

CONTENTS

Explanatory Foreword	2
Statement of Accounting Policies	3
Consolidated Revenue Account	5
Collection Fund	12
Consolidated Balance Sheet	14
Cash Flow Statement	26
Statement of Movements in Reserves	28
Pension Fund	30
Statement of Responsibilities for the Statement of Accounts	44
Statement on the System of Internal Financial Control	45

EXPLANATORY FOREWORD

The Council's Accounts for 2002-03 are set out on pages 3 to 46.

This foreword provides a brief description of the financial events affecting the Council in 2002-03 and the Council's financial position generally.

Budget

A summarised comparison of actual income and expenditure with the original budget for 2002-03 is set out below:

	Original Budget £'000s	Actual £'000s	Difference £'000s
Gross expenditure	212,338	221,466	9,128
Income	78,192	90,791	(12,599)
Net Operating Expenditure	134,146	130,675	(3,471)
Less: Revenue Support Grant	(48,409)	(48,409)	0
Non-Domestic Rates	(39,822)	(39,822)	0
Council Tax	(45,306)	(45,306)	0
Net balance before appropriations	609	(2,862)	(3,471)
Net appropriations & adjustments	(609)	3,270	3,879
Change in General Fund Balance	0	408	408
Balance brought forward	(1,825)	(2,485)	(660)
Balance carried forward	(1,825)	(2,077)	(252)

Note

The Council originally set a net revenue budget of £133,536,712 for 2002-03 (including parish precepts) and this necessitated a 13.25% Council Tax increase. The estimated balance on the General Fund at year-end was £1,825,200.

The estimate was revised to £133,954,384 due to additional expenditure arising from increased housing benefit demand, the underwriting of rent for Enterprise House and expenditure in excess of budget on the Pop Festival. These overspends were partly offset by restructuring savings and waste management costs being lower than those budgeted. This required a withdrawal from the General Fund of £417,672 and the estimated balance on the General Fund at year-end was revised to £2,067,699.

At the end of the year the actual net expenditure totalled £133,944,986 and this resulted in a withdrawal of £408,274 from the General Fund. The General Fund balance at 31st March 2003 is £2,077,097.

Capital

The Council budgeted to spend £29.4 million on capital projects in 2002-03, in line with estimated resources. Final capital expenditure amounted to £25.9 million, (including Single Regeneration Budget expenditure). It has been possible on this occasion to carry forward to 2003/04 sufficient resources to finance the resulting slippage.

STATEMENT OF ACCOUNTING POLICIES

1. General

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 (SSAPs) to Local Authorities.

2. Fixed Assets

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

Fixed assets are recorded in the accounts at the lower of current replacement cost or realisable value in existing use, with the exception of certain community assets which are included at a nominal valuation and infrastructure assets which are valued at historical cost. Assets are revalued on a rolling five year programme. Current Asset values used in the accounts are based upon the certification by the Property Services Manager as at 31 March 2003.

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

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

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

3. Basis of Charges for Capital

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

4. Capital Receipts

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

5. Grants

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

6. Deferred Charges

Expenditure is generally financed and written off in the year in which it is incurred. Deferred Charges relating to the funding of the costs of local government reorganisation by the application of Supplementary Credit Approval (SCA) are charged to revenue account over a period of seven years commencing four years from the application of each SCA.

7. Debtors and Creditors

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

8. Stocks and Work in Progress

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

9. Support Service Costs

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

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

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

10. Provisions

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

11. Reserves

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

12. Pensions

Following an actuarial valuation of the Pensions Fund as at 31 March 2001, the Council's contribution to the Fund was increased from 9.5% to 10.5% with effect from 1 April 2002, to 12% with effect from 1 April 2003 and to 14% with effect from 1 April 2004. This takes into account the actuary's view of the Fund's liabilities and assets and various changes in benefits and in the funding of index linking of pensions. The valuation reflected the return to the funding of 100% of liabilities.

Teachers' and fire-fighters' pension liabilities are not covered by the Fund. In the case of teachers, a payment is made to the Department of Education and Skills notional fund, while fire-fighters' pensions are charged directly to revenue.

13. Investments

Investments are shown in the Consolidated Balance Sheet at cost. Pension Fund investments are shown at market value on 31 March 2003. Pension Fund investments held in foreign currencies are shown at market value translated into the equivalent sterling rate ruling at 31 March 2003.

CONSOLIDATED REVENUE ACCOUNT

	2002-03 Gross Expenditure	2002-03 Gross Income	2002-03 Net Expenditure	2001-02 Net Expenditure
	£	£	£	£
Expenditure on Services				
Education Services	82,461,183	16,119,525	66,341,658	66,839,482
Social Services	46,020,257	18,992,336	27,027,921	25,415,801
Cultural, Environmental & Planning Services	36,260,751	13,058,743	23,202,008	19,863,967
Highways, Roads & Transport	10,702,688	3,699,790	7,002,898	6,331,996
Fire Services	5,839,613	51,150	5,788,463	5,646,028
Housing Services (including Benefits)	41,290,500	37,295,749	3,994,751	3,886,007
Court Services	718,950	0	718,950	668,396
Central Services	3,017,448	2,725,080	292,368	417,123
Corporate & Democratic Core	3,278,430	16,713	3,261,717	3,417,359
Unapportionable Central Overheads	709,411	0	709,411	489,922
Net Cost of General Fund Services	230,299,231	91,959,086	138,340,145	132,976,081
Housing Revenue Account (note 18)	0	0	0	(76,095)
Net Cost of Services	230,299,231	91,959,086	138,340,145	132,899,986
Amounts due to precepting authorities			543,712	456,861
Transfer to Provisions & Reserves in lieu of interest (note 1)			794,386	867,978
Transfer from asset management revenue a/c (note 8)			(7,626,145)	(7,284,797)
Interest receivable			(1,377,116)	(1,500,485)
Net Operating Expenditure			130,674,982	125,439,543
Appropriations and Other Adjustments				
HRA surplus transferred to HRA balances (note 18)			0	76,095
Contributions to reserves (note 2)			2,885,499	2,556,656
Financing of Capital Expenditure			384,505	0
Loss on Council Tax Subsidy (note 19)			0	56,305
Amount to be met from government grants and local taxpayers			133,944,986	128,128,599
Sources of Finance				
Council Taxpayers			(45,305,815)	(39,840,803)
Central Government Grants			(48,408,529)	(52,344,294)
Non-Domestic rate income			(39,822,368)	(36,067,968)
Net general fund (Surplus)/deficit			408,274	(124,466)
Balance on general fund brought forward			(2,485,371)	(2,360,905)
Balance on general fund carried forward			(2,077,097)	(2,485,371)

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. Transfer to and from Reserves

These transfers include unspent budgets in 2002-03 which are committed against 2003-2004 and unspent budgets in 2001-02 which were applied in 2002-03.

3. Section 137 Expenditure

The Local Government Act 2000 amended the provisions of Section 137 of the Local Government Act 1972. Actual expenditure in 2002/03 amounted to £4,510 and was in respect of a contribution to RELATE. (£4,400 in 2001/02).

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 2002-03.

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 £586,969 (£553,581 in 2001-02).

6. Local Authority Goods and Services Act 1970

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

	2002-03	2001-02
	£	£
Provision of Administrative, Professional and Technical Services	72,195	75,006
Hire	430	568
Works Relating to Land and Buildings	1,388	1,909
	74,013	77,483

The services were provided to the Riverside Centre, South Wight Housing Association, Isle of Wight Youth Trust, the Probation Service, Parish Councils, Magistrates Court, Citizens Advice Bureau, Real World Trust, Victim Support, Local Government Association and bodies connected with Coastal Management.

