer to/(from) Reserve & other non-cash transactions	<b>5,101,667</b>	(8,526,108)
Interest Payments	<b>(7,934,448)</b>	(7,394,425)
Interest Receipts	<b>2,467,910</b>	2,302,775
	<hr/>	<hr/>
Revenue Activities Net Cash Flow	<b>(1,432,921)</b>	(9,031,748)
	<hr/>	<hr/>

**Note 47**

	<b>2005-06</b>	2004-05
	£	£
Consolidated Balance Sheet Movements		
Increase/(Reduction) in Bank Overdrawn	<b>869,606</b>	870,978
(Increase)/Reduction in Cash in Hand	<b>(5,742,807)</b>	(523,609)
Increase/(Reduction) in Short Term Loans	<b>9,964,427</b>	1,587,624
(Increase)/Reduction in Bank Advances	<b>18,200,000</b>	(4,350,000)
	<hr/>	<hr/>
Increase/(Reduction) in Cash and Cash Equivalents	<b>23,291,226</b>	(2,415,007)
	<hr/>	<hr/>

**Note 48**

	<b>2005-06</b>	2004-05
<b>Analysis of Government Grants</b>		
Department for Education & Skills	<b>22,544,416</b>	17,706,160
Department of Health	<b>7,519,657</b>	7,925,498
Home Office	<b>158,805</b>	266,365
Department of Works and Pensions	<b>45,441,440</b>	42,562,961
Department of Transport	<b>399,253</b>	404,540
Office of Deputy Prime Minister (now Dept for Communities & Local Government)	<b>8,622,058</b>	10,829,344
Other (including European Grants)	<b>699,135</b>	898,335
	<hr/>	<hr/>
	<b>85,384,764</b>	80,593,203
	<hr/>	<hr/>

## STATEMENT OF TOTAL MOVEMENTS ON RESERVES

	<b>2005-06</b>	<b>2004-05</b>
	<b>£</b>	<b>£</b>
Surplus /(deficit) for the year:		
General Fund	(116,161)	(22,443)
Collection Fund	299,548	(98,536)
Add back Movements on specific revenue reserves	(388,097)	4,580,595
Deduct Appropriation from Pension Reserve	(5,100,000)	(3,346,000)
Actuarial gains & losses relating to pensions (note 6)	(8,000,000)	(40,179,000)
	(13,304,710)	(39,065,384)
<b>Total Increase/(decrease) in revenue resources (note 1)</b>	<b>(13,304,710)</b>	<b>(39,065,384)</b>
Increase/(decrease) in usable capital receipts	0	0
Increase/(decrease) in unapplied capital grants & contributions	(452,119)	(2,858,517)
	(452,119)	(2,858,517)
<b>Total Increase/(decrease) in realised capital resources (note 2)</b>	<b>(452,119)</b>	<b>(2,858,517)</b>
Gains/(losses) on revaluation of fixed assets	3,987,762	11,393,206
Impairment losses on fixed assets due to general changes in prices	0	0
	3,987,762	11,393,206
<b>Total Increase/(decrease) in unrealised value of fixed assets (note 3)</b>	<b>3,987,762</b>	<b>11,393,206</b>
<b>Value of assets sold, disposed of or decommissioned (note 4)</b>	<b>(57,000)</b>	<b>(389,386)</b>
Capital receipts set aside	412,677	1,192,749
Revenue resources set aside	(3,638,533)	(5,121,729)
Movement on Government Grants Deferred	2,193,022	6,556,528
	(1,032,834)	2,627,548
<b>Total Increase/(decrease) in amounts set aside to finance capital investment (note 5)</b>	<b>(1,032,834)</b>	<b>2,627,548</b>
<b>Increase/(decrease) on the pensions reserve (note 6)</b>	<b>(200,000)</b>	<b>25,000</b>
	(11,058,901)	(28,267,533)
<b>Total recognised gains &amp; losses</b>	<b>(11,058,901)</b>	<b>(28,267,533)</b>



## Notes to the Statement of Total Movements on Reserves

### 1. Movements in revenue resources

	General Fund Balances £	Collection Fund £	Earmarked Reserves £	Pension Reserve £
Surplus/(Deficit) for 2005/06	(116,161)	299,548		
Appropriations (to)/from Revenue			(388,097)	(5,100,000)
Transfers with other authorities				(200,000)
Actuarial losses relating to pensions				(8,000,000)
Brought forward at 1 April 2005	2,054,654	(39,599)	31,494,136	(138,000,000)
<b>Carried forward at 31 March 2006</b>	<b>1,938,493</b>	<b>259,949</b>	<b>31,106,039</b>	<b>(151,300,000)</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.

