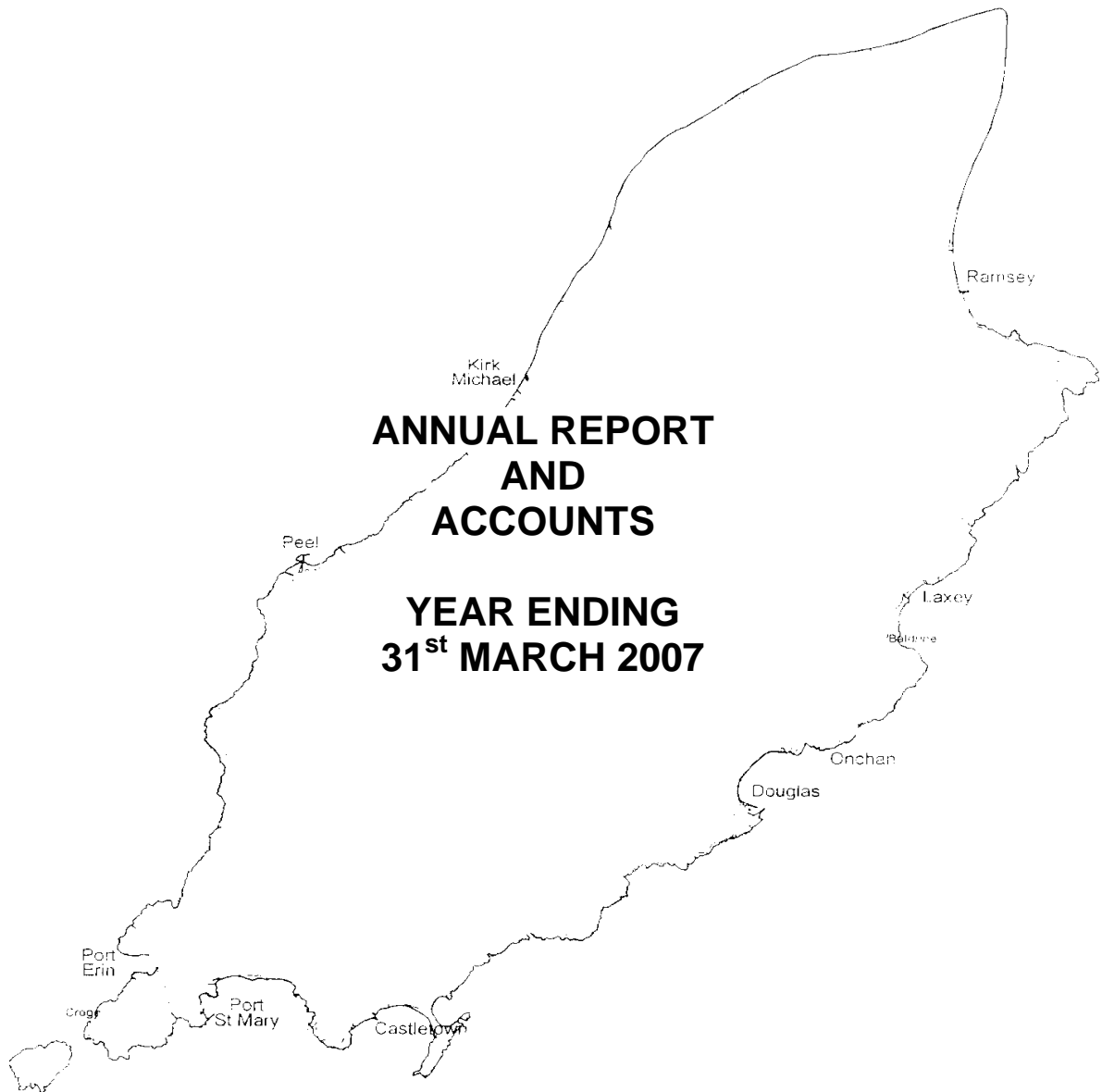


ISLE OF MAN LOCAL GOVERNMENT PENSION SCHEME



ADMINISTERED BY:



**BOROUGH OF
DOUGLAS**

CAPITA HARTSHEAD

BLACKROCK



Hymans Robertson

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.

