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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 £'000s | Actual £'000s | Difference £'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 at year-end which they employ.

4. Capital Receipts

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

5. Grants

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

6. Deferred Charges

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

7. Debtors and Creditors

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

8. Stocks and Work in Progress

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

9. Support Service Costs

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

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

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

10. Provisions

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

11. Reserves

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

12. Pensions

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

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

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 |
| | 260,152,084 | 107,396,399 | 152,755,685 | 139,908,145 |
| Net Cost of Services | | | | |
| 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 |
| | | | 152,413,110 | 134,142,982 |
| Net Operating Expenditure | | | | |
| 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 |
| | | | 148,385,642 | 133,944,986 |
| Amount to be met from government grants and local taxpayers | | | | |
| 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) |
| | | | 0 | 408,274 |
| Net general fund (Surplus)/deficit | | | | |
| Balance on general fund brought forward | | | (2,077,097) | (2,485,371) |
| | | | (2,077,097) | (2,077,097) |
| Balance on general fund carried forward | | | | |

Signed

Paul Wilkinson

Date

14th July 2004

Chief Financial Officer

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

1. Interest on Internal Balances

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

2. Contributions to Reserves

These transfers include unspent budgets in 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 |
| Total Expenditure | 398,220 | 131,587 | 529,807 |
| Income | | | |
| Building Regulation charges | 472,342 | 0 | 472,342 |
| Miscellaneous income | 0 | 2,822 | 2,822 |
| Total Income | 472,342 | 2,822 | 475,164 |
| 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 |
| | 10,358,639 |
| Income | |
| Capital Charges to Services | (16,132,373) |
| Excess of capital charges over MRP & interest | (5,773,734) |

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 and are subject to certification by the Audit Commission.

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 (IWSSD) 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 | |
| IWSSD Funded Island Clients | 4,113,418 | |
| IWSSD 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 | |
|--------------------|---------|------------------|---------|------------------|
| | 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 |
| | 569 |

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 |
| | 395,654 | 385,243 |

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 | 21,485,184 | | 20,527,462 |
| Costs of Collection | 239,142 | | 254,766 |
| | | 21,724,326 | 20,782,228 |
| Provision for Bad Debts | | 2,727 | 199,402 |
| Adjustment of previous years' community charge | | (374) | (141) |
| | | 78,678,967 | 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 | | 46,516 | (45,905) |
| Balance on Fund Carried Forward | | (58,937) | (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 | <u>56,952,288</u> |

CONSOLIDATED BALANCE SHEET

| 31 March 2003 (see notes 32 & 33) £ | | £ | 31 March 2004 £ |
|---|--|--------------------|---------------------|
| | Net Fixed Assets (note 22) | | |
| 186,913,442 | Land and Buildings | 201,266,298 | |
| 44,886,055 | Infrastructure | 56,560,474 | |
| 8,649,410 | Vehicles, Plant, Furniture & Equipment | 2,370,217 | |
| 3,213,961 | Community Assets | 3,440,981 | |
| 243,662,868 | | | 263,637,970 |
| 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 | | 264,615,462 |
| | 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) | 22,550,164 | |
| 2,038,130 | External Borrowing repayable within one year (note 29) | 554,994 | |
| 3,745,897 | Bank Overdraft | 1,545,456 | |
| 25,651,155 | | | 24,650,614 |
| 15,864,814 | Net Current Assets/(Liabilities) | | 29,146,635 |
| | 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 | | 67,638,249 |
| | 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) | | 86,201,206 |
| 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 | | 58,937 |
| 41,933,356 | Total Reserves | | 67,638,249 |

Signed *Paul Wilkinson*
Chief Financial Officer

Date 30th November 2004

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 | (15,770,730) | (22,999) | (6,826,866) | (182,681) | (22,803,276) |
| 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 | 26,531,280 | 0 | 0 | (22,480) | 26,508,800 |
| Balance at 31 March | 201,266,298 | 56,560,474 | 2,370,217 | 3,440,981 | 263,637,970 |

The valuation of schools was undertaken by Mr P J Dewey FRICS of Lambournes Surveyors. Mr J E Prince FRICS, IRRV of Principal Surveyors undertook the valuation of the remaining properties.