	Usable capital Receipts £	Unapplied Capital grants & Contributions £
<b>2. Movements in realised capital resources</b>		
Amounts receivable in 2005/06	412,677	7,051,745
Amounts applied to finance new capital investment in 2005/06	(412,677)	(7,503,864)
Total increase/(decrease) in realised capital resources in 2005/06	0	(452,119)
Balance brought forward at 1 April 2005	0	495,977
<b>Balance carried forward at 31 March 2006 (see notes 31 &amp; 32)</b>	<b>0</b>	<b>43,858</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.

	Fixed asset Restatement Account £
<b>3. Movements in unrealised value of fixed assets</b>	
Gains/losses on revaluation of fixed assets in 2005/06	5,375,550
Adjustments	(1,387,788)
Impairment losses on fixed assets due to general changes in prices in 2005/06	0
<b>Total increase/(decrease) in unrealised capital resources in 2005/06</b>	<b>3,987,762</b>
<b>4. Value of assets sold, disposed of or decommissioned</b>	
Amounts written off fixed asset balances for disposals in 2005/06	(57,000)
Total movement on reserve in 2005/06	3,930,762
Balance brought forward at 1 April 2005	97,205,026
<b>Balance carried forward at 31 March 2006 (see note 36)</b>	<b>101,135,788</b>

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

	<b>Capital Financing Account £</b>
<b>5. Movements in amounts set aside to finance capital investment</b>	
Capital receipts set aside in 2005/06	
- reserved receipts	0
- usable receipts applied	412,677
	<hr/>
<b>Total Capital receipts set aside in 2005/06</b>	<b>412,677</b>
Revenue resources set aside in 2005/06	
Capital expenditure financed from revenue	0
	<hr/>
<b>Total Revenue resources set aside in 2005/06</b>	<b>0</b>
Capital Slippage Reserve Applied	0
Grants applied to capital investment in 2005/06	7,148,864
Amounts credited to the asset management revenue account in 2005/06	(3,638,533)
Deferred Charges written down	(4,955,842)
	<hr/>
<b>Movement on Government Grants Deferred</b>	<b>(1,445,511)</b>
	<hr/>
<b>Total increase/(decrease) in amounts set aside to finance Capital investment</b>	
Total movement on reserve in 2005/06	(1,032,834)
Balance brought forward at 1 April 2005	46,160,522
	<hr/>
<b>Balance carried forward at 31 March 2006 (see note 37)</b>	<b>45,127,688</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	
	2006	2005	2006	2005	2006	2005
Deficit at beginning of the year	<b>(104,100)</b>	(66,800)	<b>(33,900)</b>	(27,700)	<b>(138,000)</b>	(94,500)
Current Service Cost	<b>(8,600)</b>	(7,500)	<b>(700)</b>	(700)	<b>(9,300)</b>	(8,200)
Employer Contributions	<b>8,000</b>	6,400	<b>1,800</b>	1,200	<b>9,800</b>	7,600
Contributions in respect of Unfunded Benefits	<b>1,200</b>	1,000	-	-	<b>1,200</b>	1,000
Transfers from other authorities	-	-	<b>(200)</b>	25	<b>(200)</b>	25
Past Service costs	<b>(1,300)</b>	(100)	<b>0</b>	(146)	<b>(1,300)</b>	(246)
Impact of settlements and curtailments	<b>(800)</b>	(800)	-	-	<b>(800)</b>	(800)
Expected Return on assets	<b>11,800</b>	10,400	-	-	<b>11,800</b>	10,400
Interest cost on liabilities	<b>(14,700)</b>	(11,600)	<b>(1,800)</b>	(1,500)	<b>(16,500)</b>	(13,100)
Actuarial gains/(losses)	<b>(3,500)</b>	(35,100)	<b>(4,500)</b>	(5,079)	<b>(8,000)</b>	(40,179)
<b>Deficit at end of year</b>	<b>(112,000)</b>	(104,100)	<b>(39,300)</b>	(33,900)	<b>(151,300)</b>	(138,000)

