

PAPER B

Purpose : for Decision

REPORT TO COUNCIL

Date : **21 JULY 2004**

Title : **FINAL ACCOUNTS 2003 - 2004**

REPORT OF THE PORTFOLIO HOLDER - RESOURCES

IMPLEMENTATION DATE : 21 July 2004

SUMMARY/PURPOSE

1. This report concerns the final accounts of the Council for the financial year 2003 – 2004. It incorporates a summary of the outturn position for the year on a service by service basis, for both revenue and capital expenditure, and the Statement of Accounts which requires Members approval. The Statement of Accounts incorporates the Statement on Internal Control, also requiring member approval.

BACKGROUND

2. Approval of the Statement of Accounts by Members is required by the Accounts and Audit Regulations 2003. For the 2003-04 Statement of Accounts this must be obtained no later than 31st August 2004. In future years the deadline for approval will move progressively forward to 30th June, and in the light of this tight timescale it might be considered more appropriate for this task to be delegated in future years to a suitable committee rather than full Council. Given the technical nature of the document it can be helpful for officers to be involved in the discussion, and this has certainly been the experience with the interim audit report which last year provoked a lively and useful debate at the Audit Panel.
3. A new requirement in 2003-04 is for a Statement on Internal Control to be incorporated with the Accounts. This Statement, along with supporting documentation included at appendix D, provides a comprehensive summary of the diverse controls in place to minimise risks to the delivery of the Council's objectives.
4. The Chief Financial Officer retains ultimate responsibility for preparation of the Statement of Accounts, and is required to certify that the Statement presents fairly the financial position of the Council. The role of elected Members in the process is to demonstrate ownership of the Statement of Accounts, and confidence in the CFO and the systems which are in place to maintain the accounting records and prepare the Statement of Accounts.
5. The Statement on Internal Control has to be signed by the senior member and senior officer of the Council.

STRATEGIC CONTEXT

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

CONSULTATION

7. The Accounts and Audit Regulations 2003 require the Council's accounts and accounting records to be available for inspection by members of the public for a period of 20 working days. Once the Statement of Accounts has been approved by the Council, an advertisement must be placed in at least one local newspaper advising the public that the accounts will be available for inspection, and advising of the dates, times and places the public can see and copy relevant documents. However there are restrictions on availability of documents, notably those containing personal information are treated as confidential and are not available for inspection.
8. From the point of view of scrutiny of the Statement of Accounts, they will be reviewed by the Audit Panel at the meeting on 29 July 2004.

FINANCIAL IMPLICATIONS

9. Details of the Council's revenue outturn position on a service by service basis are shown at Appendix A. Despite a number of significant spending pressures which arose during the year, net service budgets were underspent by £1,319,300 (0.9%). After setting aside budget carry-overs of £1,410,100 to meet commitments which now fall to be met in 2004-05, including in particular Childrens' Social Services and Tourism Services, the net position for service budgets is a small overspend of £90,800. A cash flow saving of £420,000 on capital financing costs means that appropriations from earmarked reserves are less than planned, and the General Fund at the year end has been maintained at the budgeted £2,077,100.
10. Three service areas are marginally overspent – Community Development, Social Services and Housing, and Building Maintenance. The Council's normal policy would require these services to make equivalent savings in the current financial year. Given the relatively small sums involved, and the favourable overall position, members may wish to waive this requirement on this occasion.
11. Opportunity has been taken to set aside funds to assist in delivering next year's substantial savings target. These will be available to help meet up-front costs required to deliver on-going revenue savings.
12. Appendix B displays summary information and explanations for variances between budget and outturn for the capital budget, and shows how capital expenditure in the year was financed. Despite significant slippage it has been possible to carry forward sufficient resources to meet all of this in the current year.

13. The full Statement of Accounts is attached to this report at appendix C. The audit of the accounts is scheduled to commence during August 2004 and the Audit Commission expect to be able to formally issue their report by 30 November 2004, the statutory date for publication of the audited Statement of Accounts.

LEGAL IMPLICATIONS

14. The Accounts and Audit Regulations 2003 require approval of the Statement of Accounts to be by the Council meeting as a whole, or by a politically proportionate committee with delegated powers to make such a decision.

15. For the accounting period ending on 31 March 2004 the Council must approve the accounts on or before 31 August 2004.

16. Approval of the Statement of Accounts is not an Executive function and can be undertaken either by Full Council or by a committee established for the purpose of approval.

OPTIONS

17.1 To approve the annual Statement of Accounts, incorporating the Statement on Internal Control, as presented

17.2 To seek information and explanations as necessary, suggest/make amendments to the Statement of Accounts, and approve an amended Statement of Accounts

17.3 To waive the requirement on overspent services to make offsetting savings in 2004-05 on this occasion only

17.4 To delegate approval of the Statement of Accounts in future years to the Audit Panel, sitting as a properly constituted Special Accounts Committee with terms of reference "To consider and approve the annual Statement of Accounts".

EVALUATION/RISK MANAGEMENT

18. The Accounts and Audit Regulations 2003 require the Council to prepare in accordance with proper practices a Statement of Accounts for each year, to include specified information. For these purposes, proper practices includes the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice, and other relevant Financial Reporting Standards and Codes of Practice. Compliance with the various Codes of Practice and Financial Reporting Standards is the mechanism for identifying, managing and controlling all risks associated with the Council's Statement of Accounts, and the continued pursuit of optimum financial standards and performance consistent with those risks.

RECOMMENDATIONS

19. The Council is recommended to approve Options 1, 3 and 4.

BACKGROUND PAPERS

20. Accounts and Audit Regulations 2003

CIPFA Code of Practice on Local Authority Accounting in the United Kingdom
CIPFA Guidance on The Statement on Internal Control in Local Government

ADDITIONAL INFORMATION

21. Appendix A – Revenue Outturn Statement 2003-04

Appendix B – Capital Expenditure and Financing 2003-04

Appendix C – Draft Statement of Accounts 2003-04

Appendix D – Statement on Internal Control detailed procedures

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REG BARRY
PORTFOLIO HOLDER FOR
RESOURCES

APPENDIX A

Revenue Outturn 2003/04

Service Area	Revised Estimate £000's	Actual Spend £000's	Carry-overs to 2003/04 £000's	Outturn £000's	Over/(Under) spend £000's
Education	64,439.4	64,355.7	70.0	64,425.7	-13.7
Community Development	4,332.7	4,359.8	0.0	4,359.8	27.1
Human Resources & Training	829.7	826.9	0.0	826.9	-2.8
Policy & Communications	2,202.9	2,052.8	137.2	2,190.0	-12.9
Economic Development	284.1	272.4	0.0	272.4	-11.7
Select Committee & Best Value Support	342.9	342.9	0.0	342.9	0.0
Corporate Services Directorate	211.2	201.4	9.8	211.2	0.0
Legal & Democratic	813.1	755.5	57.6	813.1	0.0
Property Services	27.2	23.2	4.0	27.2	0.0
Planning Services	1,568.1	1,568.1	0.0	1,568.1	0.0
Engineering Services	11,943.7	11,834.6	109.0	11,943.6	-0.1
Finance & Business Services	1,961.5	1,951.4	6.0	1,957.4	-4.1
ICT Services	2,521.9	2,521.9	0.0	2,521.9	0.0
Consumer Protection	1,599.8	1,587.8	12.0	1,599.8	0.0
Tourism Services	1,484.8	1,185.0	299.8	1,484.8	0.0
Wight Leisure	1,953.8	1,951.2	0.0	1,951.2	-2.6
Fire & Rescue Service	5,136.5	5,031.0	105.4	5,136.4	-0.1
Emergency Planning	53.0	46.9	6.1	53.0	0.0
Social Services	31,885.5	31,359.4	445.0	31,804.4	-81.1
Housing Strategy	1,365.9	1,510.0	0.0	1,510.0	144.1
Building Maintenance	1,066.0	1,133.9	0.0	1,133.9	67.9
Precepts	1,680.3	1,661.0	0.0	1,661.0	-19.3
Corporate Accounts	3,568.3	3,420.2	148.2	3,568.4	0.1
	141,272.3	139,953.0	1,410.1	141,363.1	90.8
Capital Financing	8,900.2	8,480.2	0.0	8,480.2	-420.0
Appropriations to/from Reserves	-2,424.5	-2,095.3	0.0	-2,095.3	329.2
Total Expenditure	147,748.0	146,337.9	1,410.1	147,748.0	0.0
Financed from:					
Revenue Support Grant	-56,057.7			-56,057.7	
National Non-domestic Rates	-40,260.5			-40,260.5	
Council Tax	-51,429.8			-51,429.8	
Withdrawal from (+)/contribution to (-) General Fund	0.0			0.0	
Total Financing	-147,748.0			-147,748.0	
Opening General Fund Balance	2,077.1			2,077.1	
Change in year	0.0			0.0	
Closing General Fund Balance	2,077.1			2,077.1	

APPENDIX B

CAPITAL EXPENDITURE & FINANCING 2003-04

<u>SERVICE AREA</u>	<u>OUTTURN</u>	<u>BUDGET</u>	<u>VARIANCE</u>
	£	£	£
Education & Community Development	8,629,320	14,245,776	-5,616,456
Housing , Social Services and Benefits	3,386,358	6,001,995	-2,615,637
Environment & Transport	13,810,744	14,093,617	-282,873
Resources	1,756,927	822,884	934,043
Fire & Public Safety	11,884	80,586	-68,702
Economic Dev. Tourism, Planning and Leisure	1,615,987	1,811,088	-195,101
TOTAL EXPENDITURE	29,211,220	37,055,946	-7,844,726
	£		
FINANCED BY-			
Basic Credit Approval	14,207,000		
Supp. Credit Approvals	3,761,803		
Grants & Contributions	8,376,506		
Capital Receipts	2,473,524		
Accruals	392,387		
TOTAL	29,211,220		

NOTES

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- 1 The principal component of the variance in the Education programme relates to Devolved Budgets held on behalf of schools and to the delay in the commencement and completion of some major schemes arising from the development of the new partnering regime.
- 2 Housing & Social Services slippage relates to the delay in the scheme at Oakfield, and on the implementation of the new IT system development for Social Services.
- 3 The overspend on the Resources budget arises from the Accommodation Review which is self financing over time. The 2003-4 year saw the acquisition of the Somerton building at Cowes at a cost of £704,000.
- 4 The major variance on Leisure Services relates to expenditure yet to be incurred on the proposed Tone Zone scheme at Westridge.
- 5 The Economic Dev., Tourism, Planning and Leisure expenditure includes £1,354,465 in respect of Single Regeneration Budget expenditure.
- 6 An additional £1,093,260 of grants & contributions were used to finance expenditure that had accrued into the 2002-3 financial year.
- 7 Resources have been carried forward to meet all areas of slippage in the capital programme.

GARETH HUGHES
24th June 2004

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EXPLANATORY FOREWORD

The Council's Accounts for 2003-04 are set out on pages 3 to 50.

This foreword provides a brief description of the financial events affecting the Council in 2003-04 and the Council's financial position generally.

Budget

A summarised comparison of actual income and expenditure with the original budget for 2003-04 is set out below:

	Original Budget	Actual	Difference
	£'000s	£'000s	£'000s
Gross expenditure	244,391	253,488	9,097
Income	96,006	101,075	(5,069)
Net Operating Expenditure	148,385	152,413	4,028
Less: Revenue Support Grant	(56,058)	(56,058)	0
Non-Domestic Rates	(40,260)	(40,260)	0
Council Tax	(52,067)	(52,067)	0
Net balance before appropriations	0	4,028	4,028
Net appropriations & adjustments	0	(4,028)	(4,028)
Change in General Fund Balance	0	0	0
Balance brought forward	(2,068)	(2,077)	(9)
Balance carried forward	(2,068)	(2,077)	(9)

Note

The Council originally set a net revenue budget of £148,385,642 for 2003-04 (including parish precepts) and this necessitated a 14.32% Council Tax increase. The estimated balance on the General Fund at year-end was £2,067,700.

At the end of the year the actual net expenditure totalled £148,385,642 and the General Fund balance at 31st March 2004 is £2,077,097.

The actual gross expenditure figure includes retirement benefit adjustments. Equivalent figures were not known at the time of the original budget and were therefore excluded.

Capital

The Council budgeted to spend £37.1 million on capital projects in 2003-04, in line with estimated resources. Final capital expenditure amounted to £29.2 million, (including Single Regeneration Budget expenditure). It has been possible on this occasion to carry forward to 2004/05 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 2004.

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. 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.

The implementation of Financial Reporting Standard No. 17 (FRS17) has implications on the presentation of the financial statements. Further details on these changes are contained within the notes to the Consolidate Revenue Account, the Consolidated Balance Sheet and the Statement of Movement in Reserves.

13. Investments

Investments are shown in the Consolidated Balance Sheet at cost. Pension Fund investments are shown at market value on 31 March 2004. Pension Fund investments held in foreign currencies are shown at market value translated into the equivalent sterling rate ruling at 31 March 2004.