The main items of capital expenditure were:-

| | £ |
|--|-----------|
| Road Improvements | 6,770,241 |
| Seaview Duver Road Coast Protection | 3,737,769 |
| Castle Haven Coast Protection | 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 |
| Balance at end of year | 759,146 | 709,853 |

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 |
| | 13,556,418 | 14,948,522 |
| less Provision for Bad Debts | (2,284,726) | (2,497,107) |
| Balance at end of year | 11,271,692 | 12,451,415 |

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 | 5,593,306 | 5,361,279 |
| Local Taxpayers | 718,177 | 1,109,717 |
| Other Organisations & Individuals | 16,238,681 | 13,396,132 |
| Balance at end of year | 22,550,164 | 19,867,128 |

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 |
| | <hr/> | <hr/> |
| | 12,726,037 | 6,596,876 |
| Less: Applied to Capital | (9,371,543) | (6,378,044) |
| | <hr/> | <hr/> |
| 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 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| 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 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| 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 |
| Balance at end of year | 43,532,974 | 37,783,167 |

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 |
| | 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 | (31,014,103) | (25,692,071) |
| Revenue Activities Cash Flow (note 44) | (17,779,121) | (9,491,384) |
| Servicing of Finance | | |
| Interest paid | 6,531,526 | 5,998,389 |
| Interest Received | (1,165,972) | (1,387,822) |
| | (12,413,567) | (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) |
| | (14,980,729) | (7,224,200) |
| | 14,818,280 | 17,660,320 |
| Net Cash (Inflow)/Outflow Before Financing | 2,404,713 | 12,779,503 |
| Financing | | |
| Repayments of Amounts Borrowed & Temporary Advances | 1,500,000 | 0 |
| New Loans Raised | (21,000,000) | (12,500,000) |
| | (19,500,000) | (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 | (2,683,036) | (5,814,239) |
| Transfers to/(from) Reserves & other non-cash transactions | (8,600,101) | (4,248,762) |
| Interest Payments | (6,531,526) | (5,998,389) |
| Interest Receipts | 1,165,972 | 1,387,822 |
| Revenue Activities Net Cash Flow | (17,779,121) | (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 | (46,516) | 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) |
| | <hr/> | <hr/> |
| Total Increase/(decrease) in revenue resources (note 1) | 16,593,400 | (60,021,085) |
| | | |
| Increase/(decrease) in usable capital receipts | 0 | (73,147) |
| Increase/(decrease) in unapplied capital grants & contributions | 3,135,662 | (179,028) |
| | <hr/> | <hr/> |
| Total Increase/(decrease) in realised capital resources (note 2) | 3,135,662 | (252,175) |
| | | |
| Gains/(losses) on revaluation of fixed assets | 3,705,524 | 9,601,822 |
| Impairment losses on fixed assets due to general changes in prices | 0 | 0 |
| | <hr/> | <hr/> |
| Total Increase/(decrease) in unrealised value of fixed assets (note 3) | 3,705,524 | 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 |
| | <hr/> | <hr/> |
| Total Increase/(decrease) in amounts set aside to finance capital investment (note 5) | 5,749,807 | 3,755,937 |
| | | |
| Total recognised gains & losses | 25,704,893 | (47,598,501) |
| | <hr/> | <hr/> |

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 | (46,516) | - | - |
| Appropriations to/from Revenue | - | - | 2,439,916 | (5,780,000) |
| Actuarial gains and losses relating to pensions | - | - | - | 19,980,000 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| | 0 | (46,516) | 2,439,916 | 14,200,000 |
| Brought forward at 1 April 2003 | 2,077,097 | 105,453 | 24,473,625 | (108,700,000) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Carried forward at 31 March 2004 | 2,077,097 | 58,937 | 26,913,541 | (94,500,000) |
| | <hr/> | <hr/> | <hr/> | <hr/> |

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) |
| | <hr/> | <hr/> |
| Total increase/(decrease) in realised capital resources in 2003/04 | 0 | 3,135,662 |
| Balance brought forward at 1 April 2003 | 0 | 218,832 |
| | <hr/> | <hr/> |
| Balance carried forward at 31 March 2004 (see notes 30 & 31) | 0 | 3,354,494 |
| | <hr/> | <hr/> |
| | | Fixed asset restatement reserve |
| | | £ |
| 3. Movements in unrealised value of fixed assets | | |
| Gains/losses on revaluation of fixed assets in 2003/04 | | 26,508,800 |
| Adjustments | | (22,803,276) |
| Impairment losses on fixed assets due to general changes in prices in 2003/04 | | 0 |
| | | <hr/> |
| Total increase/(decrease) in unrealised capital resources in 2003/04 | | 3,705,524 |
| | | <hr/> |
| 4. Value of assets sold, disposed of or decommissioned | | |
| Amounts written off fixed asset balances for disposals in 2003/04 | | (3,479,500) |
| | | <hr/> |
| Total movement on reserve in 2003/04 | | 226,024 |
| Balance brought forward at 1 April 2003 | | 85,975,182 |
| | | <hr/> |
| Balance carried forward at 31 March 2004 (see note 35) | | 86,201,206 |
| | | <hr/> |