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 2002-03

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
	2002-03	2002-03	2002-03
	£	£	£
Expenditure			
Employee expenses	225,726	58,457	284,183
Premises	3,363	0	3,363
Transport	13,754	3,879	17,633
Supplies and Services	27,886	5,352	33,238
Central and support service charges	86,840	45,902	132,742
	<hr/>	<hr/>	<hr/>
Total Expenditure	357,569	113,590	471,159
	<hr/>	<hr/>	<hr/>
Income			
Building Regulation charges	404,103	0	404,103
Miscellaneous income	0	4,116	4,116
	<hr/>	<hr/>	<hr/>
Total Income	404,103	4,116	408,219
	<hr/>	<hr/>	<hr/>
Surplus/(Deficit) for Year	46,534	(109,474)	(62,940)

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 2003 is transferred to the Consolidated Revenue Account.

	£
Expenditure	
Provision for Depreciation	4,363,326
Less: Excess over Minimum Revenue Provision	(1,915,262)
External Interest	6,012,373
	<hr/>
	8,460,437
Income	
Capital Charges to Services	(16,086,582)
	<hr/>
Excess of capital charges over MRP & interest	(7,626,145)
	<hr/>

9. Government Grants

Central Government and European Community revenue grants towards specific services were received during the year totalling £64,173,236. These are included as income offsetting service expenditure in the revenue account. The total includes a grant of £15,904 awarded by the Home Office in respect of the Partnership Development Fund.

10. Operating Leases

Operating lease payments totalling £443,719 were made during the year. As at 31 March 2003 future commitments on these leases amounted to £443,719 repayable within one year and £2,514,018 repayable thereafter.

11. Associated Companies

The Council has interest in ten associated companies. Their net assets individually or jointly are not material to the accounts in 2002-03. The accounts of these companies have therefore not been consolidated into the financial statements of the Council.

Islecare 97 Ltd runs and manages residential homes and properties. It is a company limited by shares in which the Council has a 19% holding. The net assets of the company are not material to the Council. The company is not influenced or regulated. Further information can be obtained from the registered office, Aracia House, Swingbridge, Bathpool, Taunton, TA2 8BY.

Island 2000 Ltd coordinates and runs projects which preserve and enhance the landscape of the Island by utilising Landfill Tax credits. It is a company limited by guarantee in which the Council holds 33% 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. Over 33% 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 Island Partnership advises the Council on economic matters. It is a company limited by guarantee in which the Council has 25% voting rights. It is not an influenced company or regulated. Further information can be obtained from the registered office:- Enterprise House, Monks Brook, St Cross Business Park, 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 50% 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.

Associated Companies (cont)

The Tourism Partnership Ltd provides an advisory service to the Council and the Southern Tourist Board. It is a company limited by guarantee in which the Council controls 50% of the voting rights. It is an influenced regulated company. 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.

Sure Start (Ryde) Ltd was incorporated on 10th October 2001 and 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. It is an influenced company not regulated. Further information can be obtained from the registered office:- 152 High Street, Ryde, Isle of Wight, PO33 2HT.

12. Pension Costs - Local Government Pension Scheme

This defined benefit statutory scheme covers non-uniformed, non-teaching council employees. The Fund is administered by the Isle of Wight Council in accordance with the Local Government Pension Scheme Regulations 1997 as amended. It is funded to cover 100% of pension liabilities on an actuarial basis. The latest formal valuation for funding purposes was as at 31 March 2001, with the next formal valuation due as at 31 March 2004. Basic fund contributions were:

	2002-03	2001-02
	£	£
Basic Contributions	3,982,927	3,327,519
(as a % of pensionable pay)	10.50	9.50
The capital cost of discretionary increases in pension payments are:	£	£
(a) approved in the year	879,976	502,169
(b) in earlier years for which payments are still being made	9,586,421	9,045,833

In accordance with Financial Reporting Standard No.17 – Retirement Benefits (FRS17) the Council is required to disclose certain information concerning assets, liabilities, income and expenditure related to pension schemes for its employees. Disclosures relating to assets and liabilities are shown in Note 44 to the Consolidated Balance Sheet.

13. Pension Costs - Teachers

The Teachers' scheme is operated by the Department for Education on the basis of a 'notional fund'. Contributions were as follows:

	2002-03	2001-02
	£	£
Basic Contribution	2,728,193	2,303,779
(as a % of pensionable pay)	8.35	7.40
Enhanced years payments	305,552	302,902

14. Pension Costs - Fire-fighters

This scheme operates on an unfunded, or 'pay-as-you-go' basis. Pension costs are set out below, together with an estimate of the full annual cost of funding the liabilities involved, and the cost of spreading the accrued unfunded liability over 40 years, as required by SSAP 24.

	2002-03	2001-02
	£	£
Charged to Revenue Account	907,486	1,011,344
(as a % of pensionable pay)	55.55	64.24
Full cost (per annum)	449,236	432,965
(as a % of pensionable pay)	27.50	27.50
Accrued liability spread over 40 years (per annum)	792,268	838,627
(as a % of pensionable pay)	48.50	53.27

15. Disclosure of Employees' Emoluments

The number of officers, teachers and other staff whose remuneration, excluding pension contributions, exceeded £40,000 were:-

Remuneration Band	2002-03		2001-02	
	Number of Employees		Number of Employees	
	Total	Left during	Total	Left during
		year		year
£40,000 to £49,999	46	4	49	0
£50,000 to £59,999	17	2	11	3
£60,000 to £69,999	2	0	2	0
£70,000 to £79,999	1	0	2	0
£80,000 to £89,999	2	1	1	0
£90,000 to £99,999	0	0	1	0

16. Members' Allowances

The total amount of members' allowances paid in the year were £416,808 (£385,043 in 2001-02). This includes basic and special responsibility allowances.

17. 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 31st March 2003, all such activities are included in the total cost of the relevant services and are therefore consolidated into the net cost of services. These operations are not considered to be material and therefore no separate disclosure has been made.

18. The Housing Revenue Account (Isle of Wight) Direction 2001

On the 30th March 2001 the Council was granted a direction permitting it to account for Housing Revenue Account properties outside of the Housing Revenue Account with effect from 1st April 2001. The Secretary of State consented to the closure of the Housing Revenue Account with effect from 31st March 2002.

19. Council Tax Benefit Subsidy

This scheme ceased on 31st March 2002.

20. Related Parties Transactions

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

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

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

During the year, transactions with related parties arose as follows:-

	Payments
	£'000s
Environmental Agency Southern Region:-	
Land Drainage Precept	476
Southern Sea Fisheries Precept	59
Osel Enterprises Ltd	344
Riverside Centre Ltd	319
Island Youth Water Activities (IW) Ltd	54
	<hr/>
	1,252
	<hr/>

For elected members and directors, related parties also include:

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

A transaction is deemed to be:

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

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

There are twelve relevant and material disclosures from members and directors. The total value of these disclosures is £452,992. Three members have not responded to requests for information.

THE COLLECTION FUND

	£	2002-03	2001-02
		£	£
Income			
Council Tax (note 22)		42,225,468	36,735,668
Transfers from General Fund:-			
Council Tax Benefits	6,849,575		6,073,471
Contribution re: Discretionary Relief	62,419		66,591
	<hr/>	6,911,994	6,140,062
Income collectable from business ratepayers (note 21)		20,949,829	21,313,087
		<hr/> 70,087,291 <hr/>	<hr/> 64,188,817 <hr/>
Expenditure			
Isle of Wight Council Precept		45,305,815	39,840,803
Police Precept		3,754,082	2,935,860
Business Rate:-			
Payment to National Pool	20,527,462		21,195,401
Costs of Collection	254,766		256,793
	<hr/>	20,782,228	21,452,194
Provision for Bad Debts		279,402	9,923
Adjustment of previous years' community charge		(141)	(416)
		<hr/> 70,121,386 <hr/>	<hr/> 64,238,364 <hr/>
Collection Fund Balance at 31st March		2002-03	2001-02
		£	£
Balance on Fund at start of year		(59,548)	(109,095)
Deficit for Year		34,095	49,547
Balance on Fund Carried Forward		<hr/> (25,453) <hr/>	<hr/> (59,548) <hr/>

NOTES TO THE COLLECTION FUND

21. The total non-domestic rateable value at 31 March 2003 was £54,959,978 and the non-domestic rate multiplier for the year was 43.7p.

