

**ISLE OF MAN LOCAL
GOVERNMENT PENSION
SCHEME**

**ANNUAL REPORT
AND
ACCOUNTS**

31 MARCH 2004

Being a public service pension scheme as defined by the Pension Schemes Act 1993 (an Act of UK Parliament), the Isle of Man Local Government Pension Scheme is statutorily exempt from the overriding provisions relating to the issue and content of a pension scheme's annual report; nevertheless, every effort has been made to ensure that this Report meets the major requirements imposed on other schemes, allowing for the differences between statutory schemes and those operating under trust. Furthermore, the financial statements have been prepared in accordance with the guidelines set out in the Statement of Recommended Practice, "Financial Reports of Pension Schemes" (Revised November 2002), as far as is practicable.

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ISLE OF MAN LOCAL GOVERNMENT PENSION SCHEME

ANNUAL REPORT AND ACCOUNTS

FOR THE YEAR ENDED
31 MARCH 2004

Administering Authority

Mayor, Aldermen and Burgesses of the Borough of Douglas

Town Clerk and Chief Executive

Mr D R King, LL.B. F.I.Mgt.

Borough Treasurer

Mr G M Bolt, C.P.F.A

Auditors

KPMG Audit LLC
Heritage Court
41 Athol Street
Douglas
Isle of Man. IM99 1HN

Scheme Administrator

Capita Hartshead
257 Ecclesall Road
Sheffield. S11 8NX

Bankers

Isle of Man Bank
Athol Street
Douglas
Isle of Man. IM99 1AN

Investment Manager

Merrill Lynch Investment Managers
Belgravia House
34/44 Circular Road
Douglas
Isle of Man. IM1 1QW

Consulting Actuary

Hymans Robertson
221 West George Street
Glasgow. G2 2ND

Custodian of Securities

RBSI Custody Bank Limited

AVC Provider

Norwich Union (*from March 2004*)

REPORT BY THE MAYOR, ALDERMEN AND BURGESSES OF THE BOROUGH OF DOUGLAS

INTRODUCTION

The Isle of Man Local Government Pension Scheme (“the Scheme”) is a statutory public service pension scheme (as defined by the Pension Schemes Act 1993, an Act of UK Parliament) under the Isle of Man Local Government Superannuation Scheme Regulations 2003 (“the 2003 Scheme”) which provides retirement and dependants’ benefits for employees of Local Government employers and Admitted Bodies on the Isle of Man.

The Scheme is contracted-out of the State Second Pension Scheme (“S2P”) and is exempt approved for the purposes of the Income Tax (Retirement Benefit Schemes) Act 1978 and Part I of the Income Tax Act 1989 (Acts of Tynwald). Full tax relief is granted on members and the employers’ contributions paid to the Scheme and on all investment income.

MANAGEMENT

The Administering Authority’s Responsibilities

The Mayor, Aldermen and Burgesses of the Borough of Douglas (“the Borough”) are the administering authority for the Isle of Man Local Government Pension Scheme. They are responsible for obtaining audited financial statements for each financial year which give a true and fair view of the financial transactions of the Scheme and the disposition of its assets and liabilities at the year end. In preparing the financial statements the Borough have:

- selected suitable accounting policies and then applied them consistently;
- made judgments and estimates that are reasonable and prudent; and
- followed applicable accounting standards, in particular the Statement of Recommended Practice, “Financial Reports of Pension Schemes” (Revised November 2002), subject to any material departures described in the financial statements.

The Borough are responsible for keeping proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the Scheme.

The Borough are also responsible for keeping records of contributions received in respect of active members of the Scheme and for procuring that contributions are made to the Scheme in accordance with the recommendations of the Consulting Actuary.

In addition, the Borough are responsible for safeguarding the assets of the Scheme and hence for taking reasonable steps for the prevention and detection of error, fraud and other irregularities.

REPORT BY THE MAYOR, ALDERMEN AND BURGESSES OF THE BOROUGH OF DOUGLAS – continued

MANAGEMENT (continued)

General

Responsibility for managing the Scheme's investments has been delegated to Merrill Lynch Investment Managers ("Merrill Lynch").

The Borough have a contractual arrangement with Capita Hartshead, a trading division of Capita Business Services Limited, to undertake the day to day administration of the Scheme.

During the year the trustees appointed Norwich Union to provide an AVC arrangement for members.

ADMINISTRATION

Changes to the Regulations Affecting the Scheme

The Isle of Man Local Government Superannuation Scheme Regulations 2003 were enacted on 20 February 2003. They apply to individuals who were contributing members of the IoM LGPS on 1 April 2003 or who have since joined the Scheme. The Scheme is based on the regulations that applied to England and Wales with effect from 1 April 1998, and some provisions are effective from that date.

The Scheme Rules and Benefits are set out later, and the full details are shown in the Guide provided to all members on the Douglas Borough Council website (www.douglas.gov.im).

Pensions Increase

Pensions in payment and preserved benefits are subject to annual review under the Pensions (Increase) Act 1974 (an Act of Tynwald). The Pensions Increase (Review) Order 2003 required an increase of 2.8% (2003: 1.7%) (reduced proportionately for pensions in payment for less than 12 months) to be awarded from 12 April 2004 (7 April 2003). This corresponds to the increase applied to State retirement pensions and pensions paid by other public service pension schemes on the Island, being the rise in the UK's Retail Prices Index during the 12 months ended 30 September 2003 (30 September 2002).