CONSOLIDATED REVENUE ACCOUNT

	2003-04 Gross Expenditure	2003-04 Gross Income	2003-04 Net Expenditure	2002-03 Net Expenditure (note 18)
	£	£	£	£
Expenditure on Services				
Education Services	91,376,814	19,725,831	71,650,983	66,345,064
Social Services	52,943,370	19,089,368	33,854,002	27,265,976
Cultural, Environmental & Planning Services	34,295,631	12,021,794	22,273,837	23,390,200
Highways, Roads & Transport	14,749,323	6,759,097	7,990,226	7,055,103
Fire Services	6,116,333	144,209	5,972,124	5,299,605
Housing Services (including Benefits)	49,727,790	46,085,941	3,641,849	4,022,170
Court Services	649,659	0	649,659	719,841
Central Services	4,633,395	3,537,281	1,096,114	320,614
Corporate & Democratic Core	4,003,840	32,878	3,970,962	3,305,161
Non-Distributed costs	1,655,929	0	1,655,929	2,184,411
Net Cost of Services	260,152,084	107,396,399	152,755,685	139,908,145
Amounts due to precepting authorities			637,642	543,712
Transfer to Provisions & Reserves in lieu of interest (note 1)			801,038	794,386
Transfer from asset management revenue a/c (note 8)			(5,773,734)	(7,626,145)
Interest receivable			(1,307,521)	(1,377,116)
Pension interest cost & expected return on pension assets (note 18)			5,300,000	1,900,000
Net Operating Expenditure			152,413,110	134,142,982
Appropriations and Other Adjustments				
Contributions to reserves (note 2)			1,752,532	2,885,499
Contribution from the Pension reserve (note 18)			(5,780,000)	(3,468,000)
Financing of Capital Expenditure			0	384,505
Amount to be met from government grants and local taxpayers			148,385,642	133,944,986
Sources of Finance				
Council Taxpayers			(52,067,436)	(45,305,815)
Central Government Grants			(56,057,744)	(48,408,529)
Non-Domestic rate income			(40,260,462)	(39,822,368)
Net general fund (Surplus)/deficit			0	408,274
Balance on general fund brought forward			(2,077,097)	(2,485,371)
Balance on general fund carried forward			(2,077,097)	(2,077,097)

Signed
Chief Financial Officer

Date

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 2003-04 which are committed against 2004-2005 and unspent budgets in 2002-03 which were applied in 2003-04.

3. Section 137 Expenditure

The Local Government Act 2000 amended the provisions of Section 137 of the Local Government Act 1972. Actual expenditure in 2003-04 amounted to £4,650 and was in respect of a contribution to RELATE. (£4,510 in 2002-03).

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 2003-04.

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 £500,879 (£586,969 in 2002-03).

6. Local Authority Goods and Services Act 1970

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

	2003-04	2002-03
	£	£
Provision of Administrative, Professional and Technical Services	148,219	72,195
Hire	990	430
Works Relating to Land and Buildings	1,475	1,388
	150,684	74,013

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 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 2003-04

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
	2003-04	2003-04	2003-04
	£	£	£
Expenditure			
Employee expenses	228,207	63,839	292,046
Premises	2,219	151	2,370
Transport	13,160	3,897	17,057
Supplies and Services	42,627	10,306	52,933
Central and support service charges	112,007	53,394	165,401
	<hr/>	<hr/>	<hr/>
Total Expenditure	398,220	131,587	529,807
	<hr/>	<hr/>	<hr/>
Income			
Building Regulation charges	472,342	0	472,342
Miscellaneous income	0	2,822	2,822
	<hr/>	<hr/>	<hr/>
Total Income	472,342	2,822	475,164
	<hr/>	<hr/>	<hr/>
Surplus/(Deficit) for Year	74,122	(128,765)	(54,643)

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 2004 is transferred to the Consolidated Revenue Account.

	£
Expenditure	
Provision for Depreciation	6,095,284
Less: Excess over Minimum Revenue Provision	(2,386,658)
External Interest	6,650,013
	<hr/>
	10,358,639
Income	
Capital Charges to Services	(16,132,373)
	<hr/>
Excess of capital charges over MRP & interest	(5,773,734)
	<hr/>

9. Government Grants

Central Government and European Community revenue grants towards specific services were received during the year totalling £72,555,828. These are included as income offsetting service expenditure in the revenue account.

10. Operating Leases

Operating lease payments totalling £545,937 were made during the year. As at 31 March 2004 future commitments on these leases amounted to £537,448 repayable within one year and £2,396,200 repayable thereafter.

11. Associated Companies

The Council had interest in ten associated companies. Their net assets individually or jointly are not material to the accounts in 2003-04. 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. This holding was disposed of at the end of March 2004.

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 Isle of Wight Economic 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:- 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 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.

The Tourism Partnership Ltd provides an advisory service to the Council. 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.

Associated Companies (cont)

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. Health Act 1999 Section 31 Pooled Funds

Following Government changes to funding which transferred the Registered Nursing Care Contribution (RNCC) budget from the Isle of Wight Council to the Primary Care Trust, a pool budget was formed between the Isle of Wight Council Social Services Directorate (IWCSSD) and the Primary Care Trust to enable a single payment to be made to the Nursing Homes. The following shows the pool income, expenditure and balance at 31st March 2004.

Amounts Received from Partners	%	£
Contribution from IW Council	76.3	4,370,857
Contribution from IW Primary Care Trust	23.7	1,354,000
		<hr/>
Total Income		5,724,857
Amount Spent from Pool	£	
Preserved Rights	287,405	
IWCSSD Funded Island Clients	4,113,418	
IWCSSD Funded Mainland Clients	189,846	
RNCC Island Placed Self Carers	426,182	
RNCC Island Self Funders Placed by Mainland Authorities	47,447	
Continence Products	100,620	
Admin/Assessment	35,868	
	<hr/>	
Total Expenditure		5,200,786
		<hr/>
Amount Remaining in Pool		524,071
To be shared between partners pro rata to contributions made	%	
IW Council	76.3	399,866
IW Primary Care Trust	23.7	124,205
		<hr/>
Total		524,071
		<hr/>

13. Disclosure of Employees' Emoluments

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

Remuneration Band	2003-04		2002-03	
	Number of Employees		Number of Employees	
	Total	Left during year	Total	Left during year
£50,000 to £59,999	20	1	17	2
£60,000 to £69,999	4	0	2	0
£70,000 to £79,999	5	2	1	0
£80,000 to £89,999	0	0	2	1
£90,000 to £99,999	1	0	0	0

14. Members' Allowances

The total amount of members' allowances paid in the year were £438,871 (£416,808 in 2002-03).

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 31st March 2004, 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.

16. Related Parties Transactions

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

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

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

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

	Payments
	£'000s
Environmental Agency Southern Region:-	
Land Drainage Precept	508
Southern Sea Fisheries Precept	61
Osel Enterprises Ltd	360
Riverside Centre Ltd	350
Island Youth Water Activities (IW) Ltd	52
	<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 thirteen relevant and material disclosures from members, directors and senior officers. The total value of these disclosures is £552,519.

17. Audit Costs

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

	2003-04	2002-03
	£	£
Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor	185,350	185,350
Fees payable to the Audit Commission in respect of statutory Inspection	106,100	102,000
Fees payable to the Audit Commission for certification of grant claims and returns	97,184	81,475
Fees payable in respect of other services provided by the appointed auditor	7,020	16,418
	<hr/> 395,654 <hr/>	<hr/> 385,243 <hr/>

The fees for other services payable in both years relate to joint working arrangements and the investigation of queries raised by Local Government electors.

18. Retirement Benefits

The implementation of Financial Reporting Standard No.17 (FRS17) represents a change to accounting policies applied in prior year. Previous policy was to recognise liabilities in relation to retirement benefits only when employer's contributions became payable to the pension fund or payments fell due to the pensioners for which the Council were directly responsible. The new policies better reflect the Council's commitment in the long-term to increase contributions to make up any shortfall in attributable net assets in the pension fund.

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	
	2003-04 £000's	2002-03 £000's	2003-04 £000's	2002-03 £000's
<u>Net cost of services:</u>				
Current Service cost	5,600	4,600	500	400
Non-Distributed cost	500	1,475	-	-
<u>Net Operating Expenditure:</u>				
Interest cost	12,100	10,800	1,600	1,600
Expected return on assets	(8,400)	(10,500)	-	-
<u>To be met from Government Grants and Local Taxation</u>				
Movement on pensions reserve	(4,700)	(2,375)	(1,080)	(1,093)
<u>Actual amount charged against council tax for pensions in the year:</u>				
Employers' contributions payable to the scheme	(5,100)	(4,000)	-	-
Retirement benefits payable to Pensioners	-	-	(1,020)	(907)

In accordance with the 2003 Best Value Code of Practice requirements, the current service cost of retirement benefits identified in accordance with FRS 17 also need to be included in the preceding year comparative figures. The 2002-03 Net Expenditure figures in the Consolidated Revenue Account have therefore been restated to include the allocation of 2002-03 costs.

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

Contributions were as follows:-

	2003-04 £	2002-03 £
Basic Contribution	4,563,427	2,728,193
(as a % of pensionable pay)	13.50	8.35

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.

THE COLLECTION FUND

	£	2003-04 £	2002-03 £
Income			
Council Tax (note 20)		48,762,807	42,225,468
Transfers from General Fund:-			
Council Tax Benefits	8,252,544		6,849,575
Contribution re: Discretionary Relief	60,354		62,419
		8,312,898	6,911,994
Income collectable from business ratepayers (note 19)		21,556,746	20,949,829
		78,632,451	70,087,291
Expenditure			
Isle of Wight Council Precept		52,067,436	45,305,815
Police Precept		4,884,852	3,754,082
Business Rate:-			
Payment to National Pool	21,433,619		20,527,462
Costs of Collection	239,142		254,766
		21,672,761	20,782,228
Provision for Bad Debts		2,727	199,402
Adjustment of previous years' community charge		(374)	(141)
		78,627,402	70,041,386
Collection Fund Balance at 31st March			
		2003-04 £	2002-03 £
Balance on Fund at start of year		(105,453)	(59,548)
(Surplus)/Deficit for Year		(5,049)	(45,905)
Balance on Fund Carried Forward		(110,502)	(105,453)

NOTES TO THE COLLECTION FUND

19. The total non-domestic rateable value at 31 March 2004 was £55,898,348 and the non-domestic rate multiplier for the year was 44.4p.

20. The following details the number of properties in each valuation band of the tax base for 2003-04:-

A	B	C	D	E	F	G	H
6,578	13,130	13,611	10,860	5,884	2,517	1,196	67

These equated to 50,510.9 Band D equivalent properties and after making a 0.8% allowance for non- collection and changes in the valuation list, a tax base of 50,106.8 was approved.

21. The following precepts were made on the fund in 2003-04:-

	£
Isle of Wight Council	52,067,436
Hampshire Police	4,884,852
Total	<hr/> 56,952,288 <hr/>

CONSOLIDATED BALANCE SHEET

31 March 2003 (see notes 32 & 33) £		£	31 March 2004 £
	Net Fixed Assets (note 22)		
186,913,442	Land and Buildings	211,669,833	
44,886,055	Infrastructure	58,986,430	
8,649,410	Vehicles, Plant, Furniture & Equipment	5,563,165	
3,213,961	Community Assets	3,538,450	
243,662,868			279,757,878
746,296	Deferred Charges (note 22)		455,153
30,581	Investments (note 25)		15,394
687,835	Long Term Debtors (note 23)		506,945
245,127,580	Total Long Term Assets		280,735,370
	Current Assets		
709,853	Stock & Work in Progress (note 24)	759,146	
12,451,415	Debtors & Payments in Advance (note 26)	11,271,692	
27,420,000	Temporary Advances (note 28)	40,325,000	
934,701	Cash in bank and in hand	1,441,411	
41,515,969			53,797,249
	Current Liabilities		
19,867,128	Creditors & Receipts in Advance (note 27)	22,498,599	
2,038,130	External Borrowing repayable within one year (note 29)	554,994	
3,745,897	Bank Overdraft	1,545,456	
25,651,155			24,599,049
15,864,814	Net Current Assets/(Liabilities)		29,198,200
	Long Term Liabilities		
107,495,525	External Borrowing repayable in more than one year (note 29)	128,494,522	
141,620	Deferred Credits (note 34)	208,030	
2,721,893	Provisions (note 32)	2,921,296	
108,700,000	Liability related to defined benefit pension schemes (note 42)	94,500,000	
219,059,038			226,123,848
41,933,356	Total Net Assets		83,809,722
	Financed By		
24,473,625	Earmarked Reserves (note 33)	26,913,541	
(108,700,000)	Pensions Reserves (note 42)	(94,500,000)	
85,975,182	Fixed Asset Restatement Reserve (note 35)	102,321,114	
37,783,167	Capital Financing Reserve (note 36)	43,532,974	
0	Capital Receipts Unapplied (note 30)	0	
218,832	Capital Grants Unapplied (note 31)	3,354,494	
2,077,097	General Fund Balance	2,077,097	
105,453	Surplus on Collection Fund	110,502	
41,933,356	Total Reserves		83,809,722

Signed

Chief Financial Officer

Date.....