Table of Contents

	Page No.
The Administering Authority and their Advisers	1
Report by the Mayor, Aldermen and Burgesses	2
Introduction	2
Management	2
Administration	3
Membership and Beneficiaries	5
Actuarial Valuation	7
Registration under the Data Protection Act 2002	8
Investments	9
Limits	9
Strategy and Management	10
Performance	10
Investment Report	10
Custodial Arrangements	13
Investment Accounting and Banking Arrangements	13
Remuneration Basis of the Investment Manager	14
Actuarial Statement	16
Independent Auditors' Report	17
Foreword to the Financial Statements	19
Financial Statements for the year ended 31 March 2007	
Fund Account	20
Net Assets Statement	21
Notes to the Financial Statements	22
Scheme Rules and Benefits	29
Enquiries	31

ISLE OF MAN LOCAL GOVERNMENT PENSION SCHEME

ANNUAL REPORT AND ACCOUNTS

FOR THE YEAR ENDED
31 MARCH 2007

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, CPFA

Auditors

Moore Stephens
PO Box 25
26-28 Athol Street
Douglas
Isle of Man. IM99 1BD

Bankers

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

Consulting Actuary

Hymans Robertson LLP
Central Exchange
20 Waterloo Street
Glasgow. G2 6DB

Scheme Administrator

Capita Hartshead
257 Ecclesall Road
Sheffield. S11 8NX

Investment Manager

BlackRock (Isle of Man) Limited*
Belgravia House
34/44 Circular Road
Douglas
Isle of Man. IM1 1QW

Custodian of Securities

RBSI Custody Bank Limited**

AVC Provider

Norwich Union
Rose Lane Business Centre
Norwich. NR1 1BB

* with effect from 2 October 2006 Merrill Lynch Investment Managers merged with BlackRock to become BlackRock (Isle of Man) Limited

** with effect from 29 June 2007 RBSI Custody Bank Limited was taken over by BNP Paribas Securities Services

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 (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 are the administering authority for the Isle of Man Local Government Pension Scheme. They are responsible for preparing 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 Administering Authority has:

- 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 Administering Authority is responsible for keeping proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the Scheme.

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

In addition, the Administering Authority is 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.

The Borough as the Administering Authority delegates some day to day monitoring responsibilities to the Pensions Committee. This Committee, which comprises Members of the Council and one independent observer, meets regularly to consider administrative and investment matters. All minutes and resolutions of the Pensions Committee are subject to approval at the Borough’s full Council meetings.

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 BlackRock (Isle of Man) Limited, formerly Merrill Lynch Investment Managers.

The Administering Authority has 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 Administering Authority has appointed Norwich Union to provide an AVC arrangement for members, AVC's are no longer reflected within these financial statements.

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 Scheme 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).

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 2006 required an increase of 3.6% (2006: 2.7%) (reduced proportionately for pensions in payment for less than 12 months) to be awarded from 9 April 2007 (2006: 10 April 2006). 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 2006 (2006: 30 September 2005).

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

ADMINISTRATION (continued)

Code of Best Practice

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 Best Practice 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

Separate documents entitled "Statement of Investment Principles" and "Adherence to Best Practice" are in force. It is available to members 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

	2007	2006
	No.	No.
Active Membership		
At 1 April 2006	408	402
Late adjustments (new starters)	6	11
<i>Add:</i>		
Entrants - new starters	33	37
	<hr/>	<hr/>
	447	450
	<hr/>	<hr/>
Exits		
- options pending	-	(2)
- new retirement pensions	(9)	(12)
- deaths in service	(2)	-
- preserved benefits	(13)	(12)
- refunds of contributions/transfers	(11)	(9)
- Leavers from previous reporting period	(1)	(7)
	<hr/>	<hr/>
	(36)	(42)
	<hr/>	<hr/>
At 31 March 2007	411	408
	<hr/>	<hr/>