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		2005/06	
	£000's	%	£000's	%	£000's	%	£000's	%
Differences between the expected and actual return on assets	(41,900)	(36.4)	20,000	13.9	7,100	4.3	<b>31,700</b>	<b>15.0</b>
Differences between actuarial assumptions about liabilities and actual experience	(17,300)	(9.4)	0	0.0	(800)	(0.3)	<b>(1,000)</b>	<b>(0.3)</b>
Changes in the demographic and financial assumptions used to estimate liabilities	-	-	-	-	(41,400)	(15.3)	<b>(34,200)</b>	<b>(10.5)</b>
<b>Total</b>	<b>(59,200)</b>		<b>20,000</b>		<b>(35,100)</b>		<b>(3,500)</b>	

### Fire-Fighters' Pension Scheme

	2002/03		2003/04		2004/05		2005/06	
	£000's	%	£000's	%	£000's	%	£000's	%
Experience gains/(losses) on liabilities arising from pension and salary increases	200	0.7	(5)	(0.0)	(481)	(1.4)	<b>200</b>	0.5
Other experience gains/(losses) on liabilities	(507)	(1.9)	0	0.0	0	0.0	<b>(1,500)</b>	(3.8)
Changes in the demographic assumptions underlying the present value of the scheme liabilities	-	-	-	-	(4,598)	(13.6)	<b>(3,200)</b>	(8.1)
<b>Total</b>	<b>(307)</b>		<b>(5)</b>		<b>(5,079)</b>		<b>(4,500)</b>	

## 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 2(c) to the Explanatory Foreword.
- 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 is reviewed and updated on an annual basis.

**ISLE OF WIGHT COUNCIL PENSION FUND**

**Fund Account for year ended 31 March 2006**

	2005-06	2004-05
	£	£
<b>Contributions and Benefits</b>		
Contributions receivable:		
From Employers	10,244,456	7,324,110
From Employees or Members	3,382,898	3,168,419
Transfers in	3,188,023	1,918,068
Other Income	38,303	20,086
	<hr/>	<hr/>
	<b>16,853,680</b>	12,430,683
 Benefits Payable		
Pensions	9,030,758	8,615,321
Lump Sums (including retirement & death benefits)	1,847,324	1,639,682
 Payments to and on account of leavers:		
Refunds of contributions	30,722	38,696
Transfers out	1,646,516	1,578,502
Administrative and other expenses	332,202	335,055
	<hr/>	<hr/>
	<b>12,887,522</b>	12,207,256
 Sub total – Net additions from dealings with members	<hr/>	<hr/>
	<b>3,966,158</b>	223,427
 <b>Returns on Investments</b>		
Investment income (see analysis below)	6,144,956	4,882,455
Change in market value of investments (realised & unrealised)	41,774,882	16,047,256
Investment management expenses	(254,430)	(263,684)
	<hr/>	<hr/>
Sub total – Net returns on investments	<b>47,665,408</b>	20,666,027
 Net increase (decrease) in the fund during the year	<b>51,631,565</b>	20,889,454
Opening Net assets of the scheme	187,307,174	166,417,720
	<hr/>	<hr/>
Closing Net assets of the scheme	<b>238,938,739</b>	187,307,174
 <b>Analysis of Investment Income:</b>		
Fixed Interest	558,621	295,026
Equities	3,880,098	3,073,910
Index Linked	(4,782)	45,042
Unit Trusts - Property	750,052	665,731
- Other	721,073	626,764
Interest	189,368	175,982
Currency Trade Net	50,525	0
	<hr/>	<hr/>
	<b>6,144,955</b>	4,882,455