NOTES TO THE CONSOLIDATED BALANCE SHEET

22. Fixed Assets

Movement in fixed assets were as follows:

	Land and Buildings £	Infrastructure £	Vehicles Plant Furniture & Equipment £	Community Assets £	Total £
Balance at 1 April	186,913,442	44,886,055	8,649,410	3,213,961	243,662,868
Adjustments	(1,785,385)	2,402,957	(3,633,918)	(85,212)	(3,101,558)
Expenditure in year	10,345,814	13,800,594	1,233,558	464,396	25,844,362
Depreciation	(3,274,008)	(2,103,176)	(685,885)	(32,215)	(6,095,284)
Disposals	(3,479,500)	0	0	0	(3,479,500)
Revalued in year	22,949,470	0	0	(22,480)	22,926,990
Balance at 31 March	211,669,833	58,986,430	5,563,165	3,538,450	279,757,878

The main items of capital expenditure were:-

	£
Road Improvements	6,770,241
Seaview Duver Road	3,737,769
Castle Haven – Detailed Design Studies	2,458,424
Respite Care Home	1,236,664
Watergate School – Development for Severe Learning Difficulties facility	1,063,398
Disabled Facilities Grant	705,644
Unit 4 & 5 Mariners Way, Somerton	704,229
Kitbridge Middle School Phase 1 Extension	559,462
Barton Early Excellence Centre	505,401
Ventnor Harbour SRB/Coast Protection	381,428
Medina House Adaptations for Severe Learning Difficulties facility	366,766

In addition, major contracts had been entered into with the following outstanding sums at 31 March 2004:-

	£
Social Services – Client Database System	505,578
Watergate School – Extensions & Alteration	465,650
Kitbridge Middle Phase 1 Extension	124,962

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	985,794	(985,794)	0
Housing Association Grant	0	594,021	(594,021)	0
Reorganisation Costs	746,296	0	(291,143)	455,153
Single Regeneration Budgets	0	1,354,465	(1,354,465)	0
Other Expenditure	0	432,578	(432,578)	0
Total	746,296	3,366,858	(3,658,001)	455,153

Capital Expenditure in 2003-04 was financed as follows:-

	£
Credit Approvals	17,953,943
Capital Receipts	2,473,524
Capital Grants	9,371,543
Accrued Expenditure unfinanced	505,470
Total	30,304,480

The above financing also included £1,093,260 of expenditure accrued into the 2002/03 financial year.

Information on Fixed Assets

An analysis of fixed assets at 31 March is:

		2004		2003
Libraries		11		11
Museums		4		4
Tourist Information Centres		3		3
Allotment sites		21		21
Park areas & amenity sites		209		209
Theatres		2		2
Shanklin Lift		1		1
Leisure Centres		2		2
Schools *		69		69
with a - sports centre		3		3
- theatre		1		1
- swimming pool		1		1
Other Educational properties	19		19	
Fire Stations		10		10
Crematorium		1		1
Courts		1		1
Cemeteries		12		12
Guildhall		1		1
Waste Derived Fuel Plant		1		1
Refuse Disposal Sites		2		2
Toilet Blocks		81		81
Car Parks		78		78
Harbours		2		2
Residential Homes for the Elderly		2		4
Resource Centres for the Elderly		2		2
Group Homes		6		7
Family Centre		1		1
Day/Community Centres		12		12
Other Social Services Properties		18		18
Hostels		1		1
Highways Depots and Other Premises	10		10	
Chain Ferry and Terminals		1		1
Industrial Estates		8		8
Council Dwellings		5		5
Garage Sites		2		2
County Hall		1		1
Other Office Premises		21		21
Other Premises & Land Sites		34		34
Vehicles and Major Plant - owned		112		98
- leased		124		123
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.

23. 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 2004 the balance amounted to £506,945.

24. Stocks and Work-in-Progress

	31 March 2004	31 March 2003
	£	£
Works-in-Progress	60,929	130,926
Stocks	698,217	578,927
	<hr/>	<hr/>
Balance at end of year	759,146	709,853
	<hr/>	<hr/>

25. Investments

These comprise £11,036 in Government and other stocks (2002-03 £15,724) and an equity holding of £4,358 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.

26. Debtors and Payments in Advance

	31 March 2004	31 March 2003
	£	£
Government Departments	2,836,710	4,369,536
Local Taxpayers	1,930,498	2,479,974
Other Organisations and Individuals	8,789,210	8,099,012
	<hr/>	<hr/>
	13,556,418	14,948,522
less Provision for Bad Debts	(2,284,726)	(2,497,107)
	<hr/>	<hr/>
Balance at end of year	11,271,692	12,451,415
	<hr/>	<hr/>

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

27. Creditors and Receipts in Advance

	31 March 2004	31 March 2003
	£	£
Government Departments	5,541,741	5,361,279
Local Taxpayers	718,177	1,109,717
Other Organisations & Individuals	16,238,681	13,396,132
	<hr/>	<hr/>
Balance at end of year	22,498,599	19,867,128
	<hr/>	<hr/>

28. 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 2004 £24,225,000 was invested with Banks and £16,100,000 with Building Societies.

29. External Borrowing

	31 March 2004	31 March 2003
	£	£
Repayable in 1-2 years	1,186,951	1,003
Repayable in 2-5 years	2,003,234	3,189,080
Repayable in 5-10 years	15,005,025	10,005,437
Repayable in more than 10 years	110,299,312	94,300,005
	<hr/>	<hr/>
Repayable in more than one year	128,494,522	107,495,525
Repayable within one year	554,994	2,038,130
	<hr/>	<hr/>
Total External Borrowing	129,049,516	109,533,655
	<hr/>	<hr/>
Of which, Public Works Loan Board (PWLB)	117,494,008	97,994,844

30. 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 2004	31 March 2003
	£	£
Balance at beginning of year	0	73,147
Sale of Capital Assets	2,473,524	1,025,184
	<hr/>	<hr/>
	2,473,524	1,098,331
Less: Applied to capital	(2,473,524)	(1,098,331)
	<hr/>	<hr/>
Balance at end of year	0	0
	<hr/>	<hr/>

31. Capital Grants

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

	31 March 2004 £	31 March 2003 £
Balance at beginning of year	218,832	397,860
Capital Grants Received	12,507,205	6,199,016
	12,726,037	6,596,876
Less: Applied to Capital	(9,371,543)	(6,378,044)
Balance at end of year	3,354,494	218,832

32. Provisions

	Balance 1 April £	Receipts £	Payments £	Balance 31 March £
Insurance Liabilities Fund	2,438,520	97,480	0	2,536,000
Waste Management Contract Claims	283,373	101,923	0	385,296
Total	2,721,893	199,403	0	2,921,296

The Insurance Liabilities Fund represents the potential liabilities identified in an actuarial valuation of outstanding insurance claims. As a result of this valuation, some of the insurance funds that have previously been held as Provisions have been re-designated as Reserves. The brought forward balances have been restated for comparison purposes.

33. Earmarked Reserves

	Balance 1 April £	Contributions £	Payments £	Balance 31 March £
Earmarked Revenue & Capital	4,573,802	2,120,404	2,289,258	4,404,948
Repairs & Renewals Funds	2,878,160	1,039,869	347,527	3,570,502
Earmarked Reserves – Education	1,341,230	931,898	976,230	1,296,898
Earmarked Reserves – Social Services	1,160,784	42,795	916,236	287,343
Earmarked Reserves – Other Services	2,958,083	2,382,068	988,290	4,351,861
School Balances	2,706,054	1,209,365	543,913	3,371,506
Insurance Funds	4,028,954	377,938	506,306	3,900,586
Non-Insurable Risks	4,826,558	903,339	0	5,729,897
Total	24,473,625	9,007,676	6,567,760	26,913,541

As stated above, some insurance funds previously held as Provisions have been re-designated as Reserves. In addition, funds previously held as Work-in-Progress and Creditors have also been re-designated as Reserves and a fund previously held as a Reserve has been re-designated as a Deferred Credit. In each case, the brought forward balance has been restated for comparison purposes.

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 Access replacement computer project and amounts set aside to cover possible repayment of grant received.

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

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

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

A Non-Insurable Risk fund has been set up in recognition that the Council faces a number of risks which 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, this aggregate reserve currently provides for 93% of the total potential liabilities.

34. Deferred Credits

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

35. Fixed Asset Restatement Reserve

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

36. 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 2004	31 March 2003
	£	£
Balance at beginning of year	37,783,167	34,027,230
Minimum Revenue Provision Adjustment	(2,386,658)	(1,918,312)
Financing of Deferred Charges	(3,658,001)	(3,625,051)
Set Aside Receipts	7,696	725,724
Useable Receipts Applied	2,473,524	1,098,331
Capital Grants Applied	9,371,543	6,378,044
Revenue Contribution	0	384,505
Capital Slippage Reserve Applied	0	712,696
Prior year adjustment	(58,297)	0
	<hr/>	<hr/>
Balance at end of year	43,532,974	37,783,167
	<hr/>	<hr/>

37. 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 2003	6,131,235
Minimum Revenue Provision	3,417,483
Other Capital Receipts	7,696
	<hr/>
	9,556,414
Applied in Year	0
	<hr/>
Balance as at 31 March 2004	9,556,414
	<hr/>

38. Government Grants

Capital Grants of £9,371,543 relating to capital investment have been credited to the Capital Financing Reserve. These principally relate to Education and Single Regeneration Budget.

39. Trust Funds and Other Balances

The Council holds a number of trust funds and balances on behalf of others which are not included in the Consolidated Balance Sheet. These include cash held in safekeeping for residents of old peoples' homes and amenities funds set up to provide facilities at particular establishments from the proceeds of fund raising and bequests. During 2003-04 the Brenda James Trust Fund was established with the object of the advancement of music education on the Isle of Wight for the benefit of pupils and young musicians. The balance on this fund at 31st March 2004 was £101,651.

	31 March 2004	31 March 2003
	£	£
Trust Funds Etc	144,441	44,908
Cash in Safekeeping	11,779	6,075
Amenity Funds	85,669	89,409
	<hr/>	<hr/>
Total	241,889	140,392
	<hr/>	<hr/>

40. Euro Costs

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

41. Contingent Liabilities

The Council has indemnified the South Wight Housing Association in respect of the cost of any defects that would have led to a reduction in the transfer valuation of the former South Wight Borough Council housing stock, had a full survey been made on an individual property basis. The potential liability has not been quantified.

There are two judicial reviews currently being undertaken with a potential total liability of £100,000.

42. 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 Council is not required to record information related to the Teachers' Scheme as the liability for payment of pensions rests ultimately with Central Government.

Local Government Pension Scheme

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 2004 by Hymans Robertson, an independent firm of actuaries. The main assumptions used in their calculations are:

Assumptions as at 31 March	2004	2003
Price increases	2.9%	2.5%
Salary increases	4.4%	4.0%
Pension increases	2.9%	2.5%
Discount rate	6.5%	6.1%

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

Assets (Employer)

	Long Term Return at 31 March 2004 per annum	Assets at 31 March 2004 £000's	Long Term Return 31 March 2003 per annum	Assets at 31 March 2003 £000's
Equities	7.7%	111,800	8.0%	84,800
Bonds	5.1%	16,100	4.8%	15,300
Property	6.5%	12,000	6.0%	13,300
Cash	4.0%	3,500	4.0%	1,600
Total	7.2%	143,400	7.3%	115,000

Net Pension Liability at 31 March	2004 £000's	2003 £000's
Estimated Employer Assets	143,400	115,000
Present Value of Scheme Liabilities	196,500	184,200
Total Value of Unfunded Liabilities	13,700	12,900
Total Value of Liabilities	210,200	197,100
Net Pension Liability	(66,800)	(82,100)

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

Movement in Deficit During the Year

	Year to 31 March 2004 £000's	Year to 31 March 2003 £000's
Deficit at beginning of the year	(82,100)	(19,600)
Current Service Cost	(5,600)	(4,900)
Employer contributions	5,100	4,000
Contributions in respect of Unfunded Benefits	1,000	-
Past service costs	(200)	(500)
Impact of settlements and curtailments	(1,300)	(1,600)
Net return on assets	(3,700)	(300)
Actuarial Gains/(Losses)	20,000	(59,200)
Deficit at end of year	(66,800)	(82,100)

History of Experience Gains and Losses

	Year to 31 March 2004 £000's	Year to 31 March 2003 £000's
Difference between the expected and actual return on assets	20,000	(41,900)
Value of assets	143,400	115,000
Percentage of assets	14.0%	(36.4%)
Experience losses on liabilities	-	(17,300)
Present value of liabilities	210,200	184,200
Percentage of the present value of liabilities	-	(9.4%)
Actuarial Gains/(Losses) recognised in STRGL	20,000	(59,200)
Present value of liabilities	210,200	184,200
Percentage of the present value of liabilities	9.5%	(32.1%)

Fire-Fighters' Pension Scheme

Uniformed employees of the Isle of Wight Fire and Rescue Service may participate in the Fire-Fighters' pension Scheme, a defined benefit scheme. The Scheme is financed on a pay-as-you-go basis, with the employer paying emerging benefit expenditure (net of officers' contributions). There are no assets held against the liabilities. 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. An actuarial valuation of the liabilities pertaining to the uniformed employees of the Employer as at 31st March 2004 has been carried out by Hymans Robertson, an independent firm of actuaries.