REPORT BY THE MAYOR, ALDERMEN AND BURGESSES OF THE BOROUGH OF DOUGLAS – continued

ADMINISTRATION (continued)

Myners' Review

The recommendations resulting from the review undertaken by Mr Paul Myners' entitled "Institutional Investment in the UK" had been acknowledged by the Pensions Committee as constituting a code of best practice. During the year the Pensions Committee requested Hymans Robertson, the Investment Consultant, to report on the procedures and practices undertaken in the management of the Scheme with reference to the Myners' recommendations. In particular the Scheme's investment practices were considered against the following 10 Myners' principles:-

- Effective decision making
- Setting clear objectives for the Fund
- Focusing on strategic asset allocation investment decisions
- Receiving expert advice
- Having explicit mandates for investment management contracts
- Taking an active approach relative to corporate governance
- Establishing appropriate benchmarks for investment returns
- Measuring investment performance and that of other service providers
- Ensuring transparency
- Reporting to Scheme members

The Pensions Committee considered various reports by Hymans Robertson on each of these principles. After discussion with the Investment Consultant, the Pensions Committee approved a document that describes the investment practices and arrangements now in place for the management of the Scheme's assets in relation to the Myner's principles.

The document entitled "Isle of Man Local Government Pension Scheme: Myners Code Adherence Document and Statement of Investment Principles" was brought into force on 25 February 2004. It is available to members on request and available on the Douglas Borough Council Website (www.douglas.gov.im). The Pensions Committee, working together with the Investment Consultant, will monitor and review these procedures and update the Document as required.

REPORT BY THE MAYOR, ALDERMEN AND BURGESSES OF THE BOROUGH OF DOUGLAS – continued

MEMBERSHIP AND BENEFICIARIES

	2004	2003
	No.	No.
Active Membership At 1 April 2003	392	371
Backdated members	2	2
<i>Add:</i>		
Entrants - new starters	52	59
	<hr/>	<hr/>
	446	432
	<hr/>	<hr/>
<i>Less:</i>		
Exits - options pending	(4)	-
- new retirement pensions	(6)	(8)
- deaths in service	-	(1)
- preserved benefits	(22)	(19)
- refunds of contributions/transfers	(5)	(12)
	<hr/>	<hr/>
	(37)	(40)
	<hr/>	<hr/>
At 31 March 2004	409	392
	<hr/>	<hr/>

REPORT BY THE MAYOR, ALDERMEN AND BURGESSES OF THE BOROUGH OF DOUGLAS – continued

MEMBERSHIP AND BENEFICIARIES - continued

Membership as at 31 March 2004

	Active	Deferred	Pensioners	2004 Total	2003 Total
Andreas Commissioners	0	0	0	0	0
Arbory Commissioners	0	0	0	0	0
Ballaugh Commissioners	0	0	0	0	0
Braddan Parish Commissioners	3	0	0	3	3
Vicars & Wardens of Braddan Church	1	1	0	2	2
Bride Commissioners	1	0	0	1	1
Castletown Commissioners	13	1	4	18	17
Castletown & Malew Elderly Persons Housing Board	0	0	0	0	0
Cooil Roi Housing Authority	0	0	0	0	0
Crossroads Caring for Carers	3	1	0	4	4
Borough of Douglas	218	70	105	393	375
German Commissioners	0	0	0	0	0
Jurby Commissioners	0	0	0	0	0
Kirk Michael Commissioners	1	0	0	1	1
Laxey Commissioners	0	0	0	0	0
Leonard Cheshire Foundation	4	3	0	7	7
Lezayre Commissioners	0	0	0	0	0
Lonan Commissioners	0	0	0	0	0
Malew Parish Commissioners	3	3	1	7	6
Manx Blind Welfare	0	1	0	1	1
Manx Foundation for Physically Disabled	1	1	0	2	2
Marashen Crescent Housing Committee	4	1	0	5	4
Marown Commissioners	0	0	0	0	0
Manx Churches Adoption & Welfare Society	6	2	0	8	5
Maughold Commissioners	0	0	0	0	0
Northern Local Authorities Swimming Pool Board	6	1	1	8	8
Northern Parishes Refuse Collection Board	0	0	0	0	0
Onchan District Commissioners	44	16	13	73	72
Patrick Commissioners	0	0	0	0	0
Peel & Western District Housing Committee	0	1	0	1	1
Peel Town Commissioners	16	4	4	24	24
Port Erin Commissioners	17	6	1	24	21
Port St Mary Commissioners	12	8	3	23	19
Ramsey Town Commissioners	37	13	13	63	63
Ramsey & Northern District Housing Committee	7	1	0	8	8
Rushen Commissioners	0	0	0	0	0
Santon Commissioners	0	0	0	0	0
Southern Civic Amenity Site Board	3	0	0	3	3
Southern Local Authorities Swimming Pool Board	8	3	3	14	13
The Vicars & Wardens of St Peters Church Onchan	1	0	0	1	1
Department of Tourism & Leisure – Villa Marina	0	1	1	2	2
Western Swimming Pool Board	0	0	0	0	0
Total	409	138	149	696	663

REPORT BY THE MAYOR, ALDERMEN AND BURGESSES OF THE BOROUGH OF DOUGLAS – continued

ACTUARIAL VALUATION

The 2003 Scheme which replaces the 1996 Scheme requires an actuarial valuation of the Scheme to be carried out every three years. The purpose of a valuation is to review the funding position and determine an appropriate level of employers' contributions.