**ISLE OF WIGHT COUNCIL PENSION FUND**

**Net Assets Statement as at 31 March 2006**

		2005-06	2004-05
	£	£	£
Investments at market value:			
Fixed Interest	14,339,426		7,091,570
Equities	128,529,868		105,821,320
Index Linked	0		1,703,215
Unit Trusts – Property	22,149,702		17,680,306
Unit Trusts – Other	64,026,205		50,351,236
Cash Instrument	(37,945)		50,530
		<b>229,007,256</b>	182,698,177
Cash – Schroder Investment Management		<b>7,665,122</b>	3,084,820
Temporary Advance – Isle of Wight Council		<b>813,603</b>	602,223
Other net assets:			
Debtors - Government	53,655		28,922
- admitted bodies	137,651		102,291
- interest	182,574		107,487
- security sales	99,166		123,948
- dividends	957,822		812,469
- other	154,112		253,117
		<b>1,584,980</b>	1,428,234
Less:			
Creditors - security purchases	(76,172)		(286,411)
- other	(56,050)		(219,869)
		<b>(132,222)</b>	(506,280)
<b>Net Assets</b>		<b>238,938,739</b>	187,307,174

## 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  
 First Wessex Housing Group Ltd formerly Atlantic Housing Group Ltd

At 31 March 2006

	<b>Administering Authority</b>	<b>Scheduled Bodies</b>	<b>Admitted Bodies</b>	<b>Total</b>
Number of Contributors	4,487	168	128	<b>4,783</b>
Contributing	£3,072,916	£144,839	£165,143	<b>£3,382,898</b>
Pensions paid	£9,561,335	£413,004	£896,760	<b>£10,871,099</b>

#### **Membership Analysis**

<b>Status</b>	<b>Numbers at 31 March</b>	<b>2005</b>	<b>2006</b>
Actives		4,570	4,783
Frozen Refunds		883	670
Deferred		1,970	2,374
Pensioners		1,951	2,047
Widows/Dependants		422	433
<b>Total Membership</b>		<b>9,796</b>	<b>10,307</b>

The number of employees in the scheme increased by 213 (4.7%) to 4,783

New Starters	833
Leavers	<u>(662)</u>
	171
Records Deleted Through Amalgamation	<u>42</u>
Total Increase	<u>213</u>

The number of pensioners being paid increased by 96 (4%) to 2,469

The number of early retirements through redundancy or for reason of efficiency or employers discretion was 37 (42 in the previous year).



The number of ill health retirements was 9 (15 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 Note 7)

During 2005-06, 629 purchases and 820 sales of investments took place following broad guidelines accepted by an investment panel which comprised Councillors Miss Humby, Mrs Wood, West, Price, Fitzgerald-Bond, Mosdell, Brown, and the Assistant Chief Executive/Chief Financial Officer.

The cost of purchases amounted to £55,848,196 and the net proceeds received from the sales totalled £51,223,983. The Fund's managing agents for the period were Schroder Investment Management (UK) Ltd.

At 31 March 2006 the number of individual holdings was as follows:

UK Equities	53
Overseas Securities	123
UK Government Securities	8
Non UK Government Securities	1
International Bond	1
Unit Trusts	8
Property Unit Trusts	2
Cash Instruments	2
	198

Net new money coming into the Fund in 2005-06, that is to say the surplus of contributions and investment income over benefit payments and expenses, amounted to £9,856,684 compared to £4,842,198 in 2004-05.

The net assets of the fund at 31 March 2006 totalled £238,938,739, an increase of 27.56 % on the 2004-05 valuation of £187,307,174

Provided below is a list of the 10 largest investments at 31 March 2006 including the percentage of the total market value.

<b>Stock</b>	<b>Value</b>	<b>%</b>
Schroder Global Series Trust Schroder N. America Equity Fund	26,690,484	11.65
Schroder Exempt Property Units GBP10	18,846,587	8.23
Schroder Unit Trusts Ltd All Maturities Corporate Bond Fund 'X' Acc	12,300,118	5.37
Schroder Instl Pacific Fund 'I' Income Units	8,877,496	3.88
BP PLC Ordinary USD0.25	6,344,483	2.77
GlaxoSmithkline PLC Ordinary 25p	6,230,971	2.72
Schroder Instl Developing Markets Fund 'A' Units	6,107,081	2.67
Vodafone Group PLC Ordinary USD0.10 (UK Listing)	5,307,991	2.32
HSBC Holdings PLC Ordinary USD0.50 (London)	5,275,848	2.30
Royal Dutch Shell PLC 'B' Shares EUR0.07 (UK Listing)	4,866,751	2.12

