

CONTENTS

<u>Explanatory Foreword</u>	2
<u>Statement of Accounting Policies</u>	3
<u>Consolidated Revenue Account</u>	5
<u>Housing Revenue Account</u>	12
<u>Collection Fund</u>	13
<u>Consolidated Balance Sheet</u>	15
<u>Cash Flow Statement</u>	26
<u>Statement of Movements in Reserves</u>	28
<u>Pension Fund</u>	30
<u>Statement of Responsibilities for the Statement of Accounts</u>	45
<u>Auditor's Opinion</u>	46

EXPLANATORY FOREWORD

The Council's Accounts for 2001-02 are set out on pages 3 to 45.

This foreword provides a brief description of the financial events affecting the Council in 2001-02 and the Council's financial position generally.

Budget

A summarised comparison of actual income and expenditure with the original budget for 2001-02 is set out below:

	Original Budget £'000s	Actual £'000s	Difference £'000s
Gross expenditure	192,824	197,464	4,640
Income	64,107	72,024	(7,917)
	<hr/>	<hr/>	<hr/>
Net Operating Expenditure	128,717	125,440	(3,277)
Less: Revenue Support Grant	(52,344)	(52,344)	0
Non-Domestic Rates	(36,068)	(36,068)	0
Council Tax	(39,841)	(39,841)	0
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Net balance before appropriations	464	(2,813)	(3,277)
Net appropriations & adjustments	(64)	2,689	2,753
	<hr/>	<hr/>	<hr/>
Change in General Fund Balance	400	(124)	(524)
Balance brought forward	(2,202)	(2,361)	(159)
	<hr/>	<hr/>	<hr/>
Balance carried forward	(1,802)	(2,485)	(683)
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Note

The Council originally set a net revenue budget of £128,653,066 for 2001-02 (including parish precepts), which necessitated a 4.2% Council Tax increase and a withdrawal of £400,000 from the General Fund. The estimated balance on the General Fund at year-end was £1,802,400.

The estimate was revised to £128,788,766 and provided a contingency for potential overspends relating to Social Services and Waste Management. The withdrawal from the General Fund was increased to £535,700 and the estimated balance on the General Fund at year-end was revised to £1,825,200.

At the end of the year, pro-active debt management coupled with continuing low levels of interest rates contributed to an actual net expenditure of £128,128,599 which resulted in a contribution of £124,466 to the General Fund. The General Fund balance at 31st March 2002 is £2,485,371.

Capital

The Council budgeted to spend £25.0 million on capital projects in 2001-02, in line with estimated resources. Final capital expenditure amounted to £19.4 million, (including Single Regeneration Budget expenditure). It has been possible on this occasion to carry forward to 2002/03 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 2002.

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

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

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

3. Basis of Charges for Capital

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

4. Capital Receipts

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

5. Grants

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

6. Deferred Charges

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

7. Debtors and Creditors

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

8. Stocks and Work in Progress

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

9. Overheads

All costs of management and administration have been fully allocated to services. The main bases of allocation used are as follows:

Staff time:	Accountancy, legal, personnel, estates, audit and best value support
Floor area:	County Hall accommodation
Actual use:	Printing, telephones, computing, exchequer and business support services

These bases are gradually being replaced where appropriate by negotiated agreements between providers of support services and their service department 'clients', covering service and charge levels.

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 1998, the Council's contribution to the Fund was increased from 8% to 8.5% with effect from 1 April 1999, to 9% with effect from 1 April 2000 and to 9.5% with effect from 1 April 2001. 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 Science notional fund, while fire-fighters' pensions are charged directly to revenue.

13. Investments

Investments are shown in the Consolidated Balance Sheet at cost. Pension Fund investments are shown at market value on 31 March 2002. Pension Fund investments held in foreign currencies are shown at market value translated into the equivalent sterling rate ruling at 31 March 2002.

CONSOLIDATED REVENUE ACCOUNT

	2001-02 Gross Expenditure	2001-02 Gross Income	2001-02 Net Expenditure	2000-01 Net Expenditure
	£	£	£	£
Expenditure on Services				
Education Services	75,668,675	8,829,193	66,839,482	63,843,649
Social Services	37,998,792	12,582,991	25,415,801	24,870,264
Cultural, Environmental & Planning Services	30,736,572	10,872,605	19,863,967	18,348,011
Highways, Roads & Transport	9,695,064	3,363,068	6,331,996	5,547,239
Fire Services	5,838,760	192,732	5,646,028	4,979,251
Housing Services (including Benefits)	37,812,030	33,926,023	3,886,007	2,746,689
Court Services (note 18)	668,396	0	668,396	832,976
Central Services	3,277,482	2,860,359	417,123	723,630
Corporate & Democratic Core	3,433,157	15,798	3,417,359	3,226,446
Unapportionable Central Overheads	489,922	0	489,922	399,826
Net Cost of General Fund Services	205,618,850	72,642,769	132,976,081	125,517,981
Housing Revenue Account	0	76,095	(76,095)	(88,016)
Net Cost of Services	205,618,850	72,718,864	132,899,986	125,429,965
Amounts due to precepting authorities			456,861	436,006
Transfer to Provisions & Reserves in lieu of interest (note 1)			867,978	942,400
Transfer from asset management revenue a/c (note 8)			(7,284,797)	(6,168,993)
Interest receivable			(1,500,485)	(1,695,139)
Net Operating Expenditure			125,439,543	118,944,239
Appropriations and Other Adjustments				
HRA surplus transferred to HRA balances			76,095	88,016
Contributions to reserves (note 2)			2,556,656	2,109,895
Loss on Council Tax Subsidy			56,305	125,808
Amount to be met from government grants and local taxpayers			128,128,599	121,267,958
Sources of Finance				
Council Taxpayers			(39,840,803)	(38,121,440)
Central Government Grants			(52,344,294)	(46,562,793)
Non-Domestic rate income			(36,067,968)	(36,572,320)
Net general fund (Surplus)/deficit			(124,466)	11,405
Balance on general fund brought forward			(2,360,905)	(2,372,310)
Balance on general fund carried forward			(2,485,371)	(2,360,905)

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

1. Interest on Internal Balances

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

2. Transfer to and from Reserves

These transfers include unspent budgets in 2001-02 which are committed against 2002-2003 and unspent budgets in 2000-01 which were applied in 2001-02.

3. Section 137 Expenditure

The Local Government Act 2000 amended the provisions of Section 137 of the Local Government Act 1972. Actual expenditure in 2001/02 amounted to £4,400 and was in respect of a contribution to RELATE. (£4,400 in 2000/01).

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 2001-02.

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 £553,581 (£456,572 in 2000-01).

6. Local Authority Goods and Services Act 1970

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

	2001-02	2000-01
	£	£
Provision of Administrative, Professional and Technical Services	75,006	72,797
Hire	568	1,448
Works Relating to Land and Buildings	1,909	11,588
	<hr/> 77,483 <hr/>	<hr/> 85,833 <hr/>

The services were provided to the Riverside Centre, South Wight and Medina Housing Associations, SCOPAC, Isle of Wight Youth Trust, the Probation Service, Parish Councils, Magistrates Court, Citizens Advice Bureau, West Wight Regeneration Scheme, Local Government Association, SEEDA 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 2001-02

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
	2001-02	2001-02	2001-02
	£	£	£
Expenditure			
Employee expenses	217,821	80,946	298,767
Premises	3,350	0	3,350
Transport	15,784	5,262	21,046
Supplies and Services	16,917	4,541	21,458
Central and support service charges	80,604	32,058	112,662
	<hr/>	<hr/>	<hr/>
Total Expenditure	334,476	122,807	457,283
	<hr/>	<hr/>	<hr/>
Income			
Building Regulation charges	338,766	0	338,766
Miscellaneous income	0	2,954	2,954
	<hr/>	<hr/>	<hr/>
Total Income	338,766	2,954	341,720
	<hr/>	<hr/>	<hr/>
Surplus/(Deficit) for Year	4,290	(119,853)	(115,563)

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 2002 is transferred to the Consolidated Revenue Account.

