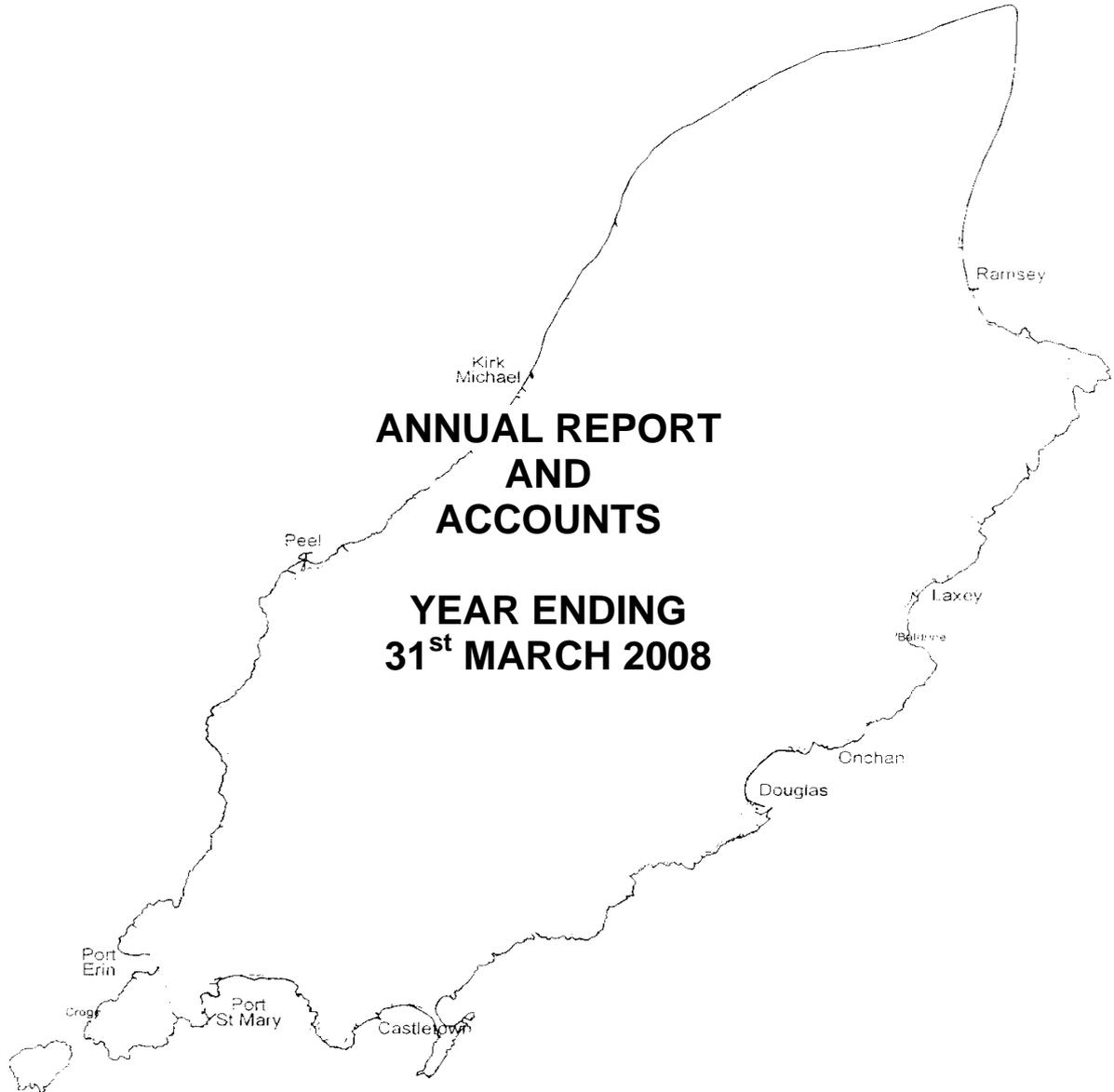


ISLE OF MAN LOCAL GOVERNMENT PENSION SCHEME



ADMINISTERED BY:



**BOROUGH OF
DOUGLAS**

CAPITA HARTSHEAD



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 May 2006), ("the pensions 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 2008

Administering Authority
Douglas Borough Council

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

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

Custodian of Securities
BNP Paribas**
PO Box 57
Merchant's House
24 North Quay
Douglas
Isle of Man. IM99 2P6

AVC Provider
Norwich Union
Rose Lane Business Centre
Norwich. NR1 1BB

* with effect from 14 April 2008, Miss K J Rice, BA (Hons) Solicitor took over from Mr D R King, LL.B F.I. Mgt as Town Clerk and Chief Executive

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

REPORT BY DOUGLAS BOROUGH COUNCIL

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 Borough of Douglas as Administering Authority is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Responsible Financial Officer (i.e. the Borough Treasurer);
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- approve the Annual Report and Financial Statements of the Isle of Man Local Government Pension Scheme.

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.

The Responsible Financial Officer’s Responsibilities

Under the Accounts and Audit Regulations 2007 made under the Audit Act 2006, the Responsible Financial Officer is responsible for the preparation of the financial statements of the Isle of Man Local Government Pension Scheme in accordance with proper practices as set out in the Isle of Man Statement of Recommended Practice 2007 on accounting for entities subject to the Audit Act 2006 (“the SORP”).

In preparing these financial statements, the Responsible Financial Officer has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the SORP.

REPORT BY DOUGLAS BOROUGH COUNCIL– continued

MANAGEMENT (continued)

The Responsible Financial Officer has also:

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

General

Responsibility for managing the Scheme's investments has been delegated to BlackRock (Isle of Man) Limited.

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 2007 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 DOUGLAS BOROUGH COUNCIL– 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. They are 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 Documents as required.

REPORT BY DOUGLAS BOROUGH COUNCIL– continued

MEMBERSHIP AND BENEFICIARIES

	2008	2007
	No.	No.
Active Membership		
At 1 April 2007	411	408
Late adjustments (new starters)	6	6
<i>Add:</i>		
Entrants - new starters	39	33
	<u>456</u>	<u>447</u>
Exits		
- options pending	(2)	-
- new retirement pensions	(7)	(9)
- deaths in service	(1)	(2)
- preserved benefits	(15)	(13)
- refunds of contributions/transfers	(8)	(11)
- Leavers from previous reporting period	-	(1)
	<u>(33)</u>	<u>(36)</u>
At 31 March 2008	<u>423</u>	<u>411</u>

REPORT BY DOUGLAS BOROUGH COUNCIL – continued

MEMBERSHIP AND BENEFICIARIES - continued

Membership as at 31 March 2008

	Active	Deferred	Pensioners	2008 Total	2007 Total
Local Authorities					
Douglas Borough Council	230	85	111	426	412
Castletown Town Commissioners	14	4	8	26	23
Onchan District Commissioners	47	17	22	86	84
Peel Town Commissioners	16	5	7	28	29
Port Erin Village Commissioners	17	6	3	26	25
Port St Mary Village Commissioners	7	10	5	22	21
Ramsey Town Commissioners	39	14	15	68	64
Resolution Bodies					
(a) Parish Districts					
Braddan Parish Commissioners	6	0	0	6	5
Bride Parish Commissioners	1	0	0	1	1
Michael District Commissioners	1	0	0	1	1
Malew Parish Commissioners	4	4	2	10	9
(b) Joint Boards					
Marashen Crescent Housing Committee	4	1	1	6	6
Northern Local Authorities Swimming Pool Board	6	1	1	8	9
Peel & Western District Housing Committee	0	0	1	1	1
Ramsey & Northern District Housing Committee	8	0	2	10	10
Southern Civic Amenity Site Board	3	1	1	5	5
Southern Local Authorities Swimming Pool Board	10	4	4	18	16
Admitted Bodies					
Crossroads Caring for Carers	0	3	1	4	4
Leonard Cheshire Foundation	1	1	2	4	4
Manx Blind Welfare	0	1	0	1	1
Manx Foundation for Physically Disabled	1	1	0	2	2
Manx Churches Adoption & Welfare Society	4	2	3	9	9
Vicars and Wardens of Kirk Braddan	3	1	0	4	3
The Vicars and Wardens of St Peters Church Onchan	1	0	0	1	1
Department of Tourism & Leisure – Villa Marina	0	1	1	2	2
	423	162	190	775	747
	423	162	190	775	747