22. The following details the number of properties in each valuation band of the tax base for 2002-03:-

A	B	C	D	E	F	G	H
6,501	13,111	13,574	10,810	5,791	2,501	1,197	74

These equated to 50,238.6 Band D equivalent properties and after making a 0.8% allowance for non-collection and changes in the valuation list, a tax base of 49,836.7 was approved.

23. The following precepts were made on the fund in 2002-03:-

	£
Isle of Wight Council	45,305,815
Police	3,754,082
Total	<u>49,059,897</u>

CONSOLIDATED BALANCE SHEET

31 March 2002		31 March 2003
£		£
	Net Fixed Assets (note 24)	
172,213,148	Land and Buildings	186,913,442
33,930,744	Infrastructure	44,886,055
7,373,053	Vehicles, Plant, Furniture & Equipment	10,816,020
2,949,605	Community Assets	3,213,961
<hr/> 216,466,550		<hr/> 245,829,478
1,037,439	Deferred Charges (note 24)	746,296
46,536	Investments (note 27)	30,581
966,726	Long Term Debtors (note 25)	687,835
<hr/> 218,517,251	Total Long Term Assets	<hr/> 247,294,190
	Current Assets	
751,081	Stock & Work in Progress (note 26)	706,712
7,633,136	Debtors & Payments in Advance (note 28)	12,059,923
25,100,000	Temporary Advances (note 30)	27,420,000
1,588,819	Cash in bank and in hand	934,701
<hr/> 35,073,036		<hr/> 41,121,336
	Current Liabilities	
14,962,929	Creditors & Receipts in Advance (note 29)	19,124,037
628,601	External Borrowing repayable within one year (note 31)	2,038,130
3,769,047	Bank Overdraft	5,087,536
<hr/> 19,360,577		<hr/> 26,249,703
<hr/> 15,712,459	Net Current Assets/(Liabilities)	<hr/> 14,871,633
	Long Term Liabilities	
96,496,508	External Borrowing repayable in more than one year (note 31)	107,495,525
240,748	Deferred Credits (note 36)	116,320
7,039,996	Provisions (note 34)	6,638,411
<hr/> 103,777,252		<hr/> 114,250,256
<hr/> 130,452,458	Total Net Assets	<hr/> 147,915,567
	Financed By	
16,352,942	Earmarked Reserves (note 35)	19,669,226
77,056,360	Fixed Asset Restatement Reserve (note 37)	88,141,792
34,027,230	Capital Financing Reserve (note 38)	37,783,167
73,147	Capital Receipts Unapplied (note 32)	0
397,860	Capital Grants Unapplied (note 33)	218,832
2,485,371	General Fund Balance	2,077,097
59,548	Surplus on Collection Fund	25,453
<hr/> 130,452,458	Total Reserves	<hr/> 147,915,567

NOTES TO THE CONSOLIDATED BALANCE SHEET

24. Fixed Assets

Movement in fixed assets were as follows:

	Land and Buildings £	Infrastructure £	Vehicles Plant Furniture & Equipment £	Community Assets £	Total £
Balance at 1 April	172,213,148	33,930,745	7,373,053	2,949,605	216,466,551
Expenditure in year	8,530,548	12,299,668	1,732,346	81,310	22,643,872
Depreciation	(2,540,574)	(1,344,358)	(455,989)	(25,456)	(4,366,377)
Disposals	(683,000)	0	0	0	(683,000)
Revalued in year	9,393,320	0	2,166,610	208,502	11,768,432
Balance at 31 March	186,913,442	44,886,055	10,816,020	3,213,961	245,829,478

The main items of capital expenditure were:-

	£
Road Improvements	9,336,519
Ventnor Harbour SRB/Coast Protection	1,652,449
Kitbridge Middle School Phase 1 Extension	726,117
Acquisition of Newport FC Training Pitch	703,270
Watergate School – Development for Reorganisation	529,443
Castle Haven – Detailed Design Studies	493,689
Newport Phase 2/St Mary's CCTV Scheme	379,774
Foreland Middle School – Improve Circulation	378,762
Medina House – Adaptations for Reorganisation	337,453
Somerton Middle School – Remodel Practical Accommodation	308,739

In addition, major contracts had been entered into with the following outstanding sums at 31 March 2003:-

	£
Respite Care Centre	1,211,903
Watergate School – Extensions & Alteration	1,054,878
Ryde Bowls Club – New Clubhouse	471,198
Construction of Ventnor Haven	249,920

Deferred Charges

During the financial years 1994-95 and 1995-96 a total of £2,022,794 was charged to capital account in respect of revenue costs associated with Local Government Reorganisation. This was financed by the application of Supplementary Credit Approvals (SCAs) issued by the Department of the Environment. Under regulations relating to local government reorganisation the deferred charges will be charged to the Revenue Account over a period of seven years, commencing four years from the application of each SCA. The first charge to revenue was made in the 1998-99 financial year in respect of SCA applied in 1994-95.

Movement in Deferred Charges

	Balance at 1 April £	Expenditure in year £	Written out in year £	Balance at 31 March £
Improvement Grants	0	1,013,670	(1,013,670)	0
Housing Association Grant	0	776,836	(776,836)	0
Reorganisation Costs	1,037,439	0	(291,143)	746,296
Single Regeneration Budgets	0	1,084,524	(1,084,524)	0
Other Expenditure	0	458,878	(458,878)	0
Total	<u>1,037,439</u>	<u>3,333,908</u>	<u>(3,625,051)</u>	<u>746,296</u>

Capital Expenditure in 2002-03 was financed as follows:-

	£
Credit Approvals	16,222,820
Capital Receipts	1,089,656
Government Grant	6,378,044
Capital Slippage Reserve	712,696
Revenue	384,505
Accrued Expenditure unfinanced	1,190,059
Total	<u>25,977,780</u>

Information on Fixed Assets

An analysis of fixed assets at 31 March is:

	2003	2002
Libraries	11	11
Museums	4	4
Tourist Information Centres	3	4
Allotment sites	21	21
Park areas & amenity sites	209	210
Theatres	2	2
Shanklin Lift	1	1
Leisure Centres	2	2
Schools *	69	69
with a - sports centre	3	3
- theatre	1	1
- swimming pool	1	1
Other Educational properties	19	20
Fire Stations	10	10
Crematorium	1	1
Courts	1	1
Cemeteries	12	12
Guildhall	1	1
Waste Derived Fuel Plant	1	1
Refuse Disposal Sites	2	2
Toilet Blocks	81	81
Car Parks	78	78
Harbours	2	2
Residential Homes for the Elderly	4	4
Resource Centres for the Elderly	2	2
Group Homes	7	7
Family Centre	1	1
Day/Community Centres	12	12
Other Social Services Properties	18	20
Hostels	1	1
Highways Depots and Other Premises	10	10
Chain Ferry and Terminals	1	1
Industrial Estates	8	8
Council Dwellings	5	5
Garage Sites	2	3
County Hall	1	1
Other Office Premises	21	22
Other Premises & Land Sites	34	37
Vehicles and Major Plant - owned	98	85
- leased	123	109
Roads and Bridges (Km)	797.3	797.3
Cycleways (km)	36.3	36.3
Coastal Defences (km)	41	41

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

25. 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 2003 the balance amounted to £687,835.