| | 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 |
| | <hr/> |
| Total Capital receipts set aside in 2003/04 | 2,481,220 |
| Revenue resources set aside in 2003/04: | |
| Capital expenditure financed from revenue | 0 |
| | <hr/> |
| 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) |
| | <hr/> |
| Movement on Government Grants Deferred | 3,268,587 |
| | <hr/> |
| 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 |
| | <hr/> |
| Balance carried forward at 31 March 2004 (see note 36) | 43,532,974 |
| | <hr/> |

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 |
| Administrative and other expenses | 297,970 | 280,350 |
| | <hr/> | <hr/> |
| | 11,114,934 | 11,139,301 |
| Sub Total: net additions from dealings with members | <hr/> | <hr/> |
| | 351,372 | (1,959,478) |
| Returns on Investments | | |
| Investment income (see analysis below) | 4,197,822 | 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 | 33,098,864 | (36,116,758) |
| Net increase (decrease) in the fund during the year | <hr/> | <hr/> |
| | 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 |
| 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 |
| Currency Trade Net | (90,555) | 250,143 |
| | <hr/> | <hr/> |
| | 4,197,822 | 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 |
| | | 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 |
| | | 1,641,832 | 1,046,892 |
| Less: | | | |
| Creditors - security purchases | (464,321) | | (34,001) |
| - other | (118,567) | | (92,497) |
| | | (582,888) | (126,498) |
| Net Assets | | 166,417,720 | 132,967,484 |

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.

Coves 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 | 4,036 | 126 | 279 | 4,441 |
| 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 yield 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 XIV of the Income and Corporation Taxes Act 1988.

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

6. Accounting Policies

- 6.1 The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), and with guidance notes issued by CIPFA on the application of accounting standards to Local Authorities. They do not take account of liabilities to pay pensions and other benefits in the future. The actuarial position of the Scheme which takes account of such liabilities is dealt with in Note 7.

- 6.2 Income and expenditure have been accounted for on an accruals basis for contributions and investment income whereas transfer values received and paid are accounted for on a cash basis.
- 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 2004.
- 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 |

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

Schroder Investment Management 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 *Paul Wilkinson*

Date

14th July 2004

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 (QPMR) 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 19th July 2004

Mike Fisher
Chief Executive Officer

Date 19th July 2004

AUDIT OF ACCOUNTS 2003-04

INDEPENDENT AUDITOR'S REPORT TO ISLE OF WIGHT COUNCIL

I have audited the financial statements on pages 5 to 46 which have been prepared in accordance with the accounting policies applicable to local authorities as set out on pages 3 and 4.

This report is made solely to Isle of Wight Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 54 of the Statement of Responsibilities of Auditors and of Audited Bodies, prepared by the Audit Commission.

Respective Responsibilities of the Chief Financial Officer and Auditor

As described on page 47, the Chief Financial Officer is responsible for the preparation of the financial statements in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2003: A Statement of Recommended Practice. My responsibilities, as 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 financial statements present fairly:

- the financial position of the Council and its income and expenditure for the year,
- the financial transactions of its Pension Fund during the year and the amount and disposition of the Fund's assets and liabilities, other than liabilities to pay pensions and benefits after the end of the scheme year.

I review the statement on internal control on pages 48 to 50 and report if it is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider whether the statement covers all risks and controls, or to form an opinion on the effectiveness of the Council's corporate governance arrangements or its risk and control procedures. My review was not performed for any purpose connected with any specific transaction and should not be relied upon for any such purpose.

I read the other information published with the statement of accounts and consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the statement of accounts.

Basis of audit opinion

I conducted 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 issued by the Auditing Practices Board.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Council in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Council'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 financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion, I evaluated the overall adequacy of the presentation of the information in the financial statements.

Opinion

In my opinion the financial statements present fairly the financial position of Isle of Wight Council at 31 March 2004 and its income and expenditure for the year then ended.

In my opinion the financial statements present fairly the financial transactions of Isle of Wight Council Pension Fund during the year ended 31 March 2004, 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 certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Signature: *Stephen Taylor* Date: 30 November 2004

Name: Stephen Taylor
District Auditor Address: Audit Commission
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