Assumptions as at 31 March	2004	2003
Price increases	2.9%	2.5%
Salary increases	4.4%	4.0%
Pension increases	2.9%	2.5%
Discount rate	6.5%	6.1%
Net Pension Deficit as at 31 March (£000's)		
Present Value of Scheme Liabilities - Officers	(13,100)	(12,000)
Deferred Pensioners	-	-
Pensioners	(14,600)	(14,600)
Total Value of Scheme Liabilities	(27,700)	(26,600)
Movement in Deficit During the Year		
	Year to 31 March 2004 £000's	Year to 31 March 2003 £000's
Deficit at beginning of the year	(26,600)	(25,200)
Service Cost	(500)	(400)
Employer contributions	1,020	-
Pension and lump sum expenditure	-	907
Transfers in from other authorities	(15)	-
Interest Cost on Liabilities	(1,600)	(1,600)
Actuarial losses	(5)	(307)
Deficit at end of year	(27,700)	(26,600)
History of Experience Gains and Losses		
	Year to 31 March 2004 £000's	Year to 31 March 2003 £000's
Experience gains/(losses) on liabilities arising from pension and salary increases	(5)	200
Present value of liabilities	27,700	26,600
Percentage of the present value of liabilities	0.0%	(0.8%)
Actuarial losses recognised in STRGL	(5)	(307)
Present value of liabilities	27,700	26,600
Percentage of the present value of liabilities	0.0%	1.2%

CASH FLOW STATEMENT FOR YEAR ENDED 31 MARCH 2004

	2003-04	2002-03
	£	£
Revenue Activities		
<u>Cash Outflows</u>		
Cash paid to and on behalf of employees	104,058,862	93,886,058
Other operating cash payments	129,806,427	118,715,857
	<hr/>	<hr/>
	233,865,289	212,601,915
<u>Cash Inflows</u>		
Rents	(607,726)	(576,761)
Council Tax Income	(49,474,151)	(42,608,274)
Non-Domestic Rate Income	(42,761,910)	(40,349,109)
Revenue Support Grant	(56,057,744)	(48,408,529)
Other Government Grants (note 46)	(71,728,776)	(64,458,555)
Cash Received for Goods and Services	(30,514,103)	(25,692,071)
	<hr/>	<hr/>
Revenue Activities Cash Flow (note 44)	(17,279,121)	(9,491,384)
Servicing of Finance		
Interest paid	6,531,526	5,998,389
Interest Received	(1,165,972)	(1,387,822)
	<hr/>	<hr/>
	(11,913,567)	(4,880,817)
Capital Activities		
<u>Cash Outflows</u>		
Purchases of Fixed Assets	26,432,151	21,550,612
Other Capitalised Expenditure	3,366,858	3,333,908
<u>Cash Inflows</u>		
Sale of Fixed Assets	(2,473,524)	(1,025,184)
Capital Grants Received	(12,507,205)	(6,199,016)
	<hr/>	<hr/>
	(14,980,729)	(7,224,200)
	<hr/>	<hr/>
	14,818,280	17,660,320
	<hr/>	<hr/>
Net Cash (Inflow)/Outflow Before Financing	2,904,713	12,779,503
Financing		
Repayments of Amounts Borrowed & Temporary Advances	1,000,000	0
New Loans Raised	(21,000,000)	(12,500,000)
	<hr/>	<hr/>
	(20,000,000)	(12,500,000)
(Increase)/Reduction in cash and cash equivalents (note 45)	(17,095,287)	279,503

Note 43

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

Note 44

	2003-04	2002-03
	£	£
General Fund movement as per Consolidated Revenue Account	0	408,274
Increase/(reduction) in Stock and Work in Progress	49,293	(44,369)
Increase/(reduction) in Debtors	(1,179,723)	4,818,279
(Increase)/reduction in Creditors	(2,631,471)	(5,814,239)
Transfers to/(from) Reserves & other non-cash transactions	(8,151,666)	(4,248,762)
Interest Payments	(6,531,526)	(5,998,389)
Interest Receipts	1,165,972	1,387,822
Revenue Activities Net Cash Flow	(17,279,121)	(9,491,384)

Note 45

	2003-04	2002-03
	£	£
Consolidated Balance Sheet Movements		
Increase/(Reduction) in Bank Overdrawn	(2,200,441)	23,150
(Increase)/Reduction in Cash in Hand	(506,710)	(654,118)
Increase/(Reduction) in Short Term Loans	(1,483,136)	(1,409,529)
(Increase)/Reduction in Bank Advances	(12,905,000)	2,320,000
Increase/(Reduction) in Cash and Cash Equivalents	(17,095,287)	279,503

Note 46

	2003-04	2002-03
Analysis of Government Grants		
Department for Education & Skills	15,124,919	15,540,063
Department of Health	7,476,424	7,712,056
Home Office	95,342	82,294
Department of Works and Pensions	38,079,779	35,507,960
Department for Transport	273,558	232,780
Office of Deputy Prime Minister	9,682,624	4,552,476
Other (including European Grants)	996,130	830,926
	71,728,776	64,458,555

STATEMENT OF TOTAL MOVEMENTS ON RESERVES

	2003-04	2002-03
	£	£
Surplus/(deficit) for the year:		
General Fund	0	(408,274)
Collection Fund	5,049	45,905
add back Movements on specific revenue reserves	2,439,916	3,316,284
deduct Appropriation from Pension Reserve	(5,780,000)	(3,468,000)
Actuarial gains & losses relating to pensions	19,980,000	(59,507,000)
Total Increase/(decrease) in revenue resources (note 1)	16,644,965	(60,021,085)
Increase/(decrease) in usable capital receipts	0	(73,147)
Increase/(decrease) in unapplied capital grants & contributions	3,135,662	(179,028)
Total Increase/(decrease) in realised capital resources (note 2)	3,135,662	(252,175)
Gains/(losses) on revaluation of fixed assets	19,825,432	9,601,822
Impairment losses on fixed assets due to general changes in prices	0	0
Total Increase/(decrease) in unrealised value of fixed assets (note 3)	19,825,432	9,601,822
Value of assets sold, disposed of or decommissioned (note 4)	(3,479,500)	(683,000)
Capital receipts set aside	2,422,923	1,824,055
Revenue resources set aside	(2,386,658)	(821,111)
Movement on Government Grants Deferred	5,713,542	2,752,993
Total Increase/(decrease) in amounts set aside to finance capital investment (note 5)	5,749,807	3,755,937
Total recognised gains & losses	41,876,366	(47,598,501)

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 2003/04	0	5,049	-	-
Appropriations to/from Revenue	-	-	2,439,916	(5,780,000)
Actuarial gains and losses relating to pensions	-	-	-	19,980,000
	0	5,049	2,439,916	14,200,000
Brought forward at 1 April 2003	2,077,097	105,453	24,473,625	(108,700,000)
Carried forward at 31 March 2004	2,077,097	110,502	26,913,541	(94,500,000)

The Earmarked Reserves figure shown as the brought forward balance at 1st April 2003 has been restated due to the re-designation of funds. Details are given in note 33 to the Consolidated Balance Sheet.

	Usable capital Receipts £	Unapplied Capital grants & Contributions £
2. Movements in realised capital resources		
Amounts receivable in 2003/04	2,473,524	12,507,205
Amounts applied to finance new capital investment in 2003/04	(2,473,524)	(9,371,543)
Total increase/(decrease) in realised capital resources in 2003/04	0	3,135,662
Balance brought forward at 1 April 2003	0	218,832
Balance carried forward at 31 March 2004 (see notes 30 & 31)	0	3,354,494
		Fixed asset restatement reserve £
3. Movements in unrealised value of fixed assets		
Gains/losses on revaluation of fixed assets in 2003/04		22,926,990
Adjustments		(3,101,558)
Impairment losses on fixed assets due to general changes in prices in 2003/04		0
Total increase/(decrease) in unrealised capital resources in 2003/04		19,825,432
4. Value of assets sold, disposed of or decommissioned		
Amounts written off fixed asset balances for disposals in 2003/04		(3,479,500)
Total movement on reserve in 2003/04		16,345,932
Balance brought forward at 1 April 2003		85,975,182
Balance carried forward at 31 March 2004 (see note 35)		102,321,114

	Capital Financing Reserve £
5. Movements in amounts set aside to finance capital investment	
Capital receipts set aside in 2003/04:	
- reserved receipts	7,696
- usable receipts applied	2,473,524
Total Capital receipts set aside in 2003/04	2,481,220
Revenue resources set aside in 2003/04:	
Capital expenditure financed from revenue	0
Total Revenue resources set aside in 2003/04	0
Capital Slippage Reserve Applied	0
Grants applied to capital investment in 2003/04	9,371,543
Amounts credited to the asset management revenue account in 2003/04 (2,386,658)	
Deferred Charges written down	(3,658,001)
Prior Year Adjustment	(58,297)
Movement on Government Grants Deferred	3,268,587
Total increase/(decrease) in amounts set aside to finance capital investment	5,749,807
Total movement on reserve in 2003/04	5,749,807
Balance brought forward at 1 April 2003	37,783,167
Balance carried forward at 31 March 2004 (see note 36)	43,532,974

ISLE OF WIGHT COUNCIL PENSION FUND

Fund Account for year ended 31 March 2004

	2003-04	2002-03
	£	£
Contributions and Benefits		
Contributions receivable:		
From Employers	(5,710,508)	(4,534,630)
From Employees or Members	(2,863,470)	(2,571,015)
Transfers in	(2,875,519)	(2,067,260)
Other Income	(16,809)	(6,918)
	<hr/>	<hr/>
	(11,466,306)	(9,179,823)
Benefits Payable		
Pensions	8,073,545	7,703,123
Lump Sums (including retirement & death benefits)	1,286,204	1,791,678
Payments to and on account of leavers:-		
Refunds of contributions	58,671	43,166
Transfers out	1,398,544	1,320,984
Payment to SIM to invest	500,000	0
Administrative and other expenses	297,970	280,350
	<hr/>	<hr/>
	11,614,934	11,139,301
Sub Total: net withdrawals from dealings with members	<hr/> (148,628) <hr/>	<hr/> (1,959,478) <hr/>
Returns on Investments		
Investment income (see analysis below)	4,697,822	4,218,200
Change in market value of investments (realised & unrealised)	29,119,997	(40,082,437)
Investment management expenses	(218,955)	(252,521)
	<hr/>	<hr/>
Sub total - Net returns on investments	33,598,864	(36,116,758)
	<hr/>	<hr/>
Net increase (decrease) in the fund during the year	33,450,236	(38,076,236)
Opening Net assets of the scheme	132,967,484	171,043,720
	<hr/>	<hr/>
Closing Net assets of the scheme	166,417,720	132,967,484
	<hr/>	<hr/>
Analysis of Investment Income:		
Fixed Interest	182,522	128,815
Equities	2,969,153	2,517,861
Index Linked	61,008	56,929
Unit Trusts - Property	653,321	743,388
- Other	344,700	354,771
Interest	77,673	166,293
New Money	500,000	0
Currency Trade Net	(90,555)	250,143
	<hr/>	<hr/>
	4,697,822	4,218,200
	<hr/>	<hr/>

ISLE OF WIGHT COUNCIL PENSION FUND

Net Assets Statement as at 31 March 2004

		2003-04	2002-03
	£	£	£
Investments at market value:			
Fixed Interest	16,006,668		14,505,131
Equities	96,908,484		83,103,041
Index Linked	2,529,234		2,933,285
Unit Trusts – Property	13,877,382		15,187,161
Unit Trusts – Other	33,906,790		14,275,042
	<hr/>		<hr/>
		163,228,558	130,003,660
Cash - Schroder Investment Management		1,914,489	1,760,482
Temporary Advance - Isle of Wight Council		215,729	282,948
Other net assets:			
Debtors - Government	56,083		30,836
- admitted bodies	74,250		56,980
- interest	47,828		80,158
- security sales	437,370		30,010
- dividends	919,693		750,736
- other	106,608		98,172
	<hr/>		<hr/>
		1,641,832	1,046,892
Less:			
Creditors - security purchases	(464,321)		(34,001)
- other	(118,567)		(92,497)
	<hr/>		<hr/>
		(582,888)	(126,498)
Net Assets		<hr/> 166,417,720 <hr/>	<hr/> 132,967,484 <hr/>

ISLE OF WIGHT COUNCIL PENSION FUND

1. Operation and Membership

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

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

In addition to the employees and councillors of the Isle of Wight Council, some of the employees of 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 2004

	Administering Authority	Scheduled Bodies	Admitted Bodies	Total
Number of Contributors	3,927	126	279	4,332
Contributing	£2,579,817	£114,341	£169,312	£2,863,470
Pensions paid	£8,295,116	£336,742	£727,891	£9,359,749

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 2,268 pensions in payment from the Fund in respect of former employees and their dependants and 1,818 former employees who have entitlement to preserved benefits.

During 2003-04 1,149 purchases and 1,276 sales of investments took place following broad guidelines accepted by an investment panel which comprised Councillors Mrs Lawson and Smart, Barry, Harris, Mundy, Pearson, Sutton and the Chief Financial Officer.

The cost of purchases amounted to £50,912,317 and the net proceeds received from the sales totalled £46,715,689. The Funds managing agents for the period were Schroder Investment Management (UK) Ltd.

At 31 March 2004 the number of individual holdings was as follows:

UK Equities		73
Overseas Securities		108
UK Government Securities		5
Non UK Government Securities		1
International Bond		1
Unit Trusts		8
Property Unit Trusts		2
Index Linked Gilts	14	
		212

Net new money coming into the Fund in 2003-04, that is to say the surplus of contributions and investment income over benefit payments and expenses, amounted to £4,330,239 compared to £2,006,201 in 2002-03.

The net assets of the fund at 31 March 2004 totalled £166,417,720, an increase of 25.1 % on the 2002-03 valuation of £132,967,484

Provided below is a list of the 10 largest investments at 31 March 2004 including the percentage of the total market value.

Stock	Value	%
Schroder Global Series Trust Schroder N. America Equity Fund	12,545,523	7.68
Schroder Exempt Property Units	11,413,542	6.99
Schroder Instl. Corporate Bond Fund (PFPV) Series 2 Accumulation	9,530,695	5.84
Schroder Instl Pacific Fund Income Units	6,916,070	4.24
Vodafone Group PLC Ordinary USD0.10 (UK Listing)	5,155,643	3.16
BP PLC Ordinary USD0.25	4,661,168	2.85
HSBC Holdings PLC Ordinary USD0.50 (London)	4,384,020	2.69
Schroder Instl Developing Markets Fund 'A' Units	4,180,406	2.56
GlaxoSmithkline PLC Ordinary 25p	3,948,877	2.42
Schroder Instl UK Smaller Cos Fund Income Units	3,470,716	2.13

Analysis of market value under the management of Schroder Investment Management (UK) Ltd at 31 March 2004:-

	UK £	Foreign £	Total £
Listed	96,946,451	54,868,565	151,815,016
Unlisted	11,413,542	0	11,413,542
Total	108,359,993	54,868,565	163,228,558

Analysis of Market value at 31 March 2004 by Industrial Sector see Appendix A.