Analysis of market value under the management of Schroder Investment Management (UK) Ltd at 31 March 2006:-

	<b>UK £</b>	<b>Foreign £</b>	<b>Total £</b>
Listed	133,173,385	77,025,229	210,198,614
Unlisted	18,808,642	0	18,808,642
<b>Total</b>	<b>151,982,027</b>	<b>77,025,229</b>	<b>229,007,256</b>

Analysis of Market value at 31 March 2006 by Industrial Sector see Appendix A.

	<b>31 March 2006</b>	<b>31 March 2005</b>	<b>% Change</b>
FT Actuaries – All Share Index	<b>3047.96</b>	2457.73	+24.00
FT Actuaries – World (ex- UK) Index	<b>268.12</b>	210.88	+27.14

## 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 2006 they were as named in Note 1 above.

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

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

2005-06 saw further improved equity performance. The net assets of the fund at 31<sup>st</sup> March 2006 were £238,938,739 an increase of 27.56% on the 31<sup>st</sup> March 2005 valuation of £187,307,174.

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

Financial market returns were generally very positive throughout 2005, while for the beginning of 2006 global economic growth figures have also exceeded expectations. High energy costs were a key global negative throughout most of the period, but they brought massive windfall profits to oil, gas and related sectors. Investors were to some extent surprised at the ability of non-energy companies to absorb the higher costs. Consumer inflation rose, but nowhere close to levels threatening monetary stability. US interest rates were pushed steadily higher in a plan to 'normalise' liquidity rather than as a response to energy prices. Slower growth, especially in corporate profits, was ultimately more important in eroding US equity returns, with high consumer indebtedness a special concern.

Towards the end of the period positive surprises were broadly based, with strong activity in the US, Japan and emerging economies. Forward looking indicators for Europe also improved. Despite this strength, inflation remained under control. Led by Europe ex-UK, equities outperformed bonds.

Driven by a combination of consumer spending and companies rebuilding inventories, the US economy

recovered strongly from the slowdown at the end of 2005. The buoyant Chinese economy provided a fillip to the Asian region. The Japanese economy additionally benefited from a revival in consumer sentiment as the job market improved.

US equities were positive, returning 24.2% over the period in sterling terms. Japanese equities returns were strongly positive, returning 48.1% for the year. Pacific Basin markets were positive, returning 33.8%. The UK market returned 28.0% and Europe 35.5%.

UK bond yields, which had fallen throughout 2005, started to rise in the first quarter of 2006. Short-dated gilts had benefited at the start of the period as interest rate expectations were reduced, although the biggest climb in yields occurred in the range due to the changing consensus on interest rate expectations after Bank of England rate cuts failed to materialise. In long-dated bonds, demand continues to be strong from pension funds and other investors seeking the predictability of long-term assets. This pension fund demand was the principal reason for the inversion of the UK curve during 2005.

The total return for property was 20.9% for the 12 months to March. The value of UK investment transactions totalled just under £6bn in the first two months of 2006 – a strong start to the year, but below the £8bn recorded the same period a year earlier: However, it should be noted that 2005 was a record year for property investment with nearly £60bn transacted (source: Property Data).

#### Fund Performance

The fund slightly underperformed the benchmark in the 12 months, with a return of 25.5% compared to the benchmark return of 26.1%. In three years, the Fund returned 21.1% p.a. against the 21.0% p.a. benchmark return.

#### Investment Activity

During the first half of 2005 we reduced Europe ex UK and Japanese equities as both markets depend on exports and we felt they were likely to suffer from a US slowdown. We felt that global markets faced greater risk than they had in the past and the US Federal Reserve had stated that it saw inflation as a major risk for the US economy. We therefore maintained the an underweight position in equities and bonds in favour of cash. We preferred conventional government bonds to corporate bonds where tight yield spreads and a higher volatility environment meant that there was scope for underperformance.