REPORT BY DOUGLAS BOROUGH COUNCIL– continued

MEMBERSHIP AND BENEFICIARIES - continued

Membership as at 31 March 2008 (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 Village 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 2007 which showed that it continued to be in deficit. The next valuation is due to be carried out as at 31 March 2010.

The Actuarial Statement from the 2007 valuation is reproduced on page 15 of the Annual Report.

REPORT BY DOUGLAS BOROUGH COUNCIL – 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.

CERTIFICATE BY THE RESPONSIBLE FINANCIAL OFFICER

Under the Accounts and Audit Regulations 2007 these accounts are to be prepared by the 31 July and must be approved by the Responsible Financial Officer prior to approval by Douglas Borough Council (as delegated to the Policy and Resources Committee).

I certify that the financial statements present fairly the income and expenditure and net Scheme Assets position of the Isle of Man Local Government Pension Scheme for the year ended 31 March 2008.

G M BOLT, CPFA

Borough Treasurer as Responsible Financial Officer
Douglas Borough Council as Administering Authority

27 June 2008

The Annual Report and Accounts were approved by the Policy and Resources Committee on 27 June 2008 and passed to Moore Stephens for audit. They were again submitted to and approved by this Committee on 25 July 2008, taking into account a number of changes that had been made as a result of the audit process.

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 consistent with the risk that is appropriate. It seeks to reduce risk by diversifying its investments over a mix of asset classes spread over UK and overseas markets. The benchmark is heavily weighted towards equities (the asset class expected to provide the highest return over the medium to long term). Within equities, diversification is achieved by investing in global markets with exposure to many different sectors and stocks. There is also significant exposure to property (a “real” asset with a different performance cycle to equities) and to bonds (which are lower risk relative to the Scheme’s liabilities).

The Administering Authority employs BlackRock as its sole investment manager.

During the year to 31 March 2008, there were a number of minor changes to the investment arrangements. The Scheme’s asset allocation was revised to reflect a more global approach within the equities. The corporate bond exposure was reduced in favour of government bonds during the year. The BlackRock institutional team introduced new approaches to managing the portfolio following a detailed review by the Committee, in conjunction with the Administering Authority’s Investment Consultant.

INVESTMENT PERFORMANCE

The portfolio increased in value by £587,884 over the year (with net inflows of £1,762,384). This equates to a fall of 3.3% over the period which was behind the benchmark which fell by 2.1%.

BlackRock Portfolio	-3.3%
Benchmark	-2.1%
Bid price value of BlackRock Portfolio as at 31 March 2007	£28,220,426
Bid price value of BlackRock Portfolio as at 31 March 2008	£28,808,310

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 Fund’s return is due to the preferences of the Fund manager for particular markets or for individual stocks.

The table on the next page illustrates the returns within each asset class delivered by BlackRock over the year.

INVESTMENTS - continued

INVESTMENT PERFORMANCE (continued)

	12 Months (Annualised)		
	Fund % p.a	Benchmark % p.a	Relative % p.a
UK Equities	-0.8	-7.7	7.5
Overseas Equities	-7.6	-1.5	-6.2
North America	-14.3	-4.8	-10.0
Europe ex UK	-14.3	2.8	-16.6
Japan	-25.5	-15.4	-11.9
Pacific Basin ex Japan	11.9	9.0	2.7
Emerging Markets	N/A	N/A	N/A
Property	-25.8	-11.1	-16.6
UK Gilts	5.6	5.1	0.5
Corporate Bonds	N/A	5.1	N/A
Overseas Fixed Interest	18.1	N/A	N/A
UK Index-Linked	15.3	13.5	1.6
Cash	5.4	5.5	-0.1
Total Fund	-3.2	-2.0	-1.2

Positive stock selection in UK equity markets was more than offset by poor relative returns in property and overseas equity markets. BlackRock's asset allocation, their overweight position in equities and underweight position in bonds, was detrimental as equity markets underperformed bonds over the 12 month period.