In accordance with the 1996 Scheme, a valuation of the Scheme was made as at 31 March 2001 which showed that it continued to be in deficit. The next valuation is being carried out as at 31 March 2004, and the results should be available for next year's report.

The Actuarial Statement from the 2001 valuation is reproduced on pages 14 to 15 of the Annual Report.

REGISTRATION UNDER THE DATA PROTECTION ACT 2002 (An Act of Tynwald)

The data provided by members on their starter's forms is processed using computers, with records held in both electronic and paper format. The use of the data is registered under the Data Protection Act 2002 for the purposes of pensions administration by the Borough and of personnel/employee administration by the employers.

L E RAMSAY (MRS)
Chairman
Policy and Resources Committee
Borough of Douglas

2 July 2004

G M BOLT, CPFA
Borough Treasurer
Borough of Douglas

2 July 2004

INVESTMENTS

INVESTMENT LIMITS

The Isle of Man Local Government Superannuation Scheme Regulations 2003 require the Borough to immediately invest any monies not needed to make payments from the Scheme. In doing so, it prescribes the limits on the type and extent of investments which the Borough may pursue.

Although they may vary the types of investment adopted the Scheme's investment policy must be formulated with a view to:

- the advisability of investing Scheme money in a wide variety of investments; and
- the suitability of particular types of investments.

However, of the total value of the Scheme's investments no more than the percentages shown below can be invested in the form of investment described:

- **1%** - a single sub-underwriting contract, i.e. a contract with a person who is underwriting a share issue to acquire the shares from him if that's what he requires, but with the total value of all sub-underwriting contracts not exceeding 15%;
- **2%** - as a limited partner in any single partnership (but not exceeding more than a total of 5% in such partnerships);
- **10%** - loans made to other than the Government of the Isle of Man, or Her Majesty's Government;
 - total investments in unlisted securities, i.e. securities not quoted on a recognised stock exchange;
 - total deposits with any single bank, or similar institution except the National Savings Bank; and
 - any single holding unless the investment is made by an external investment manager in a unit trust scheme;
- **35%** - all investments in unit trust schemes;
 - all investments in open-ended investment companies where the collective investment schemes constituted by the companies are managed by any one body;
 - all investments in unit trust schemes and open-ended investment companies where the unit trust schemes and the collective investment schemes constituted by those companies are managed by any one body;
 - the total value of all insurance contracts; and
 - all securities (shares, stocks, debentures, etc) which the Borough transfer or agree to transfer under stock lending arrangements.

INVESTMENTS - continued

INVESTMENT STRATEGY AND MANAGEMENT

The investment strategy developed by the Borough aims to maximise the return of the Scheme by diversifying its investments throughout world markets. It is applied by their investment manager, Merrill Lynch, which has full discretion in the management of the portfolio subject to complying with the statutory limits and the ranges of asset distribution defined by the Borough.

INVESTMENT PERFORMANCE

Portfolio	22.5%
Benchmark	20.5%
Value of Portfolio as at 31 March 2003	£11,428,221
Value of Portfolio as at 31 March 2004	£15,393,980

Benchmark

The benchmark is used as a reference point to compare the performance of the portfolio. It allows the overall performance of the Fund Manager to be compared with the overall performance of the various indices. Any divergence between the benchmark and the Scheme's return is due to the preferences of the Fund manager.

INVESTMENT MANAGER'S REPORT

Portfolio

The total return of the portfolio was 22.5% over the year versus the benchmark return of 20.5%. This outperformance was aided by all broad asset classes of the portfolio outperforming their relevant benchmark. The portfolio's return over three and five years was also ahead of the benchmark.

Background

Global equities staged a broad-based rally during 2003 due to a number of factors: the relief after the end of the Iraqi conflict; interest rate cuts from the Federal Reserve Bank and the European Central Bank; global economic numbers picking up; and liquidity returning to markets. Additionally, company outlook statements started to be more confident seeing tentative signs of discretionary spending increasing and delayed orders coming through. Economic data supported this trend with the GDP in the US running over 4% in the third quarter. However, the first quarter of 2004 has seen equity markets, in effect, consolidate as the large upgrades to numbers, which occurred during 2003, have now been priced into equity markets coupled with investors' risk appetite waning following the recent Madrid bombings.

During this year bonds have faced difficulties. Even though rates in the G3 economies remained stable at low levels, there have been modest rises, particularly in the UK. Investors were becoming concerned that interest rates would rise globally and combined with the large issuance from central governments of bonds to balance their large deficits. This caused investors to prefer cash.

INVESTMENTS - continued

Background (continued)

The key driver in 2003 of the recovery was capital investment spend. So far companies have had the best of both worlds, with increasing output without increasing labour costs. This resulted in a rapid profit growth. Consequently inflation remained muted as firms kept their labour costs down allowing them to absorb higher commodity prices without passing them onto consumers. For the economic recovery to be sustainable, companies need to start hiring again.