	£
Expenditure	
Provision for Depreciation	3,963,078
Less: Excess over Minimum Revenue Provision	(1,873,940)
External Interest	5,269,313
	<hr/>
	7,358,451
Income	
Capital Charges to Services	(14,643,248)
	<hr/>
Excess of capital charges over MRP & interest	(7,284,797)
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9. Government Grants

Central Government and European Community revenue grants towards specific services were received during the year totalling £47,956,379. These are included as income offsetting service expenditure in the revenue account.

10. Operating Leases

Operating lease payments totalling £398,837 were made during the year. As at 31 March 2002 future commitments on these leases amounted to £394,872 repayable within one year and £2,565,292 repayable thereafter.

11. Associated Companies

The Council has interest in ten associated companies. Their net assets individually or jointly are not material to the accounts in 2001-02. 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.

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.

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.

The Isle of Wight Development Board Ltd was established to promote the economic development of the Island. It is a company limited by guarantee in which the Council has 100% of voting rights. It is a controlled company under the Local Government and Housing Act 1989. The net assets of the company are not material to the Council.

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.

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.

The Island Partnership advises the Council on economic matters. It is a company limited by guarantee in which the Council has 25% voting rights. It is not an influenced company or regulated.

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.

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

Associated Companies (cont)

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.

12. Pension Costs - Local Government Pension Scheme

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

	2001-02	2000-01
	£	£
Basic Contributions	3,327,519	2,817,227
(as a % of pensionable pay)	9.50	9.00
The capital cost of discretionary increases in pension payments are:	£	£
(a) approved in the year	502,169	294,022
(b) in earlier years for which payments are still being made	9,045,833	8,511,828

In accordance with Financial Reporting Standard No.17 – Retirement Benefits (FRS17) the Council is required to disclose certain information concerning assets, liabilities, income and expenditure related to pension schemes for its employees. Disclosures relating to assets and liabilities are shown in Note 49 to the Consolidated Balance Sheet.

13. Pension Costs - Teachers

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

	2001-02	2000-01
	£	£
Basic Contribution	2,303,779	2,036,527
(as a % of pensionable pay)	7.40	7.40
Enhanced years payments	302,902	266,200

14. Pension Costs - Fire-fighters

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

	2001-02	2000-01
	£	£
Charged to Revenue Account	1,011,344	760,304
(as a % of pensionable pay)	64.24	48.93
Full cost (per annum)	432,965	427,309
(as a % of pensionable pay)	27.50	27.50
Accrued liability spread over 40 years (per annum)	838,627	697,118
(as a % of pensionable pay)	53.27	44.86

15. Disclosure of Employees' Emoluments

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

Remuneration Band	2001-02		2000-01	
	Total	Left during year	Total	Left during year
£40,000 to £49,999	49	0	30	0
£50,000 to £59,999	11	3	8	1
£60,000 to £69,999	2	0	2	0
£70,000 to £79,999	2	0	2	0
£80,000 to £89,999	1	0	0	0
£90,000 to £99,999	1	0	1	0

16. Members' Allowances

The total amount of members' allowances paid in the year were £385,043 (£376,283 in 2000-01). This includes basic and special responsibility allowances.

17. Trading Operations

The Best Value Accounting Code of Practice sets out categories of trading operations which authorities should consider disclosing and detailing in a note to the Consolidated Revenue Account. For the financial year ending 31st March 2002, all such activities are included in the total cost of the relevant services and are therefore consolidated into the net cost of services. These operations are not considered to be material and therefore no separate disclosure has been made.

18. Comparatives with Preceding Financial Year

With effect from 1st April 2001, the Isle of Wight Council ceased to be the accounting body for the Probation Service. In 2000-01 the net cost of the Probation Service was £189,412 and this is included under Court Services. In 2001-02 Court Services represents the costs of the Magistrates' and Coroners' Court Services only.

19. Related Parties Transactions

The 1998 statutory Code of Practice on Local Authority Accounting requires that all local authorities should disclose material transactions with related parties.

For the purposes of the Code, 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
- Chief Officers
- The Council's pension fund

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

	Payments
	£'000s
Environmental Agency Southern Region:-	
Land Drainage Precept	419
Southern Sea Fisheries Precept	57
Osel Enterprises Ltd	327
Riverside Centre Ltd	256
Island Youth Water Activities (IW) Ltd	49
	<hr/>
	1,108
	<hr/>

For elected members and chief officers, 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 Chief Officers were requested to disclose any related party transactions.

There are eleven relevant and material disclosures from members and Chief Officers. The total value of these disclosures is £283,993. Three members have not responded to requests for information.

HOUSING REVENUE ACCOUNT

		2001-02	2000-01
	£	£	£
Income			
Gross Rental Income	0		(110,707)
Item 8 Determination (note 23)	(76,095)		(854,410)
Other Income	0		(1,021)
Total Income		(76,095)	(966,138)
Expenditure			
Supervision & Management	0		70,009
Temporary Accommodation (note 20)	0		2,002
Rent Rebates (note 21)	0		8,759
Surplus on Notional HRA (note 23)	0		797,352
Total Expenditure		0	878,122
(Surplus)/deficit for year		(76,095)	(88,016)
HRA balance brought forward		76,095	164,111
HRA balance carried forward		0	76,095

NOTES TO HOUSING REVENUE ACCOUNT

20. **Temporary Accommodation**
These costs relate to the provision of Council owned bed and breakfast accommodation and a small number of other temporary accommodation units.
21. **Rent Rebates**
Financial assistance is given to tenants under Housing Benefit regulations. Rebates granted form part of the overall calculation of Housing subsidy, to which the Council has no current entitlement.
22. **Rent Arrears**
As at 31st March 2002, rent arrears amounted to £3,749 and an equivalent provision has been made in the accounts. (£3,525 as at 31st March 2001).
23. **Notional HRA and Item 8 Determination**
These transfers between the HRA and General Fund are in accordance with Government determinations. A transfer from the General Fund was made in the year to offset the previously accumulated deficit.
24. **The Housing Revenue Account (Isle of Wight) Direction 2001**
On the 30th March 2001 the Council was granted a direction permitting it to account for HRA properties outside the HRA with effect from 1st April 2001. The Secretary of State has consented to the closure of the Housing Revenue Account with effect from 31st March 2002.

THE COLLECTION FUND

	£	2001-02 £	2000-01 £
Income			
Council Tax (note 26)		36,735,668	34,726,563
Transfers from General Fund:-			
Council Tax Benefits	6,073,471		5,945,856
Contribution re: Discretionary Relief	66,591		54,119
		6,140,062	5,999,975
Income collectable from business ratepayers (note 25)		21,313,087	18,715,269
		64,188,817	59,441,807
Expenditure			
Isle of Wight Council Precept		39,840,803	38,121,440
Police Precept		2,935,860	2,734,248
Business Rate:-			
Payment to National Pool	21,195,401		18,172,550
Costs of Collection	256,793		257,363
		21,452,194	18,429,913
Provision for Bad Debts		9,923	432,627
Adjustment of previous years' community charge		(416)	(2,316)
		64,238,364	59,715,912
Collection Fund Balance at 31st March			
		2001-02 £	2000-01 £
Balance on Fund at start of year		(109,095)	(383,200)
Deficit for Year		49,547	274,105
Balance on Fund Carried Forward		(59,548)	(109,095)

NOTES TO THE COLLECTION FUND

25. The total non-domestic rateable value at 31 March 2002 was £56,865,946 and the non-domestic rate multiplier for the year was 43.0p.

