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EXPLANATORY FOREWORD

1. Financial Statements

This foreword provides a brief description of the financial events affecting the Council in 2005-06 and the Council's financial position generally. In preparing its final accounts the Council is required, by law, to produce and publish a number of accounting statements. Supplementary notes are attached to each statement where further explanation is required. The statements are:-

- *Consolidated Revenue Account*
This statement brings together the income and expenditure of all the services provided by the Council, excluding the Collection Fund.
- *Collection Fund*
This statement shows the income received from Council Taxpayers and Non-Domestic Ratepayers and how the income is distributed.
- *Consolidated Balance Sheet*
This shows the financial position of the Council as a whole and summarises all of its assets and liabilities as at 31st March 2006.
- *Statement of Total Movement of Reserves*
This statement brings together all the gains, losses and movements in the year of revenue and capital reserves.
- *Cash Flow Statement*
This summarises the cash received and payments made by the Council to third parties for both revenue and capital purposes.
- *Group Accounts*
The Statement of Recommended Practice requires the preparation of a group revenue account and group balance sheet where a local authority has interests in subsidiaries, associated companies and joint ventures that are material in aggregate.
- *Isle of Wight Pension Fund Accounts and Notes*
These summarise the income and expenditure transactions of the Pension Fund in order to provide information about the financial position, performance and financial adaptability of the fund.

2. Financial Summary

The Statement of Accounts brings together all of the financial activities of the Council for the year. It summarises the revenue income and expenditure in providing services and shows how it was financed from Council Tax, Government Grants and service users. The statements have been produced in accordance with the Code of Practice on Local Authority Accounting and the Best Value Accounting Code of Practice.

The Council undertakes a number of major one-off projects that create an asset that have a life beyond one year. Expenditure on capital projects can be financed from a combination of loans, capital receipts, contributions and revenue.

(a) Revenue Expenditure and Income

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

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

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

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

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

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

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

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

(b) Capital Expenditure

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

The main areas of expenditure related to road improvements, coast protection schemes and school building improvements. Further details are given in Note 23 to the Consolidated Balance Sheet.

A summary of Capital expenditure by service area is as follows:-

Service Area	Revised Estimate	Actual Spend	Over/(under) Spend
	£000's	£000's	£000's
Children and Family Services	14,760	10,288	(4,472)
Adult & Community Services	989	598	(391)
Housing Services	4,705	2,667	(2,038)
Environment & Transport	9,200	8,949	(251)
Fire & Public Protection	459	279	(180)
Economic Development, Tourism & Leisure	814	816	2
Resources	955	1,504	549
Other Services	706	617	(89)
Total Expenditure	32,588	25,718	(6,870)

Financed by:-

Increase in Capital Financing Requirement	18,156
Grants & Contributions	7,149
Capital Receipts	413
Total Financing	25,718

The main areas of variance in the capital programme are as follows:-

- Children's Services - a delay in the commencement of a major scheme at Kitbridge Middle School (£1.1m), a number of schemes at Primary and Middle Schools (£2.2m) and in respect of numerous devolved budgets held on behalf of schools.
- Housing - includes a delay in the major schemes at Oakfield (£1.1m) and a number of smaller schemes involving Housing Associations.
- Economic Development, Tourism and Leisure expenditure includes £0.6m in respect of programmes run by the Isle of Wight Economic Partnership.
- Resources – the variance arises from the Accommodation Review and will be financed from future asset sales.
- Slippage a year earlier had been £11m and a further significant catch-up is expected in 2006/07 as delayed schemes come on-stream.

(c) Main Issues in preparing the Statement of Accounts

- The Local Government Act 2003 introduced the Prudential Code as a framework under which a local authority's capital finance decisions are carried out. This Act requires local authorities to demonstrate that capital expenditure plans are affordable, external borrowing is prudent and sustainable and treasury management decisions are taken in accordance with professional good practice. The Code is mandatory and applied from April 2004.
- FRS17 Retirement Benefits – the Net Pension Liability at 31st March 2006 is estimated to be £151 million and the implication of this set out in Note 42 to the Consolidated Revenue Account.
- Group Accounts – the 2005 Statement of Recommended Practice (SORP) requires local authorities to enhance their statement of accounts with information about their interest in subsidiaries, associates and joint ventures in a set of group accounts. This will provide comprehensive accounting requirements for consolidation of the transactions and balances of subsidiaries and of interests in associates and joint ventures that will ensure group accounts provide a complete picture of the authority's control over other entities.
- The Council's Change Management Plan, as set out in the 'Aim High' document, was approved by the Full Council on 23 November 2005. The 'Aim High' document states that the key priorities of the Council are to:
 - Drive the Sustainable Economic Regeneration and Development of the Island
 - Improve the Health and Well-being of Island Communities
 - Create Safer and Stronger Communities
 - Improve Outcomes for Children and Younger People
 - Run a High-Performing, Cost Effective Council

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

Isle of Wight Council as Accountable Body

The authority is the accountable body for the following activities and consequently all relevant income and expenditure has been included within the Consolidated Revenue Account and the assets and liabilities within the Consolidated Balance Sheet.

- Single Regeneration Budget (SRB), Market Towns, Area Investment Framework (AIF) and Leader Plus projects, operated by the Isle of Wight Economic Partnership.
- Sure Start (Ryde) Ltd is a company limited by guarantee. The principal activity is the provision of educational and health services to people who live in the Sure Start (Ryde) area. The expenditure is wholly grant funded by the Department of Education and Skills.
- The Standing Conference on Problems Associated with the Coastline (SCOPAC). The membership of this organisation is drawn from other local authorities and interested parties.

STATEMENT OF ACCOUNTING POLICIES

1. General Principles

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

2. Accruals of Income and Expenditure

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

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

3. Provisions

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

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

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

4. Reserves

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

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

5. Government Grants and Contributions (Revenue)

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

6. Retirement Benefits

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

- The Local Government Pension Scheme, administered by the Isle of Wight Council.
- The Teachers' Pension Scheme, administered by the Department for Education and Science (DfES)
- The Fire-fighters' pension scheme which is financed on a 'pay as you go' basis, with the authority paying emerging benefit expenditure (net of officers' contributions). There are no assets held against the liabilities.

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

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

The Local Government Pension scheme

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

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

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

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

Discretionary Benefits

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

7. VAT

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

8. Overheads and support services

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

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

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

9. Intangible Fixed Assets

Where expenditure is incurred on assets that do not have physical substance but are identifiable and controlled by the Council (eg software licences), the recommended practice is for the expenditure to be capitalised where the benefit to the Council is for more than one year. The balance is then amortised to the relevant revenue account over the economic life of the investment to reflect the pattern of consumption of benefits. This practice has not been adopted and instead expenditure is charged to the revenue account in the year of acquisition and not capitalised. There are therefore no intangible assets shown on the balance sheet.

10. Tangible Fixed Assets

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

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

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

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

Net current replacement cost is assessed as:

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

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

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

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

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

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

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

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

Depreciation is calculated on the following bases:

- dwellings and other buildings – straight-line allocation over the life of the property as estimated by the valuer

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

Where an asset has major components with different estimated useful lives, the recommended practice is for these to be depreciated separately. This practice has not been adopted and instead standard lives are used to depreciate assets.

Grants and contributions: where grants and contributions are received that are identifiable to fixed assets with a finite useful life, the recommended practice is for the amounts to be credited to a Government Grants Deferred Account. The balance is then written down to revenue to offset depreciation charges made for the relevant assets in the Asset Management Revenue Account, in line with the depreciation policy applied to them. This practice has not been adopted and instead capital grants towards the cost of capital projects are generally applied as expenditure is incurred.

11. Charges to Revenue for Fixed Assets

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

- capital charges on tangible fixed assets – comprising depreciation attributable to the assets used by the relevant service, plus a capital financing charge based on a percentage of the value of the asset in the balance sheet (3.5% and 4.95% for assets carried at current value and historical cost respectively)
- impairment losses attributable to the clear consumption of economic benefits on tangible fixed assets used by the service

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

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

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

12. Deferred Charges

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

13. Leases

Finance Leases

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

Operating Leases

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

14. Repurchase of Borrowing

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to Net Operating Expenditure in the Consolidated Revenue Account in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio with substantially the same overall effect when viewed as a whole, gains and losses are recognised on the balance sheet and written down to revenue on a straight-line basis over the term of the replacement loans.

15. Investments

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

16. Stocks and Work in Progress

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

17. Interests in Companies and Other Entities

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

18. Estimation Techniques

Estimation techniques have been chosen in order to most closely reflect the economic reality of the transactions or other events to which the relevant accounting policy refers. Where precise amounts are not known at year-end, figures are included in the accounts on an estimated basis using the best information available at the time. In particular, Housing Benefit Subsidy is included in the accounts on the basis of an estimated claim form, as this claim is completed and audited at a later date.

The Accounts and Audit Regulations 2003 require local authorities to have the accounts approved by members on or before 30 June each year. Where necessary and appropriate, estimates have been used where the approval process would be delayed by waiting for actual figures to be available.

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

THE STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Authority’s responsibilities

The authority is required to:

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

The Chief Financial Officer’s responsibilities

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

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

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

The Chief Financial Officer has also:

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

I certify that the Statement of Accounts for the year ended 31 March 2006 required by the Accounts and Audit Regulations 2003 is set out on pages 27 to 82.

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



Signed

Date

29 June 2006

PAUL WILKINSON
Chief Financial Officer

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



Signed.....

Date

29 June 2006

ANNE BISHOP
Chairman, Audit & Performance Committee

STATEMENT OF 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 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 2006 and up to the date of approval of the annual report and accounts.

3. The internal control environment

The key elements of the Council's internal control environment are separated into a number of specific areas which are set out below:

Establishing and Monitoring Achievement of the Council's Objectives

- The Council is a key member of the Local Strategic Partnership (LSP), the Island Strategic Partnership. As a member of the partnership, the Council has prepared a draft Community Strategy and has set out its own priorities in support of this strategy in its corporate plan. The Council's corporate plan, Aim High, aligns all of its activities to the achievement of its vision for the Island that it shares with the LSP. The vision is for 'a progressive Island built on economic success, high standards and aspirations and a better quality of life for all'. The Council will build on its existing strength of leadership (political, managerial and community), corporate governance, people development, partnerships, clarity of purpose, financial management and delivery of quality services in its pursuit of this vision. A strong partnership with the LSP was responsible for the Island being invited to submit a bid to the Government Office for the South East for funds to support a Local Area Agreement (LAA). Aim High mirrors the core themes of the LSP and the LAA and contains within it those areas of the LAA for which the Council is the lead delivery body.
- A medium term financial plan, capital investment strategy and asset management plan are evolving to ensure resources are allocated to support the achievement of the Council's principal objectives. In addition, the service planning and budget timetables are now aligned to ensure that the annual budget reflects the agreed aims and objectives of the Council. Targets for achievement of these priorities are set out in the Aim High Delivery Plan.

- Progress towards achievement of the targets is performance managed by the Aim High Strategy Group and Corporate Objective Groups on a monthly basis. Specific reports on the achievement of efficiency savings and exception reports on other areas of particular concern are also considered monthly. Quarterly progress reports on performance are considered by the Cabinet, and specific performance issues may be referred to a Policy Commission or the Scrutiny Committee.

Governance Arrangements

- The Council has adopted a constitution which sets out the framework within which the Council operates, how decisions are made and the procedures to ensure that they are efficient, transparent and accountable. The constitution is reviewed on a regular basis to ensure it remains fit for purpose.
- The Cabinet is responsible for the majority of the functions of the authority, within the budget and policy framework set by Full Council. Executive decisions can be taken by the Cabinet, by cabinet members or by officers acting under delegated powers, depending upon the significance of the decision being made. A Forward Plan is published two weeks before the first day of each calendar month providing details of key member decisions to be taken in the next four months. This enables consideration by other elected members, the public and Strategic Directors, in time for advice and recommendations to be made should it prove necessary. The Scrutiny Committee have the ability to call-in decisions and seek detailed information in relation to the decision taken, during which period the decision cannot be implemented.
- The Council discharges its overview and scrutiny functions through 5 member bodies – 4 Policy Commissions and a Scrutiny Committee. The role of the Policy Commissions is to drive the development of key areas of policy identified by either the Commission or the Cabinet. Internal scrutiny of Council functions and decision making is carried out by the Scrutiny Committee. A separately constituted Audit Committee oversees internal and external audit, the Council's risk management arrangements, and the outcome of external inspections.
- A properly designated Monitoring Officer has been appointed by the Council with adequate resources to carry out the role effectively, including the support of 2 Deputy Monitoring Officers. The Monitoring Officer has a duty to report on any actual or likely decision which would result in an unlawful act or maladministration. All member decisions are supported by a legal assessment provided by named officers.
- The Council is required to make arrangements for the proper administration of its financial affairs and to secure that one of its senior officers has ultimate responsibility for the administration of those affairs. The Council has designated the Chief Financial Officer as that officer in accordance with S151 of the Local Government Act 1972. All key decisions are supported by a financial assessment provided by a named financial officer.
- The Council has a number of policies and procedures which apply to its operations including Financial Procedure Rules, Procurement Rules, Risk Management Policy, Codes of Conduct for Members and Officers, Anti-Fraud and Corruption Policy, a Whistleblowing Policy and Human Resources Policies. Ensuring compliance with these policies is the responsibility of all managers throughout the Council. In addition, the Internal Audit section carries out regular checks throughout the year to ensure policies are complied with and should instances of non-compliance be identified, relevant management action is recommended to secure future compliance.

Risk Management

- The Council's Risk Management Policy is regularly reviewed and one of its aims is to embed risk considerations into all key management activities throughout the Council. These include policy development and decision making, service planning, project management and financial management, both in terms of revenue budgets and the Council's capital programme. The policy is currently being updated to ensure it remains fit for purpose.

- There is a comprehensive framework for identifying and managing risk, including a dedicated risk management database which has been developed, and maintained, with the active participation of those involved in planning and delivering services. Identification of risks and actions necessary to control the risks identified are included as part of the service planning process. Appropriate staff, with links to each service area, have been trained in the assessment, management and monitoring of risks, and these staff form the basis of a Risk Management Group. The group meets on a regular basis to consider best practice in risk management, review service risks and share learning experiences, and identify strategic risks. Due to departmental restructuring and other changes in the Council, the group needs to be refreshed with a number of new representatives being sought to ensure full coverage of all Council services.
- Further progress is being made with regard to developing the consideration of risk at a corporate level to ensure risks are identified and monitored as part of the Corporate Planning and Performance Management processes. At elected member level this will be through means of regular reports to the Aim High Strategy Group and the Audit Committee. In addition, the alignment of service planning and budget timetables will help to ensure that key risks identified in the service planning process are adequately resourced as part of the budget strategy.