UK Equities

The UK equity total return was 31.6% compared to the benchmark return of 31.0%. Strength seen in a number of cyclical shares held was, to an extent, offset by the relatively low exposure to the lower quality areas of the market, which was the strongest performing area as investors felt that they were the most geared to any economic growth.

Much of the weakness was used in the early quarter of 2003 to increase the UK equity exposure, mainly focussing on those cyclical shares that it was felt would benefit from any economic pickup and that were hurt unduly because of concerns over the Iraqi conflict.

Overseas Equities

The overseas equity portion also outperformed its benchmark, due mainly to an active increase in the fund's exposure to the Pacific Basin region early in the year. Additionally, the numerous investment trusts held saw a sharp narrowing of the discount to their asset values, which also aided performance. Likewise, the allocation of Japan was increased early in the year taking profits in October while a reduction in the US equity exposure prior to the sharp declines seen in the dollar also aided performance.

Fixed Income Securities

This exposure was taken underweight early in the year and the remaining holdings were moved to the short-end of the yield curve. There was a concern that a combination of rising interest rates globally and the sheer weight of supply coming into the market could hurt the capital value of these assets.

Property

The exposure to property was increased towards the end of 2003. Following the sharp rallies seen in equity markets during the year there was a concern that the rises had been overdone and that further diversification into an asset class, which does not move in line with equities, would be beneficial. Additionally, the long-term growth prospects of commercial property were still very attractive.

INVESTMENTS - continued

CUSTODIAL ARRANGEMENTS

The Borough of Douglas has appointed RBSI Custody Bank Limited, Isle of Man Branch, (part of the RBS Group and not an Associate of Merrill Lynch) as its custodian.

The reasonable costs of transferring assets of the portfolio to the custodian (or where applicable, its sub-custodians) are normally borne by the portfolio.

A nominee company, normally Nutraco Nominees Limited, a UK-based associate of the custodian, is registered as the holder of the portfolio's UK securities (other than UK bearer securities which are held in safe custody and securities relating to In-House Schemes and Connected Investment Trusts). Securities relating to investments of the portfolio's In-House Schemes and Connected Investment Trusts are normally registered in the name of Bath Street Nominees Limited, a Jersey-based associate of the custodian. Any securities registered in the name of a nominee company are pooled with those of other clients of the custodian. The custodian cannot pool such securities with its own property except when settling transactions.

Where the Scheme investments are held collectively in a pool, its entitlements may not be identifiable by separate certificates or other physical documents of title and, should the custodian default, any shortfall in investments belonging to the Scheme and other customers of the custodian may be shared pro-rata among all customers whose investments are so held.

Non-UK securities are normally held by sub-custodians appointed by or on behalf of the custodian in separate accounts designated "RBSI Custody Bank Limited – Client Account". This arrangement also applies for securities held in Euroclear.

INVESTMENT ACCOUNTING AND BANKING ARRANGEMENTS

The Borough of Douglas has authorised monies to be held on the Scheme's behalf on the following basis:

- In investment and income accounts with the custodian in the Borough's or the Scheme's name. The Borough has authorised Merrill Lynch to give the custodian instructions regarding such accounts on the Scheme's behalf.
- In Merrill Lynch Investment Managers (IOM) Designated Client Bank Accounts (as defined in the Financial Supervision Commission (Clients' Money) Regulatory Code 1993 (the "Code") with those institutions being Recognised Banks (as defined by the Code) which meet the minimum short-term credit rating of A1/P1 and which may include the custodian or any of its associates. Such monies are pooled with those of other clients but such designated client bank accounts do not hold monies beneficially owned by Merrill Lynch.

INVESTMENTS - continued

INVESTMENT ACCOUNTING AND BANKING ARRANGEMENTS (continued)

Monies held awaiting delayed settlement are held by the custodian in a pooled settlement account.

Interest is paid on the investment and income accounts, and balances on the income accounts are dealt with on the basis set out below;

Interest period: Quarterly on all accounts

Interest Rate: A commercial rate appropriate to the balances standing to the credit of the above accounts. The custodian benefits from the provision of banking services for clients.

Accounts are maintained in the currency of account and in such other currencies as may be required from time to time.

REMUNERATION BASIS OF THE INVESTMENT MANAGER

Ordinary Portfolio

Merrill Lynch's remuneration for managing and administering the portfolio is calculated and paid in arrears on its market value (including uninvested cash) as shown in its valuations and paid in arrears. Investments of the portfolio in In-House Funds and Connected Investment Trusts are disregarded for the purposes of calculating the fees.

Merrill Lynch's fees in respect of managing the portfolio are at the following annual rates:

Market Value	Rate per annum
On the first £5,000,000	0.75%
Thereafter	0.50%

They include those of the custodian and are settled by transfers from the portfolio on the due dates and no interest is charged if such transfers are effected after the due date.

Property Fund

Charges are 1% of the underlying net asset value per annum and 5.75% when units are purchased. A 5.75% charge was however waived on the purchase of the initial property units.

INVESTMENTS - continued

Charges Within In-House Funds and Connected Investment Trusts and Commissions

Initial (and in some cases conversion) charges are waived for investments made for the Isle of Man Local Government Pension Scheme. The price of each share or unit of certain In-House Funds and Connected Investment Trusts normally includes on both subscriptions and redemptions a 'rounding' of a maximum of one currency unit which is retained by the relevant manager or the relevant In-House Fund and Connected Investment Trusts.