During the second half of the year, we maintained a slightly cautious stance in equities overall and overweight cash. Within equities we preferred the US market due to its defensive characteristics. We trimmed Japanese and Emerging Market equities following their strong performance. Both markets benefited from large inflows by foreign investors in 2005 and there are signs that sentiment may be turning, leaving the markets vulnerable.

With the stronger growth profile leading to slightly higher interest rates and (possibly) inflation than had been previously expected, the outlook for bonds is not as encouraging. As such, we increased our underweight position in bonds, moving the proceeds to cash. This applied mainly to overseas bonds as interest rates were being tightened in all the major areas outside the UK (due to the stronger growth).

#### Outlook and Policy

We expect the full impact of increased energy costs and higher US interest rates to be felt in 2006, resulting in a slowdown in global growth to between 3% and 3.5%. Japan's recovery is expected to remain on track. The Eurozone may manage a weak recovery while the UK will continue to struggle with fragile consumer demand and falling government expenditure. As a result, we have maintained a slightly cautious stance in equities overall. We remain neutral on bonds and overweight cash.

Within equities, we prefer the US market due to its defensive characteristics and have increased holdings over the quarter. We remain positive on Emerging Market equities as a result of reduced structural and political risk, increased domestic demand, low interest rates and ongoing structural investment.

We expect confidence to be restored in bond markets in the coming year. We prefer government to corporate bonds, and favour conventional issues over index-linked. Weaker consumer and government spending should help re-start interest rate cuts at the Bank of England, boosting yields on sterling bonds. We reinvested part of our cash in UK government bonds after the recent increase in yields.

## Asset Allocation

	<b>Portfolio 31.3.05 %</b>	<b>Portfolio 31.3.06 %</b>	<b>Benchmark 31.3.05 %</b>
<b>Equities Total</b>	<b>74.8</b>	<b>75.3</b>	<b>75.0</b>
UK	45.7	42.9	45.0
North America	7.4	11.2	10.0
Europe ex UK	9.9	11.2	10.0
Japan	5.2	3.4	4.0
Pacific ex Japan	3.9	3.7	4.0
Emerging Markets	2.7	2.9	2.0
<b>Other Assets Total</b>	<b>25.2</b>	<b>24.7</b>	<b>25.0</b>
UK Gilts	3.8	6.1	4.0
UK Corporate Bonds	7.2	5.2	8.0
Overseas Bonds	1.7	0.5	2.5
UK Index Linked Bonds	0.9	0.0	2.5
Cash	2.1	3.6	0.0
Property	9.5	9.3	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.)

Global equity markets performed well during the year to end March 2006, supported by strong corporate results and merger activity, particularly in the UK and Europe.

In the UK, the 'All Share' index rose by 28%; by the end of the period, the FTSE 100 index had just regained the 6,000 level for the first time in five years. The best performing sectors were Industrials and Basic Materials; +54.2% and +48.9% respectively. The poorest performing sectors were Telecommunications, +1.4%, and Consumer Services, +16.5%.

In overseas markets, Japanese and European (ex UK) equities advanced by 50.1% and 34.7%, respectively, in local currencies; North America advanced by a more modest 13.9%. Emerging markets achieved the strongest returns, rising by 62.1% in local currencies over the period.

In bond markets, ten year benchmark yields fell in all major financial centres during the early part of the period. In the UK, demand from pension funds and insurers, and the actions of certain hedge funds, drove yields on ultra long-dated fixed interest and index-linked gilts to record lows in mid January 2006. Although this sharp downward spike was a UK phenomenon, it did, nevertheless, coincide with the low point in bond yields globally. Since that January low point, yields have risen strongly, reflecting concerns over inflationary pressures arising, in the main, from the sharp rise in energy and metal prices.

This more recent rise in bond yields, over a period when equities also rose, has delivered a welcome improvement in pension scheme funding levels.

In the US, short term interest rates were increased, in eight stages, from 2.75% to 4.75%. The Central Bank has now indicated that the current cycle of rate increases is close to an end but also stated that further tightening may be required, depending on market developments. Consequently, most observers forecast one further rate rise, to 5%. Short-term interest rates were also raised in the Euro zone but on a more modest scale, from 2% to 2.5%. In contrast, the Bank of England implemented one reduction in August 2005, from 4.75% to 4.5%. Perhaps of greater significance, the Japanese Central Bank announced the end of its policy of zero short-term interest rates, on continuing signs of economic recovery and evidence that deflationary pressures have, at last, been overcome.