Financial Management and Use of Resources

- Financial management of the authority is delivered in accordance with the rules set out in the Constitution and, particularly the Financial Procedure Rules. The Accounts and Audit Regulations 2003 require the Council to ensure that its financial management arrangements are adequate and effective, and that there is a sound system of internal control which underpins the effective exercise of the Council's functions. In addition, CIPFA have produced various codes of practice and standards of professional practice with which finance staff are required to comply, including that the Chief Financial Officer is required to advise the Council on the robustness of its budget and the adequacy of its reserves, to regularly monitor financial performance against budget, and to produce a medium term financial strategy which supports the aims and objectives set out in the corporate plan.
- The Council has reviewed many of its services under the Best Value criteria, and discharges its duty to secure Best Value in service delivery for the local community by seeking to be a high performing, cost effective Council which aims to deliver continuous improvement across all services. Progress in achieving service improvement is monitored through the Aim High Strategy Group at member and strategic director level and through Corporate Objective Groups at service management level.
- All services of the Council are subject to reviews by external inspection agencies, external auditors, Internal Audit, Policy Commissions, Scrutiny Committee and the Audit Committee. They may also be asked to make contributions towards prioritisation initiatives from time to time. The results of such inspections inform the review process and allow the Council to make decisions to ensure the economic, efficient and effective use of resources in achieving the Council's objectives by using objective criteria.
- Following the Comprehensive Spending Review 2004 the Government introduced efficiency savings targets for the public sector, including local authorities (Gershon review). The outcomes of the inspection processes, together with efficiency gains identified as part of the budget strategy, are combined in Annual Efficiency Statements submitted to the ODPM on a regular basis.
- The Medium Term Financial Strategy requires the redeployment of financial resources to promote service improvement and ensure that available resources are targeted towards the Council's principal objectives. These objectives currently include five immediate priorities identified by the Council as essential - (Improving educational attainment especially at key stage 4; Highways PFI to assist an accessible, effective and integrated transport system; Create effective partnerships where they are able to improve service delivery, cost effectiveness or community engagement; Have an effective Fire and Rescue service; and to ensure that all services are cost effective and offer maximum value for money).
- The Council maintains an Internal Audit function whose role is to provide an independent and objective assurance about the Council's functions aimed at adding value and improving the Council's service delivery to stakeholders.

- The Council has an objective and professional relationship with its external auditors as demonstrated in the Annual Audit and Inspection Letter, and also the Final Accounts Memorandum and other similar Audit Commission reports.

Financial Reporting and Control

- Financial reporting and control processes and procedures are set out in the Council's Financial Procedure Rules and include the following:
 - Comprehensive budgeting systems on a medium term basis
 - Cash limited budgets identified on a service by service basis prior to commencement of the financial year
 - Regular reviews of performance against budgets and monthly reports to service managers identifying predicted outturns and action required to control significant variations
 - Regular monthly reports to Aim High Strategy Group providing details of progress with identifying and delivering efficiency savings
 - Regular monthly reports to Aim High Strategy Group on budget performance, specifically identifying significant financial exceptions with action plans for control
 - Key financial risks are identified at the start of the financial year and are monitored throughout the year both departmentally and corporately
 - Regular capital monitoring reports which compare actual expenditure and commitments to budgets and identify predicted outturns
 - Clearly defined capital and revenue expenditure guidelines
 - Council wide training programmes for budget managers, supporting documents identifying key financial issues, and the inclusion of financial management as a core competency in the Council's management development scheme

Performance Management

- The Council has a range of performance indicators and targets used to measure progress against key priorities. Details of these indicators are included in the Best Value Performance Plan. The indicators include a mixture of nationally and locally set performance measures which measure our performance in achieving statutory functions and in delivering the Corporate Plan.
- Performance management is delivered through an agreed framework, the main focus having been a process of quarterly performance management reports (QPMR's) to Cabinet. This has now been augmented by monthly reports to the Aim High Strategy Group on performance against each corporate objective. Emphasis has been placed on improvements to services identified as contributing to the five immediate priority areas. The Council has a clear commitment to improve performance and, to that end, a new performance management system (CorVu) has recently been procured with the aim of embedding performance management consistently through all services and collecting data to inform the performance process and identify areas where further action may need to be considered to secure improvements. As stated previously, performance is reported on a regular basis to both the Aim High Strategy Group and the Cabinet, utilising the CorVu system to identify specific issues which may have an impact on the Council's ability to deliver its principal objectives, and identifying action plans for improving performance.
- Directors and Cabinet Members have agreed objectives/targets for which they are jointly responsible and held to account for effective delivery by the Chief Executive Officer and the Leader. These objectives/targets derive from the Corporate Plan and find expression in the detailed plans of each service.

- The Council contributes towards a Community Strategy and Local Area Agreement for the Island and has set out its own priorities in its Corporate Plan, Aim High. These corporate arrangements are underpinned by service plans for all service areas, setting performance targets and improvement plans. The service plans are in turn supported by team plans to help ensure that all staff in the Council focus on corporate objectives, linked to outcomes for the community.
- All services are delivered by properly trained and experienced staff. Each post has a job description and person specification, and the individual work-plans and training requirements of each member of staff are identified through a Development Review Process which is undertaken on an annual basis with six monthly reviews.
- In order to achieve the required change in performance, key groups of employees will need to be engaged in shaping and delivering the change agenda. The Workforce Strategy currently being developed aims to get the right people with appropriate skills into the right place in the staff structure to achieve the corporate objectives. Ultimately, the aim is that the objectives of each individual member of staff will be recorded on the CorVu Performance Management software to demonstrate the link from staff objectives through to the Community Strategy.

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 Internal Control Process

The process that has been applied by the Council in maintaining and reviewing the effectiveness of the system of internal control during 2005/06, and in the period to publication of this statement, includes:

- The Monitoring Officer and his staff have a duty to keep under review the operation of the Constitution to ensure it is lawful, up to date and fit for purpose. The Council renews the Constitution each year at the Annual Meeting of Full Council
- The Cabinet, both collectively and individually through the scheme of delegation, is responsible for considering overall financial and performance management and receives comprehensive reports on a quarterly basis. More regular reports on aspects of performance and financial management, in particular significant exceptions and progress with achieving targets, are taken to Aim High Strategy Group on a monthly basis, together with action plans for dealing with corporate risks
- The Council has established four Policy Commissions as part of the overview and scrutiny function. The principal role of the Commissions is to deliver evidence based policy recommendations to the Cabinet, and which are capable of being adopted by the Cabinet. These Commissions have detailed work programmes reflecting the priorities of the administration, and provide stakeholders with the opportunity to participate in Council initiatives and matters of public concern
- There is a well resourced Scrutiny Committee which is chaired by a member of an opposition group and includes a number of co-opted independent members. This Committee is wholly independent of the Executive functions of the Council, has developed its own work plan, and is responsible for delivering independent scrutiny of service and financial performance, decision making processes, efficiency and effectiveness in achieving the Council's objectives.
- The Council has an established Audit Committee, also independent of the Executive functions of the Council, and responsible for overseeing internal and external audit, risk management processes, reviewing the adequacy of internal controls and the outcome of external inspections

- Internal Audit is an independent and objective assurance service for the management of the Council, and is responsible for bringing a systematic and disciplined approach to the evaluation and improvement of internal control, risk management and governance processes. The audit approach is a mixture of risk and systems based audits, ensuring available resources are directed at areas of greatest need through a planned programme of work. The audit plan is developed and approved by the Audit Committee, allowing the annual audit programme to be delivered. Reports on reviews are provided to service managers, and include recommendations for improvement and a timetable for implementation. Recommendations are subsequently reviewed to ensure action has been taken, and the results of audit reports are fed back to the Audit Committee
- The work programme of Internal Audit is subject to regular review and discussion with the Council's external auditors, who place reliance on the work carried out by the section when forming their own judgements about the effectiveness of internal control arrangements across Council services
- The external auditor's Annual Audit and Inspection Letter is considered by the Cabinet and the Audit Committee. Monitoring of progress towards implementing recommendations contained in the letter takes place as required
- The Council has a Risk Management Group which includes a 'risk champion' to represent each service area. The group meets on a quarterly basis to consider best practice in risk management, review the risk register and service risks, identify strategic risks and to ensure that consistent management action is being taken to minimise risk to the Council's operations.

The Assurance Process

To augment the normal internal control process, the Chief Financial Officer co-ordinates an assurance process which includes:

- Obtaining assurances from Chief Officers and Heads of Service that key elements of the internal control framework were in place during the year in their service area. As part of this process they were asked to identify areas of control weakness and identify action to be taken to resolve the weakness together with a timescale for improvements to be in place
- Assurances were required from service managers, initially for the period to 31 December 2005, and then updated to include the period to 31 March 2006
- Obtaining assurances from other senior managers, including the S151 Officer and the Monitoring Officer, that internal control and corporate governance arrangements were in place throughout the year
- The S151 Officer and Monitoring Officer required all managers of key financial management services, and deputy monitoring officers, to provide assurance statements regarding the adequacy of the internal control systems in place
- As part of the service planning process, the Council had identified Corporate Norms for use in creating Service Plans. Those Corporate Norms are broadly consistent with issues covered in the assurance statements, so that links between risks identified in service plans, the risk register and the SIC assurance statements can be made
- Once all assurance statements had been received, the Chief Internal Auditor carried out an independent review of the statements, the risk register and other supporting evidence in order to draw some conclusions about the effectiveness of internal control across the Council. The results of his review have been summarised into broad control themes in a separate document and form the basis of the issues identified in section 5 below
- The draft SIC, background information and other supporting documents were considered at a meeting of the Risk Management Group/SIC Project Team. Suggested amendments to the draft document were recorded and those accepted have been included in the final draft

- The amended draft SIC, background information and other supporting documents were considered at a meeting of the Audit Committee. The final SIC document for publication includes all issues identified by the Audit Committee as likely to indicate a problem with the internal control environment.

Review

We have been advised on the implications of the result of the review of the effectiveness of the system of internal control by the Audit Committee and Risk Management Group, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

5. Significant internal control issues

A number of significant internal control issues have been identified, arising from the assurances provided by service managers, review of the risk register database, and the results of external inspection processes. These are described briefly in the table below. For each one, detailed action plans have been determined by a responsible officer and a summary of the key actions is included in the table:

No.	Issue	Action Planned/Undertaken
1	Ensuring that the Council makes adequate arrangements to identify, assess, manage and review the risks it faces in a consistent, rigorous and comprehensive way	<p>The Council will continuously review its risk management arrangements to ensure that they are fit for purpose. Such arrangements will include:</p> <ul style="list-style-type: none"> • Risk policy and strategy, • Governance, • Processes and systems, and • Responsibilities
2	The Council's Constitution is regularly reviewed and is undergoing further refinement to accommodate the bedding in of new administration and governance structures	<p>Awareness sessions for partners and other stakeholders; continued development of intranet/web based resource to ensure governance documents are accessible. Document Standards Group established to improve the documentation process Process commenced May 2006</p>
3	Overview and scrutiny functions have been regularly reviewed to ensure they are sufficiently robust and that independence from Executive functions is maintained	<p>Revised arrangements are now in place, including co-opted independent members and an opposition group member providing the Chair of the Scrutiny Committee. Arrangements are settling down and the Scrutiny Committee has devised a work plan, however it is still too early to judge on outcomes. By March 2007</p>
4	The Council's reputation is potentially at risk if it does not manage issues which are a threat to proper standards of propriety, openness and accountability.	<p>The Council will continue to further develop good practice and procedures that enable it to maintain effective control over its operations and to protect it from the potential threats to its reputation. This will include robust processes for dealing with</p> <ul style="list-style-type: none"> • Fraud, • Corruption, • Complaints, • Conflicts of interest and • Allegations of misconducts amongst Council members and officers.

No.	Issue	Action Planned/Undertaken
5	Business continuity planning and disaster recovery plans need to be embedded throughout the organisation to ensure compliance with the Civil Contingencies Act	<p>Awareness seminars for members and senior managers and implementation seminars for BCP across the Council By March 2006</p> <p>Collate individual plans and produce corporate BCP Co-ordination and Crisis Management Procedure By June 2006</p> <p>New arrangements to be tested regularly to ensure they continue to be robust enough for the purpose</p>
6	Corporate ICT systems need to be regularly reviewed to ensure resilience, system security is safeguarded and that all systems are fit for purpose and updated to current technology standards	<p>ICT criticality review was carried out to identify business critical systems, producing a business continuity plan for networks and business critical systems. Work identified in this review for the upgrading of the power, air conditioning and fire alarms in the server farm has now been completed.</p> <p>The implementation of the new internet filtering and security system has taken place, helping to overcome capacity issues.</p> <p>A new ICT Security Manager is currently being appointed and will head a team responsible for the new arrangements being tested regularly to ensure they continue to be robust enough to provide the required resilience, safeguard security and keep pace with technological innovations. By June 2006</p>
7	<p>There is a need to identify sufficient resources for highway maintenance in order to ensure full compliance with Section 41 of the Highways Act 1980 (duty to maintain the highway)</p> <p>(Immediate Priority)</p>	<p>The Council approved the use of £800,000 of capital slippage to fund urgent highway safety surfacing works December 2005 – Decision 19/05</p> <p>Produce a Highway Asset Management Plan and Highway Asset Register to support submission of an Expression of Interest (EOI) for a highways asset management PFI scheme EOI Required by September 2006</p> <p>Utilise the LTP process to secure adequate resources to maintain the highway network through capital investment December 2006</p> <p>Develop an alternative strategy for improving the quality of the highways network should progress with a highway asset management PFI be unsuccessful By Spring 2007</p> <p>Planned implementation of a highway asset management PFI scheme to improve the quality of the highway network in the local area By Spring 2009</p>

No.	Issue	Action Planned/Undertaken
8	<p>There is a need to plan for the potential impact of climate change on the Island's infrastructure, in particular major landslides, coastal erosion and cliff falls. Specifically, during 2001/2 there was a major landslide in the Undercliff which caused the closure of Undercliff Drive for an extended period. Funding was secured from Government to allow a temporary solution to be delivered, and a further application was made to allow a permanent realignment to the highway. This second application was approved in principle in December 2003;</p>	<p>Coastline Defence Strategies, Shoreline Management Plans and Undercliff Landslide Management Strategy are in place. Risk assessments undertaken and movement monitors installed. Potential bid for funding to develop a long term strategy secure all known areas of instability on the highways network being considered. By Spring 2007 Progress has been made with the design solution for the Undercliff Drive project which is now substantially complete, pending approval of other issues. Current delays are being caused by the need for Compulsory Purchase Orders for land required for the realigned highway, and there may be a requirement for further consultation and public enquiries with regard to revisions to the project, before further progress is made. There is a risk</p>
	<p>however there have been delays in commencing the project. There is a need for progress to ensure available funding for the project is not lost.</p>	<p>that money invested to date in the design of the project may have to be written off if the project does not proceed. As with all major highway schemes there is a further risk that money approved in principle by the Government may be withdrawn if other issues change the economic viability of the project. Full risk assessment of the project to be carried out identifying key issues which are having an impact on project delivery and how these risks are being managed. In addition, there is a need for a full project plan and timetable to be developed to show the critical path to be achieved towards securing the available funding and delivering the realigned highway. By September 2006</p>
9	<p>Ensuring that staff are</p> <ul style="list-style-type: none"> (i) Treated lawfully and fairly, and (ii) Act lawfully and with high standards of probity, and (iii) Are deployed efficiently. 	<ul style="list-style-type: none"> • Ensure human resources policies and procedures are up to date and regularly reviewed • That HR policies and procedures are adhered • That the effectiveness of HR policies and procedures is monitored and remedial action taken when necessary