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

MEMBERSHIP AND BENEFICIARIES - continued

Membership as at 31 March 2007

	Active	Deferred	Pensioners	2007 Total	2006 Total
Administrating Body					
Borough of Douglas	223	81	108	412	409
Scheduled Bodies					
Castletown Commissioners	13	2	8	23	22
Onchan District Commissioners	48	15	21	84	81
Peel Town Commissioners	16	6	7	29	28
Port Erin Commissioners	16	6	3	25	25
Port St Mary Commissioners	7	9	5	21	22
Ramsey Town Commissioners	38	12	14	64	61
(a) Parish Districts					
Braddan Parish Commissioners	5	-	-	5	5
Bride Commissioners	1	-	-	1	1
Michael Commissioners	1	-	-	1	1
Malew Parish Commissioners	5	3	1	9	10
(b) Joint Boards					
Marashen Crescent Housing Committee	4	1	1	6	5
Northern Local Authorities Swimming Pool Board	6	2	1	9	9
Peel & Western District Housing Committee	-	-	1	1	1
Ramsey & Northern District Housing Committee	8	1	1	10	8
Southern Civic Amenity Site Board	3	1	1	5	4
Southern Local Authorities Swimming Pool Board	8	4	4	16	14
Department of Tourism & Leisure – Villa Marina	-	1	1	2	2
Admitted Bodies					
Crossroads Caring for Carers	-	3	1	4	4
Leonard Cheshire Foundation	1	1	2	4	5
Manx Blind Welfare	-	1	-	1	1
Manx Foundation for Physically Disabled	1	1	-	2	2
Manx Churches Adoption & Welfare Society	4	3	2	9	8
Vicars and Wardens of Braddan Church	2	1	-	3	3
The Vicars and Wardens of St Peters Church Onchan	1	-	-	1	1
	<u>411</u>	<u>154</u>	<u>182</u>	<u>747</u>	<u>732</u>

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

MEMBERSHIP AND BENEFICIARIES - continued

Membership as at 31 March 2007 (continued)

The following bodies had no members during the year.

Bodies with no Members

Andreas Commissioners
Arbory Commissioners
Ballagh Commissioners
Castletown & Malew Elderly Persons
Housing Board
Cooil Roi Housing Authority
German Commissioners
Jurby Commissioners
Laxey Commissioners
Lezayre Commissioners
Lonan Commissioners
Marown Commissioners
Maughold Commissioners
Northern Parishes Refuse Collection Board
Patrick Commissioners
Rushen Commissioners
Santon Commissioners
Western Swimming Pool Board

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 currently being carried out as at 31 March 2007.

The Actuarial Statement from the 2004 valuation is reproduced on page 16 of the Annual Report.

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

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.

D W CHRISTIAN JP
Chairman
Policy and Resources Committee
Borough of Douglas

18th October 2007

G M BOLT, CPFA
Borough Treasurer
Borough of Douglas

18th October 2007

INVESTMENTS

INVESTMENT LIMITS

The Isle of Man Local Government Superannuation Scheme Regulations 2003 require the Administering Authority 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 Administering Authority 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 managed by any one body;
 - 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 Administering Authority transfers or agrees to transfer under stock lending arrangements.

INVESTMENTS - continued

INVESTMENT STRATEGY AND MANAGEMENT

The investment strategy developed by the Administering Authority aims to maximise the return of the Scheme by diversifying its investments throughout world markets. It is applied by their investment manager, BlackRock, 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 Administering Authority.

INVESTMENT PERFORMANCE

BlackRock Portfolio	+7.6%
Benchmark	+6.6%
Value of BlackRock Portfolio as at 31 March 2006	£24,852,350
Value of BlackRock Portfolio as at 31 March 2007	£28,203,490

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

In considering its investment portfolio, diversification was an important issue to address. Rather than relying on a single investment decision, making a larger number of smaller decisions reduces risk. Any investment in equities is spread across many stocks, across a wide range of industries and across a number of countries. If any particular company, industry or country has a period of poor returns, this should have a limited impact on the portfolio.

The Scheme's investments are therefore well diversified, as a way of controlling risk. Although the benchmark is heavily weighted towards equities (as the asset class expected to provide the highest return over the medium to long term), there is a significant exposure to property (a "real" asset with a different performance cycle to equities) and to bonds (which are lower risk to the Scheme's liabilities).

Within equities, diversification is achieved by investing in different markets across the world and through exposure to many different stocks and sectors.

During the year to 31 March 2007, there were no significant changes to the Scheme's investment strategy but, there were changes to the investment arrangements. The Scheme historically employed Merrill Lynch Investment Managers (MLIM). However during the year MLIM merged with BlackRock; the merged entity is named BlackRock. As a result of the change in corporate structure and following a detailed review by the Committee, in conjunction with the Investment Consultant, the management of the Scheme's assets was transferred to a former Merrill Lynch team within BlackRock. Following this change a range of new approaches to the investment arrangements are being considered.