Where the annual management and administration fees of the relevant In-House Fund and Connected Investment Trusts exceed the fee rates listed in the table below, Merrill Lynch procures that the portfolio receives a retrocession of the annual management and administration fees to the fee rates as set out in the table below.

	Management Fees % per annum	Transaction Commissions	Custodian/ Trustee Fees % per annum
Funds of Merrill Lynch Offshore			
Sterling Trust	0.65	Nil	Approx 0.17
Merrill Lynch International Bond Fund	0.65	Nil	0.1
Merrill Lynch Fund Managers			
	UK Smaller Companies Fund		1.00
		Nil	0.1

ACTUARIAL STATEMENT

Actuarial Statement for the purpose of Local Government Pension Scheme 1996 (Statutory Document No. 396/96)

As required by regulations, an actuarial valuation of the Scheme's assets and liabilities was carried out as at 31 March 2001.

Security of Prospective Rights

In my 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 I have assumed that the following amounts will be paid to the Scheme:

Contributions paid by the members in accordance with the Local Government Pension Scheme 1996 (Statutory Document No. 396/96).

Contributions, for the three years commencing 1 April 2002, paid by the employers are as specified in our certificate dated September 2002 contained in our report on the valuation of the Scheme as at 31 March 2001.

Summary of Methods and Assumptions Used

Full details of the method and assumptions are described in our valuation report dated September 2002.

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

Like the previous (1998) valuation, a "market related" valuation method has been used. The market related method derives the financial assumptions by considering various averaged yields in the twelve month period leading up to the valuation date and values the assets of the Scheme based on the average market value in this same period. Using average yields and market values builds in an element of smoothing and stability for the future.

The key financial assumptions adopted for this valuation are as follows:

Financial Assumptions	Nominal at March 2001 % p.a	Real at March 2001 % p.a
Investment Return		
Equities	6.25-6.75%	3.45-3.95%
Bonds	5.25-5.75%	2.45-2.95%
75% Equities/25% Bonds	6.00-6.50%	3.20-3.70%
Pay Increases	4.30%	1.50%
Price Inflation/Pension Increases	2.80%	-

ACTUARIAL STATEMENT - continued

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

The 2001 valuation revealed that the Scheme's assets, which at 31 March 2001 were valued at £12.82 million, were sufficient to meet approximately 64% of the liabilities accrued up to that date. Assets were valued at their market value smoothed over the 12 months to the valuation date.

Copies of this report are available on request from the Isle of Man Local Government Pension Scheme. The next valuation of the Scheme will be carried out as at 31 March 2004.

Bryan Chalmers
Fellow of the Faculty of Actuaries
September 2002

Hymans Robertson
221 West George Street
Glasgow G2 2ND

REPORT OF THE INDEPENDENT AUDITORS, KPMG AUDIT LLC, TO THE MAYOR, ALDERMEN AND BURGESSES OF THE BOROUGH OF DOUGLAS

We have audited the financial statements on pages 19 to 28.

This report is made solely to the administering authority, as a body, in accordance with the Superannuation Act 1984. Our audit work and our work on contributions has been undertaken so that we might state to the administering authority those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the administering authority as a body, for our audit work, our work on contributions, for this report, or for the opinions we have formed.

Respective responsibilities of the Borough and Auditors

As described on page 2 the administering authority are responsible for obtaining audited accounts which comply with applicable Isle of Man law and United Kingdom Accounting Standards. They are also responsible for making available, commonly in the form of a report, certain other information about the Scheme which complies with applicable Isle of Man law. Further, as described on page 2, they are responsible for procuring that contributions are made to the Scheme in accordance with the Scheme rules and the recommendation of the actuary. Our responsibilities as independent auditors are established in the Isle of Man by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the accounts give a true and fair view and contain the information specified in the Superannuation Act 1984. We also report to you our opinion as to whether the contributions have been paid in accordance with the Scheme rules and the recommendation of the actuary and if we have not received all the information and explanations we require for our audit.

We read the report and other information accompanying the accounts and consider whether it is consistent with those accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by or on behalf of the administering authority in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Scheme's circumstances, consistently applied and adequately disclosed.

The work that we carried out also included examination on a test basis, of evidence relevant to the amounts of contributions paid to the Scheme and the timing of those payments.

REPORT OF THE INDEPENDENT AUDITORS, KPMG AUDIT LLC, TO THE MAYOR, ALDERMEN AND BURGESSES OF THE BOROUGH OF DOUGLAS - continued

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us 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 our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion, the financial statements give a true and fair view of the financial transactions of the Scheme during the year ended 31 March 2004 and of the disposition at that date of its assets and liabilities (other than liabilities to pay pensions and benefits after the end of the Scheme year) and contain the information specified in the Superannuation Act 1984.

In our opinion, the contributions payable to the Scheme during the year ended 31 March 2004 have been paid in accordance with the Scheme rules and the recommendation of the actuary.

**KPMG Audit LLC
Chartered Accountants
Douglas
Isle of Man**

14 September 2004

FOREWORD TO THE FINANCIAL STATEMENTS

The financial statements have been prepared on a market value basis. The net income from all transfer values received has decreased by £29,122. Contributions have increased by £242,821. This has resulted in an overall increase in income in respect of members of £213,699. Retirement benefits and other payments made to or in respect of members during the year have decreased by £68,951.

