

**ISLE OF MAN LOCAL  
GOVERNMENT PENSION  
SCHEME**

**ANNUAL REPORT  
AND  
ACCOUNTS**

**31 MARCH 2005**

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), ("the SORP") 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 2005

**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 LLP  
221 West George Street  
Glasgow. G2 2ND

**Custodian of Securities**

RBSI Custody Bank Limited

**AVC Provider**

Norwich Union  
Rose Lane Business Centre  
Norwich. NR1 1BB

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

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## 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 (including resolution bodies) 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**

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## **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.

The Borough have appointed Norwich Union to provide an AVC arrangement for members.

## **ADMINISTRATION**

### **The Regulations Affecting the Scheme**

The Isle of Man Local Government Superannuation Scheme Regulations 2003, 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 available to all members on the Douglas Borough Council website ([www.douglas.gov.im](http://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 2005 required an increase of 3.1% (2004: 2.8%) (reduced proportionately for pensions in payment for less than 12 months) to be awarded from 11 April 2005 (2004: 12 April 2004). 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 2004 (2004: 30 September 2003).

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

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## 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. In particular the Scheme's investment practices are 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

A document entitled "Isle of Man Local Government Pension Scheme: Myners Code Adherence Document and Statement of Investment Principles" is in force. It is available to members on the Douglas Borough Council Website ([www.douglas.gov.im](http://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

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## MEMBERSHIP AND BENEFICIARIES

	2005	2004
	No.	No.
<b>Active Membership</b>		
<b>At 1 April 2004</b>	409	392
Backdated members	-	2
<i>Add:</i>		
Entrants - new starters	34	52
	<hr/>	<hr/>
	443	446
	<hr/>	<hr/>
Exits		
- options pending	(3)	(4)
- new retirement pensions	(11)	(6)
- deaths in service	(1)	-
- preserved benefits	(15)	(22)
- refunds of contributions/transfers	(8)	(5)
- Leavers from previous reporting period	(3)	-
	<hr/>	<hr/>
	(41)	(37)
	<hr/>	<hr/>
<b>At 31 March 2005</b>	<b>402</b>	409
	<hr/>	<hr/>

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

## MEMBERSHIP AND BENEFICIARIES - continued

### Membership as at 31 March 2005

	Active	Deferred	Pensioners	2005 Total	2004 Total
Andreas Commissioners	-	-	-	-	-
Arbory Commissioners	-	-	-	-	-
Ballaugh Commissioners	-	-	-	-	-
Braddan Parish Commissioners	4	-	-	4	3
Vicars & Wardens of Braddan Church	2	1	-	3	2
Bride Commissioners	1	-	-	1	1
Castletown Commissioners	13	1	4	18	18
Castletown & Malew Elderly Persons Housing Board	-	-	-	-	-
Cooil Roi Housing Authority	-	-	-	-	-
Crossroads Caring for Carers	3	1	-	4	4
Borough of Douglas	213	73	112	398	393
German Commissioners	-	-	-	-	-
Jurby Commissioners	-	-	-	-	-
Michael Commissioners	1	-	-	1	1
Laxey Commissioners	-	-	-	-	-
Leonard Cheshire Foundation	1	4	1	6	7
Lezayre Commissioners	-	-	-	-	-
Lonan Commissioners	-	-	-	-	-
Malew Parish Commissioners	5	3	1	9	7
Manx Blind Welfare	-	1	-	1	1
Manx Foundation for Physically Disabled	1	1	-	2	2
Marashen Crescent Housing Committee	4	1	-	5	5
Marown Commissioners	-	-	-	-	-
Manx Churches Adoption & Welfare Society	5	2	-	7	8
Maughold Commissioners	-	-	-	-	-
Northern Local Authorities Swimming Pool Board	6	1	1	8	8
Northern Parishes Refuse Collection Board	-	-	-	-	-
Onchan District Commissioners	45	16	16	77	73
Patrick Commissioners	-	-	-	-	-
Peel & Western District Housing Committee	-	1	-	1	1
Peel Town Commissioners	17	6	5	28	24
Port Erin Commissioners	16	6	2	24	24
Port St Mary Commissioners	9	9	3	21	23
Ramsey Town Commissioners	37	12	14	63	63
Ramsey & Northern District Housing Committee	7	1	-	8	8
Rushen Commissioners	-	-	-	-	-
Santon Commissioners	-	-	-	-	-
Southern Civic Amenity Site Board	3	-	-	3	3
Southern Local Authorities Swimming Pool Board	8	3	3	14	14
The Vicars & Wardens of St Peters Church Onchan	1	-	-	1	1
Department of Tourism & Leisure – Villa Marina	-	1	1	2	2
Western Swimming Pool Board	-	-	-	-	-
<b>Total</b>	<b>402</b>	<b>144</b>	<b>163</b>	<b>709</b>	<b>696</b>