FUND MANAGER'S REPORT

UK Equities

UK equities began the period in strong fashion with the FTSE All Share Index gaining over 4% in the second quarter of 2007. However, as the credit crisis engulfed markets and dampened expectations of continuing strength in the global economy, the UK equity market has experienced three consecutive quarters of negative return. Financial stocks have performed particularly badly during the period and this has weighed on UK equity market performance. Other stocks such as energy and commodities related stocks have been supported by demand from the developing world and supply issues, and the Fund's exposure to these stocks has supported performance.

Overseas Equities

Performance in overseas equities has been mixed. The broad global market has posted a negative return during the period but there has been a great deal of variation within regions. In summary, the performance of global equities can be explained by the outperformance of the developing markets of Asia and Latin America compared to the relatively weak performance from the developed markets of the US, Europe and Japan. However the Sterling weakened significantly against the Euro over the year and this was beneficial to the Fund as a sterling investor.

INVESTMENTS - continued

Overseas Equities (continued)

The Investment manager retained a preference for Pacific Basin and Emerging Markets throughout the period and this has been beneficial for overall performance.

Bonds

Global bond markets have performed strongly, particularly in the second half of 2007 as investor demand for safe haven assets increased and the Federal Reserve began cutting interest rates. Exposure to government bonds has, therefore, been a positive contributor to performance. Corporate bonds, and other credit related investments have suffered as liquidity and economic uncertainty has gripped markets. The Fund Manager's view towards credit markets has been cautious throughout the period, reflected in a negative view at the end of the period.

Property

Property exposure has had a testing period. After strong gains in previous years, the second half of 2007 and the first quarter of 2008 has not been kind to investors in UK commercial property. The global credit crunch continues to have a significant impact on global real estate markets, increasing the cost and restricting the availability of leverage and weighing heavily on investor sentiment. At the end of the period, the portfolio is underweight in property relative to benchmark.

Market Commentary

Financial markets have been under considerable strain since the summer of 2007. Heightened investor concerns about the credit crunch and the subprime mortgage crisis has triggered volatility in stock markets around the globe. In the first quarter of 2008, continued negative news flow from the financial sector and fears of a US recession have continued to be of great concern to investors and has prompted rate cuts from central banks.

Inflation during the year

The inflation environment in the UK has continued to be of great concern to the Bank of England during the period.

During the summer of 2007 inflation, in the UK, did fall back significantly as household gas and electricity bills started to decline but the unpredictability of energy prices has meant that inflation has not experienced an extended period of decline throughout the 12 month period and inflation measures have behaved in a volatile manner.

INVESTMENTS - continued

CUSTODIAL ARRANGEMENTS

The Administering Authority has appointed BNP Paribas as its custodian (previously RBSI Custody Bank Limited until 29 June 2007).

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.

Any non-UK securities of the Fund will be held by the custodian, or to the order of the custodian, by sub-custodians chosen by it.

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 (other than excluded funds) are then deducted from this amount.

BlackRock's fees in respect of managing the portfolio are at the following rates between 1 April 2007 to 31 March 2008:

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.

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 2007.

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 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 2008, paid by the employers are as specified in our certificate dated March 2008 contained in our report on the valuation of the Fund as at 31 March 2007.

Summary of Methods and Assumptions Used

The valuation method and assumptions are described fully in our valuation report dated March 2008.