In the March 2006 Budget, the Chancellor forecast UK economic growth of between 2.0% and 2.5% for this year and between 2.75% and 3.25% in 2007 and 2008. The obvious threat to these forecasts is the combined impact of higher commodity prices and the higher interest rate environment. Against this background, it will be interesting to see how equity markets perform in the months ahead.

## 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 XIV of the Income and Corporation Taxes Act 1988.

Income arising from deposits or investments held for the purpose of the scheme is exempt from tax. This exemption no longer entitles the pension fund to repayment of tax paid on UK dividends.

## 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 .
- 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 2006
- 6.4 Additional Voluntary Contributions (AVCs) are separately invested for the benefit of individual members. To comply with the Pension SORP and Regulation 5 (2) (b) of the Local Government Pension Scheme (Management and Investment Funds) Regulations 1998, AVC's are accounted for and disclosed separately from the net assets statement and fund account of the pension fund see 10.5 for details. AVC assets and returns on these assets are based on figures supplied by both the Prudential Life and Pensions and the Nationwide Building Society. Annual amounts invested are deducted from employee's salary on an accruals basis.
- 6.5 Administration costs of £586,632 (2004-05 £598,739) have been charged directly to the Fund in 2005-06. Of this, investment management fees were £254,430 (2004-05 £263,684) and Isle of Wight Council administration costs were £332,202 (2004-05 £335,055).

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

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

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

- 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 2004

- 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 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 £95,200	Plus £99,400	Plus £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 £67,200	Plus £70,200	Plus £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%

- 7.3 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.

- 7.4 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

	<b>March 2004 Unsmoothed</b>	
	<b>% p.a. Nominal</b>	<b>%p.a. Real</b>
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

8 Statement of Investment Principles of the Isle of Wight Council Pension Fund:- see appendix B

9 Funding Strategy Statement of the Isle of Wight Council Pension Fund :- see appendix C

10. Notes to the Accounts

10.1 Capital Commitments: - There were no capital commitments as at 31 March 2006.

10.2 Contingencies: - There were no contingencies as at 31 March 2006.

10.3 Net Assets Statement:- There were no events subsequent to the Net Assets Statement at 31 March 2006 which would have a material effect on the Net Assets Statement as at that date.

10.4 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 £534,918 of surplus cash invested with the Isle of Wight Council. The Pension Fund received £24,155 as interest on this investment.

10.5 Additional Voluntary Contributions (AVCs) are separately invested for the benefit of individual members.

Money purchase assets are allocated to provide benefits to individuals on whose behalf the contributions were paid, and in total £1,127,729 was invested on this basis at 31<sup>st</sup> March 2006; these 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 2005-06 AVC's of £123,263 were separately invested with Prudential Life and Pensions. Of this amount, £5,363 was for the purchase of death in service cover, no value accrues on death cover; this sum is not included in the statement below. AVC's invested with the Nationwide Building Society in 2005-06 amounted to £10,673. During the financial year the investments earned £57,680 interest.

	Nationwide Building Society £	Prudential with Profits £	Prudential Discretionary £	Total £
Opening Value 1.4.05	175,715	860,123	142,004	1,177,842
Purchase of Investments	10,673	105,967	11,932	128,572
Returns on Investments	5,805	48,942	2,933	57,680
Change in Market Value Realised and Unrealised	(51,345)	(170,154)	(14,866)	(236,365)
Closing Value 31.3.06	140,848	844,878	142,003	1,127,729

#### 10.6 Post Balance Sheet Events

The Local Government Pension Scheme (Amendment) Regulations 2006 allows (w.e.f 6<sup>th</sup> April 2006) for an employee to take up to 25% of the capital value of their pension benefits as a lump sum. Any amount taken above the previous lump sum (which equated to 15% of the capital value) is achieved by exchanging part of the employee's annual pension for a one off tax-free cash payment at a rate of £12 lump sum for each £1 of pension given up.