	31 March 2004	31 March 2003	% Change
FT Actuaries - All Share Index	2340.24	1786.58	+30.99
FT Actuaries - World (ex-UK) Index	328.18	262.12	+25.20

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 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.

2003-04 saw an end to the three year fall in equity prices, with significant gains from March 2003 onwards. Bond yields have also risen, which improves the funding level. The net assets of the fund at 31st March 2004 were £166,417,720, an increase of 25.1% on the 31st March 2003 valuation of £132,967,484.

A full triennial actuarial valuation of the Fund is due at 31st March 2004, the results of which will be known later in the year.

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

Market Review

Equities produced strong gains in the 12 months to 31 March 2004. Having reached a low prior to the onset of war in Iraq, markets rallied sharply as geopolitical concerns started to diminish and risk appetites increased. The rally was sustained as global growth and corporate profits recovered, driven primarily by companies' earlier cost cutting efforts. Cyclical stocks and sectors that had performed particularly poorly in the former, highly risk-averse environment produced the strongest gains in the year as a whole. However, there were signs of a rotation away from these areas towards more defensive investments at the end of the period as risk tolerance declined slightly and global growth appeared to be peaking.

The decline in the value of the US dollar, driven by concerns about the size of the current account deficit, had a detrimental impact on the +15.9% return of US equities to sterling-based investors. Japan returned +46.4% as confidence in the export-led economic recovery increased and Pacific ex Japan rose 33.4%. The UK equity market rose 31.0% and continental Europe returned +36.4%.

Bonds significantly underperformed equities although produced positive returns, supported by further monetary easing in the first half of the year and as interest rates in general stayed low. Bond markets remained resilient, even as economic data and growth expectations started to improve. Higher interest rates were not considered an immediate threat as inflation remained low and Asian central banks' efforts to prevent significant appreciation of their currencies by buying US Treasuries also supported the market. Conventional government bonds underperformed index-linked gilts and corporate bonds. Corporate bonds benefited from stronger risk appetites and the improving corporate outlook, and UK index-linked gilts were supported by rising inflation expectations.

Strong demand for investment property supported returns in an environment of weak rental growth, particularly in office markets.

Portfolio Performance

The portfolio rose strongly in the 12 months to 31 March 2004 with a return of +25.5% and outperformed the benchmark, which rose 24.9%. In three years, the portfolio returned -0.8% against the -0.5% benchmark return.

Good stock selection in UK equities boosted the portfolio's performance in the year, although this was offset by weaker returns in overseas equities. In Japan and continental Europe, an emphasis on high quality companies with visible earnings growth and strong balance sheets was detrimental as lower quality stocks led the strong recovery in these markets.

Asset allocation added value. Within equities, the portfolio benefited from overweight positions in Japan and emerging markets, and the underweight position in the US. Relatively low exposure to UK bonds also contributed to performance.

Investment Activity

The portfolio was positioned to benefit from stronger equity markets as the year progressed, and ended the period overweight equities at the expense of more fully valued bonds. Additions were made in Japan and emerging markets, which offered the most attractive valuations. In Japan, many high quality companies had suffered some technical selling pressures and been overlooked in the strong cyclical rally, which presented a good buying opportunity. Strong performance in European equities prompted some profit taking, and the portfolio ended the period with a neutral weighting here and underweight the US, which continued to appear relatively expensive.

Within fixed income, the portfolio remained underweight in UK bonds. Government bonds appeared particularly expensive and vulnerable to higher public expenditure. UK index-linked gilts were sold following strong performance as the valuation differential between index-linked gilts and conventional UK bonds had narrowed. UK property was also reduced following strong performance. Even so, an overweight position was maintained given the high yield and diversification benefits afforded by investment property.

Outlook

Equities appeared likely to continue to outperform bonds in an environment of strong economic and corporate profits growth. Bond prices appeared expensive and were expected to fall and yields rise as the global economic recovery matured. The portfolio ended the period overweight equities in aggregate, with an emphasis on attractively valued Japanese and emerging markets equities. Japan also benefited from its relatively low correlation to western markets, providing the means to diversify overall portfolio risk.

Asset Allocation

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

	Portfolio 31.3.03 %	Portfolio 31.3.04 %	Benchmark 31.3.04 %
Equities Total	73.4	78.8	75.0
UK	43.4	45.7	45.0
North America	7.9	7.6	10.0
Europe	11.3	10.4	10.0
Japan	3.6	6.7	4.0
Pacific ex Japan	4.0	4.2	4.0
Emerging Markets	3.2	4.2	2.0
Other Assets Total	26.6	21.2	25.0
UK Gilts	0.0	2.1	4.0
UK Corporate Bonds	9.1	5.7	8.0
Overseas Bonds	1.9	1.8	2.5
UK Index Linked Bonds	2.2	1.5	2.5
Cash	1.9	1.7	0.0
Property	11.5	8.4	8.0
Total	100.0	100.0	100.0

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

The year to end March 2004 was a time of renewed strength in equity markets. After a period of political and economic uncertainty, with Iraq the focus of attention, the market rallied in April 2003. Thereafter, equities rose strongly, supported by improving economic prospects and investor confidence. After a long period of falling share prices, the change in direction came as a welcome relief to investors. During the year, the UK equity market gained 31.0%. In Sterling terms, North American and European equities advanced 16.8% and 36.9% respectively, whilst the Japanese equity market gained 46.5%. Small and mid capitalisation stocks performed significantly better than large companies.

During the early stages of the rally in equity markets, yields on government bonds fell, in some cases to record low levels. This reflected mounting concerns over deflationary pressures, particularly in the US and Europe. In response, the Central Banks of the UK, US and Europe reduced short-term interest rates to stimulate economic growth.

As the year progressed, global economic prospects improved. Bond yields rose from the low point reached in June 2003 and a more normal relationship between the two asset classes resumed. Economic growth in the US accelerated, based on strong consumer spending and a continuing improvement in productivity. In the UK, economic growth also improved, with the Bank of England the first of the major Central Banks to raise short-term interest rates (in November 2003 and, again in February 2004). In contrast, the European and Japanese economies fared less well.

The US is likely to follow the UK in raising short-term interest rates, but must manage the turning of the circle carefully, to avoid financial disruption, both internally and internationally. Bond yields are rising in anticipation of the event, with some observers nervous of a sell off in bond markets of the magnitude seen, in similar circumstances, a decade ago.

On currency markets the main feature during the period under review was the devaluation of the US Dollar. This reflected concerns over the twin deficits (budget and trade) in the US, and evidence that foreign investors may have been losing their appetite for US financial assets. Between April and December 2003, the Dollar lost 11.7% on a trade-weighted basis. More recently, the currency has stabilised on the prospect of higher interest rates.

5. Status of the Scheme

5.1 The Local Government Pension Scheme is 'contracted out' of SERPS.

5.2 The Scheme is a 'final salary scheme'. This means that benefits do not depend on investment performance, but generally on the level of salary during the last 12 months before retirement and the length of total Local Government service during which contributions have been paid in to the Fund.

5.3 The Isle of Wight Council Pension Scheme is an Exempt Approved Scheme under Chapter 1 Part X1V of the Income and Corporation Taxes Act 1988.

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

6. Accounting Policies

6.1 The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), and with guidance notes issued by CIPFA on the application of accounting standards to Local Authorities. They do not take account of liabilities to pay pensions and other benefits in the future. The actuarial position of the Scheme which takes account of such liabilities is dealt with in 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.

During 2003-04 AVCs of £147,540 were separately invested with Prudential Life and Pensions. Of this amount, £8,230 was for the purchase of death in service cover. AVC's invested with the Nationwide Building Society in 2003-04 amounted to £17,894.

- 6.5 Administration costs of £516,925 (2002-03 £532,871) have been charged directly to the Fund in 2003-04. Of this, investment management fees were £184,190 (2002-03 £217,646) and Isle of Wight Council administration costs were £332,735 (2002-03 £315,225).

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%

Isle of Wight Council Councillors (see note below) N/A 12.0% 14.0%

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

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

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

Contributions by the members in accordance with the Regulations at the rate of 6% of pensionable pay for all members, except manual staff who joined before 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 2004.
 - 9.2 Contingencies: - There were no contingencies as at 31 March 2004.
 - 9.3 Net Assets Statement:- There were no events subsequent to the Net Assets Statement at 31 March 2004 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 2004 BY INDUSTRIAL SECTOR

	UK £000's	USA & CANADA £000'S	JAPAN £000'S	EUROPE £000'S	FAR EAST (Exc Japan) £000's	EMERGING MARKETS £000'S	TOTAL £000'S
Mining	1,610	0	0	0	0	0	1,610
Oil and Gas	8,670	0	234	1,499	0	0	10,403
Chemicals	1,001	0	243	679	0	0	1,923
Construction & Building Materials	3,848	0	0	459	0	0	4,307
Metals & Other Materials	0	0	277	0	0	0	277
Aerospace & Defence	961	0	0	0	0	0	961
Electronic & Electrical Equipment	0	0	1,892	862	0	0	2,754
Engineering & Machinery	1,215	0	176	135	0	0	1,526
Automobiles	0	0	0	442	0	0	442
Beverages	1,660	0	0	0	0	0	1,660
Pharmaceuticals & Biotechnology	6,320	0	1,071	1,251	0	0	8,642
Tobacco/Food	1,776	0	117	818	0	0	2,711
Retailers, General	1,986	0	381	0	0	0	2,367
Leisure & Hotels	1,488	0	0	220	0	0	1,708
Media & Entertainment	4,245	0	0	0	0	0	4,245
Glass & Ceramics	0	0	87	0	0	0	87
Support Services	1,908	0	0	497	0	0	2,405
Transport	2,534	0	615	0	0	0	3,149
Food & Drug Retailers	2,398	0	0	0	0	0	2,398
Telecommunications	7,767	0	0	1,461	0	0	9,228
Electricity	0	0	0	100	0	0	100
Utilities - Other	721	0	44	381	0	0	1,146
Transport Equipment	0	0	1,162	0	0	0	1,162
Banks	14,034	0	34	3,625	0	0	17,693
Investment Companies	1,981	0	0	244	0	0	2,225
Life Assurance	1,958	0	0	0	0	0	1,958
Real Estate	1,163	0	54	0	0	0	1,217
IT Hardware	3	0	0	898	0	0	901
IT Software & Computer Services	459	0	0	86	0	0	545
Unit Trusts	5,810	12,546	533	1,083	6,916	7,019	33,907
Cyclical Services	0	0	0	742	0	0	742
Household Goods	0	0	0	572	0	0	572
Insurance	431	0	548	1,259	0	0	2,238
Miscellaneous Financial	0	0	265	0	0	0	265
Textiles, Paper & Pulp	0	0	667	0	0	0	667
Rubber Goods	0	0	436	0	0	0	436
Precision Machinery	0	0	735	0	0	0	735
Services	0	0	157	0	0	0	157
Communications	0	0	497	0	0	0	497
Wholesale	0	0	523	0	0	0	523
Securities	0	0	327	0	0	0	327
Fixed interest - UK Govt	3,419	0	0	0	0	0	3,419
Fixed interest - Non UK Govt	9,531	0	0	0	0	0	9,531
Treasury Index linked	2,418	0	0	0	0	0	2,418
Index Linked - Non UK Govt	111	0	0	0	0	0	111
Property Unit Trusts	13,877	0	0	0	0	0	13,877
Fixed Interest - Other	3,057	0	0	0	0	0	3,057

108,360	12,546	11,075	17,313	6,916	7,019	163,229
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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 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. Asset allocations were reviewed in July 2003, and on the advice of the Investment Advisor were left unchanged. 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 February 2004. A copy is available on request.

ANNEXES

1. 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	95.8	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 %	Contr ol Rang es %	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 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 next review is due in July 2004.

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 2004 required by the Accounts and Audit Regulations 2003 is set out on pages 5 to 46.

I further certify that the Statement of Accounts presents fairly the financial position of the Authority at 31 March 2004 and its income and expenditure for the year then ended.

Signed.....

Date.....

PAUL WILKINSON
Chief Financial Officer

STATEMENT ON INTERNAL CONTROL

1. **Scope of Responsibility**

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

In discharging this overall responsibility, the Isle of Wight Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Isle of Wight Council's functions and which includes arrangements for the management of risk.

2. **The purpose of the system of internal control**

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

The system of internal control has been in place at the Isle of Wight Council for the year ended 31 March 2004 and up to the date of approval of the annual report and accounts.

3. **The internal control environment**

The Council's first Corporate Plan was produced in 2002 following extensive consultation with staff and partners. The Plan demonstrates how the Council's six corporate objectives will be pursued through a four year period by service development and improvement. The Plan is implemented each year through Annual Action Statements which detail specific issues to be achieved, in particular identifying Priority Improvement Areas. The Annual Action Statements also identify four specific commitments in support of the principal corporate objectives. Part 3 of the Plan covers the Council's own actions to improve corporate governance and performance. Corporate governance means all of the arrangements which relate to the lawful and efficient operation of the Council.