No.	Issue	Action Planned/Undertaken
10	<p>There is a need to manage the Council's asset base effectively to clearly identify the scope of the portfolio required to support service delivery, to ensure that Asset Management Plans (condition, suitability and sufficiency assessments) are in place and up to date, and able to inform the decision making process with due regard to eliminating the backlog of repairs, non-compliance issues, prioritised and planned programmes, general building security issues and property disposals.</p>	<p>The formation of the Strategic Asset Management Plan Working Group comprising members, directors, senior officers and stakeholders to produce a new Corporate Asset Management Plan and Capital Strategy 2006/8, utilising property data and the MTFP is in place.</p> <p>Consultant appointed to assist with scoping and outline vision, including workshops with the group and service directorates in order to prepare and deliver a suite of options to co-ordinate asset investment and management plans, aimed at optimising the contribution of the Council's property assets to the Aim High principal objectives. These will include a holistic view of building fabric improvements, building services upgrades, fire and security initiatives, DDA and compliance issues.</p> <p>By December 2006</p>
11	<p>Progress needs to be maintained in improving the Council's overall approach to the management of Health and Safety, particularly with regard to the management of stress</p>	<p>Review and revise the impact of the existing training courses for managers, including the numbers still to attend.</p> <p>Review and assess the impact of the recently completed stress audits across all services.</p>
12	<p>The potential for a fatality, non-accidental injury or abuse to a child known to the Council, on the child protection register or cared for by the Council needs to be kept under constant review</p>	<p>High standard of scrutiny and care within directorate and by LSCB. Regular audit of child protection and LAC cases. Local safeguarding procedures regularly updated on a regional basis. Regular and audited supervision of staff.</p> <p>Each of the above is delivered on an ongoing basis to ensure high standards of child care are in place at all times.</p>
13	<p>Standards of achievement in the Isle of Wight's schools are inadequate at Key Stages 2, 3 and 4. Although efforts have been made to improve results, local performance still remains below local and DfES targets and in the lower quartile for Key Stages 2, 3 and 4 when compared to other English authorities. By contrast, Key Stage 1 results are consistently in the upper quartile</p> <p>(Immediate Priority)</p>	<p>The action plan to improve educational attainment is included in the Local Area Agreement and the Children and Young People Plan. The Council has taken action to improve standards in the CSD by restructuring the management team and entering a partnership with external service providers to support delivery of the improvement agenda. The new school funding arrangements from April 2006 have introduced new funding targeted at Personalised Learning, which has been allocated on the basis of low prior attainment.</p>
14	<p>Management of external communications needs to be improved to ensure the Council sends the right messages to partners and stakeholders</p>	<p>Action is currently being taken to improve the overall approach to external communications, led by the Chief Executive. A short term communications strategy has been prepared for the current year, pending the completion of the review by the Chief Executive.</p>

No.	Issue	Action Planned/Undertaken
15	<p>The Council needs to ensure that it maximises the benefits and minimises the potentially adverse risks of partnership working.</p> <p>(Immediate Priority)</p>	<ul style="list-style-type: none"> • Ensure that the Council, both corporately and in service departments has sufficient awareness of its partnerships involvement • Ensure that appropriate support is available to Council management, staff and partners so that the risks of partnership working are appropriately managed • Ensure that governance arrangements of those partnerships which the Council has are sufficiently robust
16	<p>Performance management arrangements need to be applied consistently across all service areas to enhance service delivery and continuous service improvement</p>	<ul style="list-style-type: none"> • Ensure that the performance management system is implemented and that further phases of the project's implementation are successful. • Ensure that the Council develops its performance framework which will encompass the new system as well as other aspects of the improvement agenda, including: <ul style="list-style-type: none"> ○ Staff development and appraisal ○ Business planning ○ Prioritisation and resources allocation ○ Governance arrangements for performance management ○ Risk management
17	<p>Ensuring that the Council manages its projects in a manner which is proportionate to their scale and strategic significance</p>	<ul style="list-style-type: none"> • Ensure that there is agreed project management methodology • Ensure that it is consistently applied according to the scale and significance of individual projects • Ensure that the risk associated with individual projects features in their management arrangements.
18	<p>Medium term financial strategy needs to be reviewed and updated to be consistent with the Council's principal objectives, in particular the requirement to be a High Performing, Cost Effective Council</p> <p>(Immediate Priority)</p>	<p>MTEP to be rewritten in accordance with the Council's changed corporate objectives to demonstrate how resources are directed towards priorities. Updated document to be considered by Directors Group and Aim High Strategy Group, prior to formal approval by the Cabinet.</p> <p>By May 2006</p>

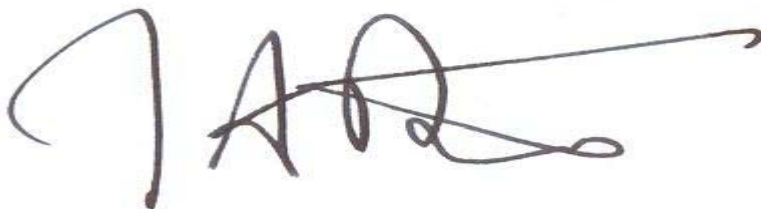
No.	Issue	Action Planned/Undertaken
19	There is a need to manage the Council's financial resources effectively in order to ensure that we can deliver the efficiency savings targets set as part of the budget strategy	Efficiency savings identified as part of the budget strategy were in excess of the ODPM 'Gershon' target for the Council. Regular reports on progress with identifying and delivering the efficiency savings targets to the Aim High Strategy Group to ensure focus is maintained on achievement. Process commenced April 2006 The Scrutiny Committee have included in their work plan that they require regular reports on the delivery and impact of the efficiency savings identified Quarterly Reports from June 2006
20	The Adult Social Services/Housing budgets regularly show pressures in the areas of community care and homelessness. Future plans to form a Health and Social Care partnership on the Isle of Wight may increase the financial risk to service delivery	The Medium Term Financial Plan acknowledges pressures within Adult Services budgets and allocates a significant amount of resources over the next four years to deal with the demographic growth predicted in the older people client group, children with learning disabilities in transition to adult services, increased costs relating to other learning disability and elderly clients with mental health problems, and homelessness in particular. All known pressure areas have been included in the MTFP; however the risk remains that other items may come to the fore, particularly as health partners continue the review of their services and financial support. Close monitoring of the budget and identification of emerging issues will continue to be a priority until the Health and Social Care partnership issues are resolved.
21	Improve the efficiency of the management and organisational policies and practices of the Fire and Rescue Service. The Fire Service has recently gone through a significant period of change, in particular with regard to pay verification, peer review and the Comprehensive Performance Assessment. An Improvement Plan is now in place. (Immediate Priority)	The Fire Service Improvement Plan takes into account the need for the Service to deliver its own objectives in line with the corporate objectives of the Council, Local Area Agreement and Community Strategy. The service is building capacity to undertake the Modernisation Agenda, and is going through a major restructuring as a result, including the Rank to Role process. Risk management training is planned for managers, performance management processes have been improved, and improvements are under way in other areas including empowerment of staff through delegated authority, partnership arrangements and managing the cost of meeting objectives. Service improvement and change management is now being embedded throughout the service, however as it is a three year plan, full improvements will not be realised until the 2008/9 financial year.

No.	Issue	Action Planned/Undertaken
22	There is limited consistency and quality assurance for higher end delegated decisions by officers	<p>Introduction of a corporate protocol for the more significant, higher risk, higher cost and potentially controversial officer delegated decisions to ensure:</p> <ul style="list-style-type: none"> ➤ Create consistency of approach ➤ A more easily accessible series of decision records ➤ Specialist advice is taken and received <p>Consideration also to be given to creating a publicly accessible record</p>
23	The Council needs to ensure that its Internal Audit function is fit for purpose.	The Council has, through the 2006-07 budget process, strengthened the Internal Audit function. Two posts have been created for trainee auditors.
24	To ensure that the Council has good project management in order to deliver capital programmes on time and in budget.	Improvements in project management standards across the Council will help ensure significant projects are delivered in accordance with an agreed timetable and within the approved budget.
25	Ensuring that the delivery of Aim High (which necessitated changes in senior personnel) did not prejudice effective service delivery and administration.	<p>The Council has reviewed the capacity of its senior management structure. The new structure was approved by the Cabinet at its meeting of 13 June 2006.</p> <p>Aim High, first as a change management plan and latterly as the Corporate Plan has provided consistency since May 2005.</p>



Andy Sutton
Leader of the Council

Date



Joe Duckworth
Chief Executive Officer

Date

List of Abbreviations Used

BCP	Business Continuity Planning
CIPFA	Chartered Institute of Public Finance and Accountancy
CorVu	The Council's Performance Management System
CSD	Children's Services Directorate
DCLG	Department for Communities and Local Government
DDA	Disability Discrimination Act
DfES	Department for Education and Skills
EOI	Expression of Interest
GOSE	Government Office for the South East
ICT	Information and Communications Technology
ISP	Island Strategic Partnership
LAA	Local Area Agreement
LAC	Looked After Children
LSCB	Local Safeguarding Children's Board
LSP	Local Strategic Partnership
LTP	Local Transport Plan
MTFP	Medium Term Financial Plan
ODPM	Office of the Deputy Prime Minister (now replaced by Department for Communities and Local Government)
PFI	Private Finance Initiative
QPMR	Quarterly Performance Management Report
S151 Officer	Officer responsible for proper administration of the Council's financial affairs in accordance with Section 151 of the Local Government Act 1972
SIC	Statement on Internal Control

CONSOLIDATED REVENUE ACCOUNT

	2005-06 Gross Expenditure £	2005-06 Gross Income £	2005-06 Net Expenditure £	2004-05 Net Expenditure £
Expenditure on Services				
Education Services	108,692,214	24,930,941	83,761,273	79,467,441
Social Services	64,132,051	21,242,151	42,889,900	38,694,784
Cultural, Environmental & Planning Services	40,945,279	14,284,706	26,660,573	25,994,152
Highways, Roads & Transport	18,311,276	8,156,447	10,154,829	9,157,840
Fire Services	8,642,632	1,669,444	6,973,188	6,824,819
Housing Services (including Benefits)	57,870,627	52,784,915	5,085,712	3,911,909
Court Services	505,289	0	505,289	638,559
Central Services	4,403,009	2,642,563	1,760,446	1,099,250
Corporate & Democratic Core	4,750,199	27,048	4,723,151	4,349,246
Non-Distributed costs	2,130,773	0	2,130,773	1,212,130
Net Cost of Services	310,383,349	125,738,215	184,645,134	171,350,130
Amounts due to precepting authorities			713,616	640,793
Transfer from asset management revenue a/c (note 8)			(4,995,704)	(3,941,236)
Contribution of housing capital receipts to Government Pool			27,672	0
Interest receivable			(2,220,734)	(2,310,528)
Pension interest cost & expected return on pension assets (note 19)			4,700,000	2,700,000
Net Operating Expenditure			182,869,984	168,439,159
Appropriations and Other Adjustments				
Contributions (from)/to reserves (note 2)			(1,062,740)	2,760,203
Transfer to Provisions & Reserves in lieu of interest (note 1)			936,804	1,027,187
Excess over Minimum Revenue Provision (note 8)			(3,638,533)	(5,121,729)
Contribution from the Pension reserve (note 19)			(5,100,000)	(3,346,000)
Transfer of Useable Capital Receipts equal to the contribution to Housing Pooled Capital Receipts			(27,672)	0
Contributions from Capital Financing Account			(4,955,842)	(5,346,583)
Revenue Support Grant Amending Order			256,776	0
Amount to be met from government grants and local taxpayers			169,278,777	158,412,237
Sources of Finance				
Council Taxpayers			(59,625,145)	(56,748,008)
Central Government Grants			(62,558,490)	(62,658,121)
Non-Domestic Rate income			(46,978,981)	(38,983,665)
Net general fund deficit			116,161	22,443
Balance on general fund brought forward			(2,054,654)	(2,077,097)
Balance on general fund carried forward			(1,938,493)	(2,054,654)

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

1. Interest on Internal Balances

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

2. Contributions to Reserves

These transfers include unspent budgets in 2005-06 which are committed against 2006-2007.

3. Section 137 Expenditure

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

4. Agency Services

Under various statutory powers an authority may agree with other local authorities, water companies and government departments to do work on their behalf. This Council did not carry out any significant agency work during 2005-06.

5. Publicity

As required by Section 5 of the Local Government Act 1986 the total amount spent on publicity in the year including recruitment advertising, was £608,217 (£629,088 in 2004-05).

6. Local Authority Goods and Services Act 1970

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

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

The services were provided to the Riverside Centre, South Wight Housing Association, Isle of Wight Youth Trust, Isle of Wight Law Centre, Parish Councils, Court Services, Citizens Advice Centre, Not Just Enterprises, HM Prison Service, local Health Trusts, coastal management bodies, Isle of Wight Economic Partnership, the Valuation Office and another local authority.

In no case did this work represent a material proportion of the activity of the Isle of Wight Council departments concerned.

7. Building Regulations Charging Account 2005-06

The Local Authority Building Control Regulations require the disclosure of information regarding the setting of charges for the administration of the building control function. However, certain activities performed by the Building Control Section cannot be charged for, such as providing general advice and liaising with other statutory authorities. The statement below shows the total cost of operating the building control section divided between the chargeable and non-chargeable activities.

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

8. Asset Management Revenue Account

The Asset Management Revenue account receives the charges to service departments for the use of capital assets and meets the cost of debt redemption and interest paid on external borrowing. The balance on the account as at 31st March 2006 is transferred to the Consolidated Revenue Account.

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

9. Government Grants

Central Government and European Community revenue grants towards specific services were received during the year totalling £83,755,784 (£80,350,457 in 2004-05). These are included as income offsetting service expenditure in the revenue account and are subject to certification by the Audit Commission.