In overall terms the net additions from dealings with members during the year amount to £1,357,847 (2003: £1,075,197).

The net assets of the Scheme at 31 March 2004 have increased by £3.93 million (2003: decreased by £1.03 million) to £15.55 million (2003: £11.62 million).

Financial Statements for the year ended 31 March 2004

	Notes	2004 £	2003 £
FUND ACCOUNT			
Contributions and Benefits			
Contributions receivable	3	1,953,671	1,710,850
Transfer values received	4	401,911	431,033
		<u>2,355,582</u>	<u>2,141,883</u>
Benefits payable	5	(757,745)	(814,192)
Leavers	6	(95,689)	(126,441)
Administration expenses	7	(144,301)	(126,053)
		<u>(997,735)</u>	<u>(1,066,686)</u>
Net additions from dealings with members		<u>1,357,847</u>	<u>1,075,197</u>
Returns on investments			
Investment income	8	434,288	349,886
Change in market value of investments	9	2,214,878	(2,388,263)
Investment management expenditure		(74,953)	(64,029)
Net return/(loss) on investments		<u>2,574,213</u>	<u>(2,102,406)</u>
Net increase/(decrease) in the Scheme during the year		<u>3,932,060</u>	<u>(1,027,209)</u>
Net assets of the Scheme			
At 1 April 2003		<u>11,619,220</u>	<u>12,646,429</u>
At 31 March 2004		<u>15,551,280</u>	<u>11,619,220</u>

The notes on pages 21 to 28 form part of these Financial Statements.

Financial Statements for the year ended 31 March 2004 - continued

	Notes	2004 £	2003 £
NET ASSETS STATEMENT			
Investments	9	15,397,650	11,428,221
Current assets and liabilities	11	153,630	190,999
		<u> </u>	<u> </u>
Net assets of the Scheme at 31 March 2004		<u>15,551,280</u>	<u>11,619,220</u>

The notes on pages 21 to 28 form part of these Financial Statements.

L E RAMSAY (MRS)

Chairman
Policy and Resources Committee
Borough of Douglas

2 July 2004

G M BOLT, CPFA

Borough Treasurer
Borough of Douglas

2 July 2004

Notes to the Financial Statements

1. Basis of Preparation

The financial statements have been prepared in accordance with The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 and with the guidelines set out in the Statement of Recommended Practice, "Financial Reports of Pension Schemes" (Revised November 2002), ("the SORP") as far as is practicable.

In prior periods, the financial statements were prepared in accordance with the SORP issued in July 1996. The principle changes following the introduction of the revised SORP are detailed below.

Accrued interest is now excluded from the market value of fixed interest securities and included in investment income receivable. The comparative figures have been reclassified by the amounts shown in notes 8 and 9 to the financial statements.

The financial statements summarise the transactions and net assets of the Scheme. Liabilities to pay pensions and other benefits which are expected to become payable after the year end of the Scheme year are not dealt with in the financial statements. The actuarial position of the Scheme, which does take account of such obligations, is dealt with in the Actuarial Statement on pages 14 to 15 and these financial statements should be read in conjunction with that Statement.

2. Accounting Policies

The following principal accounting policies which have been applied consistently have been adopted in the preparation of the financial statements:

Contributions

Contributions represent the total amount receivable from Local Government employers and Admitted Bodies on the Isle of Man in respect of their own contributions and from active members. The employers' contributions are made at a rate determined by the Consulting Actuary necessary to ensure that the Scheme is able to meet its existing and prospective liabilities including indexation.

Benefits payable

Members can choose whether to take their benefits as a pension or a pension and lump sum. Pensions and lump sums are accounted for on an accruals basis from the date the option is exercised.

Transfers to and from other schemes

Transfers values represent the capital sums either receivable in respect of members from other pension schemes of previous employers or payable to the pension schemes of new employers for members who have left the scheme. They take account of transfers where the trustees of the receiving scheme have agreed to accept the liabilities in respect of transferring members before the year end, and where the amount of the transfer can be determined with reasonable certainty.

Notes to the Financial Statements - continued

2. Accounting Policies (continued)

Other expenses

Administrative expenses and investment management expenses are accounted for on an accruals basis. Expenses are recognised net of any recoverable VAT.

Investment income

Income from equities is accounted for on the date stocks are quoted ex-dividend. Income from overseas investments is recorded net of any withholding tax where this cannot be recovered.

Income from fixed interest and index-linked securities, cash and short term deposits is accounted for on an accruals basis.

Investments

Equities traded through the Stock Exchange Electronic Trading Service ("SETS") are valued on the basis of the latest mid-market price. Other quoted investments are valued on the basis of the mid-market value quoted on the relevant stock market. Pooled investment vehicles are valued at the average of the bid and offer prices provided by the relevant fund managers, which reflect the market value of the underlying investments. Unquoted securities are valued by the fund managers at the year end in accordance with generally accepted guidelines. Accrued interest is excluded from the market value of fixed interest securities but is included in investment income receivable.

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments and unrealised changes in market value.