26. Stocks and Work-in-Progress

	31 March 2003	31 March 2002
	£	£
Works-in-Progress	127,785	122,028
Stocks	578,927	629,053
	<hr/>	<hr/>
Balance at end of year	706,712	751,081
	<hr/>	<hr/>

27. Investments

These comprise £15,724 in Government and other stocks (2001-02 £15,930) and an equity holding of £14,857 in the former Wiltshire County Council based Consortium for Purchasing and Distribution (CPD), of which the Council is a member. Wiltshire County Council sold their interest in November 1995 to CPD Ltd which is a private sector company. Under the terms of the sale, the equity holding is being repaid by instalments over a seven year period commencing in April 1999.

28. Debtors and Payments in Advance

	31 March 2003	31 March 2002
	£	£
Government Departments	4,369,536	1,463,499
Local Taxpayers	2,479,974	1,726,991
Other Organisations and Individuals	7,201,504	6,024,101
	<hr/>	<hr/>
	14,051,014	9,214,591
less Provision for Bad Debts	(1,991,091)	(1,581,455)
	<hr/>	<hr/>
Balance at end of year	12,059,923	7,633,136
	<hr/>	<hr/>

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

29. Creditors and Receipts in Advance

	31 March 2003	31 March 2002
	£	£
Government Departments	5,361,279	3,363,531
Local Taxpayers	1,109,717	1,374,786
Other Organisations & Individuals	12,653,041	10,224,612
	<hr/>	<hr/>
Balance at end of year	19,124,037	14,962,929
	<hr/>	<hr/>

30. Temporary Advances

This involves the temporary investment of surplus cash flows and internal funds in accordance with the Council's Treasury Management Strategy. At 31st March 2003 £18,800,000 was invested with banks, £8,600,000 with Building Societies and £20,000 with another Local Authority.

31. External Borrowing

	31 March 2003	31 March 2002
	£	£
Repayable in 1-2 years	1,003	1,500,983
Repayable in 2-5 years	3,189,080	1,189,005
Repayable in 5-10 years	10,005,437	8,005,576
Repayable in more than 10 years	94,300,005	85,800,944
	<hr/>	<hr/>
Repayable in more than one year	107,495,525	96,496,508
Repayable within one year	2,038,130	628,601
	<hr/>	<hr/>
Total External Borrowing	109,533,655	97,125,109
	<hr/>	<hr/>
Of which, Public Works Loan Board (PWLB)	97,994,844	85,495,666

32. 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.

	31 March 2003	31 March 2002
	£	£
Balance at beginning of year	73,147	737,521
Sale of Capital Assets	1,025,184	1,120,064
	<hr/>	<hr/>
	1,098,331	1,857,585
Less: Applied to capital	(1,098,331)	(1,784,438)
	<hr/>	<hr/>
Balance at end of year	0	73,147
	<hr/>	<hr/>

33. Capital Grants

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

	31 March 2003 £	31 March 2002 £
Balance at beginning of year	397,860	2,479,016
Capital Grants Received	6,199,016	4,917,223
	6,596,876	7,396,239
Less: Applied to Capital	(6,378,044)	(6,998,379)
Balance at end of year	218,832	397,860

34. Provisions

	Balance 1 April £	Receipts £	Payments £	Balance 31 March £
Insurance Liabilities Fund	6,421,871	371,029	551,354	6,241,546
Redundancy Fund	380,357	0	380,357	0
Holiday Pay Provision	94,592	3,900	98,492	0
Magistrates' Court Liabilities	15,000	0	15,000	0
Claims Against Highways Authority	34,734	0	34,734	0
Waste Management Contract Claims	93,442	189,931	0	283,373
Section 117 Mental Health Act	0	113,492	0	113,492
Total	7,039,996	678,352	1,079,937	6,638,411

35. Earmarked Reserves

	Balance 1 April £	Contributions £	Payments £	Balance 31 March £
Capital Slippage Reserve	1,688,937	1,070,000	712,696	2,046,241
Repairs & Renewals Funds	3,039,120	680,602	1,392,039	2,327,683
General Earmarked Reserves	2,386,306	2,643,946	1,828,734	3,201,518
School Delegated Balances	2,295,495	1,040,525	629,966	2,706,054
General Insurance Reserves	3,288,101	1,160,694	431,053	4,017,742
Other Reserves	3,654,983	3,618,110	1,903,105	5,369,988
Total	16,352,942	10,213,877	6,897,593	19,669,226

The Capital Slippage Reserve provides a source of finance for capital projects in future years. In particular, it allows financing resources associated with delayed projects to be carried forward until the related expenditure is incurred.

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

General Earmarked Reserves provide finance for past underspendings which represent a commitment against future years' budgets.

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

The General Insurance Reserves provide the means to take additional categories of insurance risk in-house in the future and to meet various contingencies.

36. Deferred Credits

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

37. Fixed Asset Restatement Reserve

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

38. Capital Financing Reserve

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

	31 March 2003	31 March 2002
	£	£
Balance at beginning of year	34,027,230	29,360,582
Minimum Revenue Provision Adjustment	(1,918,312)	(1,873,940)
Financing of Deferred Charges	(3,625,051)	(3,522,372)
Set Aside Receipts	725,724	825,911
Useable Receipts Applied	1,098,331	1,784,438
Capital Grants Applied	6,378,044	6,998,379
Revenue Contribution	384,505	0
Capital Slippage Reserve Applied	712,696	0
Depreciation adjustment	0	454,232
Balance at end of year	37,783,167	34,027,230

39. Provision for Credit Liabilities (Memorandum Account)

The Local Government and Housing Act 1989 requires that the Council set aside annually a specified minimum sum (Minimum Revenue Provision) from Revenue Account to a Provision for Credit Liabilities (PCL). The PCL can be used for the repayment of external loan debt or in lieu of any use of Credit Approvals.

	£
Balance as at 1 April 2002	3,248,590
Minimum Revenue Provision	2,448,064
Housing Association Grant	716,421
Other Capital Receipts	9,303
	<hr/>
	6,422,378
Applied in Year	0
	<hr/>
Balance as at 31 March 2003	6,422,378
	<hr/>

40. Government Grants

Capital Grants of £6,378,044 relating to capital investment have been credited to the Capital Financing Reserve. These principally relate to Education, Single Regeneration Budget and Millennium Commission Schemes.

41. Trust Funds and Other Balances

The Council holds a number of small 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.

	31 March 2003 £	31 March 2002 £
Trust Funds Etc	44,908	117,957
Cash in Safekeeping	6,075	6,075
Amenity Funds	89,409	71,239
	<hr/>	<hr/>
Total	140,392	195,271
	<hr/>	<hr/>

42. 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.

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.

The Council could face significant costs in respect of claims in respect of charges made before 1st April 2000 under Section 117 of the Mental Health Act, which could exceed the provision made.

There are outstanding legal cases with a potential total liability of up to £200,000.

The Council is the guarantor of rent for a building currently operated by the Isle of Wight Partnership.

44. Pension Assets and Liabilities

In accordance with Financial Reporting Standard No.17 - Retirement Benefits (FRS17) the Council is required to disclose certain information concerning assets, liabilities, income and expenditure related to pension schemes for its employees. As explained in Note 12 of the Statement of Accounting Policies, the Council participates in three formal schemes. The Local Government Pension Scheme Fund is administered by the Council, but the teachers' and fire-fighters' pension liabilities are not covered by this Fund. The incorporation of FRS 17 requirements for Local Authorities is being phased in over the next three financial years and the disclosure for the Local Government Pension Scheme Fund meets the transitional requirements.