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	March 2008 % p.a	Real % p.a
Investment Return/Discount Rate	6.1%	2.9%
Pay Increases	4.7%	1.5%
Price Inflation/Pension Increases	3.2%	-

Assets of £28.4m, were valued at their market value. The valuation showed that the assets of the Fund as at 31 March 2007 fell short of the value of accrued liabilities by £7m, leaving 80% of accrued liabilities funded. Employers contributions have been approved to attempt to address the deficit over 14 years.

The next actuarial valuation is due with an effective date of 31 March 2010.

Peter Summers FFA

For and on behalf of Hymans Robertson LLP

5 June 2008

Independent Auditors' Report to Douglas Borough Council 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 2008 which are set out pages 19 to 27. 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 Section 6 of the Audit Act 2006. 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 in accordance with the Audit Act 2006 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 Douglas Borough Council, 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 2008, 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 2008 have been paid in accordance with the Scheme rules and the recommendations of the actuary.

MOORE STEPHENS
Chartered Accountants
Douglas, Isle of Man

30 October 2008

FOREWORD TO THE FINANCIAL STATEMENTS

The net income from all transfer values received has increased by £407,694 (2006/2007 decreased by £116,191). Contributions have increased by £140,181 (2006/2007 increased by £259,847). This has resulted in an overall increase in income in respect of Scheme members of £547,875 (2006/2007 increased by £143,656). Retirement benefits and other payments made to or in respect of Scheme members during the year have increased by £56,797 (2006/2007 decreased by £100,236).

In overall terms the net additions from dealings with Scheme members during the year amount to £1,904,896 (2006/2007: £1,563,437).

The financial statements have been prepared on a market value basis. The net assets of the Scheme at 31 March 2008 have increased by £0.81 million to £29.24 million (2006/2007: increased by £3.3 million to £28.44 million).

Financial Statements for the year ended 31 March 2008

		2007/2008	2006/2007
	Notes	£	£
FUND ACCOUNT			
Contributions and Benefits			
Contributions receivable	3	2,757,687	2,617,506
Transfers in	4	547,319	139,625
		<u>3,305,006</u>	<u>2,757,131</u>
Benefits payable	5	(1,041,610)	(984,813)
Payments to and on account of leavers	6	(129,187)	(48,010)
Administrative expenses	7	(229,313)	(160,871)
		<u>(1,400,110)</u>	<u>(1,193,694)</u>
Net additions from dealings with members		<u>1,904,896</u>	<u>1,563,437</u>
Returns on investments			
Investment income	8	889,706	601,507
Change in market value of investments	9	(1,844,102)	1,241,799
Investment management expenditure		(142,751)	(115,041)
Net return on investments		<u>(1,097,147)</u>	<u>1,728,265</u>
Net increase in the Scheme during the year		807,749	3,291,702
Net assets of the Scheme			
At year beginning		28,437,018	25,145,316
At year end		<u>29,244,767</u>	<u>28,437,018</u>

The notes on pages 21 to 27 form part of these Financial Statements.

Financial Statements for the year ended 31 March 2008 - continued

		As at 31 March	As at 31 March
	Notes	2008 £	2007 £
NET ASSETS STATEMENT			
Investments	9, 10	28,808,310	28,203,490
Current Assets	11	560,697	337,066
Current Liabilities	12	(124,240)	(103,538)
Net assets of the Scheme at 31 March 2008		<u><u>29,244,767</u></u>	<u><u>28,437,018</u></u>

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 15 and these financial statements should be read in conjunction with that Statement.

The notes on pages 21 to 27 form part of these Financial Statements.

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

24th October 2008

G M BOLT, CPFA
Borough Treasurer
Douglas Borough Council

24th October 2008

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 May 2006), ("the pensions SORP") as far as is practicable. These accounts have also been prepared in accordance with the Audit Act 2006.