10. Operating Leases

Vehicles, plant, furniture and equipment – the authority uses fire tenders, buses, various other commercial vehicles, car park meters, IT equipment and miscellaneous equipment financed under the terms of an operating lease.

The amount paid under these arrangements in 2005-06 was £538,941 (£570,683 in 2004-05). Future liabilities are as follows:-

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

11. Interests in other entities

The Council does not have, in aggregate, a material interest in any subsidiary companies, associated companies or joint ventures. Group Accounts have therefore not been prepared.

The Council has an interest in the following entities. The accounts of these entities have not been consolidated into the financial statements of the Council.

Island 2000 Ltd coordinates and runs projects that preserve and enhance the landscape of the Island. It is a company limited by guarantee in which the Council holds 16.67% of the voting rights. It is an influenced company, but not regulated. Further information can be obtained from the registered office:- Cowes Waterfront, Venture Quays, Castle Street, East Cowes, Isle of Wight, PO32 6EZ.

Hampshire and Wight Trust for Maritime Archaeology is a registered charity established to preserve maritime archaeology sites in the Solent. It is a company limited by guarantee in which the Council holds 10% of the voting rights. The net assets of the company are not material to the Council. It is not an influenced company or regulated. Further information can be obtained from the registered office:- County Hall, High Street, Newport, Isle of Wight, PO30 1UD

OSEL Enterprises Ltd provides employment for people with learning difficulties. It is a registered charity and a company limited by guarantee in which the Council has no voting rights. A significant proportion of the company's income is derived from contracts with the Council. It is an influenced company not regulated. Further information can be obtained from the registered office:- Sunnycrest Nursery, Wacklands Lane, Newchurch, Sandown, Isle of Wight, PO36 0NB.

Riverside Centre Ltd operates the multi-purpose Centre at Newport Quay. It is a company limited by guarantee in which the Council has a minority interest. A large proportion of the centre's income comes from the Council and it is therefore an influenced company not regulated. Further information can be obtained from the registered office:- The Quay, Newport, Isle of Wight, PO30 2QR.

The Isle of Wight Economic Partnership Ltd advises the Council on economic matters. It is a company limited by guarantee in which the Council has 16.67% voting rights at the AGM. It is not an influenced company or regulated. Further information can be obtained from the registered office:- The Innovation Centre, St Cross Business Park, Monks Brook, Newport, Isle of Wight, PO30 5WB.

Island Youth Water Activities (Isle of Wight) Ltd operates the Cowes Watersports Centre. It is a company limited by guarantee in which the Council controls 33% of the voting rights. Approximately 40% of the company's income comes from the Council. It is an influenced regulated company. Further information can be obtained from the registered office:- Whitegates, Artic Road, Cowes, Isle of Wight, PO31 7PG.

Interests in other entities (continued)

The Tourism Partnership Ltd is a company limited by guarantee in which the Council controls 50% of the voting rights. It is an influenced regulated company, but has been dormant since its incorporation. Further information can be obtained from the registered office:- County Hall, Newport, Isle of Wight, PO30 1UD.

Cowes Town Waterfront Trust owns the freehold of Cowes Marina. It is a company limited by guarantee in which the Council currently controls 25% of the voting rights. The net assets of the company are not material to the Council's accounts. It is an influenced company not regulated. Further information can be obtained from the registered office:- Vectis Yard, High Street, Cowes, Isle of Wight, PO31 7BD.

Cowes Yacht Haven Ltd is a company limited by shares. The Council owns a minority interest of 2% of the share capital, the remaining 98% being owned by Cowes Town Waterfront Trust (CTWT). The Council therefore does not have any control or influence over the company, other than through its membership of the CTWT. Further information can be obtained from the registered office:- Vectis Yard, High Street, Cowes, Isle of Wight, PO31 7BD.

12. Health Act 1999 Section 31 Pooled Funds

Section 31 of the Health Act 1999 and the NHS Bodies and Local Authorities Partnership Arrangements Regulations 2000 enable establishment of joint working arrangements between NHS bodies and local authorities. Pooled funds enable health bodies and local authorities to work collaboratively to address specific local health issues. Memorandum accounts have been prepared relating to pooled budget agreements between the Isle of Wight Council and Isle of Wight Primary Care Trust during 2005-06. All relevant income and expenditure has been included in the Social Services division of service in the Consolidated Revenue Account.

Free Nursing Care - Registered Nursing Care Contribution (RNCC)

This agreement enables a single payment incorporating both the nursing and social care cost to be made to the Nursing Homes. The pooled budget arrangement is hosted by the Isle of Wight Council. The following shows the pool income, expenditure and balance as at 31st March.

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

Free Nursing Care (RNCC) (cont)		2005-06	2004-05
To be shared between partners pro rata to contributions made	%		
I W Council		73.02	(348,553)
I W Primary Care Trust		26.98	(128,773)
Total			(477,326)

Substance Misuse

This agreement is to provide a pooled budget and lead commissioning arrangement for Substance Misuse Services. The pooled budget arrangement was operational from 1st February 2005 and is hosted by the Isle of Wight Council. The following shows the pool income, expenditure and balance as at 31st March 2006.

		2005-06	2004-05
Amounts Received from Partners	%	£	£
Contribution from IW Council	32.0	612,293	135,341
Contribution from IW Primary Care Trust	68.0	1,298,078	157,292
Total Income		1,910,371	292,633
Amount Spent from Pool		£	£
Drug Strategies		1,391,094	232,008
Island Drug and Alcohol Service		387,989	60,625
Total Expenditure		1,779,083	292,633
Amount Remaining in Pool		131,288	0
To be shared between partners pro rata to contributions made	%	£	£
I W Council	32.0	42,012	0
I W Primary Care Trust	68.0	89,276	0
Total		131,288	0

Integrated Community Equipment Store Pooled Budget

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

		2005-06	2004-05
Amounts Received from Partners	%	£	£
Community Equipment Service:			
Contribution from IW Council	65.2	287,704	284,800
Contribution from IW Primary Care Trust	34.8	153,686	150,210
Income		441,390	435,010
Stores Relocation Project:			
Contribution from IW Council	50.3	55,789	-
Contribution from IW Primary Care Trust	49.7	55,078	-
Income		110,867	-
Total Amount Received		552,257	435,010
Amount Spent from Pool			
		£	£
Staff Costs		89,944	117,723
Non-Pay Costs		343,318	263,306
Total Expenditure		433,262	381,029
Stores Relocation Project		111,578	-
Total Spent from Pool		544,840	381,029
Amount remaining in Pool: Community Equipment Service		8,128	53,981
To be shared between partners pro rata to contributions made	%	£	£
I W Council	65.2	5,300	35,341
I W Primary Care Trust	34.8	2,828	18,640
Total		8,128	53,981
Stores Relocation Project (overspend)		(711)	-
Amount due from IW Primary Care Trust		(711)	-
Total Amount Remaining in Pool		7,417	-
To be shared between partners:			
I W Council		5,300	-
I W Primary Care Trust		2,117	-
Total		7,417	-

13. Disclosure of Employees' Emoluments

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

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

Due to revised management arrangements arising from the Organisational Change agenda, there were a significant number of officers who left the employment of the Council during the year which resulted in severance payments being made. All severance costs, including redundancy payments, added year enhancements and 'capitalised' pension costs are funded from the Revenue Account. The payment of severance payments of this nature does not represent an exceptional occurrence and has occurred in previous years as a result of reorganisation or restructuring.

In 2005-06 45 employees left the Council's employment for reasons of early retirement or redundancy, compared with 32 in 2004-05. Related severance costs charged to the Consolidated Revenue Account in 2005-06 totalled £1,943,000, compared with £506,000 in 2004-05. The current management arrangement for these costs is that they are charged to revenue accounts to suit service budget requirements, and this can be for any period subject to a maximum of 5 years.

14. Members' Allowances

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

15. Trading Operations

The Best Value Accounting Code of Practice sets out categories of trading operations which authorities should consider disclosing and detailing in a note to the Consolidated Revenue Account. For the financial year ending 31st March 2006, all such activities are included in the total cost of the relevant services and are therefore consolidated into the net cost of services. The amounts include any capital charges or FRS 17 charges attributable to the particular service. In certain instances, the council may subsidise a service by accepting a deficit or a lower surplus in order to achieve specific service objectives.

Operation	Description		£000's
Industrial Units	The Council let industrial units in a variety of locations.	Turnover	118
		Expenditure	165
		Deficit 2005-06	(47)
		Deficit 2004-05	(41)
Markets	The Council runs Newport market and provides supervisory support for other local markets	Turnover	40
		Expenditure	21
		Surplus 2005-06	19
		Surplus 2004-05	12
Cowes Ferry	Cowes Floating Bridge contains the costs of providing the ferry link between East and West Cowes. Income is generated by charges for vehicles only with 1.5 million passengers	Turnover	456
		Expenditure	584
		Deficit 2005-06	(128)
		Deficit 2004-05	(103)
Car Parks	This service includes the full costs of operating car parks across the Island. Income is derived from charges levied on users, in particular ticket sales and excess charges. The excess of income generated by this service is reinvested to improve the transport infrastructure on the Island.	Turnover	3,238
		Expenditure	1,530
		Surplus 2005-06	1,708
		Surplus 2004-05	1,693
School Buy-Backs	LEA/LA Central Services purchased by schools. Schools are free to choose whether they purchase these services from the authority, or from an external provider. Some service contracts, eg School meals, contain a minimum notice to terminate period. Charges are estimated in October and assumptions are made about rate of buy-back. Schools decide whether to buy-back when they receive their budgets in the following March, hence the potential for a deficit when the buy-back rate does not match that assumed in October.	Turnover	2,452
		Expenditure	2,514
		Deficit 2005-06	(62)
		Deficit 2004-05	(27)

Legal Services	Service Level Agreements allow users of the Legal Services section to buy expertise. The charges are based on time allocated to individual cases and the aim of the service is to cover its costs as a minimum.	Turnover	605
		Expenditure	680
		Deficit 2005-06	(75)
		Surplus 2004-05	47
Bereavement Services	Burial service and maintenance of twelve cemeteries and eleven closed churchyards, together with provision for a Crematorium service including maintenance of site and buildings. Income derived from cremation fees, charges and sales and cemetery burial fees and charges.	Turnover	614
		Expenditure	829
		Deficit 2005-06	(215)
		Deficit 2004-05	(81)
Harbours and Coastal	This includes Newport and Ryde Harbours, Ventnor Haven, Folly Moorings and Whitegates Pontoon	Turnover	199
		Expenditure	355
		Deficit 2005-06	(156)
		Deficit 2004-05	(131)
Leisure Facilities	The running of Leisure facilities at Waterside Pool, Medina Leisure Centre, The Heights, Rew Valley and the squash courts at Westridge. These are subsidised facilities and the deficit has increased partly as a result of a job evaluation exercise	Turnover	1,448
		Expenditure	3,001
		Deficit 2005-06	(1,553)
		Deficit 2004-05	(1,270)
Seasonal Sites	The running of tourism related sites including Browns and Shanklin Lift. The 2004/05 figures included the Sandown, Shanklin and Ryde Road trains, which are now run by a private operator.	Turnover	462
		Expenditure	584
		Deficit 2005-06	(122)
		Deficit 2004-05	(237)

16. Related Parties Transactions

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

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

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

Central Government has effective control over the general operations of the Council – it is responsible for providing the statutory framework within which the council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the council has with other parties. Details of transactions with government departments are set out in a note to the Cash Flow Statement. Transactions with the Isle of Wight Primary Care Trust in respect of the Pooled budget arrangements are shown in Note 12 to the Consolidated Revenue Account.

For elected members and directors, related parties also include:

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

A transaction is deemed to be:

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

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

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

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

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

17. Audit Costs

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

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

18. Local Public Service Agreement (LPSA)

Isle of Wight Council has entered into a LPSA with the Government, in which the Council has pledged to improve a range of services as measured by a number of targets. To assist the Council in achieving the targets set out by the LPSA, the Government paid over a pump-priming grant of £879,448 in 2002/03. This was intended as a contribution towards expenditure of an 'invest to save' nature.

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

19. Retirement Benefits

As part of the terms and conditions of employment of its officers and other employees, the authority offers retirement benefits. Although these benefits will not actually be payable until after employees retire, the authority has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement.

The authority participates in three pension schemes:

- the Local Government Pension Scheme is administered by the Council and is a funded scheme, meaning that the authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.
- the Fire-Fighters' Pension Scheme is an unfunded scheme, meaning that there are no investment assets built up to meet the pensions liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due.
- teachers employed by the authority are members of the Teachers' Pension Scheme, which is administered by the Teachers' Pension Agency.

The cost of retirement benefits are recognised in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge made against the council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the Consolidated Revenue Account after Net Operating Expenditure. The transactions that have been made in the Consolidated Revenue Account during the year relating to both the Local Government and Firefighters' Pension Schemes are as follows:-

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

Note 42 to the Consolidated Balance Sheet contains details of the assumptions made in estimating the figures included in this note. Note 6 to the Statement of Total Movements in Reserves details the costs that have arisen through the year as estimates made in preparing the figures for previous years have had to be revised (for example the expected return on investments).

Teachers' Pension Scheme

Teachers are provided with defined benefits upon their retirement, and the authority contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

Contributions were as follows:-

	2005-06	2004-05
	£000's	£000's
Basic Contribution	4,911	4,712
(as a % of pensionable pay)	13.5	13.50

The authority is responsible for the costs of any additional benefits awarded upon early retirement outside the terms of the Teachers' scheme. These benefits are fully accrued in the pensions liability reported in the Consolidated Balance Sheet. A total of £361,846 was paid as additional benefits in 2005/06.