26. The following details the number of properties in each valuation band of the tax base for 2001-02:-

A	B	C	D	E	F	G	H
6,456	13,045	13,463	10,769	5,717	2,490	1,175	73

These equated to 49,875.3 Band D equivalent properties and after making a 0.8% allowance for non-collection and changes in the valuation list, a tax base of 49,476.0 was approved.

27. The following precepts were made on the fund in 2001-02:-

	£
Isle of Wight Council	39,840,803
Police	2,935,860
Total	<u>42,776,663</u>

Top

CONSOLIDATED BALANCE SHEET

31 March 2001		31 March 2002
£		£
	Net Fixed Assets (note 28)	
157,157,520	Land and Buildings	172,213,148
28,459,054	Infrastructure	33,930,744
6,951,971	Vehicles, Plant, Furniture & Equipment	7,373,053
1,660,079	Community Assets	2,949,605
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194,228,624		216,466,550
1,328,582	Deferred Charges (note 28)	1,037,439
68,770	Investments (note 31)	46,536
1,352,209	Long Term Debtors (note 29)	966,726
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196,978,185	Total Long Term Assets	218,517,251
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	Current Assets	
632,060	Stock & Work in Progress (note 30)	751,081
8,929,037	Debtors & Payments in Advance (note 32)	7,633,136
21,700,000	Temporary Advances (note 34)	25,100,000
898,042	Cash in bank and in hand	1,588,819
<hr/>		<hr/>
32,159,139		35,073,036
	Current Liabilities	
15,703,300	Creditors & Receipts in Advance (note 33)	14,962,929
582,813	External Borrowing repayable within one year (note 35)	628,601
2,549,141	Bank Overdraft	3,769,047
<hr/>		<hr/>
18,835,254		19,360,577
<hr/>		<hr/>
13,323,885	Net Current Assets/(Liabilities)	15,712,459
<hr/>		<hr/>
	Long Term Liabilities	
86,497,472	External Borrowing repayable in more than one year (note 35)	96,496,508
622,758	Deferred Credits (note 40)	240,748
7,399,173	Provisions (note 38)	7,039,996
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94,519,403		103,777,252
<hr/>		<hr/>
115,782,667	Total Net Assets	130,452,458
<hr/>		<hr/>
	Financed By	
13,358,422	Earmarked Reserves (note 39)	16,352,942
67,453,221	Fixed Asset Restatement Reserve (note 41)	77,056,360
29,360,582	Capital Financing Reserve (note 42)	34,027,230
737,521	Capital Receipts Unapplied (note 36)	73,147
2,479,016	Capital Grants Unapplied (note 37)	397,860
2,360,905	General Fund Balance	2,485,371
(76,095)	Housing Revenue Account	0
109,095	Surplus on Collection Fund	59,548
<hr/>		<hr/>
115,782,667	Total Reserves	130,452,458
<hr/>		<hr/>

NOTES TO THE CONSOLIDATED BALANCE SHEET

28. Fixed Assets

Movement in fixed assets were as follows:

	Land and Buildings £	Infrastructure £	Vehicles Plant Furniture & Equipment £	Community Assets £	Total £
Balance at 1 April	157,157,520	28,459,054	6,951,971	1,660,079	194,228,624
Expenditure in year	8,625,488	6,553,290	879,898	84,957	16,143,633
Depreciation	(1,942,999)	(1,081,600)	(458,816)	(25,431)	(3,508,846)
Disposals	(525,750)	0	0	(45,000)	(570,750)
Revalued in year	8,898,889	0	0	1,275,000	10,173,889
Balance at 31 March	172,213,148	33,930,744	7,373,053	2,949,605	216,466,550

The main items of capital expenditure were:-

	£
Road Improvements	5,218,574
Sandown Dinosaur Museum	1,231,757
Carisbrooke High School Development	854,489
Lake Middle School – Extension	837,492
Lynbottom Tip – Phase 3	685,327
Northwood Primary School – Alterations & extensions	434,753
Love Lane Primary School – Replace Classroom Block	404,385

In addition, major contracts had been entered into with the following outstanding sums at 31 March 2002:-

	£
Sandown /Shanklin Cliff Stabilisation (Revenue)	483,827
Kitbridge Middle School – Phase 1 Extension	428,817
Forelands Middle School – Improve Circulation	368,169
Lynbottom Tip – Phase 3	329,924

Deferred Charges

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

Movement in Deferred Charges

	Balance at 1 April £	Expenditure in year £	Written out in year £	Balance at 31 March £
Improvement Grants	0	1,151,180	(1,151,180)	0
Housing Association Grant	0	801,097	(801,097)	0
Reorganisation Costs	1,328,582	0	(291,143)	1,037,439
Single Regeneration Budgets	0	803,545	(803,545)	0
Other Expenditure	0	475,409	(475,409)	0
Total	1,328,582	3,231,231	(3,522,374)	1,037,439

Capital Expenditure in 2001-02 was financed as follows:-

	£
Credit Approvals	10,475,665
Capital Receipts	1,784,438
Government Grant	6,998,379
Accrued Expenditure unfinanced	116,382
Total	19,374,864

Information on Fixed Assets

An analysis of fixed assets at 31 March is:

	2002	2001
Libraries	11	11
Museums	4	3
Tourist Information Centres	4	4
Allotment sites	21	21
Park areas & amenity sites	210	210
Theatres	2	2
Shanklin Lift	1	1
Leisure Centres	2	2
Schools *	51	51
with a - sports centre	3	3
- theatre	1	1
- swimming pool	1	1
Other Educational properties *	20	20
Fire Stations	10	10
Crematorium	1	1
Courts	1	1
Cemeteries	12	12
Cemetery Lodges	0	2
Guildhall	1	1
Waste Derived Fuel Plant	1	1
Refuse Disposal Sites	2	2
Toilet Blocks	81	81
Car Parks	78	78
Harbours	2	2
Residential Homes for the Elderly	4	4
Resource Centres for the Elderly	2	2
Group Homes	7	8
Family Centre	1	1
Day/Community Centres	12	12
Other Social Services Properties	20	20
Hostels	1	1
Highways Depots and Other Premises	10	10
Chain Ferry and Terminals	1	1
Smallholdings	0	2
Industrial Estates	8	8
Council Dwellings	5	5
Garage Sites	3	3
County Hall	1	1
Other Office Premises	22	22
Other Premises & Land Sites	37	37
Vehicles and Major Plant - owned	85	114
- leased	109	108
Roads and Bridges (Km)	797.3	797.3
Cycleways (km)	36.3	13.5
Coastal Defences (km)	41	41

* Excluding church schools not owned by Isle of Wight Council.

29. 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 2002 the balance amounted to £966,726.

30. Stocks and Work-in-Progress

	31 March 2002	31 March 2001
	£	£
Works-in-Progress	122,028	88,895
Stocks	629,053	543,165
Balance at end of year	751,081	632,060

31. Investments

These comprise £15,930 in Government Stocks (2000-01 £15,930) and an equity holding of £30,606 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.