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

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## **ACTUARIAL VALUATION**

The 2003 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 2003 Scheme, a valuation of the Scheme was made as at 31 March 2004 which showed that it continued to be in deficit. The next valuation is due to be carried out 31 March 2007.

The Actuarial Statement from the 2004 valuation is reproduced on page 14 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

**11<sup>th</sup> July 2005**

**G M BOLT, CPFA**  
Borough Treasurer  
Borough of Douglas

**11<sup>th</sup> July 2005**

# INVESTMENTS

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## 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

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## 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

<b>Portfolio</b>	<b>12.01%</b>
Benchmark	11.33%
Value of Portfolio as at 31 March 2004	£15,397,650
Value of Portfolio as at 31 March 2005	<b>£18,291,942</b>

### 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

Over the year investment performance has added 12.01% to the portfolio which was ahead of the benchmark, which rose 11.33%. Strong outperformance was seen in the UK and European exposure, which more than offset the relative weakness seen in the Pacific Basin.

### Background

Looking back at the commentaries over the last year or so it is interesting to note how seldom the word "inflation" appears, which is a reflection of the relaxed attitudes taken by investors towards the possibility of rising prices. Up to now this view has largely been correct in that, for instance, the pain of rising commodity prices has been felt by corporate margin, while a fickle labour market has left workers with little bargaining power.

Recently, this cosy consensus has started to look a little more shaky. The catalyst has largely been comments by the Federal Reserve highlighting the "conundrum" of low long term bond yields yet rising rates. More recently the minutes of the Federal Reserve meeting have referred to a return of pricing power in the economy.

The inevitable consequence of this has been that the sterling and US dollar markets have seen a significant rise in yields of upwards of 20 basis points. Interestingly yields on index linked bonds have risen by a similar amount implying a reduction of investors' risk appetite, rather than an increase in inflationary expectations.

While concerns about inflation should never be ignored our analysis of the output gap (an estimate of the amount of "slack" in the economy) leads us to believe that worries about excessive inflation are probably overdone and we have no changes to our asset preferences. As we have mentioned, bond yields have risen sharply and in some markets, at some maturities, are starting to represent reasonable value.

# INVESTMENTS - continued

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## INVESTMENT MANAGER'S REPORT (continued)

### UK Equities

Within the UK, we reduced the cyclical exposure May/June only to buy them back during the summer following weakness in markets over concerns of the global economic growth stalling. This aided performance as following the resounding outcome of the US elections, equity markets staged a strong rally. We took the portfolio underweight Pharmaceutical shares early in the year over concerns of the volatility of markets in the run up to the US Presidential elections. This stance also helped performance. We continued with our overweight stance in the banking sector despite concerns that interest rates were going to rise higher.

### Overseas Equities

Performance with Overseas Equities was also above the relevant benchmark over the year. This was aided by strong performance seen in the European exposure which rose 26.42% compared to the benchmark which rose 18.62%. This to an extent was offset by the relative weakness seen in the Pacific Basin exposure, which was affected by the level of transactions towards the end of the calendar year as we moved very overweight the region. We went very underweight the US on valuation concerns and have continued this underweight position as we moved into 2005.

### Bonds

Bond markets produced lacklustre performance during the year, only to be bailed out by the income produced. The portfolio is underweight bonds in general as we feel there is no benefit in taking the interest rate and inflation risk. Accordingly, we have taken a very defensive position towards bonds, investing predominately at the short end of the curve.

### Property

The Property exposure had another good year, rising 19.74% compared to its benchmark increase of 17.64%. This asset class has benefited from high demand from both Institutional investors and private clients, as the hunt for diversification and yield has continued.