THE COLLECTION FUND

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

NOTES TO THE COLLECTION FUND

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

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

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

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

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

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

CONSOLIDATED BALANCE SHEET

31 March 2005 £		£	31 March 2006 £
	Net Tangible Fixed Assets (note 23)		
	Operational Assets:		
215,351,729	Land and Building	227,330,620	
63,208,663	Infrastructure	69,024,201	
4,644,274	Vehicles, Plant, Furniture & Equipment	4,175,180	
3,473,725	Community Assets	1,072,438	
286,678,391			301,602,439
	Non-operational Assets:		
-	Shared Ownership Dwellings	1,250,157	
0	Surplus assets held for disposal	900,000	
0			2,150,157
11,036	Investments (note 26)		11,036
319,991	Long Term Debtors (note 24)		227,981
287,009,418	Total Long Term Assets		303,991,613
	Current Assets		
593,441	Stock & Work in Progress (note 25)	611,956	
13,314,636	Debtors & Payments in Advance (note 27)	14,123,336	
39,000,000	Temporary Advances (note 29)	20,800,000	
7,640,020	Cash in bank and in hand	13,382,827	
60,548,097			48,918,119
	Current Liabilities		
19,863,836	Creditors & Receipts in Advance (note 28)	21,743,962	
2,142,618	External Borrowing repayable within one year (note 30)	12,107,045	
2,416,434	Bank Overdraft	3,286,040	
24,422,888			37,137,047
36,125,209	Net Current Assets		11,781,072
	Long Term Liabilities		
142,307,572	External Borrowing repayable in more than one year (note 30)		131,306,520
165,117	Deferred Credits (note 35)		146,574
3,291,222	Provisions (note 33)		3,326,319
138,000,000	Liability related to defined benefit pension schemes (note 42)		151,300,000
283,763,911			286,079,413
39,370,716	Total Net Assets		29,693,272
	Financed By		
31,494,136	Earmarked Reserves (note 34)		31,237,339
(138,000,000)	Pensions Reserves (note 42)		(151,300,000)
97,205,026	Fixed Asset Restatement Account (note 36)		102,385,945
46,160,522	Capital Financing Account (note 37)		45,127,688
495,977	Capital Grants Unapplied (note 32)		43,858
2,054,654	General Fund Balance		1,938,493
(39,599)	Surplus/(Deficit) on Collection Fund		259,949
39,370,716	Total Reserves		29,693,272

NOTES TO THE CONSOLIDATED BALANCE SHEET

23. Tangible Fixed Assets

Movement in tangible fixed assets were as follows:

Operational Assets	Land and Buildings £	Infrastructure £	Vehicles Plant Furniture & Equipment £	Community Assets £	Total £
Balance at 1 April	215,351,729	63,208,663	4,644,274	3,473,725	286,678,391
Adjustments (see note)	1,144,194	0	0	(2,531,982)	(1,387,788)
Reclassified as non- operational assets	(900,000)	0	0	0	(900,000)
Expenditure in year	11,805,190	8,448,619	367,757	140,876	20,762,442
Depreciation	(5,389,043)	(2,633,081)	(836,851)	(10,181)	(8,869,156)
Disposals	(57,000)	0	0	0	(57,000)
Revalued in year	5,375,550	0	0	0	5,375,550
Balance at 31 March	227,330,620	69,024,201	4,175,180	1,072,438	301,602,439

The brought forward balance on Community Assets included a number of items that should have been categorised as Land and Buildings. In addition, a small number of Community Assets had been erroneously revalued instead of being shown at their depreciated historical cost. The adjustments line corrects the brought forward balances as appropriate.

Non-Operational Assets

	Shared Ownership Dwellings £	Surplus assets held for disposal £	Total £
Balance at 31 March	1,250,157	900,000	2,150,157

Non-operational assets are tangible fixed assets held by a local authority but not directly occupied, used or consumed in the delivery of services. The Council has an interest in 67 shared ownership dwellings which have not previously been included on the Balance Sheet. The asset values have been calculated by reference to the rental income received and an expected rental return of 7%. The surplus assets held for disposal were previously included as operational assets under Land and Buildings.

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

The Council has no intangible fixed assets.

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

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

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

Deferred Charges

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

Movement in Deferred Charges

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

Capital Expenditure was financed as follows:-

	2005-06	2004-05
	£	£
Capital Receipts	412,677	1,162,605
Capital Grants	7,148,864	12,665,551
Increase in Capital Financing Requirement (CFR)	18,156,743	13,783,870
Total	25,718,284	27,612,026

The Capital Financing Requirement forms part of the Prudential Code for Capital Finance and represents the Council's underlying need to borrow for capital expenditure purposes.

Capital Financing Requirement (memorandum account)

	2005-06	2004-05
	£	£
Balance at 1 April	143,634,128	134,358,943
Capital Expenditure in year	25,718,284	27,612,026
Application of Capital Receipts	(412,677)	(1,162,605)
Application of Capital Grants	(7,148,864)	(12,665,551)
Statutory Charge to Revenue re: past expenditure	(5,230,623)	(4,508,685)
Balance at 31 March	156,560,248	143,634,128

25. Stocks and Work-in-Progress

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

26. Investments

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

27. Debtors and Payments in Advance

	31 March 2006 £	31 March 2005 £
Government Departments	3,752,963	3,788,987
Local Taxpayers	1,863,749	2,275,612
Other Organisations and Individuals	10,945,691	9,944,101
	<hr/>	<hr/>
	16,562,403	16,008,700
less Provision for Bad Debts	(2,439,067)	(2,694,064)
	<hr/>	<hr/>
Balance at end of year	14,123,336	13,314,636
	<hr/>	<hr/>

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

28. Creditors and Receipts in Advance

	31 March 2006 £	31 March 2005 £
Government Departments	5,836,096	5,353,652
Local Taxpayers	1,615,319	1,847,051
Other Organisations & Individuals	14,292,547	12,663,133
	<hr/>	<hr/>
Balance at end of year	21,743,962	19,863,836
	<hr/>	<hr/>

29. Temporary Advances

This involves the temporary investment of surplus cash flows and internal funds in accordance with the Council's Treasury Management Strategy. At 31st March 2006 £11,550,000 was invested with Banks and £9,250,000 with Building Societies. A further £11,675,000 was invested with the Council's own bankers and this amount is included in the Cash in bank and in hand total.

30. External Borrowing

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

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

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

31. Useable Capital Receipts

Capital Receipts are generated mainly from the sale of fixed assets and are used to support the Council's capital investment programme. All accumulated receipts were utilised in the year.

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

32. Capital Grants

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

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

The Capital Grants applied figure includes £355,000 received in 2004-05 on behalf of West Wight Nursery. This is part of the brought forward balance and was paid over to the organisation in 2005-06.

33. Provisions

	Balance 1 April £	Receipts £	Payments £	Balance 31 March £
Insurance Liabilities Fund	2,796,031	487,914	0	3,283,945
Waste Management Contract Claims	495,191	83,171	535,988	42,374
	<hr/> 3,291,222	<hr/> 571,085	<hr/> 535,988	<hr/> 3,326,319

The Insurance Liabilities Fund represents the potential liabilities identified in an actuarial valuation of outstanding insurance claims. The Waste Management Contract claim relates to a green waste arbitration dispute, which is now in the final stages of being settled.

34. Earmarked Reserves

	Balance 1 April £	Contributions £	Payments £	Balance 31 March £
Earmarked Revenue & Capital	4,277,663	2,967,092	1,387,542	5,857,213
Repairs & Renewals Funds	3,432,779	665,734	2,127,798	1,970,715
Earmarked Reserves - Education	1,738,208	1,539,864	1,566,050	1,712,022
Earmarked Reserves – Social Services	211,953	9,757	62,762	158,948
Earmarked Reserves – Other Services	7,514,557	5,606,041	5,298,391	7,822,207
School Balances	4,175,634	1,161,358	1,911,097	3,425,895
Insurance Funds	10,143,342	2,469,068	2,322,071	10,290,339
	<hr/> 31,494,136	<hr/> 14,418,914	<hr/> 14,675,711	<hr/> 31,237,339

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.

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

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

Insurance Funds provide the means to take categories of insurance risk in-house in the future and to meet various contingencies. These funds also recognise that the Council faces a number of non-insurable risks that fall outside the scope of normal insurance cover including litigation, contract disputes and natural disasters. Rather than provide for these individually, with subsequent volatility within the revenue budget, the non-insurable risk element within these reserves currently provides for 54% of the total potential liabilities.

35. Deferred Credits

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

36. Fixed Asset Restatement Account

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

37. Capital Financing Account

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

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

38. Section 106 receipts

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

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

39. Government Grants

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

40. Trust Funds and Other Balances

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

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

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

41. Euro Costs

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

42. Pension Assets and Liabilities

Note 19 to the Consolidated Revenue Account contains details of the Authority's participation in the Local Government Pension Scheme, the Fire-Fighters' Pension Scheme and the Teachers' Pension Scheme in providing retirement benefits to employees.

The underlying assets and liabilities for retirement benefits attributable to the authority at 31 March are as follows:

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

The liabilities show the underlying commitments that the authority has in the long run to pay retirement benefits. The total liability of £151.3 million has a substantial impact on the net worth of the authority as recorded in the balance sheet, resulting in an overall balance of £28.3 million. However, statutory arrangements for funding the deficit mean that the financial position for the authority remains healthy:

- the deficit on the local government scheme will be made good by increased contributions, as assessed by the scheme actuary
- finance is only required to be raised to cover fire-fighters' pensions when the pensions are actually paid.

Liabilities have been assessed on the actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions including mortality rates and salary levels. Both fund liabilities have been assessed by Hymans Robertson, an independent firm of actuaries, estimates for the Local Government Scheme being based on the latest full valuation of the scheme as at 31 March 2004.

The main assumptions used in their calculations are:

Assumptions as at 31 March	Local Government Pension Scheme		Fire-fighters' Pension Scheme	
	2006	2005	2006	2005
Price increases	3.1%	2.9%	3.1%	2.9%
Salary increases	4.6%	4.4%	4.6%	4.4%
Pension increases	3.1%	2.9%	3.1%	2.9%
Proportion of employees opting to take a commuted lump sum	0.0%	N/A	N/A	N/A
Discount rate	4.9%	5.4%	4.9%	5.4%

The Fire-fighters' Pension Scheme has no assets to cover its liabilities.

Assets in the Local Government Pension Scheme are valued at fair value, principally market value for investments, and consist of the following categories, by proportion of the total assets held by the Fund.

Changes to the Local Government Pension Scheme

Changes to the Local Government Pension Scheme permit employees retiring on or after 6 April 2006 to take an increase in their lump sum payment on retirement in exchange for a reduction in their future annual pension. On the advice of our actuaries we have taken the view that there is insufficient reliable evidence to assume a level of take-up of the change in the pension scheme. Consequently the valuation of the Council's retirement benefit liabilities as at 31 March 2006 does not include any allowance for this change to the pension scheme.

Assets (Employer)

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

Teachers' Pension Scheme

With regard to the Teachers' Pension Scheme, there were no contributions remaining payable at the year-end.

The scheme is a defined benefit scheme, administered by the Teachers' Pension Agency (TPA). Although the scheme is unfunded, the TPA uses a notional fund as the basis for calculating the employers' contribution rate paid by local education authorities. However, it is not possible for the authority to identify a share of the underlying liabilities in the scheme attributable to its own employees. For the purposes of this statement of accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

The authority is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These benefits are fully accrued in the pensions liability reported in the Consolidated Balance Sheet.

43. Contingent Liabilities

The Council has indemnified the South Wight Housing Association in respect of the cost of any defects that would have led to a reduction in the transfer valuation of the former South Wight Borough Council housing stock, had a full survey been made on an individual property basis. The potential liability has not been quantified, but since the time elapsed since the transfer is now sixteen years, there is a diminishing probability of a claim against the Council.

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

44. Events after the Balance Sheet Date

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

CASH FLOW STATEMENT FOR YEAR ENDED 31 MARCH 2006

	2005-06	2004-05
Revenue Activities	£	£
<u>Cash Outflows</u>		
Cash paid to and on behalf of employees	122,153,730	112,262,077
Precepts paid	713,616	640,793
Housing Benefit paid	32,937,198	31,452,724
Payment to NNDR Pool	0	854,265
Payments to Housing Capital Receipts Pool	27,672	0
Other operating cash payments	115,048,156	113,647,535
	270,880,372	258,857,394
<u>Cash Inflows</u>		
Rents	(608,981)	(619,330)
Council Tax Income	(50,486,205)	(48,512,140)
Non-Domestic Rate Income	(46,730,399)	(40,516,757)
Revenue Support Grant	(62,301,714)	(62,658,121)
DWP Grants for Housing Benefit	(33,828,299)	(31,714,087)
Other Government Grants (note 48)	(51,556,465)	(48,879,116)
Cash Received for Goods and Services	(37,743,421)	(34,989,591)
	(12,375,112)	(9,031,748)
Revenue Activities Cash Flow (note 46)		
<u>Servicing of Finance</u>		
Interest paid	7,934,448	7,394,425
Interest Received	(2,467,910)	(2,302,775)
	(6,908,574)	(3,940,098)
<u>Capital Activities</u>		
<u>Cash Outflows</u>		
Purchase of Fixed Assets	20,703,581	21,958,157
Other Capitalised Expenditure	4,955,842	5,653,869
<u>Cash Inflows</u>		
Sale of Fixed Assets	(412,677)	(1,162,605)
Capital Grants Received	(7,234,789)	(9,925,179)
	(7,647,466)	(11,087,784)
	18,011,957	16,524,242
Net Cash (Inflow) Outflow Before Financing	11,103,383	12,584,144
<u>Financing</u>		
Repayments of Amounts Borrowed & Temporary Advances	1,186,791	849
New Loans Raised	0	(15,000,000)
	1,186,791	(14,999,151)
(Increase)/Reduction in cash and cash equivalents (note 47)	12,290,174	(2,415,007)

Note 45

The cash flow statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes. Reconciliation to the Consolidated Revenue Account surplus and the Consolidated Balance Sheet cash figure is provided in Notes 46 and 47.