Currently, overall performance is reported corporately at regular intervals through the year, on a quarterly basis. Individual services are responsible for monitoring progress towards action included in their plans. They are expected to produce regular reports to their management teams and a summary of issues for inclusion in the corporate reports. The combined corporate financial and quarterly performance monitoring reports (QPMP) are the means by which critical aspects of the Council's functions are kept under review.

The various critical issues for review have been separated into nine specific areas which are set out below:

- Governance Issues
- Prioritisation and Planning Processes
- Performance Management
- Risk Management Framework
- Procurement Strategy
- Project Management
- Financial Controls
- Human Resource Issues
- External Inspections

These areas form the main issues to be considered in the review of internal control. In pursuit of that aim a document has been produced setting out the detailed procedures to be reviewed in

each area before an opinion on the effectiveness of the system of internal control can be expressed. The full document is available using the following link:

<http://www.iwight.com/council/documents/performance/>

4. Review of effectiveness

The Isle of Wight Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the authority who have responsibility for the development and maintenance of the internal control environment, and also by comments made by the external auditors and other review agencies and inspectorates.

The review for the 2003-04 statement was carried out by the Monitoring Officer and the Chief Financial Officer, supported by the Chief Internal Auditor. The review took into account:

- the annual Audit and Inspection letter reported to the Executive on 28 January 2004 (and subsequently to the Audit Panel on 9 March 2004)
- Internal Audit progress reports reported to the Audit Panel on a regular basis
- comments from other review agencies and external inspections

In order to obtain assurances on the effectiveness of the internal control systems across the Council, a document detailing the detailed procedures comprising the internal control framework was formulated, with contributions sought from relevant officers on key control issues. Copies of this document were provided to service managers throughout the Council, and assurance statements received as follows:

- Chief Financial Officer (as S151 Officer)
- Head of Legal and Democratic Services (as Monitoring Officer)
- Compliance and Risk Manager
- Head of Policy and Communications
- Members of the Strategic Management Team
- Finance Managers
- Chairman of the Standards Committee

The requirement for a review was reported to the Standards Committee on 23 June 2004 for consideration and recommendation. Having received the assurance statements detailed above, the results of the review were considered at the Council meeting on 21 July 2004 and by the Audit Panel on 29 July 2004.

Plans to address weaknesses and ensure continuous improvement of the system are in place.

5. Significant internal control issues

No significant control issues detrimental to the operation of the Council were identified in 2003-04, but a number of actions need to be carried out during the next financial year to strengthen the existing internal control framework and allow a full statement of assurance to be given for 2004-05. Implicit within the internal control framework is the requirement for Directors and managers to regularly monitor and review the systems of internal control and to report on their operation to the Directors Group.

Improvement plans incorporate the following key issues:

- Implementation of the latest service planning framework
- Development of the medium term financial strategy
- Universal implementation of the development review process
- Universal service unit performance management
- Further work on embedding risk management

- Business continuity planning
- Health & Safety training
- Roll-out of the Procurement Strategy, including risk assessment and gateway reviews of strategic procurements
- Development of a corporate approach to project management
- Budget management training
- Internal audit review of the internal control framework
- Counter fraud standards
- Monitoring of people management standards
- Equalities standards
- Responses to external inspection reports

Shirley Smart
Leader of the Council

Date

Mike Fisher
Chief Executive Officer

Date

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Council Statement on Internal Control – Detailed Procedures

1 Governance Issues

1.1 Council constitution

The council is required to publish and maintain a constitution which complies with a Directive issued by the Secretary of State in December 2000. Adoption of the constitution is a function of the Full Council.

The constitution must deliver efficient, transparent and accountable decision making, and be regularly reviewed to ensure it delivers that objective.

The Monitoring Officer has an obligation under the existing constitution to advise on necessary amendments.

Further information: The constitution; Constitutions Direction 2000
Assurance required: Monitoring Officer to confirm constitution is lawful, up to date and fit for purpose, identifying where necessary any need to amend.

1.2 Executive decision making

The Executive is responsible, by law, for the majority of the functions of the local authority, within the budget and policy framework set by the Full Council. It also has a duty to propose the terms of the annual budget and of a number of policies and plans for adoption by the Full Council.

Executive decisions can be taken by the Executive collectively (where the decision is of corporate significance, affects a number of service areas or is otherwise sensitive or controversial), by individual portfolio holders (where the decision significantly affects a service area or benefits from being taken publicly) or by officers acting under delegated powers.

It is necessary for decisions taken by members to be taken lawfully, efficiently, transparently and accountably, in the light of all relevant information and advice.

By use of the forward plan member decisions will be available for consideration by select committees, advertised in advance to the public and known to Strategic directors and specialist advisors in time for advice and recommendations to be made to the decision maker.

Member decisions must be taken and recorded publicly, except where the law provides otherwise. Decisions by officers must be subject to a proper, proportionate and auditable record.

Further information: Scheme of Delegations & Protocol on Decision Making within Constitution; Resolutions of Full Council; Executive Decisions; Local Government Act 2000 s13; Functions & Responsibilities Orders
Assurance required: Monitoring Office and Chief Finance Officer confirming that decision making is lawful, efficient, transparent and accountable.

1.3 Scrutiny role – Select Committees

The Council's Overview and Scrutiny is provided through the following six Select Committees:

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Economic Development, Planning, Tourism and Leisure Services
 Children's Services
 Environment and Transport
 Fire and Public Safety
 Resources,
 Adult & Community Services.

In addition the Health and Social Care Act of 2001 provided explicit power for local authorities with responsibility for Social services to scrutinise health services within the authority's area. Since January 2003 this responsibility has fallen within the remit of Social Services, Housing and Health Select Committee.

The law requires the Council to establish committees to review and scrutinise decisions and make recommendations and/or reports to the Full Council and the Executive. The requirement extends to the review and health policy and to making recommendations to health an other public agencies.

1.4 Standards Committee

The council is obliged by law to establish a Standards Committee to promote high standards of ethical conduct by elected members; determine any complaints against members referred to it and to discharge similar functions in relation to Town and Parish Councils.

The Standards Committee must have a majority appointed as independent members, including it's chair, who are not elected members of the council.

Further information: Article 9 of the Constitution; Standards Committee annual report.

Assurance required:

Chairman of Standards Committee – that the Standards Committee has been able to undertaken its planned work programme and has been able to determine any issues referred to it by the Standards Board for England.

1.5 New legislation

Under corporately agreed procedures, the Head of Legal and Democratic Services has a responsibility to identify any piece of new legislation with corporate effect.

In relation to any such legislation Directors Group will agree an action plan (covering some or all of a 15 point checklist) for preparing the authority for compliance.

Further information: Report to Directors Group December 2003.

Assurance required:

Head of Legal and Democratic Services to confirm whether any legislation with corporate effect is imminent and if so that a corporate action plan has been agreed.

1.6 Monitoring Officer role

S5 Local Government and Housing Act 1989 (as amended) requires the authority to designate one of it's officer as Monitoring Officer and to provide adequate resources to discharge their responsibilities. The Monitoring officer has a personal responsibility to report any actual or likely unlawful act and/or any actual or likely act of mal-

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administration.

Further information: The Monitoring Officer – loose leaf publication by Wragge and Co.
Assurance required:
 Chief Executive Officer to confirm that the Council has appointed both a Monitoring Officer and a Deputy Monitoring Officer has been made and that arrangements and resources are adequate.

1.7 S151 Officer role

The Council is required under Section 151 of the Local Government Act 1972 to make arrangements for the proper administration of their financial affairs and to secure that one of their officers has responsibility for the administration of those affairs.

This role is carried out by the Chief Financial Officer, who sits on the Directors' Group and attends all meetings of the Executive to provide financial advice. Subsequent legislation requires the Chief Financial Officer to advise the Council on the robustness of its budget and the adequacy of its reserves, and to carry out an on-going monitor of financial performance against budget.

Further information: Chartered Institute of Public Finance and Accountancy guidance on the Role of the Chief Financial Officer
Assurance required:
 Chief Financial Officer - Statutory and code of practice responsibilities are being discharged.

1.8 Delegated Authority

The vast majority of decisions taken in the discharge of the myriad functions of the local authority are taken by officers, under powers delegated to them by elected members.

These decisions will vary widely in value, service significance and degree of complexity, from a purely administrative decision to refuse a benefit entitlement (affecting only one individual) through the granting of a planning consent (affecting a whole neighbourhood) to staffing decisions which can affect the provision of a whole service.

Each and every decision must be properly, proportionately and auditably recorded. Equally important is the need to be able to demonstrate a chain of delegation from the member decision making body to the officer taking the decision.

Since June 2001, the functions of the local authority are split into Executive and Council side functions. The Executive and Full Council must each, therefore, determine to delegate functions to officers. This is done by the adoption of a scheme of delegations, showing powers delegated to Strategic Directors

Further information: Scheme of Delegations & Protocol on Decision Making within Constitution; Resolutions of Full Council; Executive Decisions; Local Government Act 2000 s13; Functions & Responsibilities Orders.
Assurance required:
 Monitoring Officer to confirm that Scheme of Delegations is lawful and efficient and has been properly adopted by the Executive (in relation to Executive Functions) and Full Council (in relation to Council side functions).

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Heads of Service to confirm that auditable authorizations are in place for more junior staff to use delegated authority.

1.9 Member/Officer Protocol

Good member/officer relations are essential to the efficient discharge of local authority functions, and a clear statement of the respective roles and responsibilities is essential to the development and maintenance of those good relations.

It is therefore necessary to adopt and periodically review a protocol setting out the respective roles and ground rules for interaction between officers and members.

Further information: Member/Officer Protocol in constitution
Assurance required:
 Monitoring Officer to confirm that a Protocol is adopted and fit for purpose.

2 Prioritisation and planning processes

2.1 LSP

The Local Government Act (2000) provided local authorities with a 'well being power' and a duty to promote the social, environmental and economic well being of their area. They were to see that a community strategy was created and a local strategic partnership (LSP) established. The Council began this process in January 2001 and the Island Futures LSP was formally launched in January 2002. The Island Futures Strategy was developed through a parallel, extensive public consultation process and was published in the summer of 2002. This sets out broad strategic priorities for the coming 10 – 15 years. The Leader of the Council chaired the LSP through its first year, then stood down and there is now an independent chair.

The LSP works through a broad representative board and a smaller steering group with champions for each of seven themes. The strategy will be reviewed during 2004. The Councils Corporate Plan (and particularly the Annual Action statements) reflect the actions the IWC itself will be taking in pursuit of the Island Futures objectives. The Council provides officer support for Island Futures through its Community partnerships team, the Council Leader and Chief Executive Officer are members of the Board.

Further Information: Agenda and Minutes of the IWC Executive June and October 2001, Island Futures Strategy July 2002, Agenda's and minutes of Island Futures 2001 – 2004, BVPI 1.

Assurance required: Chief Executive Officer to confirm that the LSP has been established and the Community Strategy is in place.

2.2 Corporate Planning

The Council produced its first Corporate Plan 'Achieving Excellence through teamwork' in 2002 following extensive consultation with staff and partners. This demonstrates how six corporate objectives essential to the Councils mission of 'Improving Island Life' will be pursued through service development and improvement over a four year period. Part 3 of the Plan 'Making it happen' covers the Councils own internal actions to improve its corporate governance and performance.

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The Plan is implemented through Annual Action Statements that detail particular activities and the achievement of these is monitored through quarterly performance management reports (QPMR's) to the Executive. This arrangement allows key actions required in support of the Community Strategy, CPA improvement Plan and other service strategic plans to be monitored and updated on a regular basis. The Corporate Plan will be revised in 2005 and adopted by the newly elected Council.

Further Information: Agenda and Minutes of the Executive May, July and October 2002, Annual Action Statement 2003 – 04 and 2004 – 05, QPMR reports to the Executive 2003/04. CPA report December 2002. IDeA Peer review September 2003. Annual Audit letters 2002 & 2003

Assurance required: Head of Corporate Policy and Communications to confirm that Annual Action statements are produced and contain the relevant information, to ensure monitoring through the QPMR process and that the Corporate Plan is revised during 2005. Heads of Service to ensure that their contributions to Corporate Plans provide the key strategic guidance required by the authority and that Annual action statement and service plans contain the necessary detail in support of these strategic objectives

2.3 Service and Team Planning

The Council has had a service planning process in place since 2000. This now forms part of a corporate Annual Planning Cycle introduced in 2003. The service planning process is reviewed every year and fresh guidance issued in consultation with Directors group and Heads of Service. Plans are now produced for 18 services detailing future actions and past performance in support of the Council's corporate objectives and internal improvement programme. Guidance is issued in the spring and plans are developed through team days and informed by local and national policy priorities. In accordance with the annual planning cycle, drafts are available in September and completed in March after the budget is finalised. Key issues are contained in the Annual Action Statement and monitored through the QPMR process. In 2004 the draft deadline is July 31st to allow for consultation via the LSP

Recent improvements make explicit links to the resource prioritisation process and risk management. The 2005/06 service plans will focus on key improvement and development initiatives with ongoing service delivery being documented in team plans. Together these will determine large parts of individual or group work-plans established through the personal development review process.

Further information: Service plan template and guidance, CPCU May 2004. The Service Plans 2004/05 from individual services.

Assurance required. Head of Corporate Policy and Communications to ensure templates and guidance are reviewed and issued annually, that drafts are produced and plans completed in accordance with the annual planning cycle. Individual Heads of Service to produce plans in accordance with the guidance and planning cycle

2.4 Resource Prioritisation

In common with most authorities, the Isle of Wight Council faces continuing expenditure pressures and competing demands for resources from its wide range of services. To avoid an adverse impact on its ability to deliver its objectives, it is important that resources are channelled as far as possible to priority areas. Processes in place to achieve this are:

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- Service plans interpret the way each service can best contribute to corporate objectives, and identify associated resource implications
- These spending bids are prioritised collectively by service heads and directors
- Highest priority bids are then elaborated to show a clear link between resources sought and outcomes to be delivered in return.