# INVESTMENTS - continued

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## 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

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## 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. 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:

<b>Market Value</b>	<b>Rate per annum</b>
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

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## 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.

	<b>Management Fees % per annum</b>	<b>Transaction Commissions</b>	<b>Custodian/Trustee Fees % per annum</b>
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

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## Actuarial Statement for the purpose of Local Government Superannuation Scheme 2003 (Statutory Document No. 61/03).

As required by the regulations, an actuarial valuation of the Fund's assets and liabilities was carried out as at 31 March 2004.

### 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 Superannuation Scheme 2003 (Statutory Document No. 61/03).

Contributions, for the three years commencing 1 April 2005, paid by the employers are as specified in our certificate dated March 2005 contained in our report on the valuation of the Fund as at 31 March 2004, (available on Douglas Borough Council website: [www.douglas.gov.im](http://www.douglas.gov.im)).

### Summary of Methods and Assumptions Used

The valuation method and assumptions are described fully in our valuation report dated March 2005

My opinion on the security of the prospective rights is based on the projected unit valuation method as there is an exception that new employees are likely to join the Fund. 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.

The main actuarial assumptions are:-

<b>Financial Assumptions</b>	<b>Nominal at March 2004 % p.a</b>	<b>Real at 31 March 2004 % p.a</b>
Investment Return	6.30%	3.40%
Pay Increases	4.40%	1.50%
Price Inflation/Pension Increases	2.90%	-

Assets of £15.55m, were valued at their market value. The valuation showed that the assets of the Fund as at 31 March 2004 fell short of the value of accrued liabilities by £9m, leaving 63% of accrued liabilities funded. The next actuarial valuation is due with an effective date of 31 March 2007. Stepped increases in employers contributions have been approved to attempt to address the deficit over 17 years.

**Peter Summers FFA**

For and on behalf of Hymans Robertson LLP

17 May 2005

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

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We have audited the financial statements on pages 18 to 26.

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**

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## **Basis of opinion (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 2005 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 2005 have been paid in accordance with the Scheme rules and the recommendation of the actuary.

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

**30<sup>th</sup> August 2005**

# FOREWORD TO THE FINANCIAL STATEMENTS

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The financial statements have been prepared on a market value basis. The net income from all transfer values received has decreased by £264,434. Contributions have increased by £256,050. This has resulted in an overall decrease in income in respect of members of £8,384. Retirement benefits and other payments made to or in respect of members during the year have increased by £175,700.

In overall terms the net additions from dealings with members during the year amount to £1,173,763 (2004: £1,357,847).

The net assets of the Scheme at 31 March 2005 have increased by £3.00 million (2004: increased by £3.93 million) to £18.55 million (2004: £15.55 million).

# Financial Statements for the year ended 31 March 2005

	Notes	2005 £	2004 £
<b>FUND ACCOUNT</b>			
<b>Contributions and Benefits</b>			
Contributions receivable	3	2,209,721	1,953,671
Transfer values received	4	137,477	401,911
		<u>2,347,198</u>	<u>2,355,582</u>
Benefits payable	5	(948,881)	(757,745)
Leavers	6	(62,342)	(95,689)
Administration expenses	7	(162,212)	(144,301)
		<u>(1,173,435)</u>	<u>(997,735)</u>
<b>Net additions from dealings with members</b>		<b><u>1,173,763</u></b>	<b><u>1,357,847</u></b>
<b>Returns on investments</b>			
Investment income	8	494,877	434,288
Change in market value of investments	9	1,400,731	2,214,878
Investment management expenditure		(69,171)	(74,953)
		<u>1,826,437</u>	<u>2,574,213</u>
<b>Net return on investments</b>		<b><u>1,826,437</u></b>	<b><u>2,574,213</u></b>
<b>Net increase in the Scheme during the year</b>		<b><u>3,000,200</u></b>	<b><u>3,932,060</u></b>
<b>Net assets of the Scheme</b>			
<b>At 1 April 2004</b>		<b><u>15,551,280</u></b>	<b><u>11,619,220</u></b>
<b>At 31 March 2005</b>		<b><u>18,551,480</u></b>	<b><u>15,551,280</u></b>

The notes on pages 20 to 26 form part of these Financial Statements.