Note 46

	2005-06	2004-05
	£	£
General Fund movement as per Consolidated Revenue Account	116,161	22,443
Increase/ (reduction) in Stock and Work in Progress	18,515	(165,705)
Increase/ (reduction) in Debtors	808,700	2,042,944
(Increase)/reduction in Creditors	(1,880,126)	2,686,328
Transfer to/(from) Reserve & other non-cash transactions	(5,971,824)	(8,526,108)
Interest Payments	(7,934,448)	(7,394,425)
Interest Receipts	2,467,910	2,302,775
Revenue Activities Net Cash Flow	(12,375,112)	(9,031,748)

Note 47

	2005-06	2004-05
	£	£
Consolidated Balance Sheet Movements		
Increase/(Reduction) in Bank Overdrawn	869,606	870,978
(Increase)/Reduction in Cash in Hand	(5,742,807)	(523,609)
Increase/(Reduction) in Short Term Loans	(1,036,625)	1,587,624
(Increase)/Reduction in Bank Advances	18,200,000	(4,350,000)
Increase/(Reduction) in Cash and Cash Equivalents	12,290,174	(2,415,007)

Note 48

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

STATEMENT OF TOTAL MOVEMENTS ON RESERVES

	2005-06	2004-05
	£	£
Surplus /(deficit) for the year:		
General Fund	(116,161)	(22,443)
Collection Fund	299,548	(98,536)
Add back Movements on specific revenue reserves	(256,797)	4,580,595
Deduct Appropriation from Pension Reserve	(5,100,000)	(3,346,000)
Actuarial gains & losses relating to pensions (note 6)	(8,000,000)	(40,179,000)
	(13,173,410)	(39,065,384)
Total Increase/(decrease) in revenue resources (note 1)	(13,173,410)	(39,065,384)
Increase/(decrease) in usable capital receipts	0	0
Increase/(decrease) in unapplied capital grants & contributions	(452,119)	(2,858,517)
	(452,119)	(2,858,517)
Total Increase/(decrease) in realised capital resources (note 2)	(452,119)	(2,858,517)
Gains/(losses) on revaluation of fixed assets	5,237,919	11,393,206
Impairment losses on fixed assets due to general changes in prices	0	0
	5,237,919	11,393,206
Total Increase/(decrease) in unrealised value of fixed assets (note 3)	5,237,919	11,393,206
Value of assets sold, disposed of or decommissioned (note 4)	(57,000)	(389,386)
Capital receipts set aside	412,677	1,192,749
Revenue resources set aside	(3,638,533)	(5,121,729)
Movement on Government Grants Deferred	2,193,022	6,556,528
	(1,032,834)	2,627,548
Total Increase/(decrease) in amounts set aside to finance capital investment (note 5)	(1,032,834)	2,627,548
Increase/(decrease) on the pensions reserve (note 6)	(200,000)	25,000
	(9,677,444)	(28,267,533)
Total recognised gains & losses	(9,677,444)	(28,267,533)

Notes to the Statement of Total Movements on Reserves

1. Movements in revenue resources

	General Fund Balances £	Collection Fund £	Earmarked Reserves £	Pension Reserve £
Surplus/(Deficit) for 2005-06	(116,161)	299,548		
Appropriations (to)/from Revenue			(256,797)	(5,100,000)
Transfers with other authorities				(200,000)
Actuarial losses relating to pensions				(8,000,000)
<hr/>				
Brought forward at 1 April 2005	2,054,654	(39,599)	31,494,136	(138,000,000)
<hr/>				
Carried forward at 31 March 2006	1,938,493	259,949	31,237,339	(151,300,000)

The appropriations from Revenue to Earmarked Reserves represent sums set aside by services to finance future expenditure, together with transfers in lieu of interest. Further details of the movement on the Pension Reserve are given in Note 6 below.

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

Capital receipts are generated mainly from the sale of fixed assets and are used to support the Council's capital programme. Capital Grants towards the cost of capital projects are generally applied as expenditure is incurred.

	Fixed asset Restatement Account £
3. Movements in unrealised value of fixed assets	
Gains/losses on revaluation of fixed assets in 2005-06	5,375,550
Adjustments to Brought forward balance (see note 23)	(1,387,788)
Shared Ownership dwellings (see note 23)	1,250,157
Impairment losses on fixed assets due to general changes in prices in 2005-06	0
<hr/>	
Total increase/(decrease) in unrealised capital resources in 2005/06	5,237,919
4. Value of assets sold, disposed of or decommissioned	
Amounts written off fixed asset balances for disposals in 2005-06	(57,000)
<hr/>	
Total movement on account in 2005-06	5,180,919
Balance brought forward at 1 April 2005	97,205,026
<hr/>	
Balance carried forward at 31 March 2006 (see note 36)	102,385,945

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

	Capital Financing Account £
5. Movements in amounts set aside to finance capital investment	
Capital receipts set aside in 2005-06	
- reserved receipts	0
- usable receipts applied	412,677
	<hr/>
Total Capital receipts set aside in 2005-06	412,677
Revenue resources set aside in 2005-06	
Capital expenditure financed from revenue	0
	<hr/>
Total Revenue resources set aside in 2005-06	0
Capital Slippage Reserve Applied	0
Grants applied to capital investment in 2005-06	7,148,864
Amounts credited to the asset management revenue account in 2005-06	(3,638,533)
Deferred Charges written down	(4,955,842)
	<hr/>
Movement on Government Grants Deferred	(1,445,511)
	<hr/>
Total increase/(decrease) in amounts set aside to finance Capital investment	
Total movement on reserve in 2005-06	(1,032,834)
Balance brought forward at 1 April 2005	46,160,522
	<hr/>
Balance carried forward at 31 March 2006 (see note 37)	45,127,688
	<hr/>

The Capital Financing Account contains the amounts which are required by statute to be set aside from capital receipts and revenue for the repayment of external loans, together with the amounts of revenue, useable capital receipts and contributions which have been used to finance capital expenditure.

Government grants deferred represents amounts received to fund capital expenditure which will be released to offset the depreciation in respect of the fixed assets to which they relate. For assets which will not attract depreciation, the grants and contributions are transferred to the Capital Financing Account in the year in which they are used to finance expenditure.

6. Movements in Pension Reserve

Analysis of the attributable movements in the deficit in the scheme during the year:-

Year to 31 March	Local Government Pension Scheme		Fire-fighters' Pension Scheme		Total	
	£000's		£000's		£000's	
	2006	2005	2006	2005	2006	2005
Deficit at beginning of the year	(104,100)	(66,800)	(33,900)	(27,700)	(138,000)	(94,500)
Current Service Cost	(8,600)	(7,500)	(700)	(700)	(9,300)	(8,200)
Employer Contributions	8,000	6,400	1,800	1,200	9,800	7,600
Contributions in respect of Unfunded Benefits	1,200	1,000	-	-	1,200	1,000
Transfers from other authorities	-	-	(200)	25	(200)	25
Past Service costs	(1,300)	(100)	0	(146)	(1,300)	(246)
Impact of settlements and curtailments	(800)	(800)	-	-	(800)	(800)
Expected Return on assets	11,800	10,400	-	-	11,800	10,400
Interest cost on liabilities	(14,700)	(11,600)	(1,800)	(1,500)	(16,500)	(13,100)
Actuarial gains/(losses)	(3,500)	(35,100)	(4,500)	(5,079)	(8,000)	(40,179)
Deficit at end of year	(112,000)	(104,100)	(39,300)	(33,900)	(151,300)	(138,000)

The actuarial gains or losses identified in the above table can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities at 31st March of each year.

Local Government Pension Scheme

	2002-03		2003-04		2004-05		2005-06	
	£000's	%	£000's	%	£000's	%	£000's	%
Differences between the expected and actual return on assets	(41,900)	(36.4)	20,000	13.9	7,100	4.3	31,700	15.0
Differences between actuarial assumptions about liabilities and actual experience	(17,300)	(9.4)	0	0.0	(800)	(0.3)	(1,000)	(0.3)
Changes in the demographic and financial assumptions used to estimate liabilities	-	-	-	-	(41,400)	(15.3)	(34,200)	(10.5)
Total	(59,200)		20,000		(35,100)		(3,500)	

Fire-Fighters' Pension Scheme

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

Group Accounts

A major change to the 2004 Statement of Recommended Practice (SORP) is modified Group Accounting requirements. These require local authorities to consider all their interests and to prepare a full set of group financial statements where they have material interests in subsidiaries, associates or joint ventures. The financial statements will include:-

- group income and expenditure account
- group balance sheet
- group cash flow statement
- group statement of total movements on reserves

In order to assess whether this authority has interests relevant to group accounts, consideration has been given to involvement with companies, partnerships, voluntary organisations and other public bodies to determine whether:-

- the authority has a formal interest in a body which gives it access to economic benefits or service potential and that the body is an identifiable entity carrying on a trade or business of its own.
- the interest constitutes control over the majority of equity capital or voting rights or over rights to appoint the majority of the governing body or the interest involves it exercising, or having the right to exercise, dominant influence over the entity, such that the entity is classified as a subsidiary of the authority.
- if the authority does not have control, whether its interests involves it being able to exercise a significant influence over the entity without support from other participants, such that the entity is classified as an associate of the authority.
- if the authority does not have control, whether its interest allows it to direct the operating and financial policies in conjunction and with the consent of the other participants in the entity, such that the entity is classified as a joint venture for the authority.

Consideration has been given to the relationship with all potential entities and the following disclosures have been made:-

- Entities included in the consolidated accounts of the Isle of Wight Council as shown in Note 2(c) to the Explanatory Foreword.
- Interests in other entities as shown in Note 11 to the Consolidated Revenue Account

There are no entities where the council's interest is such that it would give rise to the requirement to prepare group accounts.

This position is reviewed and updated on an annual basis.

ISLE OF WIGHT COUNCIL PENSION FUND

Fund Account for year ended 31 March 2006

	2005-06	2004-05
	£	£
Contributions and Benefits		
Contributions receivable:		
From Employers	10,244,456	7,324,110
From Employees or Members	3,382,898	3,168,419
Transfers in	3,188,023	1,918,068
Other Income	38,303	20,086
	<hr/>	<hr/>
	16,853,680	12,430,683
Benefits Payable		
Pensions	9,030,758	8,615,321
Lump Sums (including retirement & death benefits)	1,847,324	1,639,682
Payments to and on account of leavers:		
Refunds of contributions	30,722	38,696
Transfers out	1,646,516	1,578,502
Administrative and other expenses	332,202	335,055
	<hr/>	<hr/>
	12,887,522	12,207,256
	<hr/>	<hr/>
Sub total – Net additions from dealings with members	3,966,158	223,427
Returns on Investments		
Investment income (see analysis below)	6,144,956	4,882,455
Change in market value of investments (realised & unrealised)	41,774,882	16,047,256
Investment management expenses	(254,430)	(263,684)
	<hr/>	<hr/>
Sub total – Net returns on investments	47,665,408	20,666,027
	<hr/>	<hr/>
Net increase (decrease) in the fund during the year	51,631,565	20,889,454
Opening Net assets of the scheme	187,307,174	166,417,720
	<hr/>	<hr/>
Closing Net assets of the scheme	238,938,739	187,307,174
	<hr/>	<hr/>
Analysis of Investment Income:		
Fixed Interest	541,726	295,026
Equities	3,880,098	3,073,910
Index Linked	12,113	45,042
Unit Trusts - Property	750,052	665,731
- Other	721,073	626,764
Interest	189,368	175,982
Currency Trade Net	50,525	0
	<hr/>	<hr/>
	6,144,955	4,882,455
	<hr/>	<hr/>

ISLE OF WIGHT COUNCIL PENSION FUND

Net Assets Statement as at 31 March 2006

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

ISLE OF WIGHT COUNCIL PENSION FUND

1. Operation and Membership

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

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

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

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

At 31 March 2006

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

Membership Analysis

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

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

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

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

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

The number of ill health retirements was 9 (15 in the previous year)

Contributions to the Fund by employees were made at 6% pensionable pay. However, employees who hold lower rate rights are entitled to make contributions at 5% of pensionable pay.

The rate at which the employers contribute to the Fund is determined by the actuarial valuations of the Fund (See Note 7)

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

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

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

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

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

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

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

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

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

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

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

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

2. Trustees Report

The Trustees of the Pension Fund are the members for the time being of the Investment Panel. As at 31st March 2006 they were as named in Note 1 above.

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

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

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

A full triennial actuarial valuation of the Fund took place as at 31st March 2004. This showed that in common with most funds across the Country the funding level had dropped significantly since 31st March 2001, due both to poor market performance prior to March 2003, and significant increases in life expectancy. At the date of the valuation, the assets of the Fund equated to 71% of its liabilities, and the employers' contribution rate has in consequence been set to increase by 2% per annum in each of the subsequent three years in order to achieve a return to full funding within a 20 year period.

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

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

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

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

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

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

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

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

Fund Performance

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

Investment Activity

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

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

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

Outlook and Policy

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

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

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

Asset Allocation

	Portfolio 31.3.05 %	Portfolio 31.3.06 %	Benchmark 31.3.05 %
Equities Total	74.8	75.3	75.0
UK	45.7	42.9	45.0
North America	7.4	11.2	10.0
Europe ex UK	9.9	11.2	10.0
Japan	5.2	3.4	4.0
Pacific ex Japan	3.9	3.7	4.0
Emerging Markets	2.7	2.9	2.0
Other Assets Total	25.2	24.7	25.0
UK Gilts	3.8	6.1	4.0
UK Corporate Bonds	7.2	5.2	8.0
Overseas Bonds	1.7	0.5	2.5
UK Index Linked Bonds	0.9	0.0	2.5
Cash	2.1	3.6	0.0
Property	9.5	9.3	8.0
Total	100.0	100.0	100.0

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

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

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

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

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

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

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

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

5. Status of the Scheme

- 5.1 The Local Government Pension Scheme is 'contracted out' of SERPS.
- 5.2 The Scheme is a 'final salary scheme'. This means that benefits do not depend on investment performance, but generally on the level of salary during the last 12 months before retirement and the length of total Local Government service during which contributions have been paid in to the Fund.
- 5.3 The Isle of Wight Council Pension Scheme is an Exempt Approved Scheme under Chapter 1 Part XIV of the Income and Corporation Taxes Act 1988.

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

6. Accounting Policies

- 6.1 The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), and with guidance notes issued by CIPFA on the application of accounting standards to Local Authorities. They do not take account of liabilities to pay pensions and other benefits in the future. The actuarial position of the Scheme which takes account of such liabilities is dealt with in Notes 7 .
- 6.2 Income and expenditure have been accounted for on an accruals basis for contributions and investment income.
- 6.3 Investments have been valued at the middle Stock Exchange quoted price on 31 March in each year. Investments held in foreign currencies are shown at market value translated into the equivalent sterling rate ruling at 31 March 2006
- 6.4 Additional Voluntary Contributions (AVCs) are separately invested for the benefit of individual members. To comply with the Pension SORP and Regulation 5 (2) (b) of the Local Government Pension Scheme (Management and Investment Funds) Regulations 1998, AVC's are accounted for and disclosed separately from the net assets statement and fund account of the pension fund see 10.5 for details. AVC assets and returns on these assets are based on figures supplied by both the Prudential Life and Pensions and the Nationwide Building Society. Deductions are made from members salaries during the year and invested on an accruals basis.
- 6.5 The Isle of Wight Council administration costs represent the operating costs of the pension department plus recharges made by other departments for services provided to the pension fund

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

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

- 6.6 Transfer values to and from other pension funds have been included in the accounts on the basis of the actual amounts received and paid out in the year.

7 Actuarial Valuation at 31 March 2004

- 7.1 Regulations require an actuarial valuation to be undertaken every three years.
- 7.2 This valuation showed that the Common Rate of Contribution payable by each employing authority to the Fund with effect from 1 April 2005 should be 21.3% of pensionable pay.

As a result of this actuarial valuation the employers' contributions to the fund changed with effect from 1 April 2005.