3. Contributions Receivable

	2004 £	2003 £
Employers		
normal	1,512,305	1,308,125
special – Ramsey Town Commissioners	11,191	11,191
Members		
normal	424,426	384,124
Scheme additional	5,699	7,410
Additional voluntary contributions	50	-
	1,953,671	1,710,850

Notes to the Financial Statements - continued

3. Contributions Receivable (continued)

Contributions breakdown

	2004			2003	
	Employees Normal £	Employers Normal £	Employees Scheme Additional £	Total £	Total £
Douglas Corporation	231,742	829,175	4,214	1,065,131	917,082
Braddan Church, Vicar & Wardens	804	2,011	-	2,815	2,719
Braddan Parish Commissioners	4,266	13,866	-	18,132	8,597
Bride Commissioners	195	666	-	861	-
Castletown Commissioners	14,599	53,886	-	68,485	59,921
Crossroads Caring for Carers	3,026	7,010	-	10,036	9,995
The Dept. of Tourism & Leisure	1,064	3,673	-	4,737	17,833
Kirk Michael Commissioners	60	203	-	263	88
Kirk Onchan St Peters Church	859	2,933	-	3,792	3,464
Leonard Cheshire Foundation	3,502	7,709	-	11,211	5,122
Malew Parish Commissioners	4,555	16,500	-	21,055	19,232
Manx Churches Adoption & Welfare	9,003	30,761	-	39,764	23,252
Manx Foundation for Physically Disabled	1,739	5,942	-	7,681	6,993
Marashen Crescent Housing Committee	3,540	13,191	-	16,731	7,849
Northern Authority Swimming Pool Board	3,819	13,238	-	17,057	15,841
Onchan District Commissioners	47,846	172,648	-	220,494	199,032
Peel Town Commissioners	18,373	69,119	-	87,492	79,223
Port Erin Commissioners	11,715	42,040	-	53,755	46,916
Port St Mary Commissioners	8,862	30,254	-	39,116	46,838
Ramsey & Northern District Housing Committee	4,108	16,621	-	20,729	18,710
Ramsey Town Commissioners	41,261	146,722	1,485	189,468	176,232
Southern Authority Swimming Pool Board	6,878	25,220	-	32,098	28,915
Southern Civic Amenity Site Board	2,610	8,917	-	11,527	5,805
	424,426	1,512,305	5,699	1,942,430	1,699,659
Ramsey Town Commissioners					
Special Contributions				11,191	11,191
Additional voluntary contributions				50	-
				1,953,671	1,710,850

Notes to the Financial Statements - continued

4. Transfer Values Received

	2004 £	2003 £
Individual transfers in from other pension Schemes and Private Sector Institutions	401,911	431,033

5. Benefits Payable

	2004 £	2003 £
Retirement and dependants' pensions	665,558	631,306
Lump sum retirement grants	79,013	138,501
Lump sum death grants	13,174	44,385
	757,745	814,192

The value of pensions is arrived at after netting off employers recharge of £48,180 (2003: £47,984).

6. Payments To and On Account of Leavers

	2004 £	2003 £
Refunds of contributions	3,469	6,616
Payments to S2P	3,202	5,396
Individual transfers to other schemes	89,018	114,429
	95,689	126,441

7. Administration Expenses

	2004 £	2003 £
Scheme administration and actuarial costs	144,301	126,053

Notes to the Financial Statements - continued

8. Investment Income

	2004 £	2003 £
Income from fixed interest securities	95,226	111,980
Dividends from equities	214,276	152,439
Income from pooled investment vehicles	65,678	18,369
Interest on cash deposits	26,265	29,173
Income from index-linked securities	32,843	37,925
	<u>434,288</u>	<u>349,886</u>

As explained in note 1, the comparative figures above have been reclassified in line with the new SORP. As a result, change in market value and investment income has been adjusted as shown below. This has not affected the net position of the Fund.

	2004		2003	
	Investment Income £	Change in Market Value £	Investment Income £	Change in Market Value £
As previously stated	441,091	2,208,075	349,041	(2,387,418)
Reclassification	(6,803)	6,803	845	(845)
As restated	<u>434,288</u>	<u>2,214,878</u>	<u>349,886</u>	<u>(2,388,263)</u>

As a result of the reclassification of stocks detailed in note 9 the following adjustments were made to the classification of investment income. Pooled investment vehicles income of £18,369 was previously included in equities income and index linked securities income of £42,585 was previously included in income from fixed interest securities.

Notes to the Financial Statements - continued

9. Investments

	Value at 1.04.03 £	Purchases at Cost £	Sales Proceeds £	Change in Market Value £	Value at 31.3.04 £
Fixed interest securities	1,926,828	273,971	(282,200)	(27,442)	1,891,157
Equities	4,210,692	2,534,041	(1,662,607)	1,194,583	6,276,709
Index-linked securities	1,262,995	-	-	82,303	1,345,298
Pooled investment vehicles	3,507,922	1,296,141	(731,304)	965,622	5,038,381
AVC Investments	-	3,858	-	(188)	3,670
	10,908,437	4,108,011	(2,676,111)	2,214,878	14,555,215
Other	92,687				109,264
Cash Deposits	427,097				733,171
	11,428,221				15,397,650

In addition to the reclassification the opening figures have also been adjusted to reflect more appropriate classifications of certain investment assets. As a result investments which were previously classified as Equities (£2,362,991), and Property Units (£1,144,931) have now been included in Pooled Investment Vehicles. UK Public Sector Fixed Interest (£1,093,104) has now been reclassified as UK Quoted Fixed Interest.