32. Debtors and Payments in Advance

	31 March 2002	31 March 2001
	£	£
Government Departments	1,463,499	3,002,214
Local Taxpayers	1,726,991	1,911,879
Other Organisations and Individuals	6,024,101	5,603,194
	9,214,591	10,517,287
less Provision for Bad Debts	(1,581,455)	(1,588,250)
Balance at end of year	7,633,136	8,929,037

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

33. Creditors and Receipts in Advance

	31 March 2002	31 March 2001
	£	£
Government Departments	3,363,531	3,592,823
Local Taxpayers	1,374,786	1,299,879
Other Organisations & Individuals	10,224,612	10,810,598
Balance at end of year	14,962,929	15,703,300

34. Temporary Advances

The amount shown at 31 March 2002 principally involved the temporary investment of surplus cash flows and internal funds.

35. External Borrowing

	31 March 2002	31 March 2001
	£	£
Repayable in 1-2 years	1,500,983	962
Repayable in 2-5 years	1,189,005	2,688,934
Repayable in 5-10 years	8,005,576	8,005,526
Repayable in more than 10 years	85,800,944	75,802,050
	<hr/>	<hr/>
Repayable in more than one year	96,496,508	86,497,472
Repayable within one year	628,601	582,813
	<hr/>	<hr/>
Total External Borrowing	97,125,109	87,080,285
	<hr/>	<hr/>
Of which, Public Works Loan Board (PWLB)	85,495,666	80,496,478

36. 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 2002	31 March 2001
	£	£
Balance at beginning of year	737,521	2,217,507
Sale of Capital Assets	1,120,064	1,787,390
	<hr/>	<hr/>
	1,857,585	4,004,897
Less: Applied to capital	(1,784,438)	(3,267,376)
	<hr/>	<hr/>
Balance at end of year	73,147	737,521
	<hr/>	<hr/>

37. Capital Grants

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

	31 March 2002 £	31 March 2001 £
Balance at beginning of year	2,479,016	2,701,212
Capital Grants Received	4,917,223	3,872,588
	7,396,239	6,573,800
Less: Applied to Capital	(6,998,379)	(4,094,784)
Balance at end of year	397,860	2,479,016

38. Provisions

	Balance 1 April £	Receipts £	Payments £	Balance 31 March £
Insurance Liabilities Fund	6,738,350	408,543	725,022	6,421,871
Redundancy Fund	344,868	35,489	0	380,357
Holiday Pay Provision	90,298	4,294	0	94,592
Magistrates' Court Liabilities	15,000	0	0	15,000
Claims Against Highways Authority	33,157	1,577	0	34,734
Waste Management Contract Claims	177,500	93,442	177,500	93,442
Total	7,399,173	543,345	902,522	7,039,996

39. Earmarked Reserves

	Balance 1 April £	Contributions £	Payments £	Balance 31 March £
Capital Slippage Reserve	661,374	1,027,563	0	1,688,937
Repairs & Renewals Funds	3,458,837	733,716	1,153,433	3,039,120
General Earmarked Reserves	1,961,418	2,355,302	1,930,414	2,386,306
School Delegated Balances	2,527,045	846,273	1,077,823	2,295,495
General Insurance Reserves	2,550,789	1,046,312	309,000	3,288,101
Other Reserves	2,198,959	2,424,208	968,184	3,654,983
Total	13,358,422	8,433,374	5,438,854	16,352,942

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

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

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

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

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

40. Deferred Credits

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

41. Fixed Asset Restatement Reserve

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

42. 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 2002	31 March 2001
	£	£
Balance at beginning of year	29,360,582	28,214,852
Minimum Revenue Provision Adjustment	(1,873,940)	(1,264,451)
Financing of Deferred Charges	(3,522,372)	(4,470,849)
Set Aside Receipts	825,911	1,167,850
Useable Receipts Applied	1,784,438	3,267,376
Capital Grants Applied	6,998,379	4,094,784
Loan Repayment Applied	0	(1,648,980)
Depreciation adjustment	454,232	0
Balance at end of year	34,027,230	29,360,582

43. 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 2001	1,100,349
Minimum Revenue Provision	1,797,995
Housing Association Grant	801,097
Other Capital Receipts	24,814
	<hr/>
	3,724,255
Applied in Year	475,665
	<hr/>
Balance as at 31 March 2002	3,248,590
	<hr/>

44. Government Grants

Capital Grants of £6,998,379 relating to capital investment have been credited to the Capital Financing Reserve. These principally relate to Education, Single Regeneration Budget and Millennium Commission Schemes.

45. Trust Funds and Other Balances

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

	31 March 2002	31 March 2001
	£	£
Trust Funds Etc	117,957	115,993
Cash in Safekeeping	6,075	6,075
Amenity Funds	71,239	69,502
	<hr/>	<hr/>
Total	195,271	191,570
	<hr/>	<hr/>

46. 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.

47. 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.

Impairment of Fixed Assets as recognised by Financial Reporting Standard (FRS) 11 has occurred in respect of significant landslips, the final costs of which are currently being evaluated.

The Council is the guarantor of rent for two buildings currently operated by the Isle of Wight Partnership.

The Council could face a potential cost of up to £500,000 of claims in respect of charges made before 1st April 2000 under Section 117 of the Mental Health Act.

There are a number of other legal claims and Ombudsman cases with a potential total liability of up to £230,000.

48. Post Balance Sheet Event

The promotion of the Isle of Wight Music Festival in June 2002 incurred an estimated net loss of approximately £300,000, for which there was no budget provision in the 2002/03 estimates.

49. 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 the Council, but the teachers' and fire-fighters' pension liabilities are not covered by this Fund. The incorporation of FRS 17 requirements for Local Authorities is being phased in over the next three financial years and this disclosure meets the transitional requirements.

The Council's assets and liabilities at 31 March 2002 amounted to:

	£000's
Estimated Employer Assets	148,942
Total Value of Liabilities	168,479
	<hr/>
Net Pension Liability	(19,537)
	<hr/>

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 actuarial valuation of the Isle of Wight Pension Fund is based on the position as at 31 March 2002 and has been assessed by Hymans Robertson, an independent firm of actuaries. The main assumptions used in their calculations are:

Price increases	2.8%
Salary increases	4.3%
Pension increases	2.8%
Discount rate	6.4%

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

Assets (Whole Fund)	Long Term Return % per annum	Fund Value at 31 March 2002 £000's	Expected Return £000's per annum
Equities	7.5%	137,405	10,305
Bonds	5.5%	26,337	1,449
Property	6.0%	0	0
Cash	4.0%	6,378	254
		<hr/>	<hr/>
Total		170,120	12,008
		<hr/>	<hr/>

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

CASH FLOW STATEMENT FOR YEAR ENDED 31 MARCH 2002

		2001-02	2000-01
	£	£	£
Revenue Activities			
<u>Cash Outflows</u>			
Cash paid to and on behalf of employees	86,987,773		78,447,924
Other operating cash payments	107,512,960		94,590,478
		194,500,733	173,038,402
<u>Cash Inflows</u>			
Rents		(673,096)	(714,063)
Council Tax Income		(37,029,913)	(35,074,840)
Non-Domestic Rate Income		(36,067,968)	(37,080,454)
Revenue Support Grant		(52,344,294)	(46,562,793)
Other Government Grants		(47,956,379)	(40,937,789)
Cash Received for Goods and Services		(24,686,390)	(25,916,347)
Revenue Activities Cash Flow (note 51)		(4,257,307)	(13,247,884)
Servicing of Finance			
Interest paid		5,269,313	5,638,109
Interest Received		(1,500,485)	(1,695,139)
		(488,479)	(9,304,914)
Capital Activities			
<u>Cash Outflows</u>			
Purchases of Fixed Assets		16,143,633	11,924,495
Other Capitalised Expenditure		3,231,231	4,111,196
<u>Cash Inflows</u>			
Sale of Fixed Assets	(1,144,878)		(1,787,390)
Capital Grants Received	(4,917,223)		(3,872,588)
		(6,062,101)	(5,659,978)
		13,312,763	10,375,713
Net Cash (Inflow)/Outflow Before Financing		12,824,284	1,070,799
Financing			
Repayments of Amounts Borrowed & Temporary Advances		799	5,027,873
New Loans Raised		(10,000,000)	(8,700,000)
		(9,999,201)	(3,672,127)
(Increase)/Reduction in cash and cash equivalents (note 52)		2,825,083	(2,601,328)

Note 50

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 51 and 52.