# Financial Statements for the year ended 31 March 2005 - continued

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	Notes	2005 £	2004 £
<b>NET ASSETS STATEMENT</b>			
Investments	9	18,291,942	15,397,650
Current assets and liabilities	11	<u>259,538</u>	<u>153,630</u>
<b>Net assets of the Scheme at 31 March 2005</b>		<b><u>18,551,480</u></b>	<b><u>15,551,280</u></b>

The notes on pages 20 to 26 form part of these Financial Statements.

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

11<sup>th</sup> July 2005

**G M BOLT, CPFA**  
Borough Treasurer  
Borough of Douglas

11<sup>th</sup> July 2005

# Notes to the Financial Statements

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## 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.

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 page 14 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

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## 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

	<b>2005</b>	<b>2004</b>
	<b>£</b>	<b>£</b>
Employers		
normal	1,723,872	1,512,305
special – Ramsey Town Commissioners	11,191	11,191
Members		
normal	463,153	424,426
Scheme additional	10,955	5,699
Additional voluntary contributions	550	50
	<b>2,209,721</b>	<b>1,953,671</b>

# Notes to the Financial Statements - continued

## 3. Contributions Receivable (continued)

### Contributions breakdown

	2005			2004	
	Employees Normal £	Employers Normal £	Employees Scheme Additional £	Total £	Total £
Borough of Douglas	255,720	956,102	8,121	1,219,943	1,065,131
Braddan Church, Vicar & Wardens	975	4,036	-	5,011	2,815
Braddan Parish Commissioners	6,934	22,537	-	29,471	18,132
Bride Commissioners	171	610	-	781	861
Castletown Commissioners	15,597	60,205	-	75,802	68,485
Crossroads Caring for Carers	2,891	7,566	-	10,457	10,036
The Dept. of Tourism & Leisure	-	-	-	-	4,737
Michael Commissioners	73	260	-	333	263
Kirk Onchan St Peters Church	851	3,051	-	3,902	3,792
Leonard Cheshire Foundation	1,311	3,377	-	4,688	11,211
Malew Parish Commissioners	5,968	22,459	720	29,147	21,055
Manx Churches Adoption & Welfare	11,516	41,264	-	52,780	39,764
Manx Foundation for Physically Disabled	1,812	6,493	-	8,305	7,681
Marashen Crescent Housing Committee	3,662	14,261	-	17,923	16,731
Northern Authority Swimming Pool Board	4,446	16,142	-	20,588	17,057
Onchan District Commissioners	52,133	194,652	-	246,785	220,494
Peel Town Commissioners	18,077	70,441	-	88,518	87,492
Port Erin Commissioners	12,856	47,440	-	60,296	53,755
Port St Mary Commissioners	10,799	38,694	-	49,493	39,116
Ramsey & Northern District Housing Committee	4,283	18,173	-	22,456	20,729
Ramsey Town Commissioners	42,389	157,751	2,114	202,254	189,468
Southern Authority Swimming Pool Board	7,289	26,171	-	33,460	32,098
Southern Civic Amenity Site Board	3,400	12,187	-	15,587	11,527
	<b>463,153</b>	<b>1,723,872</b>	<b>10,955</b>	<b>2,197,980</b>	<b>1,942,430</b>
<b>Ramsey Town Commissioners</b>					
Special Contributions				11,191	11,191
Additional Voluntary Contributions				550	50
				<b>2,209,721</b>	<b>1,953,671</b>

# Notes to the Financial Statements - continued

## 4. Transfer Values Received

	<b>2005</b> £	<b>2004</b> £
Individual transfers in from other Pension Schemes and Private Sector Institutions	<b>137,477</b>	401,911

## 5. Benefits Payable

	<b>2005</b> £	<b>2004</b> £
Retirement and dependants' pensions	694,663	665,558
Lump sum retirement grants	198,912	79,013
Lump sum death grants	55,306	13,174
	<b>948,881</b>	<b>757,745</b>

The value of pensions is arrived at after netting off employers recharge of £44,503 (2004: £48,180).