INVESTMENTS - continued

INVESTMENT REPORT (continued)

Equity markets performed well during the year to end March 2007, supported by strong corporate profits and a generally sound economic background. Merger and acquisition activity provided further support driven, in the main, by private equity deals. Markets were affected by a number of conflicting forces. Global economic growth remained resilient, supported by US consumption and continuing rapid industrialisation in China. Supply shortages, strong demand and geopolitical factors fuelled higher energy and commodity prices for most parts of the year, which in turn led to cost pressures and inflationary concerns. Global interest rates continued to rise as economic growth persisted, despite concerns regarding the unbalanced nature of the US economy. Asia relied on China and India to fuel growth in the region. There were two periods of sharp downturns, the first in May 2006, and another in the early months of 2007. The downturns reflected the many uncertainties, not just financial or economic, faced by investors. Conflict in the Middle East was one example of a political issue that unsettled investors during the year.

In the UK, the FTSE All-Share index returned 11.2% during the period. Small and mid cap stocks outperformed their largest counterparts by a significant margin, continuing a trend now extended to more than five years. The best performing sectors, relative to the All-Share index, were Utilities (+21.3%) and Consumer Services (+12.2%); the worst were Oil & Gas (-16.8%) and Healthcare (-11.2%). A notable feature during the year was the significant underperformance of the four largest stocks which, in total, account for over 20% of the index by market size.

European (ex UK) equities returned 16.0% and North American equities returned 12.0%, in local currencies; Japanese equities advanced by a more modest 1.9% despite improving economic conditions. UK investors were adversely affected by currency movements, and by Sterling appreciation against the US \$ and Japanese Yen in particular. When translated into Sterling, North American gains turned negative, to -0.9%, and those of Japan to -9.9%. The best performing global sectors, relative to the FTSE All World Index, were Utilities (+16.8%) and Telecoms (+13.4%); the worst were Technology (-10.3%) and Healthcare (-6.8%).

The economic background was generally positive with growth in the UK and Europe holding up well by international standards. The IMF has praised the overall state of the UK economy but criticised the lack of restraint in government spending. In contrast, there was a distinct deceleration in the US, with the housing market the main area of concern. Whilst growth in Japan was strong by recent standards, deflation has not been resolutely defeated and domestic demand remains weak.

During the year short-term interest rates were increased in the UK, US and Euro-zone, with inflationary pressures were cited as the underlying reason. Subsequent economic data indicate that further increases are possible. As 2006 drew to a close, US consumer confidence remained resilient and fears of a potential global economic slowdown abated. UK investor focus reverted to exceptionally high domestic inflation data and continued high levels of bond issuance; such that bond markets sold off sharply into the end of the period.

INVESTMENTS - continued

INVESTMENT REPORT (continued)

The portfolio increased a value from £24,852,350 to £28,273,198 over the year as a result of positive investment returns as well as positive net investment. During the period to 31 March 2007 BlackRock achieved a return of 7.6% on the portfolio of invested assets. Performance was ahead of the benchmark which increased by 6.6%.

The chart below illustrates the returns within each asset class delivered by BlackRock over the year.

	Fund	12 Months (Annualised)	Relative
	% p.a.	Benchmark	% p.a.
		% p.a.	(Geometric)
UK Equities	13.3	11.2	2.0
Overseas Equities	3.1	4.0	-0.9
North America	1.5	-0.9	2.4
Europe ex UK	10.2	12.0	-1.6
Japan	-9.9	-9.9	0.0
Pacific Basin ex Japan	15.4	11.8	3.2
Property	16.1	17.4	-1.1
UK Gilts	-0.3	-1.1	0.8
Corporate Bonds	-2.1	-1.1	-1.0
UK Index-Linked	3.0	2.6	0.3
Cash	6.9	4.8	2.0
Total Fund	7.6	6.6	1.0

BlackRock's outperformance of 1.0% benefited the Scheme over the year. This was primarily driven by positive stock selection in UK equity markets together with a positive contribution from asset allocation positions during the year, in particular the overweight position in equity and underweight position in bonds.

INVESTMENTS - continued

CUSTODIAL ARRANGEMENTS

The Administering Authority has appointed RBSI Custody Bank Limited, Isle of Man Branch, (part of the RBS Group and not an Associate of BlackRock) 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 Administering Authority 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 Administering Authority's or the Scheme's name. The Administering Authority has authorised BlackRock to give the custodian instructions regarding such accounts on the Scheme's behalf.
- In BlackRock (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 BlackRock.