Note 51

	2001-02	2000-01
	£	£
General Fund movement as per Consolidated Revenue Account	(124,466)	11,405
Increase/(reduction) in Stock and Work in Progress	119,021	17,240
Increase/(reduction) in Debtors	(1,295,901)	1,018,163
(Increase)/reduction in Creditors	740,371	(3,650,136)
Transfers to/(from) Reserves & other non-cash transactions	72,496	(6,701,586)
Interest Payments	(5,269,313)	(5,638,109)
Interest Receipts	1,500,485	1,695,139
Revenue Activities Net Cash Flow	(4,257,307)	(13,247,884)

Note 52

	2001-02	2000-01
	£	£
Consolidated Balance Sheet Movements		
(Increase)/Reduction in Bank Overdrawn	(1,219,906)	707,216
Increase/(Reduction) in Cash in Hand	690,777	363,583
(Increase)/Reduction in Short Term Loans	(45,788)	(2,322,127)
Increase/(Reduction) in Bank Advances	3,400,000	(1,350,000)
(Increase)/Reduction in Cash and Cash Equivalents	2,825,083	(2,601,328)

STATEMENT OF TOTAL MOVEMENTS ON RESERVES

	2001-02 £	2000-01 £
Surplus/(deficit) for the year:		
General Fund	124,466	(11,405)
Housing Revenue Account	76,095	88,016
add back Movements on specific revenue reserves	2,944,973	2,275,162
Total Increase/(decrease) in revenue resources	3,145,534	2,351,773
Increase/(decrease) in usable capital receipts	(737,521)	(1,479,986)
Increase/(decrease) in unapplied capital grants & contributions	(2,081,156)	(222,196)
Total Increase/(decrease) in realised capital resources (note 1)	(2,818,677)	(1,702,182)
Gains/(losses) on revaluation of fixed assets	10,173,889	456,790
Impairment losses on fixed assets due to general changes in prices	0	0
Total Increase/(decrease) in unrealised value of fixed assets (note 2)	10,173,889	456,790
Value of assets sold, disposed of or decommissioned (note 3)	(570,750)	(678,000)
Capital receipts set aside	2,683,496	4,435,226
Revenue resources set aside	(1,419,708)	(2,913,431)
Movement on Government Grants Deferred	3,476,007	(376,065)
Total Increase/(decrease) in amounts set aside to finance capital investment (note 4)	4,739,795	1,145,730
Total recognised gains & losses	14,669,791	1,574,111

Notes to the Statement of Total Movements on Reserves

	Usable capital Receipts £	Unapplied Capital grants & Contributions £
1. Movements in realised capital resources		
Amounts receivable in 2001/02	1,144,878	4,917,223
Amounts applied to finance new capital investment in 2001/02	(1,882,399)	(6,998,379)
Total increase/(decrease) in realised capital resources in 2001/02	(737,521)	(2,081,156)
Balance brought forward at 1 April 2001	737,521	2,479,016
Balance carried forward at 31 March 2002 (see notes 36 & 37)	0	397,860

	Fixed asset restatement reserve £
2. Movements in unrealised value of fixed assets	
Gains/losses on revaluation of fixed assets in 2001/02	10,173,889
Impairment losses on fixed assets due to general changes in prices in 2001/02	0
	<hr/>
Total increase/(decrease) in unrealised capital resources in 2001/02	10,173,889
3. Value of assets sold, disposed of or decommissioned	
Amounts written off fixed asset balances for disposals in 2001/02	(570,750)
	<hr/>
Total movement on reserve in 2001/02	9,603,139
Balance brought forward at 1 April 2001	67,453,221
	<hr/>
Balance carried forward at 31 March 2002 (see note 41)	77,056,360
	<hr/>
	Capital Financing Reserve £
4. Movements in amounts set aside to finance capital investment	
Capital receipts set aside in 2001/02:	
- reserved receipts	801,097
- usable receipts applied	1,882,399
	<hr/>
Total Capital receipts set aside in 2001/02	2,683,496
Revenue resources set aside in 2001/02:	
Capital expenditure financed from revenue	0
	<hr/>
Total Revenue resources set aside in 2001/02	0
Depreciation adjustment	454,232
Grants applied to capital investment in 2001/02	6,998,379
Amounts credited to the asset management revenue account in 2001/02	(1,873,940)
Deferred Charges written down	(3,522,372)
	<hr/>
Movement on Government Grants Deferred	2,056,299
	<hr/>
Total increase/(decrease) in amounts set aside to finance capital investment	4,739,795
Total movement on reserve in 2001/02	4,739,795
Balance brought forward at 1 April 2001	29,360,582
	<hr/>
Balance carried forward at 31 March 2002 (see note 42)	34,100,377
	<hr/>

ISLE OF WIGHT COUNCIL PENSION FUND

Fund Account for year ended 31 March 2002

	£	2001-02 £	2000-01 £
Contributions and Benefits			
Contributions receivable:			
From Employers	(3,833,371)		(3,303,474)
From Employees or Members	(2,370,187)		(2,140,751)
Transfers in	(1,229,163)		(1,889,275)
Other Income	(2,885)		(5,760)
		(7,435,606)	(7,339,260)
Benefits Payable			
Pensions	7,251,588		6,657,737
Lump Sums (including retirement & death benefits)	1,231,579		1,236,711
Payments to and on account of leavers:-			
Refunds of contributions	33,129		15,445
Transfers out	460,705		409,243
Administrative and other expenses	301,269		295,610
		9,278,270	8,614,746
Sub Total: net withdrawals from dealings with members		(1,842,664)	(1,275,486)
Returns on Investments			
Investment income (see analysis below)		5,245,321	5,882,745
Change in market value of investments (realised & unrealised)		(9,583,566)	(15,757,575)
Investment management expenses		(285,258)	(290,860)
Sub total - Net returns on investments		(4,623,503)	(10,165,690)
Net increase (decrease) in the fund during the year		(6,466,167)	(11,441,176)
Opening Net assets of the scheme		176,586,061	188,027,237
Closing Net assets of the scheme		170,119,894	176,586,061
Analysis of Investment Income:			
Fixed Interest	552,995		1,244,074
Equities	3,234,482		3,104,216
Index Linked	111,070		153,313
Unit Trusts - Property	495,075		417,607
- Other	332,452		256,203
Interest	519,247		707,332
		5,245,321	5,882,745