## 6. Payments To and On Account of Leavers

	<b>2005</b> £	<b>2004</b> £
Refunds of contributions	7,394	3,469
Payments to S2P	7,854	3,202
Individual transfers to other schemes	47,094	89,018
	<b>62,342</b>	<b>95,689</b>

## 7. Administration Expenses

	<b>2005</b> £	<b>2004</b> £
Administrating Authority	41,301	39,859
Fund Administrator	53,769	54,339
Actuarial	23,550	-
Investment Advice	43,475	47,275
Other	117	2,828
	<b>162,212</b>	<b>144,301</b>

# Notes to the Financial Statements - continued

## 8. Investment Income

	2005 £	2004 £
Income from fixed interest securities	96,983	95,226
Dividends from equities	224,699	214,276
Income from pooled investment vehicles	109,333	65,678
Interest on cash deposits	29,845	26,265
Income from index-linked securities	34,017	32,843
	<u>494,877</u>	<u>434,288</u>

## 9. Investments

	Value at 1.04.04 £	Purchases at Cost £	Sales Proceeds £	Change in Market Value £	Value at 31.3.05 £
Fixed interest securities	1,891,157	81,304	(70,770)	2,820	1,904,511
Equities	6,276,709	1,490,914	(2,392,213)	1,324,030	6,699,440
Index-linked securities	1,345,298	-	-	49,821	1,395,119
Pooled investment vehicles	5,038,381	2,020,197	(778,751)	23,978	6,303,805
Cash instruments	-	1,400,000	-	-	1,400,000
AVC Investments	3,670	500	-	82	4,252
	<u>14,555,215</u>	<u>4,992,915</u>	<u>(3,241,734)</u>	<u>1,400,731</u>	<u>17,707,127</u>
Other	109,264				116,243
Cash Deposits	733,171				468,572
	<u>15,397,650</u>				<u>18,291,942</u>

# Notes to the Financial Statements - continued

## 9. Investments (continued)

	2005 £	2004 £
<b>Fixed interest securities</b>		
UK public sector quoted	616,266	538,245
UK quoted	1,288,245	1,352,912
	<u>1,904,511</u>	<u>1,891,157</u>
<b>Equities</b>		
UK quoted	<u>6,699,440</u>	<u>6,276,709</u>
<b>Index-linked securities</b>		
UK quoted	<u>1,395,119</u>	<u>1,345,298</u>
<b>Pooled investment vehicles</b>		
Unit trusts - property	1,684,422	1,473,023
- UK other	131,193	71,318
- overseas other	4,488,190	3,494,040
	<u>6,303,805</u>	<u>5,038,381</u>
<b>Cash Instruments</b>		
Sterling	<u>1,400,000</u>	-
<b>Cash deposits</b>		
Sterling	<u>468,572</u>	<u>733,171</u>
<b>Other</b>		
Accrued investment income	<u>116,243</u>	<u>109,264</u>

The following assets represented more than 5% of the net assets value of the Fund.

	2005	%	2004	%
Merrill Lynch Property Fund	1,684,422	9.1	1,473,023	9.5
Merrill Lynch Cash Instrument	1,400,000	7.5	-	-

# Notes to the Financial Statements - continued

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## 10. AVC Investments

The Borough 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.

	<b>2005</b> £	<b>2004</b> £
Norwich Union	<b>4,252</b>	3,670
	<u>          </u>	<u>          </u>

## 11. Current Assets and Liabilities

	<b>2005</b> £	<b>2004</b> £
Debtors		
Amounts due from employers	170,540	154,306
Other	18,937	2,257
Cash	211,740	139,780
	<u>          </u>	<u>          </u>
	401,217	296,343
Creditors	(141,679)	(142,713)
	<u>          </u>	<u>          </u>
	<b>259,538</b>	153,630
	<u>          </u>	<u>          </u>

Amounts due from employers are employers' and employees' contributions of £133,371 (2004: £120,429) and £37,169 (2004: £33,877) respectively, outstanding in the normal course of collection at the year end.

## 12. Related Party Transactions

Douglas Borough Council administrative expense for the Isle of Man Local Government Pension Scheme, paid during the year amounted to £41,301 (2004: £39,859).

# SCHEME RULES AND BENEFITS

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## 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 or joint board defined as a resolution body) under the age of 65 are eligible for membership of the Isle of Man Local Government Superannuation 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 resolution bodies 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

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## **BENEFITS AVAILABLE (continued)**

- B. Spouses' and children's pensions and a 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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