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 bid price. Other quoted investments are valued on the basis of the bid value quoted on the relevant stock market. Pooled investment vehicles are valued at the bid 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

	2007/2008	2006/2007
	£	£
Employers		
normal	2,164,612	2,021,746
backdated contributions	25,768	48,827
Members		
normal	551,771	531,900
Scheme additional	15,536	15,033
	<u>2,757,687</u>	<u>2,617,506</u>

Notes to the Financial Statements - continued

3. Contributions Receivable (continued)

Contributions breakdown

	2007/2008			2006/2007	
	Employees Normal £	Employers Normal £	Employees Scheme Additional £	Total £	Total £
Douglas Borough Council	316,178	1,223,621	12,125	1,551,924	1,451,441
Braddan Parish Commissioners	11,876	44,537	-	56,413	45,206
Bride Commissioners	207	775	-	982	908
Castletown Town Commissioners	17,269	67,367	-	84,636	82,908
Crossroads Caring for Carers	-	-	-	-	1,104
Michael District Commissioners	119	492	-	611	495
Kirk Onchan St Peters Church	952	3,570	-	4,522	4,268
Leonard Cheshire Foundation	714	2,925	-	3,639	2,906
Malew Parish Commissioners	6,410	24,866	-	31,276	32,819
Manx Churches Adoption & Welfare	11,944	44,789	-	56,733	48,352
Manx Foundation for Physically Disabled	2,009	7,536	-	9,545	9,133
Marashen Crescent Housing Committee	4,245	16,592	-	20,837	20,027
Northern Authority Swimming Pool Board	5,091	19,342	-	24,433	25,845
Onchan District Commissioners	58,016	249,209	-	307,225	297,242
Peel Town Commissioners	21,396	84,967	-	106,363	106,390
Port Erin Village Commissioners	17,714	68,475	-	86,189	74,798
Port St Mary Village Commissioners	10,361	38,853	-	49,214	46,065
Ramsey & Northern District Housing Committee	5,265	23,104	-	28,369	24,668
Ramsey Town Commissioners	49,419	191,215	3,411	244,045	231,467
Southern Authority Swimming Pool Board	6,885	30,242	-	37,127	37,040
Southern Civic Amenity Site Board	3,763	14,135	-	17,898	16,666
Vicar and Wardens of Kirk Braddan	1,938	8,000	-	9,938	8,931
	551,771	2,164,612	15,536	2,731,919	2,568,679
Backdated contributions – Braddan Parish Commissioners				25,768	48,827
				2,757,687	2,617,506

Notes to the Financial Statements - continued

4. Transfers In

	2007/2008 £	2006/2007 £
Individual transfers in from other Pension Schemes and Private Sector Institutions	547,319	139,625

5. Benefits Payable

	2007/2008 £	2006/2007 £
Retirement and dependants' pensions	835,700	806,889
Lump sum retirement grants	163,514	133,953
Lump sum death grants	42,396	43,971
	1,041,610	984,813

The value of pensions is arrived at after netting off employers recharge of £33,968 (2006/2007: £36,541).

6. Payments To and On Account of Leavers

	2007/2008 £	2006/2007 £
Refunds of contributions	7,744	13,475
Payments to State Second Pension	1,057	7,525
Individual transfers to other schemes	120,386	27,010
	129,187	48,010

7. Administrative Expenses

	2007/2008 £	2006/2007 £
Administering Authority	52,235	49,116
Fund Administrator	58,636	56,945
Actuarial	31,950	7,390
Investment Advice	84,453	44,300
Legal & Professional	-	1,320
Audit Fees	1,663	1,800
Other Fees	376	-
	229,313	160,871

Notes to the Financial Statements - continued

8. Investment Income

	2007/2008 £	2006/2007 £
Income from fixed interest securities	155,919	131,451
Dividends from equities	467,492	297,095
Income from pooled investment vehicles	178,762	135,023
Interest on cash deposits	65,365	21,263
Income from index-linked securities	22,168	16,675
	<u>889,706</u>	<u>601,507</u>

9. Investments

Investments previously valued at mid prices are now valued at bid prices for assets where there is a bid/offer spread. This is a change in accounting policy but the difference in valuation is immaterial to the financial statement and therefore comparatives have not been restated.