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

BlackRock'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. The fees are calculated on the basis of all portfolio assets (other than excluded funds). Any charges already paid within in-house funds and connected investment trust are then deducted from this amount.

BlackRock's fees in respect of managing the portfolio are at the following rates between 1 April 2006 to 31 March 2007:

Market Value	Rate per annum
On the first £5,000,000	0.75%
Thereafter	0.51%

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 3.70% 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.

ACTUARIAL STATEMENT

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).

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:-

Financial Assumptions	Nominal at March 2004 % p.a	Real at 31 March 2004 % p.a
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

Independent Auditors' Report to the Mayor, Alderman and Burgesses of the Borough of Douglas as the Administering Authority of the Isle of Man Local Government Pension Scheme

We have audited the financial statements for the year ended 31 March 2007 which are set out pages 20 to 28. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the administering authority, as a body, in accordance with the Superannuation Act 1984. Our audit work 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, for this report, or for the opinions we have formed.

Respective responsibilities of the administering authority and the auditors

As described in the Statement of Administering Authority Responsibilities, the administering authority are responsible for preparing financial statements which comply with applicable Isle of Man law and for making available certain information about the Scheme in the form of an Annual Report. Our responsibilities, as independent auditors, are established in the Isle of Man by statute, the Auditing Practices Board and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements show a true and fair view and contain the information specified in the Superannuation Act 1984. We report to you if we have not received all the information and explanations that we require for our audit.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises the Report by the Mayor, Alderman and Burgesses, the Investment Report, the Actuarial Statement, Foreword to the Financial Statements and Scheme Rules and Benefits. Our responsibilities do not extend to any other information.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes an 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.

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 show a true and fair view of the financial transactions of the Scheme for the year ended 31 March 2007, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year;
- the financial statements contain the information specified in the Superannuation Act 1984; and
- the contributions payable to the Scheme during the year ended 31 March 2007 have been paid in accordance with the Scheme rules and the recommendations of the actuary.

MOORE STEPHENS
Chartered Accountants
Douglas, Isle of Man

12 November 2007

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 £116,191 (2005/2006 increased by £118,339). Contributions have increased by £259,847 (2005/2006 increased by £147,938). This has resulted in an overall increase in income in respect of Scheme members of £143,656 (2005/2006 increased by £266,277). Retirement benefits and other payments made to or in respect of Scheme members during the year have decreased by £100,236 (2005/2006 increased by £120,495).

In overall terms the net additions from dealings with Scheme members during the year amount to £1,563,437 (2005/2006: £1,319,545).

The net assets of the Scheme at 31 March 2007 have increased by £3.3 million to £28.44 million (2005/2006: increased by £6.6 million to £25.15 million).

Financial Statements for the year ended 31 March 2007

	Notes	2006/2007 £	2005/2006 As restated £
FUND ACCOUNT			
Contributions and Benefits			
Contributions receivable	3	2,617,506	2,357,659
Transfers in	4	139,625	255,816
		<u>2,757,131</u>	<u>2,613,475</u>
Benefits payable	5	(984,813)	(1,035,620)
Payments to and on account of leavers	6	(48,010)	(104,942)
Administrative expenses	7	(160,871)	(153,368)
		<u>(1,193,694)</u>	<u>(1,293,930)</u>
Net additions from dealings with members		<u>1,563,437</u>	<u>1,319,545</u>
Returns on investments			
Investment income	8	601,507	524,299
Change in market value of investments	9	1,241,799	4,858,850
Investment management expenditure		(115,041)	(104,606)
Net return on investments		<u>1,728,265</u>	<u>5,278,543</u>
Net increase in the Scheme during the year		<u>3,291,702</u>	<u>6,598,088</u>
Net assets of the Scheme			
At year beginning		<u>25,145,316</u>	<u>18,551,480</u>
Prior year adjustment	10	<u>-</u>	<u>(4,252)</u>
At year end		<u><u>28,437,018</u></u>	<u><u>25,145,316</u></u>

The notes on pages 22 to 28 form part of these Financial Statements.