Liabilities have been assessed on the actuarial basis using the projected unit method, which assesses the future liabilities of the fund discounted to their present value. The last actuarial valuation of the Isle of Wight Pension Fund was completed as at 31 March 2001 and this has been updated to 31 March 2003 by Hymans Robertson, an independent firm of actuaries. The main assumptions used in their calculations are:

Assumptions as at 31 March:-	2003	2002
Price increases	2.5%	2.8%
Salary increases	4.0%	4.3%
Pension increases	2.5%	2.8%
Discount rate	6.1%	6.4%

Assets are valued at fair value, principally market value for investments, and consist of the following categories:

Assets (Employer)

	2002-03			2001-02		
	Long Term Return % per annum	Fund Value at 31 March 2003 £000's	Expected Return £000's per annum	Long Term Return % per annum	Fund Value at 31 March 2002 £000's	Expected Return £000's per annum
Equities	8.0%	84,900	6,792	7.5%	137,405	10,305
Bonds	4.8%	15,300	734	5.5%	26,337	1,449
Property	6.0%	13,300	798	6.0%	0	0
Cash	4.0%	1,600	64	4.0%	6,378	254
Total		115,100	8,388		170,120	12,008

Net Pension Liability at 31 March:-	2003 £000's	2002 £000's
Estimated Employer Assets	115,000	148,942
Present Value of Scheme Liabilities	184,200	168,479
Total Value of Unfunded Liabilities	12,900	-
Total Value of Liabilities	197,100	168,479
Net Pension Liability	(82,100)	(19,537)

If the net pension liability position reported above persists, this will in due course raise the long-term cost of pensions.

Pension Assets and Liabilities (cont)

Movement in Deficit During the Year

	Year to 31 March 2003 £000's
Deficit at beginning of the year	(19,600)
Current Service Cost	(4,900)
Employer contributions	4,000
Past service costs	(500)
Impact of settlements and curtailments	(1,600)
Net return on assets	(300)
Actuarial losses	(59,100)
Deficit at end of year	(82,100)

History of Experience Gains and Losses

	Year to 31 March 2003 £000's
Difference between the expected and actual return on assets	(41,900)
Value of assets	115,000
Percentage of assets	(36.4%)
Experience losses on liabilities	(17,200)
Present value of liabilities	184,200
Percentage of the present value of liabilities	(9.3%)
Actuarial losses recognised in STRGL	(59,100)
Present value of liabilities	184,200
Percentage of the present value of liabilities	(32.1%)

The Council is not required to record information related to the Teachers' Scheme as the liability for payment of pensions rest ultimately with Central Government. This disclosure does not meet the requirements of FRS 17 for the fire-fighters' pension liabilities.

CASH FLOW STATEMENT FOR YEAR ENDED 31 MARCH 2003

	2002-03	2001-02
	£	£
Revenue Activities		
<u>Cash Outflows</u>		
Cash paid to and on behalf of employees	93,886,058	86,987,773
Other operating cash payments	117,374,218	107,512,960
	211,260,276	194,500,733
<u>Cash Inflows</u>		
Rents	(576,761)	(673,096)
Council Tax Income	(42,608,274)	(37,029,913)
Non-Domestic Rate Income	(40,349,109)	(36,067,968)
Revenue Support Grant	(48,408,529)	(52,344,294)
Other Government Grants (note 48)	(64,458,555)	(47,956,379)
Cash Received for Goods and Services	(25,692,071)	(24,686,390)
Revenue Activities Cash Flow (note 46)	(10,833,023)	(4,257,307)
Servicing of Finance		
Interest paid	5,998,389	5,269,313
Interest Received	(1,387,822)	(1,500,485)
	(6,222,456)	(488,479)
Capital Activities		
<u>Cash Outflows</u>		
Purchases of Fixed Assets	21,550,612	16,143,633
Other Capitalised Expenditure	3,333,908	3,231,231
<u>Cash Inflows</u>		
Sale of Fixed Assets	(1,025,184)	(1,144,878)
Capital Grants Received	(6,199,016)	(4,917,223)
	(7,224,200)	(6,062,101)
	17,660,320	13,312,763
Net Cash (Inflow)/Outflow Before Financing	11,437,864	12,824,284
Financing		
Repayments of Amounts Borrowed & Temporary Advances	0	799
New Loans Raised	(12,500,000)	(10,000,000)
	(12,500,000)	(9,999,201)
(Increase)/Reduction in cash and cash equivalents (note 47)	(1,062,136)	2,825,083

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 46 and 47.

Note 46

	2002-03 £	2001-02 £
General Fund movement as per Consolidated Revenue Account	408,274	(124,466)
Increase/(reduction) in Stock and Work in Progress	(44,369)	119,021
Increase/(reduction) in Debtors	4,426,787	(1,295,901)
(Increase)/reduction in Creditors	(4,161,108)	740,371
Transfers to/(from) Reserves & other non-cash transactions	(7,052,040)	72,496
Interest Payments	(5,998,389)	(5,269,313)
Interest Receipts	1,387,822	1,500,485
Revenue Activities Net Cash Flow	<u>(11,033,023)</u>	<u>(4,257,307)</u>

Note 47

	2002-03 £	2001-02 £
Consolidated Balance Sheet Movements		
(Increase)/Reduction in Bank Overdrawn	(1,318,489)	(1,219,906)
Increase/(Reduction) in Cash in Hand	(654,118)	690,777
(Increase)/Reduction in Short Term Loans	(1,409,529)	(45,788)
Increase/(Reduction) in Bank Advances	2,320,000	3,400,000
(Increase)/Reduction in Cash and Cash Equivalents	<u>(1,062,136)</u>	<u>2,825,083</u>

Note 48

	2002-03	2001-02
Analysis of Government Grants		
Department for Education & Skills	15,540,063	7,756,601
Department of Health	7,712,056	2,619,061
Home Office	82,294	96,092
Department of Works and Pensions	35,507,960	33,497,894
Department for Transport	232,780	-
Office of Deputy Prime Minister	4,552,476	-
Dept of Environment Transport and Regions	-	3,178,556
Other (including European Grants)	830,926	808,175
	<u>64,458,555</u>	<u>47,956,379</u>

STATEMENT OF TOTAL MOVEMENTS ON RESERVES

	2002-03	2001-02
	£	£
Surplus/(deficit) for the year:		
General Fund	(408,274)	124,466
Housing Revenue Account	0	76,095
add back Movements on specific revenue reserves	3,282,189	2,944,973
Total Increase/(decrease) in revenue resources	2,873,915	3,145,534
Increase/(decrease) in usable capital receipts	(73,147)	(737,521)
Increase/(decrease) in unapplied capital grants & contributions	(179,028)	(2,081,156)
Total Increase/(decrease) in realised capital resources (note 1)	(252,175)	(2,818,677)
Gains/(losses) on revaluation of fixed assets	11,768,432	10,173,889
Impairment losses on fixed assets due to general changes in prices	0	0
Total Increase/(decrease) in unrealised value of fixed assets (note 2)	11,768,432	10,173,889
Value of assets sold, disposed of or decommissioned (note 3)	(683,000)	(570,750)
Capital receipts set aside	1,824,055	2,683,496
Revenue resources set aside	(821,111)	(1,419,708)
Movement on Government Grants Deferred	2,752,993	3,476,007
Total Increase/(decrease) in amounts set aside to finance capital investment (note 4)	3,755,937	4,739,795
Total recognised gains & losses	17,463,109	14,669,791

Notes to the Statement of Total Movements on Reserves

	Usable capital Receipts	Unapplied Capital grants & Contributions
	£	£
1. Movements in realised capital resources		
Amounts receivable in 2002/03	1,025,184	6,199,016
Amounts applied to finance new capital investment in 2002/03	(1,098,331)	(6,378,044)
Total increase/(decrease) in realised capital resources in 2002/03	(73,147)	(179,028)
Balance brought forward at 1 April 2002	73,147	397,860
Balance carried forward at 31 March 2003 (see notes 32 & 33)	0	218,832