ISLE OF WIGHT COUNCIL PENSION FUND

Net Assets Statement as at 31 March 2002

		2001-02	2000-01
Investments at market value:			
Fixed Interest	22,666,519		26,923,217
Equities	108,416,763		107,237,877
Index Linked	3,670,562		4,724,232
Unit Trusts – Property	9,881,405		7,898,297
Unit Trusts – Other	19,106,968		18,415,431
		<hr/>	<hr/>
		163,742,217	165,199,054
Cash - Schroder Investment Management		6,253,046	10,277,302
- Isle of Wight Council		243,264	(16,985)
Other net assets:			
Debtors - Government	18,757		17,368
- admitted bodies	73,666		59,767
- interest	25,029		48,847
- security sales	691,727		748,649
- dividends	697,069		740,395
- other	80,518		67,501
		<hr/>	<hr/>
		1,586,766	1,682,527
Less:			
Creditors - security purchases	(1,615,553)		(431,078)
- other	(89,846)		(124,759)
		<hr/>	<hr/>
		(1,705,399)	(555,837)
Net Assets		<hr/> 170,119,894 <hr/>	<hr/> 176,586,061 <hr/>

ISLE OF WIGHT COUNCIL PENSION FUND

1. Operation and Membership

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

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

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

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

At 31 March 2002

	Council	Other	Total
Number of Contributors	3,874	280	4,154
Contributing	£2,116,196	£253,991	£2,370,187
Pensions paid	£7,467,821	£1,015,347	£8,483,168

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 2,073 pensions in payment from the Fund in respect of former employees and their dependants and 1,462 former employees who have entitlement to preserved benefits.

During 2001-02, 1,266 purchases and 765 sales of investments took place following broad guidelines accepted by an investment panel which comprised Councillors Mrs Lawson, Barry, Bowker, Harris, Mundy, Pearson, Sutton and the Strategic Director for Finance and Information and County Treasurer.

The cost of purchases amounted to £90,294,365 and the net proceeds received from the sales totalled £84,193,094. The Funds managing agents for the period were Schroder Investment Management (UK) Ltd.

At 31 March 2002 the number of individual holdings was as follows:

UK Equities	86
Overseas Securities	198
UK Government Securities	18
Non UK Government Securities	92
Cash Instrument	1
International Bond	1
Unit Trusts	7
Property Unit Trusts	2
	405

Net new money coming into the Fund in 2001-02, that is to say the surplus of contributions and investment income over benefit payments and expenses, amounted to £3,117,398 compared to £4,316,400 in 2000-01.

The net assets of the fund at 31 March 2002 totalled £170,119,894, a reduction of 3.66% on the 2000-01 valuation of £176,586,061.

Provided below is a list of the 10 largest investments at 31 March 2002 including the percentage of the total market value.

Stock	Value	%
Schroder Instl. International Bond (PFPV) Series 2 Accumulation	10,168,654	5.96
Schroder Exempt Property Units GBP10	7,621,705	4.46
BP PLC Ordinary USD0.25	7,037,500	4.12
GlaxoSmithkline PLC Ordinary 25p	6,230,618	3.65
Schroder Instl. Pacific Fund Income Units	6,014,007	3.52
Vodafone Group PLC Ordinary USD0.10 (UK Listing)	4,459,508	2.61
Schroder Instl UK Smaller Cos Fund Income Units	4,395,468	2.57
HSBC Holdings PLC Ordinary USD0.50 (London)	3,865,120	2.26
Shell Transport & Trading Company Ordinary 25p	3,321,050	1.95
AstraZeneca Group PLC Ordinary USD0.25	2,963,950	1.74

Analysis of market value under the management of Schroder Investment Management (UK) Ltd at 31 March 2002:-

	UK £	Foreign £	Total £
Listed	112,855,839	43,264,673	156,120,512
Unlisted	7,621,705	0	7,621,705
Total	120,477,544	43,264,673	163,742,217

Analysis of Market value at 31 March 2002 by Industrial Sector see Appendix A.

	31 March 2002	31 March 2001	% Change
FT Actuaries - All Share Index	2557.40	2711.40	-5.67
FT Actuaries - World (ex-UK) Index	284.98	299.26	-4.77

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 performance of the Fund under the management of Schroder Investment Management (UK) Ltd has remained marginally ahead of the median fund over ten complete years of their mandate.

The 2001/02 financial year saw an overall reduction in the funds value due to the difficult investment conditions affecting all pension funds. The value of the Fund at 31st March 2002 was £170,119,894 a fall of 3.66% on the 31st March 2001 valuation.

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

Fund Performance:- The table below shows the performance of the Fund against its benchmark for periods to 31.03.02.

	<i>1 Year</i>	<i>3 Years</i>
	<i>%</i>	<i>% p.a.</i>
Fund	-1.7	1.4
Benchmark*	-1.3	1.6

* WM Local authority median including property (last quarter based on index returns)

Asset Allocation

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

	<i>Fund</i>		<i>Benchmark</i>
	<i>31.03.01</i>	<i>31.03.02</i>	<i>31.03.02</i>
	%	%	%
Equities Total	71.3	74.7	73.4
UK	50.8	49.4	49.3
North America	2.8	6.2	6.5
Europe	9.8	10.3	8.8
Japan	2.4	2.8	3.1
Pacific Basin ex Japan	3.3	3.5	3.4
Emerging Markets	2.2	2.5	2.3
Other Assets Total	28.7	25.3	26.6
UK Fixed Interest	7.0	7.3	7.6
Overseas Fixed Interest	8.3	6.0	4.5
UK Index Linked	2.0	2.1	4.9
Overseas Index Linked	0.6	0.0	0.0
Property	4.5	5.8	4.6
Cash	6.3	4.1	5.0
Total	100.0	100.0	100.0

* WM Local Authority average including property

Investment Review (cont.)

At the start of the period, we increased the weighting in Japan, as structural reforms appeared more likely following Koizumi's appointment as Prime Minister and strengthening economic growth would benefit Japanese equities. In addition, exposure to the US was also increased on the basis it would benefit earlier than most from monetary easing due to its advanced position in the economic cycle.

Following the attacks of September 11th, it was felt the events had accelerated the trough in equity markets and the recovery could be steeper than expected. In order to take advantage, the Fund was broadly positioned overweight equities and underweight bonds. At a regional level, we favoured Western markets over Eastern, with Europe our most favoured equity market as valuations were low and scope remained for further interest rate cuts. At the turn of the New Year, the Fund increased its exposure to UK bonds as it was felt that too great an increase in interest rates have been priced into the market.

Market Review

The past twelve months have seen poor performance for global equity markets. Equities in 2001 had a weak start as investors re-assessed the global outlook following the falls by technology stocks in 2000. By the beginning of the year under review decisive interest rate cuts were beginning to have an effect and markets stabilised, although ongoing profit warnings and sentiment kept returns in negative territory. The third quarter of 2001 saw a return to falling markets. This was intensified in September when terrorist attacks in the US brought markets sharply lower and made a likely US recession a reality. In the fourth quarter markets began to recover as US military action in Afghanistan progressed strongly and oil prices fell. However, this rally did not extend into the New Year, as markets fell again in January due to fears over credit quality, dubious accounting practices and off balance sheet financing in the wake of large corporate bankruptcies such as Enron and Global Crossing. Market performance improved towards the end of the first quarter of 2002 as positive economic news from around the world increased confidence of a recovery in growth.

Bonds benefited from their perceived safe haven status for much of the period in the face of equity market weakness. In the UK, the proposed abolition of the Minimum Funding Requirement led to a sell-off in long-dated gilts and a rally in corporate debt. The US attacks prompted a move towards the safety of government bonds but this proved short-lived and the introduction of FRS 17 again raised the profile of UK corporate debt. The positive returns from the bond markets were capped mildly at the end of 2001 as valuations fell following the signs of some recovery from the equity market. 2002 saw bonds produce positive returns again due to weaker equity markets and also less threat of further interest rate cuts.