Financial Statements for the year ended 31 March 2007 - continued

	Notes	As at 31 March 2007 £	As at 31 March As restated 2006 £
NET ASSETS STATEMENT			
Investments	9, 10	28,203,490	24,852,350
Current assets and liabilities	11	<u>233,528</u>	<u>292,966</u>
Net assets of the Scheme at 31 March 2007		<u>28,437,018</u>	<u>25,143,516</u>

The notes on pages 22 to 28 form part of these Financial Statements.

D W CHRISTIAN JP
Chairman
Policy and Resources Committee
Borough of Douglas

18th October 2007

G M BOLT, CPFA
Borough Treasurer
Borough of Douglas

18th October 2007

2007

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.

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 16 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

Investments are held at market value. 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

	2006/2007	2005/2006
	£	£
Employers		
normal	2,021,746	1,837,752
special – Ramsey Town Commissioners	-	11,191
backdated contributions	48,827	-
Members		
normal	531,900	495,113
Scheme additional	15,033	13,603
	<u><u>2,617,506</u></u>	<u><u>2,357,659</u></u>

Notes to the Financial Statements - continued

3. Contributions Receivable (continued)

Contributions breakdown

	2006/2007			2005/2006	
	Employees Normal £	Employers Normal £	Employees Scheme Additional £	Total £	Total £
Borough of Douglas	299,450	1,139,747	12,244	1,451,441	1,319,487
Braddan Church, Vicar & Wardens	1,591	7,340	-	8,931	8,274
Braddan Parish Commissioners	10,046	35,160	-	45,206	40,909
Bride Commissioners	194	714	-	908	886
Castletown Commissioners	17,206	65,702	-	82,908	83,253
Crossroads Caring for Carers	275	829	-	1,104	6,807
Michael Commissioners	106	389	-	495	458
Kirk Onchan St Peters Church	914	3,354	-	4,268	3,998
Leonard Cheshire Foundation	774	2,132	-	2,906	2,356
Malew Parish Commissioners	6,776	26,043	-	32,819	32,733
Manx Churches Adoption & Welfare	10,361	37,991	-	48,352	42,052
Manx Foundation for Physically Disabled	1,957	7,176	-	9,133	8,685
Marashen Crescent Housing Committee	4,106	15,921	-	20,027	18,910
Northern Authority Swimming Pool Board	5,487	20,358	-	25,845	25,761
Onchan District Commissioners	61,823	235,419	-	297,242	251,973
Peel Town Commissioners	21,927	84,463	-	106,390	101,123
Port Erin Commissioners	15,549	59,249	-	74,798	68,763
Port St Mary Commissioners	9,871	36,194	-	46,065	47,065
Ramsey & Northern District Housing Committee	4,603	20,065	-	24,668	22,085
Ramsey Town Commissioners	47,690	180,988	2,789	231,467	208,433
Southern Authority Swimming Pool Board	7,623	29,417	-	37,040	37,037
Southern Civic Amenity Site Board	3,571	13,095	-	16,666	15,420
	531,900	2,021,746	15,033	2,568,679	2,346,468
Ramsey Town Commissioners Backdated contributions – Braddan Parish Commissioners				- 48,827	11,191 -
				2,617,506	2,357,659

Notes to the Financial Statements - continued

4. Transfers In

	2006/2007 £	2005/2006 £
Individual transfers in from other Pension Schemes and Private Sector Institutions	139,625	255,816

5. Benefits Payable

	2006/2007 £	2005/2006 £
Retirement and dependants' pensions	806,889	801,560
Lump sum retirement grants	133,953	227,864
Lump sum death grants	43,971	6,196
	984,813	1,035,620

The value of pensions is arrived at after netting off employers recharge of £36,541 (2005/2006: £43,750).

6. Payments To and On Account of Leavers

	2006/2007 £	2005/2006 £
Refunds of contributions	13,475	5,078
Payments to State Second Pension	7,525	9,904
Individual transfers to other schemes	27,010	89,960
	48,010	104,942

7. Administrative Expenses

	2006/2007 £	2005/2006 £
Administering Authority	49,116	37,527
Fund Administrator	56,945	58,456
Actuarial	7,390	13,815
Investment Advice	44,300	40,950
Legal & Professional	1,320	2,528
Bank charges	-	92
Audit Fees	1,800	-
	160,871	153,368

Notes to the Financial Statements - continued

8. Investment Income

	2006/2007 £	2005/2006 £
Income from fixed interest securities	131,451	106,368
Dividends from equities	297,095	212,542
Income from pooled investment vehicles	135,023	150,260
Interest on cash deposits	21,263	20,339
Income from index-linked securities	16,675	34,790
	<u>601,507</u>	<u>524,299</u>