At the same time, potential sources of funding are considered, including

- 'Headroom' – those areas of service provision which are not high priority and which the Council could therefore consider not providing at all, or providing at a lower level.
- Sources of additional income
- Efficiency savings including spend to save opportunities

All options for expenditure reduction and priority improvements are then considered by members and officers, subjected to a consultation process, and eventually determined by Full Council each February, when the Council Tax is set.

Further information: Executive and Select Committee budget reports

Assurance required:

Chief Financial Officer – process as described above is being applied corporately

2.5 Asset management strategy and capital strategy

The Capital Strategy and Asset Management Plan are developed through a Corporate Capital Working Group of Senior Managers. Capital Investment options are assessed having regard to the Council's corporate objectives and recommendations are made to Strategic Director's Group. Proposals are then considered by the Executive, who make recommendations to Council in respect of the annual capital programme. Capital expenditure & capital receipts are monitored on an ongoing basis, and undertaken in accordance with The Prudential Code for Capital finance in Local Authorities as produced by the Chartered Institute of Public Finance & Accountancy (CIPFA).

The Council has also adopted the CIPFA Code of Practice in respect of Treasury Management in the Public services. The adoption of this code is the first prudential indicator in respect of Treasury Management and was adopted by the Council in February 2003.

Further information: Capital Strategy and Asset Management Plan

Assurance required:

Financial Services Manager – process as described above is being applied corporately

2.6 Development Review Process

Through the Development Review Process, employees will establish their individual work plan and objectives for the year related ultimately to the Council's Corporate Plan. The Development Review Process will also help to identify a Personal Development Plan for each employee linked to the Council's Competency Framework.

Further information:

People Management Framework, Development Review Process, Competency Framework

Assurance required:

Heads of Service to ensure that Service Managers conduct an annual appraisal with each member of their staff.

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3 Performance management**3.1 BVPP**

The Council produces an annual Best Value Performance Plan and summary in accordance with legislative requirements and current regulations. This is audited annually as required and in 2003 received an unqualified report. The production of the plan is co-ordinated by the Corporate Policy Team using a network of Performance Indicator Co-ordinators (PIC's) to provide the necessary data and content. Internal quality assurance processes continue to be assessed by the Corporate Policy Team, internal audit and the PIC network in view of the number of individual indicators that continue to be qualified during the audit or have reservations expressed about their accuracy.

Further information: Annual Audit Report on the BVPP. Agenda and papers of the PIC meetings. BVPP2002 – 2003. Directors group reports and minutes
Assurance required: Head of Corporate Policy and Communications – process described above is being carried out. Audit manager – annual audit completed in accordance with Audit Commission requirements

3.2 QPMR Reports

In 2003 the Council introduced a process of quarterly performance management reports (QPMRs) which are reported to the Executive via the Directors Group. The QPMRs are also considered by Select Committees. The reports include achievement against the key actions required by the Annual Action, CPA and BV improvement plans, from the annual audit letter, a basket of performance indicators and PSA targets. It is produced according to the individual portfolio's of the Executive. Information is supplied by individual Heads of Service and discussed at Directors group and with Portfolio holders. Areas to watch are highlighted with explanation of any necessary corrective actions being taken. The content deliberately varies in each quarter according to reporting requirements but the fourth quarter includes an annual assessment of overall achievement against targets across the Council.

Further information : QPMR reports to the Executive each quarter since July 2003 and minutes of these meetings. Directors group agendas and minutes 2003 onwards
Assurance required: Head of Corporate Policy and Communications – framework described above continues to function and is periodically reviewed. Heads of Service identify key information, provide this on time and use it to improve performance locally.

3.3 Priority Improvement Areas

As part of its corporate performance management framework the Council has developed a mechanism to focus attention upon particular areas of concern. Known as Priority Improvement Areas (PIAs), this provides a focus upon a limited number of service areas that require improvement. The areas are selected on the basis of poor performance as derived from performance indicators and / or poor external inspection reports. The designated PIAs in 2003 were homelessness, benefits, planning and highways.

Meetings are held each quarter attended by the Leader, Deputy Leader, Chief Executive Officer, the relevant portfolio holder(s), Director and Head of Service and

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members of the corporate policy team. An action plan is produced by the service concerned and monitored at these meetings. The intention is that these services get priority for additional resources if these are needed to secure sustained improvement. The 2004/05 PIA's have recently been reviewed. Following good performance homelessness is to be removed from the programme and is to be replaced by educational attainment. A further review of the PIA programme will take place in the autumn of 2004.

Further information: Agendas and notes for PIA meetings. Improvement plans for the services concerned. Service inspections and BVPI results. Directors Group reports on criteria for PIA's

Assurance required: Head of Corporate Policy and Communications – framework functioning as described above.

3.4 Service Unit performance management framework

Individual Directorates have their own performance management frameworks to comply with particular inspection or government reporting requirements. These focus on DMTs attended by Heads of Service. Beginning in 2004/05 these will also consider a basket of indicators on a quarterly basis and the QPMR reports as part of the improved corporate framework.

Individual heads of service already contribute performance data to the QPMR process and produce service plans, reporting to the Executive and Select Committees as required. These provide links to overall corporate objectives. Some services are PIA's and some have specific PSA targets providing links with local and national improvement priorities. Directors and Executive Portfolio holders have regular meetings with Heads of service where performance issues can be raised and resolved. There are management teams for individual services while individual performance is addressed through staff supervision sessions and during development reviews.

The Corporate Policy & Communications team also provide a central support service in order to encourage and facilitate a consistent approach to service unit performance.

Further information: Individual Service plans, QPMR reports to Executive and Select Committees, Directorate and Unit management team agendas and notes. Personal development review papers

Assurance required: Individual service heads to confirm that adequate performance management arrangements are in place locally and contribute as required to the corporate processes

4 Risk management framework

4.1 General framework

The Council has a comprehensive framework for identifying and managing risk. Each service head is required to maintain a service risk register and to review it regularly, including as part of each service planning round. They are required to design appropriate controls to minimise service risks and to monitor the application of these against planned timescales.

Service risks are examined by the Risk Management Group and any risks with a

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corporate significance are moved to the corporate risk register where they can be performance managed at that level, again by monitoring the application of agreed controls.

The Risk Management Group is accountable to the Strategic Risk Group which comprises directors and the Deputy Leader. A small number of strategic risks is managed directly by that group.

Risks which require additional resources can be fed into the resource prioritisation process from service plans, through the Risk Management Group, or through the Strategic Risk Group.

Further information: Isle of Wight Council Risk Management Framework

Assurance required:

Compliance and Risk Manager – Corporate framework functioning as described above
Service Heads – Service risk registers being maintained and managed, and incorporated in the service planning process

4.2 Business continuity

The Council is putting in place Business Continuity Plans across the authority. The plans cover 3 stages of incident management.

- i) Emergency Response
- ii) Crisis Management
- iii) Business Recovery

The plans are currently being embedded into departments and will be subject to regular review and exercising to ensure continued validity.

All new projects have to include consideration of Business Continuity and to ensure that on completion the project delivers a Business Continuity Plan, which conforms to the corporate model.

Further information: Business Continuity Plans

Assurance required:

Heads of Service to review and exercise Business Continuity Plans regularly and incorporate Business Continuity Planning into new projects. Also to ensure that Business Continuity is considered within the Risks of any decisions the Executive is asked to make.

4.3 Health & Safety Policy

Through its health and safety policy the Council aims to minimise the incidence of workplace risks by providing and maintaining a safe and healthy workplace

Further information:

Health and Safety Manual

Assurance required:

Head of Consumer Protection to ensure health and safety policies and procedures are regularly reviewed and updated.

Strategic Directors ensure that health and safety policy and rules are effectively managed.

Heads of Service ensure that arrangements are in place to safeguard the health and

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safety of all employees within their service areas and that Service Managers and supervisors are responsible for effective day-to-day management of arrangements for the health and safety of their employees.

4.4 Information Management

Information is held in many forms, in many places within the Council. There are corporate and departmental policies ensuring statutory compliance, (particularly in relation to the Data Protection Act and Freedom of Information Acts) and protocols to ensure that information is shared within and outside of the Council in order to deliver services, to achieve corporate objectives and to insure information is not used for purposes other than those for which it is acquired and kept.

The Council will adopt a corporate standard of information security, such as BS7799, to ensure uniformly high standards of information security.

Further information: NCC BS7799 gap analysis
Assurance required:
 Head of Organisational Development – Corporate standard of information security has been adopted

5 Procurement strategy

5.1 General framework

The Council has a Procurement Strategy, approved by the Executive Committee in 2002. The Strategy, together with an Action Plan sets out the strategic actions that the Council will implement to achieve strategic direction and focus over its procurement activity. More detailed prescription of how the Council's procurements are conducted are set out in Contract Standing Orders (see below).

The Council also sets and monitors its procurement spending through the annual budget process. There are also limits set for the authorisation levels of each officer, controlling the value of any order they can initiate.

Both Financial Regulations and Contract Standing Orders specify the operational procedures in relation to the ordering and payment for , goods, services and works that the Council needs.

The Internal Audit, Creditor Payment, and Procurement functions all play a part in monitoring adherence to the rules governing procurement.

Further information: The Council's Procurement Strategy, Contract Standing Orders; Financial Regulations; Code of Practice for the certification of payments. Codes of Conduct, Policy for Declaring Conflicts of Interest, Gifts and Hospitality policy. Fitness check report by the IDeA. The Best Value Review of Procurement – Improvement Plan. Procurement aspects of Service Planning Guidance.

Assurance required :

Compliance & Risk Manager that policies and procedures are followed.

Service Heads: That they comply with Contract Standing Orders. That they maintain and review authorised lists for signing orders and certifying payments. That they assign responsibility for managing significant contracts. That they identify forthcoming

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procurements in their service plans.

5.2 Strategic Procurement and Gateway reviews

The Council is in the process of developing and implementing a Gateway review process which will control the progress of individual procurements, subjecting them to ‘gateways’ at appropriate stages in their development. The Process will be delivered in a proportionate way, with those that represent the most risk and those that are of strategic importance receiving the greatest attention. Risk will be assessed using an appropriate risk assessment tool.

Further information: Outline of proposed Gateway Review process. ‘PASS’ risk assessment tool. Best Value Review of Procurement – Improvement Plan.

Assurance required: Compliance and Risk Manager that risk based framework is in place. Heads of Service to adhere to Service Planning Guidance to identify and record significant forthcoming procurements in their service plans.

5.3 Contract Standing Orders

The Council’s procurement practices and procedures are set out in its Contract Standing Orders. These require a proportionate degree of rigour and detail according to the value and strategic importance of a procurement. They also set out what competitive process is required, ranging from simple market testing through to the requirements of the EU procurement regulations.

Further information: Contract Standing Orders
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Assurance required: Heads of Service that Contract Standing Orders are being followed.

6 Project management

6.1 Corporate framework

Developing and implementing a consistent approach to managing projects is a key element of the Councils CPA Improvement plan. As part of a baseline assessment exercise in 2003 the Audit Commission provided support in the form of a survey and interview programme to establish the scale of project work and the current skills base in the Authority. This concluded with a staff workshop to establish the basic IW project management process.

Following the baseline exercise, the next phase involves delivery of a training programme to ensure consistently high standards of project management. The programme will need to be supported by procedures and organisational changes including a project register that links to the risk register, a network of qualified managers, better use of existing trained staff and a project support function. A proportionate approach will be recommended to Directors group in early summer 2004 with Prince 2 becoming the overall standard for major projects and minimum standards applying to other projects.

Further information: Reports to Directors Group 2004, IW Best practice manual – project management (to be written)

Assurance required: Head of Corporate Policy and Communication - establish IWPM
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approach. Heads of service to ensure projects are identified and appropriate standards applied, including the use of Prince 2 or other suitable project management standards where appropriate.

7 Financial controls

7.1 Financial Regulations

The Council has set down a comprehensive set of Financial Procedure Rules which officers and members are required to abide by, and which cover

- Roles and responsibilities of members, directors, service heads and the Chief Financial Officer
- General accounting requirements
- Buying goods and services
- Receiving income
- Safeguarding assets
- Transactions involving staff and members
- Budget management

Compliance with the requirements is monitored by the Internal Audit Section on an on-going basis.

Further information: Isle of Wight Council Financial Procedure Rules

Assurance required:

Chief Internal Auditor – compliance monitored through the audit programme
Service heads – all relevant staff are made aware of the Rules and their relevance to each job.

7.2 Budget Management and Financial Control

The Council's arrangements for budget management and financial control are set out in the Financial Procedure Rules and Contract Standing Orders. Financial control is an integral part of the wider framework of internal control and risk management, and can be defined as 'the operation of a financial control environment which works to safeguard resources and help ensure that their optimum use contributes to the goals and objectives of the organisation'. Within the context of financial control, the roles and responsibilities of the Chief Financial Officer, elected members, directors and service heads are clearly stated in the Financial Procedure Rules.