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

The 12 months ending March 2002 were a difficult period for financial markets. This reflected deteriorating economic fundamentals and a widespread reduction in business activity. Short-term interest rates were reduced to historically low levels in the UK, Europe, and US, as concerns about the state of the global economy escalated. The tragic events in New York and Washington in September inflicted an unexpected shock and, for a while, total "meltdown" seemed possible.

The major economic blocks, including those of the UK, US, Europe and Japan either courted or actually experienced recession during the period. Japan fared the worst, with the economy contracting for three consecutive quarters, despite the massive fiscal and monetary stimuli of recent years. The new Japanese Prime Minister has promised radical reform but, so far, there is little sign of a meaningful recovery.

In the UK, a strong service sector and robust consumer demand offset weakness in manufacturing. Economic growth slowed throughout 2001, and was static during the final quarter of the year and the first quarter of 2002.

The US economy also slowed dramatically and contracted during the quarter to the end of September 2001. A sharp recovery followed, but there are serious questions over whether this can be sustained. As in the UK, high consumer demand offset a weak corporate sector.

Actuary's Report (cont.)

Against this background, major equity markets declined. The UK lost 3.1% whilst Europe (ex UK) fell by 7.1%. Japanese equities lost 20.7% as the economic outlook deteriorated. The US fell by a more modest 0.4%, having recovered from the dramatic fall following the terrorist attack in September. In contrast, Pacific (ex Japan) and Emerging markets fared well, up by 6.0% and 20.7% respectively.

The divergence in returns from the various UK equity sectors continued to be significant, as in the preceding year. Relative to the FTSE All Share Index, Basic Industries rose by 25.8% AND Resources by 13.1%. In contrast, Information Technology and Non Cyclical Services (including Telecommunications) lost 53.6% and 27.9% respectively, relative to the All Share Index. Significant losses in Telecom and Information Technology stocks were also experienced in US and European markets.

Bonds produced positive returns during the year, with Corporate Bonds outperforming UK conventional and Index Linked Gilts and overseas Bonds. On currency markets, Sterling appreciated against the Yen but was largely unchanged against the US Dollar and Euro.

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 in July 1987 by the Chartered Institute of Public Finance and Accountancy, and with the Statement of Recommended Practice No 1 issued by the Accounting Standards Committee. They do not take account of liabilities to pay pensions and other benefits in the future. The actuarial position of the Scheme which takes account of such liabilities is dealt with in Note 7.

6.2 Income and expenditure have been accounted for on an accruals basis for contributions, investment income and transfer values.

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 2002.

6.4 Additional Voluntary Contributions (AVCs) separately invested for the benefit of individual members are not treated as part of the Scheme's assets and income, and are not included in the accounts. Members receive details of their investment directly from the Providers.

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

Accounting Policies (cont.)

During 2001-02 AVCs of £115,296 were separately invested with Prudential Life and Pensions. Of this amount, £10,262 was for the purchase of death in service cover. AVC's invested with the Nationwide Building Society in 2001-02 amounted to £18,291.

6.5 Administration costs of £586,527 (2000-01 £586,470) have been charged directly to the Fund in 2001-02.

7. Actuarial Valuation at 31 March 1998

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

7.2 The actuarial valuation undertaken by Hymans Robertson at 31 March 1998 showed that the Common Rate of Contribution payable by each employing authority to the Fund with effect from 1 April 1999 should be 9% of pensionable pay.

As a result of the actuarial valuation the employers' contributions to the fund changed with effect from 1 April 1999.

	Required Contribution for the year ending		
	31 March		
	2000	2001	2002
Isle of Wight Council	8.5%	9.0%	9.5%
Isle of Wight Magistrates Court	9.5%	10.0%	10.5%
Isle of Wight College	9.5%	9.9%	10.4%
Yarmouth Harbour Commissioners	11.0%	11.0%	11.0%
Cowes Harbour Commissioners	11.0%	11.0%	11.0%
St Catherines School Ltd	11.0%	11.0%	11.0%
Trustees of Carisbrooke Castle Museum	11.0%	11.0%	11.0%
IW Society for the Blind	11.0%	11.0%	11.0%
Isle of Wight Rural Community Council	11.0%	11.0%	11.0%
South Wight Housing Association Ltd	11.2%	14.2%	17.2%
Medina Housing Association Ltd	11.8%	12.3%	12.8%
The Quarr Group (formerly Island Group 90 Ltd)	10.5%	10.5%	10.5%
Riverside Centre Ltd	9.0%	9.0%	9.0%
Osel Enterprises Ltd	9.0%	9.0%	9.0%
Planet Ice (IOW) Ltd	11.0%	11.0%	11.0%
Island 2000 Trust Ltd	11.0%	11.0%	11.0%

The following body was admitted into the scheme during the year ended 31 March 2002

Atlantic Housing Group Ltd	N/A	N/A	12.0%
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7.3 The contribution rate, as described, is calculated to be sufficient to cover 100% of the Fund's liabilities. It comprises a future service funding rate of 12.4% of pensionable pay, together with a reduction of 3.4% of pensionable pay to reflect the funding position of the Fund.

7.4 The market value of the Fund's assets at the valuation date was £148.1 millions (at a smoothed market value which adjusts the market value of the assets in each of the major asset classes by considering the average market levels during the twelve months to the valuation date using appropriate market indices). This represented 106% of the Fund's accrued liabilities, allowing for future pay increases.

Actuarial Valuation at 31 March 1998 (cont.)

- 7.5 The contribution rates have been calculated using the projected unit method and the main actuarial assumptions were as follows:-

Rate of investment return:	Equities	7.2% p.a.
	Bonds	6.7% p.a.
Rate of earnings increase (excluding an allowance for promotional increases):		4.9% p.a.
Rate of pension increases:		3.4% p.a.

8. Actuarial Valuation at 31 March 2001

- 8.1 The most recent actuarial valuation of the Fund was carried out by Hymans Robertson at 31 March 2001.
- 8.2 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%

* contribution rate subject to confirmation rate from Hymans Robertson.

- 8.3 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.

Actuarial Valuation at 31 March 2001 (cont.)

8.4 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

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

10. Notes to the Accounts

10.1 Capital Commitments: - There were no capital commitments as at 31 March 2002.

10.2 Contingencies: - There were no contingencies as at 31 March 2002.

10.3 Net Assets Statement:- There were no events subsequent to the Net Assets Statement at 31 March 2002 which would have a material effect on the Net Assets Statement as at that date.

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

10.5 Post Balance Sheet Event:- There has been a significant fall in the value of the Isle of Wight Council Pension Fund since 31st March 2002. If equity holdings continue to perform badly this will in due course raise the long term cost of pensions.