	Required Contribution for the year ending		
	31 March		
	2006	2007	2008
Isle of Wight Council	16.0%	18.0%	20.0%
Isle of Wight College	14.5%	16.5%	18.5%
Yarmouth Harbour Commissioners	17.0%	19.0%	21.0%
Cowes Harbour Commissioners	17.0%	19.0%	21.0%
St Catherine's School Ltd	17.0%	19.0%	21.0%
Trustees of Carisbrooke Castle Museum	17.0%	19.0%	21.0%
IW Society for the Blind	17.0%	19.0%	21.0%
Isle of Wight Rural Community Council	17.0%	19.0%	21.0%
South Wight Housing Association Ltd	15.0%	15.0%	15.0%
	Plus £95,200	Plus £99,400	Plus £103,800
Medina Housing Association Ltd	15.7%	17.7%	19.7%
The Quarr Group (formerly Island Group 90 Ltd)	19.0%	19.0%	19.0%
	Plus £67,200	Plus £70,200	Plus £73,300
Riverside Centre Ltd	16.8%	16.8%	16.8%
Osel Enterprises Ltd	16.8%	16.8%	16.8%
Planet Ice (IOW) Ltd	12.0%	12.5%	12.5%
Island 2000 Trust Ltd	12.0%	12.5%	12.5%
Atlantic Housing Group Ltd	13.2%	13.2%	13.2%
Isle of Wight Council Councillors	16.0%	18.0%	20.0%

7.3 Actuarial Statement provided by Hymans Robertson. Date of Valuation 31 March 2004

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

Contributions by the members in accordance with the Local Government Pension Scheme Regulations 1997 at the rate of 6% of pensionable pay for all members, except manual staff who joined before 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 March 2005.

The opinion on the security of the prospective rights is based on the projected unit valuation method where there was an expectation that new employees were likely to join the employer or the attained Age Method for employers that were closed to new entrants. This assesses the cost of benefits accruing to existing members during the year following the valuation or the remaining working lifetime, allowing for future salary increases. The resulting contribution rate is adjusted to allow for any differences in the value of accrued liabilities (allowing for future salary increases) and the assessed value of assets.

The main actuarial assumptions are: -

Financial Assumptions	March 2004	
	Unsmoothed	
	% p.a.	%p.a.
	Nominal	Real
Investment Return/Discount Rate	6.30%	3.40%
Pay Increases	4.40%	1.50%
Price Inflation/Pension Increases	2.90%	-

Assets of £166.6m were valued at their market value.

The valuation showed that the values of the Fund as at 31 March 2004 fell short of the value of accrued liabilities by £67.2m, leaving 71% of accrued liabilities funded.

The next actuarial valuation is due with an effective date of 31 March 2007

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

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

10. Notes to the Accounts

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

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

10.3 Post Balance Sheet Events

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

10.4 Related Party Transactions

No Members or Chief Officers have disclosed any Related Party Transactions with the Pension Fund. During the financial year, the Pension Fund had an average balance of £534,918 of surplus cash invested with the Isle of Wight Council. The Pension Fund received £24,155 as interest on this investment.

10.5 Additional Voluntary Contributions (AVCs)

These are separately invested for the benefit of individual members.

Money purchase assets are allocated to provide benefits to individuals on whose behalf the contributions were paid, and in total £1,123,617 were invested on this basis at 31st March 2006; these do not form a common pool of assets available for members generally. Members receive an annual statement confirming the contributions paid on their behalf and the value of their money purchase rights.

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

During 2005-06 AVC's of £119,042 were separately invested with Prudential Life and Pensions. Of this amount, £5,255 was for the purchase of death in service cover, no value accrues on death cover; this sum is not included in the statement below. AVC's invested with the Nationwide Building Society in 2005-06 amounted to £10,673. During the financial year the investments earned £57,680 interest.

	Nationwide Building Society £	Prudential with Profits £	Prudential Discretionary £	Total £
Opening Value 1.4.05	175,715	860,123	142,004	1,177,842
Purchase of Investments	10,673	102,078	11,709	124,460
Returns on Investments	5,805	48,942	2,933	57,680
Change in Market Value Realised and Unrealised	(51,345)	(170,154)	(14,866)	(236,365)
Closing Value 31.3.06	140,848	840,989	141,780	1,123,617

10.6 Employers Contributions

Normal	8,932,009
Special	1,312,447
Additional	0
Total	<u>10,244,456</u>

The special contributions are payable by the Isle of Wight Council to the pension fund over a maximum 5 year period to augment benefits for specific pension fund members on retirement. During the year these contributions were paid as follows

Full and Final Settlement	1,213,300
Annual Contributions	99,147
Total	<u>1,312,447</u>

10.7 Administration Expenses

The Isle of Wight Council undertakes the administration of the Pension Fund and the figure in the Fund Account can be analysed as follows

Administering Authority	271,289
IT Costs	40,685
Other Expenses	20,228
Total	<u>332,202</u>

APPENDIX A

ANALYSIS OF SCHRODER MARKET VALUE AT 31 MARCH 2006 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	3,506	0	0	0	0	0	3,506
Oil and Gas	15,847	0	0	1,588	0	0	17,435
Oil Equipment	715	0	0	485	0	0	1,200
Chemicals	1,673	0	192	1,547	0	0	3,412
Construction & Building Materials	1,029	0	88	341	0	0	1,458
Metals & Other Materials	0	0	101	0	0	0	101
Aerospace & Defence	1,835	0	0	0	0	0	1,835
Electronic & Electrical Equipment	0	0	896	2,183	0	0	3,079
Engineering & Machinery	0	0	328	521	0	0	849
Automobiles	0	0	875	548	0	0	1,423
Beverages	2,381	0	0	139	0	0	2,520
Pharmaceuticals & Biotechnology	8,957	0	532	2,104	0	0	11,593
Tobacco/Food	6,693	0	0	1,458	0	0	8,151
Retailers, General	1,195	0	319	393	0	0	1,907
Leisure & Hotels	3,771	0	0	0	0	0	3,771
Media & Entertainment	5,149	0	0	563	0	0	5,712
Glass & Ceramics	0	0	163	0	0	0	163
Support Services	2,156	0	0	95	0	0	2,251
Transport	2,961	0	475	510	0	0	3,946
Food & Drug Retailers	2,926	0	0	110	0	0	3,036
Telecommunications	7,127	0	0	1,583	0	0	8,710
Electricity	0	0	0	824	0	0	824
Utilities - Other	1,655	0	34	1,024	0	0	2,713
Banks	16,794	0	998	6,090	0	0	23,882
Investment Companies	1,462	0	0	0	0	0	1,462
Life Assurance	3,632	0	0	1,136	0	0	4,768
Real Estate	1,055	0	191	0	0	0	1,246
IT Software & Computer Services	674	0	0	236	0	0	910
Unit Trusts	6,871	26,690	463	741	8,877	6,927	50,569
Household Goods	0	0	0	929	0	0	929
Insurance	724	0	319	910	0	0	1,953
Miscellaneous Financial	1,286	0	175	319	0	0	1,780
Paper & Pulp	0	0	75	169	0	0	244
Rubber Goods	0	0	204	0	0	0	204
Precision Machinery	0	0	495	0	0	0	495
Communications	0	0	373	0	0	0	373
Wholesale	0	0	374	0	0	0	374
Securities	0	0	315	0	0	0	315
Fixed interest - UK Govt	14,339	0	0	0	0	0	14,339
Fixed interest - Non UK Govt UT	12,300	0	0	0	0	0	12,300
Cash Instrument	(38)	0	0	0	0	0	(38)
Property Unit Trusts	22,150	0	0	0	0	0	22,150
Fixed Interest - Other	1,157	0	0	0	0	0	1,157
	151,982	26,690	7,985	26,546	8,877	6,927	229,007

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 26th November 2004.
- 1.2 Investments are monitored on a regular basis by the Pension Fund Investment Panel (the Panel) of the Council acting on the delegated authority of the Isle of Wight Council. Advice is received as required from professional advisers. In addition, the Panel formally review the performance of investments quarterly and the overall strategy on an annual basis.
- 1.3 In preparing this statement the Panel has taken written advice from the investment practice of Hymans Robertson Consultants and Actuaries. Due account has been taken of the maturity profile of the Fund (in terms of the relative proportions of liabilities in respect of pensioners and active members), together with the level of disclosed surplus or deficit.
- 1.4 The Panel has agreed an asset allocation benchmark, a performance target and various controls on the Fund’s investments following an asset liability study. They reflect the Panel’s views on the appropriate balance between maximising the long-term return on investments and minimising short term volatility and risk. The benchmark reflects the position following the Actuarial Valuation of the Fund as at 31st March 2001 and an asset liability study carried out in March 2002. Asset allocations were reviewed in July 2004, and although the benchmark is currently unchanged, the Panel is actively reviewing investment arrangements, and in particular the balance between risk incurred and performance expectation. It is intended that strategy will be fundamentally reviewed at least every three years following actuarial valuations of the Fund.

Objectives

2.1 Primary Objective

The primary objective of the Fund is as follows:

To provide for members pension and lump sum benefits on their retirement or for their dependants benefits on death before or after retirement, on a defined benefits basis.

In order that this primary objective can be achieved, the following funding and investment objectives have been agreed.

2.2 Funding Objectives - Ongoing Basis

To fund the Fund such as to target, in normal market conditions, that accrued benefits are fully covered by the value of the assets of the Fund and that an appropriate level of contributions is agreed by the administering authority to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed but will take account of future salary increases.

The assumptions used for this test, corresponding with the assumptions used in the latest Actuarial Valuation, are shown in Annexe 1 and the liability mix is shown in Annexe 2. This position will be reviewed at least at each triennial Actuarial Valuation.

Investment Objectives

3.1 Funding Objectives

To achieve a return on Fund assets which is sufficient, over the long-term, to meet the funding objectives set out above on an ongoing basis. To achieve these objectives the following parameters have been agreed.

3.2 Choosing Investments

The Panel will ensure that one or more investment managers are appointed who are authorised according to appropriate Local Government Regulations to manage the assets of the Fund.

Details of the manager appointed to manage the Fund's assets are summarised in Annexe 3. The investment manager will be given full discretion over the choice of individual stocks and is expected to maintain a diversified portfolio.

3.3 **Types of Investments to be held**

The investment manager may invest in UK and overseas investments including equities, fixed and index linked bonds, cash and property, using pooled funds where agreed. At any time, the proportions held in each asset class will reflect the manager's views relative to its benchmark and subject to certain control limits imposed by the Panel.

3.4 **Balance between different kinds of investments**

The benchmark adopted by the Panel has been based on consideration of the liability profile of the Fund; it is summarised in Annexe 3. Within each major market the investment manager will hold a diversified portfolio of stocks or will invest in pooled funds to achieve this diversification. The policy implied by this benchmark will result in a significant weight being given to "real" as opposed to "monetary" assets which the Panel acknowledges as appropriate given the current liability profile and funding position of their Fund.

3.5 **Risk**

Currently the Panel has appointed Schroder Investment Management Limited as the sole investment manager. The adoption of an asset allocation benchmark and control ranges for each asset class (as summarised in Annexe 3) and the explicit monitoring of performance relative to a performance target, constrains the investment manager from deviating significantly from the intended approach, while permitting flexibility to manage the Fund in such a way as to enhance returns.

3.6 **Expected return on investments**

The majority of the Fund's assets are managed on an active basis and are expected to outperform their respective benchmarks over the long term. The investment performance achieved by the Fund over the long term is expected to exceed the rate of return assumed by the Actuary in funding the Fund on an ongoing basis.

3.7 **Realisation of investments**

The majority of assets held by the Fund are quoted on major stock markets and may be realised quickly if required. Property investments, which are relatively illiquid, currently make up a modest proportion of the Fund's assets.

3.8 **Social, Environment & Ethical Considerations**

The Panel recognises that social, environmental and ethical considerations are among the factors which can affect the financial return on investments.

Having discussed the matter, the Panel has decided that any policy on Socially Responsible Investments should not conflict with the Fund's investment objective as set out in Section 2.1 above.

The Panel has requested that the manager continue to give due consideration to these factors, particularly in the areas of business sustainability and reputational risk, when deciding on the selection, retention and realisation of individual investments.

3.9 **Exercise of Voting Rights**

The Panel has delegated the exercise of voting rights to the investment manager on the basis that voting power will be exercised by the investment manager with the objective of preserving and enhancing long term shareholder value. Accordingly, the manager has produced written guidelines of its process and practice in this regard. The manager is encouraged to vote at extraordinary general meetings of companies. Voting actions are reported to the Panel on a regular basis and these actions are reviewed and discussed as appropriate.

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

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

3.11 The ten principles of investment practice

The extent to which the Council has complied with the principles is set out in the document entitled Isle of Wight Council Pension Fund – Myners Code Adherence Document published in September 2002 and reviewed in February 2004.

ANNEXES

1. Main Longer Term Actuarial Assumptions as at 31st March 2004

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

* net of investment expenses

2. Liability Mix at 31st March 2004

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

3. Investment Management Arrangements

A new scheme specific benchmark was introduced on 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
United States	10.0	5-15	FTSE AW North America
Europe	10.0	5-15	FTSE W1 Europe ex UK
Japan	4.0	0-9	FTSE AW Japan
Pacific Basin (ex Japan)	4.0	0-9	FTSE AW Developed Asia Pacific ex Japan
Emerging Markets	2.0	0-7	FTSE AW Advanced Emerging Markets
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 last review took place on 29th July 2005.

APPENDIX C

ISLE OF WIGHT COUNCIL PENSION FUND FUNDING STRATEGY STATEMENT

1 Introduction

- 1.1 The Local Government Pension Scheme (Amendment) Regulations 2004 require the Isle of Wight Council Pension Fund to prepare and publish a Funding Strategy Statement (FSS) by 31 March 2005. This must be taken into account by the Fund's actuary when setting employers' contribution rates.
- 1.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) has issued detailed guidance on the content and format of an FSS. This guidance has been followed in preparing this draft.

2 Consultation

- 2.1 All employers in the Isle of Wight Council Pension Fund have been given the opportunity to comment and contribute to this FSS. The Fund's actuary, Hymans Robertson, has also assisted in its preparation.

3 Purpose of the Funding Strategy Statement

- 3.1 The FSS has two main purposes:
- To set out clearly the Fund's strategy for how it intends to meet its liabilities over the long term.
 - To explain how the Fund will work towards the maintenance of stable employers' contribution rates.

4 The Aims of the Fund

- 4.1 The Fund has four main aims:
- To make sure the Fund is always able to meet its liabilities.
 - To enable employers' contribution rates to be kept as stable as possible and affordable for the Fund's employers.
 - To manage the employers' liabilities effectively.
 - To maximise the income from investments within reasonable risk parameters.

These aims are explained in more detail below.

To make sure the Fund is always able to meet its liabilities

- 4.2 The Fund's long-term solvency is the primary aim. Accordingly, employers' contributions will be set to ensure liabilities can be met over the long term.
- 4.3 The Isle of Wight Council as administering authority will make sure that the Fund always has sufficient cash available to pay pensions, transfer values to other pension funds, and other costs and expenses. Such expenditure will normally be met from incoming contributions from employees and employers and investment income to avoid the cost of selling any of the Fund's investments. The Fund reviews the position on a quarterly basis to make sure that sufficient cash is available to meet its obligations.