**APPENDIX A**

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

	<b>UK</b> £000's	<b>USA &amp; CANADA</b> £000'S	<b>JAPAN</b> £000'S	<b>EUROPE</b> £000'S	<b>FAR EAST (Exc Japan)</b> £000's	<b>EMERGING MARKETS</b> £000'S	<b>TOTAL</b> £000'S
Mining	3,506	0	0	0	0	0	3,506
Oil and Gas	15,847	0	0	1,588	0	0	17,435
Oil Equipment	715	0	0	485	0	0	1,200
Chemicals	1,673	0	192	1,547	0	0	3,412
Construction & Building Materials	1,029	0	88	341	0	0	1,458
Metals & Other Materials	0	0	101	0	0	0	101
Aerospace & Defence	1,835	0	0	0	0	0	1,835
Electronic & Electrical Equipment	0	0	896	2,183	0	0	3,079
Engineering & Machinery	0	0	328	521	0	0	849
Automobiles	0	0	875	548	0	0	1,423
Beverages	2,381	0	0	139	0	0	2,520
Pharmaceuticals & Biotechnology	8,957	0	532	2,104	0	0	11,593
Tobacco/Food	6,693	0	0	1,458	0	0	8,151
Retailers, General	1,195	0	319	393	0	0	1,907
Leisure & Hotels	3,771	0	0	0	0	0	3,771
Media & Entertainment	5,149	0	0	563	0	0	5,712
Glass & Ceramics	0	0	163	0	0	0	163
Support Services	2,156	0	0	95	0	0	2,251
Transport	2,961	0	475	510	0	0	3,946
Food & Drug Retailers	2,926	0	0	110	0	0	3,036
Telecommunications	7,127	0	0	1,583	0	0	8,710
Electricity	0	0	0	824	0	0	824
Utilities - Other	1,655	0	34	1,024	0	0	2,713
Banks	16,794	0	998	6,090	0	0	23,882
Investment Companies	1,462	0	0	0	0	0	1,462
Life Assurance	3,632	0	0	1,136	0	0	4,768
Real Estate	1,055	0	191	0	0	0	1,246
IT Software & Computer Services	674	0	0	236	0	0	910
Unit Trusts	6,871	26,690	463	741	8,877	6,927	50,569
Household Goods	0	0	0	929	0	0	929
Insurance	724	0	319	910	0	0	1,953
Miscellaneous Financial	1,286	0	175	319	0	0	1,780
Paper & Pulp	0	0	75	169	0	0	244
Rubber Goods	0	0	204	0	0	0	204
Precision Machinery	0	0	495	0	0	0	495
Communications	0	0	373	0	0	0	373
Wholesale	0	0	374	0	0	0	374
Securities	0	0	315	0	0	0	315
Fixed interest - UK Govt	14,339	0	0	0	0	0	14,339
Fixed interest - Non UK Govt UT	12,300	0	0	0	0	0	12,300
Cash Instrument	(38)	0	0	0	0	0	(38)
Property Unit Trusts	22,150	0	0	0	0	0	22,150
Fixed Interest - Other	1,157	0	0	0	0	0	1,157
	<b>151,982</b>	<b>26,690</b>	<b>7,985</b>	<b>26,546</b>	<b>8,877</b>	<b>6,927</b>	<b>229,007</b>

## 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

### 1. Main Longer Term Actuarial Assumptions as at 31<sup>st</sup> March 2004

		Nominal % per annum	Real Return % per annum
RPI Inflation		2.9	-
Increases in pay (excl. increments)		4.4	1.5
Investment returns*	- equities	6.7	3.8
	- bonds	4.9	2.0

\* net of investment expenses

### 2. Liability Mix at 31<sup>st</sup> March 2004

	Liability £M	% of Total Liabilities	% of Fund
Employee members	94.0	40	57
Deferred pensioners	27.0	12	16
Pensioners	112.8	48	67
Total Liabilities	233.8	100	140
Deficit	(67.2)	(40)	(40)
Total fund (at actuarial value)	166.6	60	100

### 3. 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.

### 4. 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 last review took place on 29<sup>th</sup> 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.