As explained in note 1, accrued income on fixed interest securities is no longer accounted for within the valuation of the related investment. Accordingly the following reclassification has been made to the investment valuation 1 April 2003.

	2004		2003	
	Securities £	Other Investment Balances £	Securities £	Other Investment Balances £
As previously stated	14,594,000	66,809	10,953,770	47,354
Reclassification	(42,455)	42,455	(45,333)	45,333
As restated	14,551,545	109,264	10,908,437	92,687

Notes to the Financial Statements - continued

9. Investments (continued)

	2004 £	2003 £
Fixed interest securities		
UK public sector quoted	538,245	833,724
UK quoted	1,352,912	1,093,104
	<u>1,891,157</u>	<u>1,926,828</u>
Equities		
UK quoted	<u>6,276,709</u>	<u>4,210,692</u>
Index-linked securities		
UK quoted	<u>1,345,298</u>	<u>1,262,995</u>
Pooled investment vehicles		
Unit trusts - property	1,473,023	1,144,931
- UK other	71,318	103,899
- overseas other	3,494,040	2,259,092
	<u>5,038,381</u>	<u>3,507,922</u>
Cash deposits		
Sterling	<u>733,171</u>	<u>427,097</u>
Other		
Accrued investment income	<u>109,264</u>	<u>92,687</u>

10. AVC Investments

The Trustees hold assets invested separately from the Fund with Norwich Union in the form of individual building society funds securing additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions. Members participating in this arrangement each receive an annual statement made up to 31 March confirming the amounts held to their account and the movements in the year.

	2004 £	2003 £
Norwich Union	<u>3,670</u>	<u>-</u>

Notes to the Financial Statements - continued

11. Current Assets and Liabilities

	2004 £	2003 £
Debtors		
Amounts due from employers	154,306	146,838
Other	2,257	9,815
Cash	139,780	198,700
	<u>296,343</u>	<u>355,353</u>
Creditors	(142,713)	(164,354)
	<u>153,630</u>	<u>190,999</u>

Amounts due from employers are employers' and employees' contributions of £120,429 (2003: £113,594) and £33,877 (2003: £33,244) respectively, outstanding in the normal course of collection at the year end.

12. Related Party Transactions

There were no related party transactions.

SCHEME RULES AND BENEFITS

SCHEME MEMBERSHIP AND INCOME

- (a) All employees of the Borough of Douglas and other local authority and admitted body employers on the Isle of Man (other than a local authority for a Parish District) under the age of 65 are eligible for membership of the Isle of Man Local Government Pension Scheme 2003. Whole-time and part-time employees, whether permanent or temporary, become members automatically with the right to opt out (back-dated to the start of their membership if made within three months). Employees of Parish District are eligible for membership if the authority passes a resolution to that effect. Those employed by Admitted Bodies are eligible if the admission agreement specifies them as such.

Members' contributions from pensionable pay are 6%, except for employees who were carrying out manual duties immediately before 1 April 1998. For as long as they remain on manual duties their contributions are 5% of pensionable pay.

- (b) Transfer payments for pension rights in almost any other scheme can be accepted by the Scheme to increase benefits which may eventually become payable.
- (c) The participating employers must make the balancing contribution required to keep the Scheme solvent, having regard to existing and prospective liabilities. This is usually determined as a percentage of the members' normal contributions by the Consulting Actuary following each triennial actuarial valuation of the Scheme.
- (d) Employers are now required to fund early retirements (other than ill-health) and discretionary added years by making up front payments.
- (e) Monies not immediately required for the payment of benefits and other outgoings have to be invested in accordance with the provisions of Part L of the Scheme.

BENEFITS AVAILABLE

Two or more years' membership (or a transfer from a personal pension plan has been received):

- A. Retirement pension and lump sum awarded:
1. Payable immediately on cessation of employment:
 - (i) through permanent incapacity at any age, or
 - (ii) as a result of redundancy after age 50.
 2. Preserved and payable from retirement age in any other circumstances.

SCHEME RULES AND BENEFITS - continued

BENEFITS AVAILABLE (continued)

- B. Spouses' and children's pensions and a tax free lump sum death grant following death:
- (i) in employment,
 - (ii) in receipt of retirement pension (a lump sum may **not** always be payable),
or
 - (iii) before preserved benefits become payable.

Under two years' membership (and no transfer has been received from a personal pension plan):

- A. Retirement pension and lump sum on retirement at age 65.
- B. Lump sum payable on retirement through permanent incapacity.
- C. Spouses' limited period pensions and a tax free lump sum death grant on death in employment.
- D. Children's continuing pensions.
- E. Refund of contributions when no other benefit payable.

PENSIONS INCREASE AWARDS

Retirement and dependants' pensions in payment and preserved are increased each year by the same Retail Prices Index percentage rate as that applied to State pensions.

TRANSFERS TO OTHER SCHEMES

When benefits are not payable immediately, a transfer can usually be made to another employer's pension scheme or to a personal pension plan or to purchase an insurance annuity bond.

Any enquiries regarding this Report should be addressed to:

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