To enable employers' contribution rates to be kept as stable as possible and affordable for the Fund's employers

- 4.4 Achieving stability in employers' contribution rates requires investment in assets which 'match' the Fund's liabilities. In this context, 'match' means behaving in a similar manner to the liabilities as economic conditions alter. Index-linked and fixed interest investments are the best match for the Fund's liabilities.
- 4.5 Other asset classes, such as shares and property, offer the potential for higher long-term rates of return. A substantial proportion of the Fund's investments are held in these asset classes with the aim of increasing investment returns. However, these asset classes are more risky and can lead to volatile returns over short-term periods.
- 4.6 This short-term volatility in investment returns can lead to similar volatility in the Fund's solvency level in successive actuarial valuations, which in turn can mean volatility in employers' contribution rates. Such volatility may be reduced by the use of smoothing adjustments as advised by the actuary.
- 4.7 Maintaining stability in employers' contribution rates can run counter to the primary aim of ensuring solvency. There is a balance to be struck between the investment policy, smoothing adjustments used when carrying out actuarial valuations, and the stability of employers' contribution rates from one valuation period to the next.
- 4.8 The position can be even more volatile for admitted bodies with short-term contracts where the use of smoothing adjustments is less appropriate.

To manage the employers' liabilities effectively

- 4.9 The Council as administering authority makes sure that the Fund's liabilities are managed effectively. This is achieved by commissioning actuarial valuations every three years as required by law, which determine the employers' contribution rates required to make sure liabilities can be managed effectively.

To maximise the income from investments within reasonable risk parameters

- 4.10 Returns which are expected to be higher over the long term than those from index-linked stocks are sought by investing in other asset classes such as shares and property. However, investment is restricted as specified in the Local Government Pension Scheme (LGPS) investment regulations.
- 4.11 Risk parameters are controlled by restricting investment to asset classes generally recognized as appropriate for UK pension funds. The potential risks of investing in the various asset classes are reviewed by the Council from time to time with the assistance of the Fund's investment advisor and its investment managers.

5 Purposes of the Fund

- 5.1 The purposes of the Fund are:

- To pay out pensions and benefits, transfer values for fund members moving to other schemes, and other costs, charges and expenses.
- To receive contributions, transfer values for fund members moving from other schemes, and investment income.

6 Responsibilities of the key parties

- 6.1 The key parties with obligations to the Fund are the Council as administering authority, employers in the Fund (including the Council), and the Fund's actuary.

The Council's obligations

- 6.2 To collect employers' and employees' contributions and, as far as possible, make sure they are paid by the due date as specified in the LGPS regulations.

- 6.3 To invest surplus monies in accordance with the LGPS regulations relating to the investment of funds.
- 6.4 To make sure that cash is always available to meet the Fund's liabilities when they are due.
- 6.5 To manage the valuation process in consultation with the Fund's actuary, ensuring that appropriate timescales are agreed and that accurate data is provided.
- 6.6 To monitor the Fund's investment performance and funding level on a regular basis.
- 6.7 To prepare and maintain a Statement of Investment Principles and a Funding Strategy Statement.

Individual employers' obligations

- 6.8 To deduct contributions from employees' pay, and make employers' contributions at the rates specified by the actuary, paying both to the Council by the due date.
- 6.9 To exercise discretions allowed to employers within the LGPS regulations.
- 6.10 To pay for agreed added years arrangements.
- 6.11 To keep the Council fully informed of all changes to membership, or other changes which could affect the solvency position.

The actuary's obligations

- 6.12 To prepare actuarial valuations every three years as required by law, setting employers' contribution rates after agreeing assumptions with the Council and having regard to this Funding Strategy Statement. The valuation will be prepared in accordance with the latest guidance issued by the Institute and Faculty of Actuaries, as far as it applies to the LGPS.
- 6.13 To prepare advice and calculations in connection with bulk transfers and individual benefit-related matters.

7 Solvency

- 7.1 The Council will seek to ensure the Fund is solvent. Solvency is defined as being achieved when the value of the Fund's assets is greater than or equal to the value of the Fund's liabilities, based on current actuarial methods and assumptions.
- 7.2 The 'projected unit' method of valuation will be used when assessing solvency, using assumptions appropriate for an ongoing pension fund with financially sound member employers.
- 7.3 The financial assumptions used to assess the funding level will have regard to the yields available on long-term fixed interest and index-linked gilt-edged investments.
- 7.4 The Council has agreed with the actuary that the assumptions will make short-term allowance for the higher long-term returns that are expected on the assets actually held by the Fund, and accepts the risks of such an approach if those additional returns fail to materialize. The position will be reviewed in subsequent three-yearly actuarial valuations.
- 7.5 The Council has also agreed with the actuary that explicit smoothing adjustments can be used when measuring solvency. It is unlikely that the use of these adjustments will be extended to employers whose participation in the Fund is for a fixed period (for example non-local authority employers awarded contracts for the provision of local authority services).

8 Funding strategy

- 8.1 When an actuarial valuation shows that the Fund has a past service deficit based on this solvency measure, employers' contribution rates will be adjusted to target solvency over a period of years (the recovery period). A common recovery period of 25 years for all employers in the Fund has been set by

the Council in consultation with the Fund's actuary. The length of the recovery period is determined by balancing the Fund's solvency requirements against the financial strength of the main scheduled employers in the Fund.

- 8.2 The Fund's liabilities mostly take the form of benefit payments over long periods of time. The main scheduled employers in the Fund are financed through central and local taxation and can be viewed as very financially secure. As these employers ultimately underwrite the Fund's finances, the Council has agreed a recovery period of 25 years which is longer than the average future working lifetime of the Fund's contributors. This is consistent with keeping employers' contribution rates as stable as possible. Were any member employers to participate in the Fund for a short period only it is unlikely that the Council and actuary would agree a recovery period longer than the remaining term of participation.
- 8.3 Employers in the Fund are split into two groups: scheduled bodies and admitted bodies. Common contribution rates are payable by some smaller bodies in order to minimize volatility in contribution rates. The Council accepts that this can give rise to cross-subsidies between employers. However, employers in the Fund are required to make up-front contributions determined by the actuary to cover the costs of early retirements, other than on health grounds, which minimizes cross-subsidization.
- 8.4 At each actuarial valuation, the Council will consider whether new higher employers' contribution rates should be payable immediately, or phased in. The Council discusses with the actuary the risks of adopting such an approach. The current policy is to phase in over a maximum of three annual steps. However, such increases may be phased in over forthcoming and subsequent valuation periods, on a year by year basis, if budgetary constraints make this necessary, up to a maximum of 6 annual steps in total.

9 Identification of risks and counter measures

- 9.1 The Council's overall policy on risk is to identify all risks to the Fund and to consider the position both in aggregate and at individual risk level. Risks to the Fund will be monitored and action taken to limit them as soon as possible. The main risks are:

Demographic

- 9.2 Demographic risks include changing retirement patterns and increasing life expectancy. The Council will make sure that the Fund's actuary investigates these matters at each valuation, or more frequently if necessary. The actuary will report to the Council as appropriate. The Council will then agree with the actuary any necessary changes to the assumptions used in assessing solvency.
- 9.3 If significant demographic changes become apparent between valuations, the Council will notify all participating employers of the likely impact on their contributions after the next full valuation, and will review any bonds that are in place for transferee admitted bodies.

Regulatory

- 9.4 The risks relate to changes in LGPS regulations, national pensions legislation and Inland Revenue rules. The Council will keep abreast of all proposed changes and, whenever possible, comment on the Fund's behalf during consultation periods. The Council will, if thought necessary, ask the Fund's actuary to assess the impact of any changes on employers' contribution rates.
- 9.5 The Council will then notify employers of the likely effect on employers' contribution rates at the next valuation, if they are significant.

Governance

- 9.6 This covers the risk of unexpected structural changes in the Fund's membership (for example the closure of an employer to new entrants or the large scale withdrawal or retirement of groups of staff), and the related risk of an employer failing to notify the Council promptly.
- 9.7 To limit this risk, the Council requires the other participating employers to communicate regularly with it on such matters.

Statistical/Financial

- 9.8 Risks to the Fund are posed by the performances of the various investment markets, the quality of the Fund's managers, variations in pay and price inflation, and the budget constraints faced by the Fund's employers.
- 9.9 The Council regularly reviews these factors in conjunction with the actuary to decide whether the assumptions used in assessing solvency are still appropriate.

Investment returns

- 9.10 The assumption that investment returns will be in excess of those accruing on Government bonds introduces an element of risk, in that those returns may not materialize. The Council will monitor the underlying solvency position assuming no such excess returns to make sure the funding strategy remains realistic.

Smoothing

- 9.11 The use of a smoothing adjustment to the value of the Fund's assets introduces an element of risk, in that the smoothing adjustment may not provide a correct measure of the underlying position. This adjustment is reviewed at the end of each valuation to ensure it remains within acceptable limits.

Recovery period

- 9.12 Allowing surpluses or deficiencies to be eliminated over 25 years entails a risk that action to restore solvency is inadequate between successive actuarial valuations. The associated risk is reviewed in conjunction with the actuary as part of the three-yearly valuation process, to ensure as far as possible that the action taken to restore solvency is sufficient. In practice, the smoothing and damping arrangements described in this statement deal with this, although more recently the severe reductions in asset values and interest rates have increased the volatility in employers' contribution rates.
- 9.13 Introducing increases in employers' contribution rates in annual steps rather than immediately introduces a risk that action to restore solvency is insufficient in the early years of the process. The Council's policy is to limit the number of permitted steps to three, or, in exceptional circumstances, six. In addition, it accepts that a slightly higher final rate may be necessary at the end of the stepping process to help make up the shortfall.

10 Links to investment policy set out in the Fund's Statement of Investment Principles

- 10.1 The Council has produced this Funding Strategy Statement having taken an overall view of the level of risk inherent in the investment policy set out in the Statement of Investment Principles which forms an appendix to this document.
- 10.2 Both documents are subject to regular review.

11 Future monitoring

- 11.1 The Council plans to review this Statement as part of the three-yearly actuarial valuation process unless circumstances arise which require earlier action.
- 11.2 The Fund's solvency position will be monitored on an approximate basis at regular intervals between valuations in conjunction with the actuary. Discussions will be held with the actuary to establish whether any changes are significant enough to require further action, such as advising employers of the need for different employers' contribution rates after the next valuation.

INDEPENDENT AUDITOR'S REPORT TO THE ISLE OF WIGHT COUNCIL

Opinion on the financial statements

I have audited the financial statements and pension fund accounts of the Isle of Wight Council for the year ended 31 March 2006 under the Audit Commission Act 1998. The financial statements comprise the Consolidated Revenue Account, the Housing Revenue Account, the Collection Fund, the Consolidated Balance Sheet, the Statement of Total Movements in Reserves, the Cash Flow Statement and the related notes. The pension fund accounts comprise the Fund Account, the Net Assets Statement, and the related notes. The financial statements and pension fund accounts have been prepared under the accounting policies set out within them.

This report is made solely to the 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 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Chief Finance Officer and auditors

The Chief Finance Officer's responsibilities for preparing the financial statements, including the pension fund accounts, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005 are set out in the Statement of Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements and the pension fund accounts present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005:

- the financial position of the Authority and its income and expenditure for the year; and
- 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 other benefits after the end of the scheme year.

I review whether the statement on internal control reflects compliance with CIPFA's guidance, 'The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003' published on 2 April 2004. I report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the statement on internal control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

I read other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) 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 judgments made by the Authority in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

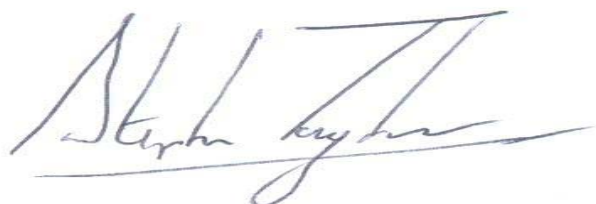
I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In

forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion:

- The financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005, the financial position of the Authority as at 31 March 2006 and its income and expenditure for the year then ended; and
- The pension fund accounts present fairly, in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005, the financial transactions of the Pension Fund during the year ended 31 March 2006, and the amount and disposition of the fund's assets and liabilities as at 31 March 2006, other than liabilities to pay pensions and other benefits after the end of the scheme year.

A handwritten signature in blue ink, appearing to read 'S Taylor', with a horizontal line underneath.

S Taylor
District Auditor

Audit Commission
Southern House
Sparrow Grove
Otterbourne
Winchester
Hants SO21 2RU

Date: 30 September 2006

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's Responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to regularly review the adequacy and effectiveness of these arrangements.

Under the Local Government Act 1999, the Authority is required to prepare and publish a best value performance plan summarising the authority's assessment of its performance and position in relation to its statutory duty to make arrangements to ensure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

Auditor's Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

I am required by section 7 of the Local Government Act 1999 to carry out an audit of the authority's best value performance plan and issue a report:

- certifying that I have done so;
- stating whether I believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and
- where relevant, making any recommendations under section 7 of the Local Government Act 1999.

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and I am satisfied that, having regard to the criteria for principal local authorities specified by the Audit Commission and published in July 2005, in all significant respects, Isle of Wight Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2006 except in respect of meeting the following criteria:

- putting in place arrangements to monitor the quality of its published performance information and reporting the results to members; and
- putting in place arrangements for the management of the asset base.

Best Value Performance Plan

I issued my statutory report on the audit of the Authority's best value performance plan for the financial year 2005/06 on 19 December 2005. I did not identify any matters to be reported to the Authority and did not make any recommendations on procedures in relation to the plan.

Auditors' responsibilities

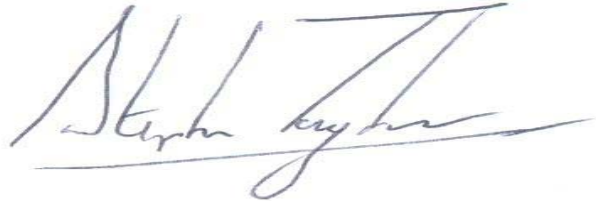
Auditors have a duty under the Audit Commission Act 1998 to consider whether, in the public interest, to report on any matter that comes to their attention in the course of the audit in order for it to be considered by the body concerned or brought to the attention of the public.

Under section 11 of the Audit Commission Act 1998, auditors may designate any audit recommendation as one

that requires the Authority to consider it at a public meeting held within one month of the issue of the relevant report and to decide what action to take in response.

Certificate

I am unable to 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 until investigations are concluded into the legality of severance payments in the year.

A handwritten signature in black ink, appearing to read 'S Taylor', written in a cursive style.

S Taylor
District Auditor

Audit Commission
Southern House
Sparrow Grove
Otterbourne
Winchester
Hants SO21 2RU

Date: 30 September 2006