9. Investments

	Value at 1.04.06 £	Purchases at Cost £	Sales Proceeds £	Change in Market Value £	Value at 31.3.07 £
Fixed interest securities	2,477,584	3,251,175	(1,715,336)	(4,252)	4,009,171
Equities	7,706,140	9,627,518	(7,163,178)	(166,223)	10,004,257
Index-linked securities	1,510,970	884,138	(1,076,764)	8,369	1,326,713
Pooled investment vehicles	10,523,769	1,820,801	(1,303,289)	1,660,124	12,701,405
Cash instruments	2,310,000	256,219	(2,310,000)	(256,219)	-
	<u>24,528,463</u>	<u>15,839,851</u>	<u>(13,568,567)</u>	<u>1,241,799</u>	<u>28,041,546</u>
Other	110,009				57,202
Cash Deposits	213,878				104,742
	<u>24,852,350</u>				<u>28,203,490</u>

Notes to the Financial Statements - continued

9. Investments (continued)

Investments with Fund Manager	As at 31 March 2007 £	As at 31 March 2006 £
Fixed interest securities		
UK public sector quoted	1,460,552	805,110
Overseas public sector quoted	644,111	-
UK quoted	1,904,508	1,672,474
	<u>4,009,171</u>	<u>2,477,584</u>
Equities		
UK quoted	9,606,374	7,706,140
Alternative Investment Market	397,883	-
	<u>10,004,257</u>	<u>7,706,140</u>
Index-linked securities		
UK quoted	<u>1,326,713</u>	<u>1,510,970</u>
Pooled investment vehicles		
Unit trusts - property	3,304,762	2,748,681
- UK other	499,446	347,238
- overseas other	8,897,197	7,427,850
	<u>12,701,405</u>	<u>10,523,769</u>
Cash Instruments		
Sterling	-	2,310,000
Cash deposits		
Sterling	<u>104,742</u>	<u>213,878</u>
Other		
Accrued investment income	<u>57,202</u>	<u>110,009</u>
Total	<u>28,203,490</u>	<u>24,852,350</u>

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

	2007	%	2006	%
BlackRock Property Fund	1,647,410	5.8	2,115,331	8.4
BlackRock Cash Instrument	-	-	2,310,000	9.2

Notes to the Financial Statements - continued

10. AVC Investments

The Administering Authority 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. From 31 March 2007 it was declared that these amounts should no longer be included within the financial statements, in accordance with regulation 5(2)(b) of the Pension Scheme (Management and Investment of Funds) Regulations 1998 (SI 1998 No. 1831). The AVC investments have been removed from the net assets in last year's figures which has reduced the brought forward investments by £4,319.

	As at 31 March 2007	As at 31 March 2006
	£	£
Norwich Union	2,633	4,319
	<u> </u>	<u> </u>

11. Current Assets and Liabilities

	2007	2006
	£	£
Debtors		
Contributions due employers	159,400	52,027
- employees	43,324	14,248
Other	53,313	3,037
Cash	81,029	284,181
	<u>337,066</u>	<u>353,493</u>
Creditors and accruals	(103,538)	(60,527)
	<u>233,528</u>	<u>292,966</u>
	<u> </u>	<u> </u>

Amounts due from employers' and employees' contributions are outstanding in the normal course of collection at the year end. Other debtors refer to £4,486 in respect of underpaid employer contributions during the financial year and £48,827 in respect of settlement of an item which was unresolved and still outstanding as at the balance sheet date.

12. Related Party Transactions

Douglas Borough Council administrative expenses for the Isle of Man Local Government Pension Scheme, paid during the year amounted to £49,116 (2005/2006: £37,527). These costs are made up of direct and indirect overheads.

13. Contingent Asset

There is a possible material contingent Asset which could arise from outstanding legal proceedings. The administering Authority consider it is unlikely that this asset will arise in the future.

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 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

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:

Mr R A Barfoot, M.A.A.T.
Senior Technical Officer
Treasurer's Department
Borough of Douglas
P O Box 2, Town Hall
Ridgeway Street
Douglas
ISLE OF MAN
IM99 1AD

Tel: 01624 696365
Fax: 01624 696400

2006