	Fixed asset restatement reserve £
2. Movements in unrealised value of fixed assets	
Gains/losses on revaluation of fixed assets in 2002/03	11,768,432
Impairment losses on fixed assets due to general changes in prices in 2002/03	0
	<hr/>
Total increase/(decrease) in unrealised capital resources in 2002/03	11,768,432
3. Value of assets sold, disposed of or decommissioned	
Amounts written off fixed asset balances for disposals in 2002/03	(683,000)
	<hr/>
Total movement on reserve in 2002/03	11,085,432
Balance brought forward at 1 April 2002	77,056,360
	<hr/>
Balance carried forward at 31 March 2003 (see note 37)	88,141,792
	<hr/>
	Capital Financing Reserve £
4. Movements in amounts set aside to finance capital investment	
Capital receipts set aside in 2002/03:	
- reserved receipts	725,724
- usable receipts applied	1,098,331
	<hr/>
Total Capital receipts set aside in 2002/03	1,824,055
Revenue resources set aside in 2002/03:	
Capital expenditure financed from revenue	384,505
	<hr/>
Total Revenue resources set aside in 2002/03	384,505
Capital Slippage Reserve Applied	712,696
Grants applied to capital investment in 2002/03	6,378,044
Amounts credited to the asset management revenue account in 2002/03	(1,918,312)
Deferred Charges written down	(3,625,051)
	<hr/>
Movement on Government Grants Deferred	1,547,377
	<hr/>
Total increase/(decrease) in amounts set aside to finance capital investment	3,755,937
Total movement on reserve in 2002/03	3,755,937
Balance brought forward at 1 April 2002	34,027,230
	<hr/>
Balance carried forward at 31 March 2003 (see note 38)	37,783,167
	<hr/>

ISLE OF WIGHT COUNCIL PENSION FUND

Fund Account for year ended 31 March 2003

	2002-03	2001-02
	£	£
Contributions and Benefits		
Contributions receivable:		
From Employers	(4,534,630)	(3,833,371)
From Employees or Members	(2,571,015)	(2,370,187)
Transfers in	(2,067,260)	(1,229,163)
Other Income	(6,918)	(2,885)
	<hr/>	<hr/>
	(9,179,823)	(7,435,606)
Benefits Payable		
Pensions	7,703,123	7,251,588
Lump Sums (including retirement & death benefits)	1,791,678	1,231,579
Payments to and on account of leavers:-		
Refunds of contributions	43,166	33,129
Transfers out	1,320,984	460,705
Administrative and other expenses	315,225	301,269
	<hr/>	<hr/>
	11,174,176	9,278,270
Sub Total: net withdrawals from dealings with members	<hr/>	<hr/>
	(1,994,353)	(1,842,664)
Returns on Investments		
Investment income (see analysis below)	5,182,306	5,245,321
Change in market value of investments (realised & unrealised)	(40,126,709)	(9,583,566)
Investment management expenses	(217,646)	(285,258)
	<hr/>	<hr/>
Sub total - Net returns on investments	(35,162,049)	(4,623,503)
	<hr/>	<hr/>
Net increase (decrease) in the fund during the year	(37,156,401)	(6,466,167)
Opening Net assets of the scheme	170,119,894	176,586,061
	<hr/>	<hr/>
Closing Net assets of the scheme	132,963,493	170,119,894
Analysis of Investment Income:		
Fixed Interest	333,846	552,995
Equities	3,200,791	3,234,482
Index Linked	61,935	111,070
Unit Trusts - Property	762,146	495,075
- Other	354,772	332,452
Interest	198,168	519,247
Currency Trade	270,648	0
	<hr/>	<hr/>
	5,182,306	5,245,321
	<hr/>	<hr/>

ISLE OF WIGHT COUNCIL PENSION FUND

Net Assets Statement as at 31 March 2003

		2002-03	2001-02
	£	£	£
Investments at market value:			
Fixed Interest	14,562,000		22,666,519
Equities	83,102,979		108,416,763
Index Linked	2,949,000		3,670,562
Unit Trusts – Property	15,187,000		9,881,405
Unit Trusts – Other	14,275,062		19,106,968
		<hr/>	<hr/>
		130,076,041	163,742,217
Cash - Schroder Investment Management		1,756,491	6,253,046
- Isle of Wight Council		282,948	243,264
Other net assets:			
Debtors - Government	30,836		18,757
- admitted bodies	56,980		73,666
- interest	7,777		25,029
- security sales	30,010		691,727
- dividends	750,736		697,069
- other	98,172		80,518
		<hr/>	<hr/>
		974,511	1,586,766
Less:			
Creditors - security purchases	(34,001)		(1,615,553)
- other	(92,497)		(89,846)
		<hr/>	<hr/>
		(126,498)	(1,705,399)
Net Assets		<hr/> 132,963,493 <hr/>	<hr/> 170,119,894 <hr/>

ISLE OF WIGHT COUNCIL PENSION FUND

1. Operation and Membership

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

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

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

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

At 31 March 2003

	Council	Other	Total
Number of Contributors	3,945	271	4,216
Contributing	£2,308,605	£262,410	£2,571,015
Pensions paid	£8,306,581	£1,188,220	£9,494,801

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)

There were 2,181 pensions in payment from the Fund in respect of former employees and their dependants and 1,634 former employees who have entitlement to preserved benefits.

During 2002-03, 1,462 purchases and 1140 sales of investments took place following broad guidelines accepted by an investment panel which comprised Councillors Mrs Lawson, Barry, Bowker, Harris, Mundy, Pearson, Sutton and the Strategic Director for Finance and Information and County Treasurer.

The cost of purchases amounted to £94,494,942 and the net proceeds received from the sales totalled £87,998,291. The Funds managing agents for the period were Schroder Investment Management (UK) Ltd.

At 31 March 2003 the number of individual holdings was as follows:

UK Equities	75
Overseas Securities	450
UK Government Securities	5
Non UK Government Securities	1
Cash Instrument	1
International Bond	1
Unit Trusts	8
Property Unit Trusts	2
Index Linked Gilts	9
	552

Net new money coming into the Fund in 2002-03, that is to say the surplus of contributions and investment income over benefit payments and expenses, amounted to £2,970,307 compared to £3,117,398 in 2001-02.

The net assets of the fund at 31 March 2003 totalled £132,963,493, a reduction of 21.84 % on the 2001-02 valuation of £170,119,894

Provided below is a list of the 10 largest investments at 31 March 2003 including the percentage of the total market value.

Stock	Value	%
Schroder Exempt Property Units GBP10	12,862,561	9.88
Schroder Instl. Corporate Bond Fund (PFPV) Series 11 Accumulation	8,140,998	6.25
Schroder Instl. Pacific Fund Income Units	5,324,574	4.09
BP PLC Ordinary USD0.25	4,460,295	3.42
GlaxoSmithkline PLC Ordinary 25p	4,115,262	3.16
Vodafone Group PLC Ordinary USD0.10 (UK Listing)	4,069,775	3.12
HSBC Holdings PLC Ordinary USD0.50 (London)	3,422,858	2.63
Royal Bank of Scotland Group Ordinary 25p	2,691,241	2.07
Schroder Instl. International Bond (PFPV) Series 2 Accumulation	2,500,121	1.92
Shell Transport & Trading Company Ordinary 25p (Regd)	2,415,151	1.85

Analysis of market value under the management of Schroder Investment Management (UK) Ltd at 31 March 2003:-

	UK £	Foreign £	Total £
Listed	77,487,208	39,817,063	117,304,271
Unlisted	12,770,833	937	12,771,770
Total	90,258,041	39,818,000	130,076,041

Analysis of Market value at 31 March 2003 by Industrial Sector see Appendix A.