Budget management requirements for the Council are detailed in the Financial Procedure Rules, and the financial procedures related to the management of contracts are included within the Contract Standing Orders

Further information: Isle of Wight Council Financial Procedure Rules and Contract Standing Orders

Assurance required:

Chief Internal Auditor – compliance monitored through the audit programme
Accountancy Services Manager – compliance monitored on a regular basis through budget monitoring and control
Service heads – all relevant staff are made aware of the Rules and their relevance to each

7.3 Accounting Standards

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The Accounts and Audit Regulations 2003 require the Council to ensure that the financial management of the Council is adequate and effective and that the Council has a sound system of internal control which facilitates the effective exercise of the Council's functions. In addition to the statutory background, the Chartered Institute of Public Finance and Accountancy has produced various codes of practice with which the Council's finance staff are obliged to comply, thereby establishing professional standards which effectively take the place of legislation. CIPFA has also produced Standards of Professional Practice which require all members to comply with any standard that regulates an area of their work.

Further information: Chartered Institute of Public Finance and Accountancy Standards of Professional Practice

Assurance required:

Accountancy Services Manager – statutory requirements and compliance with relevant codes of practice and standards of professional practice are being discharged as required

7.4 Financial Statements and Annual Report

In addition to financial management arrangements, the Accounts and Audit Regulations 2003 also require the Council to prepare in accordance with proper practices a statement of accounts for each year, to include specified information. The Council is required to ensure that the statement of accounts is prepared in accordance with the Regulations. The statement should be signed by the responsible finance officer prior to approval, and once approval is given by members, the statement should also be signed and dated by the person presiding at the committee or meeting at which the approval was given. This approval by elected members should be as soon as reasonably practicable, but in any event prior to the date specified in the Regulations. Once approved, the statement should be published, and is subject to a period of public inspection and a full external audit. The audit is also required to be concluded prior to the date specified in the Regulations.

Further information: Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice

Assurance required:

Accountancy Services Manager – statutory requirements and compliance with relevant codes of practice are being discharged as required

7.5 Internal Audit

The council maintains an internal audit function consisting of seven full time equivalent staff members. The role of internal audit is to be an independent, objective assurance and consulting activity designed to add value and improve the council's operations. It helps the council to accomplish its objectives by bringing a systematic, disciplined approach to the evaluation and improvement of the effectiveness of risk management, control and governance processes. Internal audit's independence is maintained by being free from any non-audit duties with unrestricted access to records and the right to seek explanations from all employees including the Chief Executive Officer and strategic directors. The audit approach is risk based ensuring scarce audit resources are directed at the areas of greatest need. All audit staff are appropriately qualified.

Further information: Isle of Wight Council Internal Audit Charter, the Council's

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Financial Regulations, Audit Panel reports on internal audit activity.

Assurance required:

Chief Internal Auditor – The council's internal control system is functioning in compliance with managements' expectations and any impairments to the adequacy and effectiveness of the internal control system are identified and reported to management to enable rectification of identified weaknesses. The council's external auditors give assurance on the extent to which the internal audit function is effective and whether their work can be relied upon to assist the development of the external auditors opinion on the council's control systems and the published financial statements.

7.6 Audit Panel

The council has established an audit panel of non-executive elected members to have oversight of the adequacy and effectiveness of the council's corporate governance, risk management and internal control frameworks. It receives regular reports from internal and external auditors to allow it to discharge its scrutiny function over these areas. It also has a role in measuring the effectiveness of both the internal and external and external audit functions.

Further information: Isle of Wight Council Audit Panel Terms of Reference, Agenda and Minutes of the Audit Panel.

Assurance required:

Monitoring Officer - The Audit Panel ensures that the Council's audit arrangements effectively monitor corporate governance, risk management and internal control standards and expectations and ensure that any shortcomings are identified and rectified.

7.7 Counter Fraud Unit

The Council has a benefit fraud team located in the Revenues and Benefits section comprising a Senior Fraud Officer and three investigators.

Plans and procedures are in place encompassing the requirements of both the DWP SAFE policies and the Benefit Performance Standards. This ensures action including the prosecution of offenders is taken where fraud is proven.

All case information is held securely with access restricted to fraud staff and the Revenues and Benefits Manger. None of the fraud staff have update access to the benefit systems.

The Council are set overall fraud targets by the DWP and this is translated into individual targets for all investigators as recommended by the Benefit Fraud Inspectorate. Performance against target is monitored monthly.

Further information: DWP Benefit Performance Standards

Assurance required:

Revenues and Benefits Manager – Counter Fraud Unit is operating to standard.

7.8 Separation of Duties

The council maintains a system of internal check as a safeguard against financial irregularity. The system comprises the separation of the duties of calculating, recording, checking and examining sums due to and from the council from the duties of collecting

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or disbursing those sums. Financial systems and procedures are designed to separate as completely as possible these functions and in particular to ensure that no single officer is able to undertake all stages of a transaction

Further information: Isle of Wight Council Financial Regulations

Assurance required:

Heads of Service – That financial regulations in general, and the principles of internal check in particular, are being complied with in their areas of responsibility.

7.9 Fraud policy

Regarding general fraud, the council maintains a policy of zero tolerance of fraudulent or corrupt behaviour that involves the loss of public money. All instances of potential fraud/corruption are rigorously investigated and if confirmed as being fraudulent, appropriate sanctions against the perpetrator are applied in all instances.

Further information: Isle of Wight Council Anti-Fraud Policy

Assurance required:

Heads of Service – That the anti-fraud policy is being complied with in their areas of responsibility

7.10 External audit

It is a statutory requirement that the council is subject to a robust system of external audit. The council's external auditor is the Audit Commission. Based on their Audit Code of Practice, the Audit Commission not only audit the council's financial statements but also have a duty to seek to assure the public that the council conducts its business economically, efficiently and effectively and that best value is secured in all areas of service delivery. To facilitate the assessment of best value, the Commission maintains an inspectorate specifically to assess the value of the council's services and the results of their and other inspectorates work are amalgamated in the Comprehensive Performance Assessment of the council's overall performance.

Further information: The Audit Code of Practice

Assurance required:

Chief Financial Officer – That the external audit function is sufficiently robust to satisfy statutory requirements, meets the needs of the council and does itself provide value for money for the community we serve.

8 Human resources issues

8.1 Overall HR strategy and policies

The Council has adopted a People Management Strategy which sets the context and provides the direction for the delivery of people management objectives. The Strategy recognises that the delivery of successful and cost-effective services relies upon the availability of committed and skilled employees who are valued for their efforts.

To enable it to conduct its day-to-day business, the Council has adopted a range of HR policies and procedures which have been approved by the HR Committee. Any proposals for new or changes to existing policies are drawn up by the Head of Human Resources after consultation with Directors, Heads of Service, recognised trade unions

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and other interested parties.

Further information:

People Management Strategy, Framework for People Management

Assurance required:

Head of HR to monitor implementation of People Management Strategy Action Plan and standards set out in Framework for People Management.

8.2 People Management

Day-to-day people management activities which include recruitment and selection, appraisal and performance management, training and development, pay and benefits, industrial and employee relations, workforce planning are undertaken in accordance with the Council's constitution, HR policies and procedures and the standards set out in the Framework for People Management.

Further information:

Council constitution, Framework for People Management

Assurance required:

Heads of Service to ensure compliance with people management standards.
Head of HR to monitor application of policies, procedures and standards of people management practice and to report annually to HR Committee on relevant performance indicators.

8.3 Equalities

The council is obliged by law to meet the requirements of the Race Relations (Amendment) Act 2000 and to achieve Level 5 of the Equality Standards for Local Government. The Council has put into place a 'Valuing Diversity' Policy Group led by the Strategic Director of Adult and Community Services. The purpose of that group will be to lead the council in meeting the requirements of relevant legislation such as Race Relations and also Disability Discrimination, ensuring that its moral and statutory obligations are met.

The process is a long-term one, which is set out in the policies and strategies as, described below and one which is on-going and will be measured by annual review and monitoring by the Resources Select Committee.

Further information: Equality & Diversity Policy, Race Equality Scheme, Age Diversity, Equality and Harassment at Work, Equality Policy Statement, Equal Opportunities and You

Assurance required:

Director Lead will confirm the progress made in achieving the 5 levels of the Equality Standards for Local Government and meeting the legislative requirements of the Race Relations (Amendment) Act, Disability Discrimination Act, Age, Religion and Belief, Employment Equality (Sexual Orientation).

9 External Inspections

9.1 CPA

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The 2002 CPA ranked the authority as 'fair' scoring 3/4 on service delivery and 2/4 corporate governance. The 2003 annual audit letter confirmed this ranking noting that the authority's direction of travel was positive but that improvements had not yet worked through to deliver consistently improved service delivery outcomes. The Councils stated objective – as shown by its corporate plan – is to become an excellent authority and this is underpinned by the CPA improvement plan. The next CPA is due in 2005.

From 2004/05 the CPA Improvement Plan has been incorporated within the Annual Action Statement (see section 2.2.) which is subject to regular review through the QPMR process (see section 3.2.). This provides an appropriate mechanism to ensure the continuous improvement required to achieve the Council's ambitions to be recognised as an "excellent" authority.

Further information: CPA report December 2002. CPA Improvement Plan. Annual Audit letter December 2003. Audit Commission publications on the CPA. 2002 and ongoing

Assurance required: Head of Corporate Policy & Communications to ensure that the Annual Action Statement (AAS) is produced and contains the appropriate CPA improvement actions. Head of Corporate Policy & Communications to also ensure regular review of the AAS through the QPMR process.

Heads of Service to ensure that CPA improvement actions are contributed to the AAS and are subject to regular review.

Head of Corporate Policy and Communications that the authority is adequately prepared for CPA 2005

9.2 IDeA

The authority has used IDeA skills on a number of occasions. The connecting with communities project involved a senior member of IDeA staff acting as a critical friend which resulted in the creation of the Great Access to Great services project (known as GAGs) to implement electronic government and improved customer services across the Council. The peer challenge process was used as part of the Council's procurement best value review and the authority's development of a performance management system is documented on the IDeA best practice web site following a brief consultancy exercise. The Council commissioned a peer review in September 2003 that set the direction for further improvement. The review team will revisit the authority in September 2004. The Annual Action Statement (see section 2.2.) includes appropriate reference to the improvement actions identified through the Peer Review. Officers and members of the Council are accredited by the IDeA to undertake reviews and other consultancy assignments thus promoting the Council's good practice and learning from others.

Further Information: IDeA peer review report 2003

Assurance required: Head of Corporate Policy and Communications to ensure that the findings of the Peer Review are appropriately responded to and that other Directors and Heads of Service are aware of the IDeA's services and that they are used whenever appropriate.

9.3 Ofsted

The office for Standards in Education (OfSTED) is responsible for ensuring that the Local Education Authority delivers its responsibilities.

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It has conducted three-yearly inspections of this Authority in June 2000 and in September 2003. The areas for inspection include:

- The LEAs Strategy for School Improvement
- Special Educational Needs
- Promoting Social Inclusion
- Corporate Issues

The external inspection is conducted by a team of OfSTED and Audit Commission inspectors. They spend approximately 3 weeks interviewing 200+ individuals collected together, for the most part, into focus groups of no more than six. The agenda for the meetings will have been circumscribed by the desk-top analyses that the inspectors undertake before the inspection. These analyses will have developed 'working hypotheses' that are then tested through interview and further analysis of documentation.

The form of internal inspection will change with the creation of Directorates of Children's Services across the country. The focus of future inspections will be on outcomes for children. The key outcomes are:

- Being healthy.
- Staying safe.
- Enjoying and achieving.
- Making a positive contribution.
- Economic well-being.

Precisely how these outcomes will be measured is yet to be determined fully, but it is clear that the roles of services currently beyond the sphere of education will be involved strongly eg the interactive provision of health, social services and education in achieving the first category above; the interactivity of these same agencies with the police in the second.

Current reports are made available to all major stakeholders and both the substance of the findings, and the action plans for addressing the key issues raised, are debated and scrutinised by the relevant Select Committee. All plans are ratified through the political process, either by the Executive of the Council or through the delegated authority of the Portfolio Holder. Council structures are changing in line with the move to an integrated Children's Services Directorate and the newly formed Children's Services Select Committee will be the scrutinising body for the next OfSTED inspection of this Authority.

Further information: OfSTED Inspection Report September 2003, and agreed action plan.

Assurance required:

Head of Planning and Resources – agreed action plan has been incorporated in, and is monitored and updated through, the service planning and staff development framework

9.4 CSCI

On 1st April 2004, the Government introduced a new organisation to lead on the inspection, regulation and performance rating of Local Authority Social Service Departments and providers of social care. The Commission for Social Care Inspection

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(CSCI) is an independent body, established by the Government to undertake this role. Local Authorities are responsible for ensuring close co-operation with CSCI in undertaking reviews of service areas, annual performance and performance tracking exercises and, reporting any untoward incidents such as a child death. It is also a responsibility on the Authority to nominate and secure an appropriate appointment to various functions in meeting statutory requirements such as those involved in managing direct services.

This responsibility involves Officers and Members in a variety of ways but the key agents are the Strategic Director of Social Services & Housing and his/her Heads of Service.

Further information: Members briefed

Assurance required:

Strategic Director for Social Services and Housing – agreed action plan has been incorporated in, and is monitored and updated through, the service planning and staff development framework

9.5 Benefits Fraud Inspectorate (BFI)

The Housing Benefit Service is subject to inspection by the Department of Work and Pensions through the BFI. Assessment is made against a wide range of performance and security standards which have been laid down by the BFI, and an action plan for moving closer to full compliance has been agreed and is periodically monitored and updated.

Further information: BFI Inspection Report 2003, and agreed action plan.

Assurance required: Revenues & Benefits Manager – action plan in place and reflected in service plan.

Revenues and Benefits Manager – agreed action plan has been incorporated in, and is monitored and updated through, the service planning and staff development framework