As a result the comparative figures for investments are reported on a mid price and the adjustment in valuation from mid to bid is included in current year change in market value. Had bid price been used, the overall fund valuation at 31 March 2007 would have been £28,220,426.

	Value at 1.04.07 £	Purchases at Cost £	Sales Proceeds £	Change in Market Value £	Value at 31.3.08 £
Fixed interest securities	4,009,171	12,518,201	(12,017,440)	483,791	4,993,723
Equities	10,004,257	6,880,651	(7,274,580)	(173,619)	9,436,709
Index-linked securities	1,326,713	1,290,940	(438,156)	(234,780)	1,944,717
Pooled investment vehicles	12,701,405	303,110	(199,138)	(2,571,181)	10,234,196
Cash instruments	-	-	-	651,687	651,687
	<u>28,041,546</u>	<u>20,992,902</u>	<u>(19,929,314)</u>	<u>(1,844,102)</u>	<u>27,261,032</u>
Other	57,202				99,078
Cash Deposits	104,742				1,448,200
	<u>28,203,490</u>				<u>28,808,310</u>

Notes to the Financial Statements - continued

9. Investments (continued)

Investments with Fund Manager	As at 31 March 2008 £	As at 31 March 2007 £
Fixed interest securities		
UK public sector quoted	4,130,674	1,460,552
Overseas public sector quoted	-	644,111
UK quoted	863,049	1,904,508
	<u>4,993,723</u>	<u>4,009,171</u>
Equities		
UK quoted	9,436,709	9,606,374
Alternative Investment Market	-	397,883
	<u>9,436,709</u>	<u>10,004,257</u>
Index-linked securities		
UK quoted	<u>1,944,717</u>	<u>1,326,713</u>
Pooled investment vehicles		
Unit trusts - property	2,300,857	3,304,762
- UK other	357,074	499,446
- overseas other	7,576,265	8,897,197
	<u>10,234,196</u>	<u>12,701,405</u>
Cash Instruments		
Sterling	<u>651,687</u>	-
Cash deposits		
Sterling	<u>1,448,200</u>	<u>104,742</u>
Other		
Accrued investment income	<u>99,078</u>	<u>57,202</u>
Total	<u>28,808,310</u>	<u>28,203,490</u>

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

	2008	%	2007	%
BlackRock Property Fund	2,300,857	8.0	1,647,410	5.8

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. These amounts have not been 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).

	As at 31 March 2008 £	As at 31 March 2007 £
Norwich Union	2,666	2,633

11. Current Assets

	2008 £	2007 £
Debtors		
Contributions due employers	178,476	159,400
- employees	66,969	43,324
Other	45,180	53,313
Cash	270,072	81,029
	<u>560,697</u>	<u>337,066</u>

Amounts due from employers' and employees' contributions are outstanding in the normal course of collection at the year end. Other debtors refer to £42,046 in respect of settlement of an item which was unresolved and still outstanding as at the balance sheet date and bank interest due of £3,134.

12. Current Liabilities

	2008 £	2007 £
Creditors and accruals	124,240	103,538

13. Related Party Transactions

Douglas Borough Council administrative expenses for the Isle of Man Local Government Pension Scheme, paid during the year amounted to £52,235 (2006/2007: £49,116). These costs are made up of direct and indirect overheads.

14. 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 Douglas Borough Council 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 value credited):

- 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. Deferred 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 deferred benefits become payable.

Under two years' membership (and no transfer value has been credited):

- A. Retirement pension and lump sum on retirement at age 65.
- B. Lump sum payable on retirement through permanent incapacity.
- C. Spouses' short term pension and a tax free lump sum death grant on death in employment.
- D. Children's pensions.
- E. Refund of contributions or Transfer out to a tax-approved pension scheme 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 occupational 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 A J T Boyd
Assistant Borough Treasurer (Financial Services)
Borough Treasurer's Department
Borough of Douglas
P O Box 2, Town Hall
Ridgeway Street
Douglas
ISLE OF MAN
IM99 1AD

Tel: (01624) 696360

Fax: (01624) 696400