	31 March 2003	31 March 2002	% Change
FT Actuaries - All Share Index	1786.58	2557.40	-30.14
FT Actuaries - World (ex-UK) Index	262.12	284.98	-8.02

2. Trustees Report

The Trustees of the Pension Fund are the members for the time being of the Investment Panel as named in Note 1 above.

The Panel adopted a new scheme specific benchmark from 1st July 2002 to replace the WM Local Authority Universe used in the past. The objective set for the Fund's manager, Schroder Investment Management (UK) Limited, is to outperform the benchmark by 1% per annum over rolling three year periods.

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

The 2002-03 financial year saw a further overall reduction in the Fund's value due to continuing difficult investment conditions affecting all pension funds. The net assets of the fund at 31st March 2003 was £132,963,493, a fall of 21.84% on the 31st March 2002 valuation of £170,119,894.

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

The table below shows the performance of the Fund against its benchmark for periods to 31.03.03.

	<i>1 Year</i>	<i>3 Years</i>
	<i>%</i>	<i>% p.a.</i>
Fund	-21.0	-9.8
Benchmark	-20.2	-9.7

The value of the fund was £132.6 million at 31st March 2003.

Asset Allocation

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

	<i>Fund</i>		<i>Benchmark</i>
	<i>31.03.02</i>	<i>31.03.03</i>	<i>31.03.03</i>
	<i>%</i>		<i>%</i>
Equities Total	74.7	73.4	75.0
UK	49.4	43.4	45.0
North America	6.2	7.9	10.0
Europe	10.3	11.3	10.0
Japan	2.8	3.6	4.0
Pacific Basin ex Japan	3.5	4.0	4.0
Emerging Markets	2.5	3.2	2.0
Other Assets Total	25.3	26.6	25.0
UK Bonds	7.3	9.1	12.0
Overseas Bonds	6.0	1.9	2.5
UK Index Linked	2.1	2.2	2.5
Property	5.8	11.5	8.0
Cash	4.1	1.9	0.0
Total	100.0	100.0	100.0

Market Returns

The following table shows the returns in sterling percentage terms of each of the major global markets over 1, 3 and 5 years to 31.03.03.

	<i>1 Year</i>	<i>3 years</i>	<i>5 years</i>
	<i>%p.a.</i>	<i>% p.a.</i>	<i>% p.a.</i>
FTSE All-Share Index	-29.8	-15.4	-6.6
S&P 500 Composite	-32.4	-16.0	-2.9
FTSE W Europe ex UK Index	-34.4	-18.7	-6.6
Tokyo Stock Exchange	-24.5	-25.6	-4.9
FTSE W Pacific ex Japan Index	-26.6	-10.0	-2.4
MSCI Emerging Markets Free Index	-28.4	-16.1	-5.8
FTA Government Securities All Stocks	11.3	6.7	7.1
FTA Government Index-Linked	10.4	4.9	7.0
Local Authority 7-day £ deposit	3.8	4.7	5.2

Returns are in local currency

Source: Thomson Financial Datastream

Market Review

World equity markets fell in the year to March 2003 as the speed and strength of economic recovery from a global synchronised downturn failed to meet expectations. The war in Iraq hit sentiment, with investors worried about the effect on the oil price. The addition of profit warnings and accounting scandals provided the recipe for another disappointing year in equity markets.

At a sector level, defensives such as consumer staples have outperformed. New economy sectors lagged the market early on, though they were at the forefront of a brief rally towards the end of 2002 as investors regained some appetite for risk.

In the face of equity market weakness, global government bonds benefited from their perceived safe haven status for much of the period. They were boosted by a series of softer than expected economic data releases and expectations of interest rate cuts. Indeed, towards the end of 2002 the Federal Reserve cut its target rate to its lowest level for over 40 years at 1.25%, and reductions by the European Central Bank have left European rates at 2.5%. Interest rates have also come down in the UK with the Bank of England's Monetary Policy Committee surprising markets in February with a 0.25% reduction to 3.75%. In many markets government bond yields fell to historic lows.

The US dollar weakened throughout much of the period, amid concerns about the pace of economic recovery and the size of the US current account deficit. The euro traded at a near four-year high towards the end of the period. However, following the cut in UK interest rates, the dollar did recover some of its losses against sterling.

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

Uncertainty, both economic and political, dominated financial markets during the year. Concerns over prospects for global economic growth and corporate profits and war in the Middle East combined to create, at times, a sense of real crisis.

Equities suffered substantial losses over the 12-month period. In the UK, the FTSE All-Share index fell by 29.8%. This was marginally less than overseas (ex UK) equities, which lost 31.3% in Sterling terms. The bear market reached its low point in March 2003, during which time the index of the largest 100 UK companies was 52% below the peak achieved in late December 1999. The forced selling of equities by insurance companies concerned about their solvency margins exacerbated market falls.

UK market volatility was high; in March 2003, the All-Share index fell by 4.3% one day, followed by a 5.2% rise the next.

By contrast, bonds and property enjoyed strongly positive returns as investors sought the relative safety of these asset classes. UK Government Bonds rose by 11.3% during the year (as measured by the FTSE Government All Stocks index); overseas bonds rose by 12.5% in Sterling terms. Property returned 10.6%.

Throughout the period, growth forecasts for the major economic “blocks” were reduced. In both the UK and US, activity in the manufacturing sector was flat, with consumer demand the main economic driver. The Euro-zone moved close to recession. Japan continued to struggle with deflationary pressures, with exports supporting marginally positive economic growth. Short-term interest rates were reduced in the UK, the US and Euro-zone and are now at record lows.

On currency markets the Euro rose strongly against both Sterling and the US\$. This creates particular problems for European exporters, who now find their competitive position significantly compromised. Sterling gained against the US\$ but fell marginally against the Yen.

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 in July 1987 by the Chartered Institute of Public Finance and Accountancy, and with the Statement of Recommended Practice No 1 issued by the Accounting Standards Committee. 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 Note 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 2003.
- 6.4 Additional Voluntary Contributions (AVCs) separately invested for the benefit of individual members are not treated as part of the Scheme’s assets and income, and are not included in the accounts. Members receive details of their investment directly from the Providers.

These 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.

Accounting Policies (cont.)

During 2002-03 AVCs of £124,248 were separately invested with Prudential Life and Pensions. Of this amount, £10,031 was for the purchase of death in service cover. AVC's invested with the Nationwide Building Society in 2002-03 amounted to £51,506 (transferred from outside AVC funds)

6.5 Administration costs of £532,871 (2001-02 £586,527) have been charged directly to the Fund in 2002-03.

7. Actuarial Valuation at 31 March 2001

7.1 The most recent actuarial valuation of the Fund was carried out by Hymans Robertson at 31 March 2001.

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

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

	Required Contribution for the year ending		
	31 March		
	2003	2004	2005
Isle of Wight Council	10.5%	12.0%	14.0%
Isle of Wight College	11.1%	11.8%	12.5%
Yarmouth Harbour Commissioners	12.3%	13.7%	15.0%
Cowes Harbour Commissioners	12.3%	13.7%	15.0%
St Catherines School Ltd	12.3%	13.7%	15.0%
Trustees of Carisbrooke Castle Museum	12.3%	13.7%	15.0%
IW Society for the Blind	12.3%	13.7%	15.0%
Isle of Wight Rural Community Council	12.3%	13.7%	15.0%
South Wight Housing Association Ltd	18.4%	19.6%	20.8%
Medina Housing Association Ltd	13.1%	13.4%	13.7%
The Quarr Group (formerly Island Group 90 Ltd)	10.5%	10.5%	10.5%
Riverside Centre Ltd	11.0%	13.0%	15.0%
Osel Enterprises Ltd	11.0%	13.0%	15.0%
Planet Ice (IOW) Ltd	10.0%	10.0%	10.0%
Island 2000 Trust Ltd	10.0%	10.0%	10.0%
Atlantic Housing Group Ltd	12.0%	12.0%	12.0%

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

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

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

7.4 Summary of Methods and Assumptions Used

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

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

The main long term actuarial assumptions are: -

Financial Assumptions	Mar 2001 % p.a.	Real %p.a.
Investment Return		
Equities	6.75%	3.95%
Bonds	5.75%	2.95%
75%Equities/25% Bonds	6.50%	3.70%
Pay Increases	4.30%	1.50%
Price Inflation/Pension Increases	2.80%	-

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

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

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

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

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

9. Notes to the Accounts

9.1 Capital Commitments: - There were no capital commitments as at 31 March 2003.

9.2 Contingencies: - There were no contingencies as at 31 March 2003.

9.3 Net Assets Statement:- There were no events subsequent to the Net Assets Statement at 31 March 2003 which would have a material effect on the Net Assets Statement as at that date.