APPENDIX A

ANALYSIS OF MARKET VALUE AT 31 MARCH 2002 BY INDUSTRIAL SECTOR

	U.K.	U.S.A	JAPAN	EUROPE	FAR EAST (Exc Japan)	EMERGING MARKETS	TOTAL
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Mining	1,666						1,666
Oil and Gas	11,923	657	124	1,614			14,319
Chemicals	2,316		99	388			2,803
Construction & Building Mtls	4,106		82	396			4,583
Metals & Other Materials		287	101	300			689
Aerospace & Defence	1,629	232		123			1,984
Electronic & Electrical Equip't	52	655	1,044	708			2,458
Engineering & Machinery	608	623	144				1,375
Automobiles			201	697			898
Beverages	1,942	202					2,143
Food Producers & Processors	582	397		631			1,610
Pharmaceuticals	9,393		391	1,418			11,201
Tobacco	810			263			1,073
Retailers, General	2,806	703	22				3,531
Leisure, Entertainment & Hotels	2,272			73			2,345
Media & Photography	3,653	320		404			4,377
Glass & Ceramics			28				28
Support Services	2,264			447			2,711
Transport	1,688	130	210				2,028
Food & Drug Retailers	1,264						1,264
Telecommunications	7,948	455		1,377			9,780
Electricity	886	101	104				1,090
Gas Distribution	381	215		233			828
Water	467						467
Banks	11,879	1,116		3,078			16,073
Investment Companies	499			184			683
Life Assurance	3,023						3,023
Real Estate	2,090						2,090
I T Hardware	767	404		970			2,141
IT Software & Computer Servs.	230	1,307		196			1,734
Unit Trusts	6,780		408	1,621	6,014	4,284	19,107
Healthcare		1,560					1,560
Household Goods		208		621			829
Insurance	336	560	217	1,483			2,596
Miscellaneous Financial		510	105				615
Textiles			200				200
Paper & Pulp			145				145
Rubber Goods			177				177
Precision Machinery			152				152
Miscellaneous Manufacturing			88				88
Services			41				41
Communications			376				376
Wholesale			262				262
Securities			72				72
Diversified Industries				307			307
Fixed Interest - UK Govt	7,033						7,033
Fixed Interest - Non UK Govt	5,465						5,465
Treasury Index Linked	3,638						3,638
Index Linked - Non UK Govt	33						33
Property Unit Trusts	9,881						9,881
Fixed Interest - Other	10,169						10,169
Totals	120,478	10,642	4,792	17,532	6,014	4,284	163,742

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

APPENDIX B

ISLE OF WIGHT COUNCIL PENSION FUND

STATEMENT OF INVESTMENT PRINCIPLES

1. 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. It was agreed by the Investment Panel at their meeting on 26th May 2000.
- 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 professional advice from the investment practice of Hymans Robertson Actuaries and Consultants. Due account has been taken of the maturity profile of the Fund (in terms of the relative proportions of liabilities in respect of pensioners and active members), together with the level of disclosed surplus or deficit.
- 1.4 The Panel has agreed an asset allocation benchmark, a performance target and various controls on the Fund’s investments following an asset liability study. They reflect the Panel’s views on the appropriate balance between maximising the long-term return on investments and minimising short term volatility and risk. The benchmark reflects the position following the Actuarial Valuation of the Fund as at 31 March 1998. It is intended that strategy will be reviewed at least every three years following actuarial valuations of the Fund.

2. Objectives

- 2.1 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 actuarial 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 A and the liability mix is shown in Annexe B. This position will be reviewed at least at each triennial Actuarial Valuation.

3. 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 is summarised in Annexe C. 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 performance benchmark adopted by the Panel has been based on consideration of the liability profile of the Fund; it is summarised in Annexe C. Within each major market the investment managers 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 acknowledge as appropriate given the current liability profile and funding position of their Fund.

3.5 Risk

Currently the Panel has appointed Schroder Investment Management (UK) Limited as the sole investment manager. The adoption of an asset allocation benchmark (as described above) and the explicit monitoring of performance relative to a performance target, constrains the investment managers 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 have 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 D.

ANNEXES

A. Main Actuarial Assumptions as at 31 March 1998

	Nominal % per annum	Real Return % per annum
RPI Inflation	3.4	-
Increases in pay (excl. Increments)	4.9	1.5
Investment returns * - equities	7.2	3.8
- bonds	6.7	3.3

* net of investment expenses

B. Liability Mix at 31 March 1998

	Liability £M	% of Total Liabilities	% of Fund
Employee members	50.3	36	34
Deferred pensioners	14.5	10	10
Pensioners	74.6	54	50
Total Liabilities	139.4	100	94
Surplus	8.7	6	6
Total fund (at actuarial value)	148.1	106	100

C. Investment Management Arrangements

Schroder Investment Management (UK) Limited were appointed to manage the Scheme assets with effect from November 1991. Their investment objective is to achieve upper quartile performance in the WM Local Authority Universe (including Property) over rolling 3 year periods, and to achieve returns of 3% per annum in excess of salary inflation and 4% per annum in excess of price inflation over rolling 10 year periods.

As at 31 December 1999 the Scheme assets and average local authority fund asset proportions were as follows:

	Scheme Assets %	Average Fund %
UK Equities	53	53
Overseas Equities	21	22
Total Equity	74	75
Index-linked Gilts	3	4
Property	4	3
Real assets	81	82
UK Bonds	6	7
Overseas Bonds	7	6
Cash	6	5
Monetary assets	19	18

*Unweighted

D. AVC Arrangements

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

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

The cash option offers interest on deposits.

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

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

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

The Panel review the AVC investment options on a regular basis.

THE STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Authority's responsibilities

The authority is required:

- to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Strategic Director of Finance & Information & County Treasurer;
- to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- to approve the statement of accounts.

The Strategic Director of Finance & Information & County Treasurer's responsibilities

The Strategic Director of Finance & Information & County Treasurer 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 Strategic Director of Finance & Information & County Treasurer 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 Strategic Director of Finance & Information & County Treasurer 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 2002 required by the Accounts and Audit Regulations 1996 is set out on pages 5 to 44.

I further certify that the Statement of Accounts presents fairly the financial position of the Authority at 31 March 2002 and its income and expenditure for the year then ended.

Date.....

Signature.....

JOHN PULSFORD
Strategic Director
Finance & Information & County Treasurer

AUDIT OF ACCOUNTS 2001-02

AUDITOR'S REPORT TO ISLE OF WIGHT COUNCIL

We have audited the statement of accounts on pages 5 to 44, which has been prepared in accordance with the accounting policies applicable to local authorities. The statement of accounts comprises the Authority's accounts, on pages 5 to 29, which have been prepared in accordance with the accounting policies set out on pages 3 and 4, and the Pension Fund accounts, on pages 30 to 44, which have been prepared in accordance with the accounting policies set out on pages 3 and 4.

Respective Responsibilities of Strategic Director of Finance & Information & County Treasurer and Auditors

As described on page 45, the Strategic Director of Finance & Information & County Treasurer is responsible for the preparation of the statement of accounts. My responsibilities as the independent auditor are established by statute, the Code of Audit Practice issued by the Audit Commission and my profession's ethical guidance.

I report to you my opinion as to whether the statement of accounts presents fairly the financial position and results of operations of the Council.

Basis of Opinion

I carried out my audit in accordance with the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission, which requires compliance with relevant auditing standards.

My audit included examination, on a test basis, of evidence relevant to the amounts and disclosure in the statement of accounts. It also included an assessment of the significant estimates and judgements made by the authority in the preparation of the statement of accounts and of whether the accounting policies are appropriate to the authority's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the statement of accounts is free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the statement of accounts.

Opinion on the Authority's accounts

In my opinion the statement of accounts presents fairly the financial position of Isle of Wight Council at 31 March 2002 and its income and expenditure for the year then ended.

Opinion on the Pension Fund accounts

In my opinion the statement of accounts presents fairly the financial transactions of Isle of Wight Council Pension Fund during the year ended 31 March 2002, and the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the scheme year.

Certificate

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

S Goodyear
Audit Manager
13 December 2002