9.4 No Members or Chief Officers have disclosed any Related Party Transactions with the Pension Fund.

APPENDIX A

ANALYSIS OF MARKET VALUE AT 31 MARCH 2003 BY INDUSTRIAL SECTOR

	UK £000	USA & CANADA £000	JAPAN £000	EUROPE £000	FAR EAST (Exc Japan) £000	EMERGING MARKETS £000	TOTAL £000
Mining	1,415						1,415
Oil & Gas	7,738	723	160	1706			10,327
Chemicals	840		77	913			1,830
Construction & Building Materials	2,835			334			3,169
Metals & Other Materials		235	130				365
Aerospace & Defence		176		125			301
Electronic & Electrical Equipment		759	874	582			2,215
Engineering & Machinery	703	169	378				1,250
Automobiles		100	409	603			1,112
Beverages	1,450	277					1,727
Pharmaceuticals & Biotechnology	6,143		511	1,577			8,231
Tobacco & Food	2,028	271		1,229			3,528
Retailers – General	2,074	622	68				2,764
Leisure, Entertainment & Hotels	1,056	79					1,135
Media & Entertainment	2,169	396		97			2,662
Glass & Ceramics			22				22
Support Services	738			294			1,032
Transport	2,040	104	258				2,402
Food & Drug Retailers	1,282			237			1,519
Telecommunications	5,593	449	235	1,145			7,422
Electricity	651	247		227			1,125
Utilities - Other	947		68	224			1,239
Banks	10,557	1,341		2,623			14,521
Investment Companies	1,074			169			1,243
Life Assurance	1,524			245			1,769
Real Estate	1,086		24				1,110
IT Hardware	8			533			541
IT Software & Computer Services	187	1,274		84			1,545
Unit Trusts	3,399		369	959	5,325	4,224	14,276
Healthcare		1,679					1,679
Household Goods		273		472			745
Insurance	24	523	216	602			1,365
Miscellaneous Financial		389	58				447
Textiles			129				129
Paper & Pulp			161				161
Rubber Goods			156				156
Miscellaneous Manufacturing			60				60
Services			60				60
Wholesale			230				230
Securities			112				112
Miscellaneous		362		75			437
Fixed Interest – UK Govt	3,921						3,921
Fixed Interest – Non UK Govt	10,641						10,641
Treasury Index Linked	2,329						2,239
Index Linked – Non UK Govt	620						620
Property Unit Trusts	15,187						15,187
Totals	90,259	10,448	4,765	15,055	5,325	4,224	130,076

N.B. Totals may need minor adjustment for rounding.

APPENDIX B

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 14th February 2003.
- 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 31st March 2001 and an asset liability study carried out in March 2002. It is intended that strategy will be 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 (UK) 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.

3.8 **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.

3.9 **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.

3.10 **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.

3.11 **Additional Voluntary Contributions (AVC's)**

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

3.12 **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. This has been previously circulated, but a copy is available on request.

ANNEXES

Main Longer Term Actuarial Assumptions as at 31st March 2001

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

* *net of investment expenses*

2. Liability Mix at 31st March 2001

	Liability £M	% of Total Liabilities	% of Fund
Employee members	78.7	40	41
Deferred pensioners	21.9	11	12
Pensioners	95.9	49	50
Total Liabilities	196.4	100	103
Deficit	5.5	3	3
Total fund (at actuarial value)	190.9	97	100

3. Investment Management Arrangements

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

Asset Class	Benchmark %	Control Ranges %	Index
Equities	75.0	70-80	
UK Equities	45.0	40-50	FTSE All-Share
Overseas Equities	30.0	25-35	Composite
US	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
Other Assets	25	20-30	
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 (UK) 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 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;
- to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- to 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/LASAA Code of Practice on Local Authority Accounting in Great Britain ('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 2003 required by the Accounts and Audit Regulations 1996 is set out on pages 5 to 43.

I further certify that the Statement of Accounts presents fairly the financial position of the Authority at 31 March 2003 and its income and expenditure for the year then ended.

Date.....

Signature.....

PAUL WILKINSON
Chief Financial Officer

THE STATEMENT ON THE SYSTEM OF INTERNAL CONTROL

1. This statement is given in respect of the statement of accounts for the Isle of Wight Council. I acknowledge my responsibility for ensuring that an effective system of internal financial control is maintained and operated in connection with the resources concerned.
2. The system of internal financial control can provide only reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period.
3. The system of internal financial controls is based on a framework of regular management information, financial regulations, administrative procedures (including segregation of duties), management supervision, and a system of delegation and accountability. Development and maintenance of the system is undertaken by managers within the Council. In particular, the system includes:-
 - comprehensive budgeting systems;
 - regular reviews of periodic and annual financial reports which indicate financial performance against the forecasts;
 - setting targets to measure financial and other performance;
 - the preparation of regular financial reports which indicate actual expenditure against the forecasts;
 - clearly-defined capital expenditure guidelines; and
 - as appropriate, formal project management disciplines.
4. Headed by the Chief Internal Auditor, Internal Audit Services forms part of the Risk and Compliance unit within the Corporate Services Department under the direction of the Chief Financial Officer. The service is provided in-house and is guided by a risk based six- year strategic plan. The plan is reviewed and up-dated annually following extensive consultation with senior managers across the authority, the external auditor and an Audit Panel of elected members. The service provides a full range of audit products including risk based audit reviews, compliance inspections and measures to prevent, detect and resolve cases of fraud or other irregularity.

The Internal Audit Service operates to the standards defined by the Institute of Internal Auditors UK. To comply with these standards, audit planning and individual reviews are risk based. The Chief Internal Auditor is empowered to report to any level of management as he sees fit, particularly to the Chief Financial Officer and the Chief Executive Officer. The Chief Internal Auditor also reports on a regular basis to the Audit Panel of elected members.

The reports resulting from individual assignments will be reported to the senior manager responsible for the area subject to review. However, if in the opinion of the Chief Internal Auditor significant matters are discovered during a review, these matters will be reported to the Chief Financial Officer or the Chief Executive Officer depending on the issue. The Chief Internal Auditor reports on a quarterly basis to the Audit Panel on all significant audit work completed in the previous quarter.

The Chief Internal Auditor provides an independent opinion on the adequacy and effectiveness of internal financial control.

5. My review of the effectiveness of the system of internal financial control is informed by:

- the work of managers within the Council;
- the work of the internal auditors as described above;
- the external auditors in their annual letter and other reports.

6. Based on the work undertaken by Internal Audit, the Chief Internal Auditor has reached the opinion that adequate internal controls have been established and are operating satisfactorily.

Date.....

Signature.....

PAUL WILKINSON
Chief Financial Officer