

ISLE OF MAN LOCAL GOVERNMENT SUPERANNUATION SCHEME



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CAPITA HARTSHEAD

Contract Administrators

BLACKROCK

Fund Manager

HYMANS  ROBERTSON

Actuarial and Investment Support

Being a public service pension scheme as defined by the Superannuation Act 1984 (an Act of Parliament of Tynwald), the Isle of Man Local Government Superannuation Scheme 2003 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 Statement of Accounts has been prepared in accordance with the guidelines set out in the Statement of Recommended Practice, "Financial Reports of Pension Schemes" (Revised May 2007), ("the pensions SORP") as far as is practicable.

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ISLE OF MAN LOCAL GOVERNMENT SUPERANNUATION SCHEME

STATEMENT OF ACCOUNTS

FOR THE YEAR ENDED
31 MARCH 2011

Administering Authority

Douglas Borough Council
Town Hall
PO Box 2
Douglas
Isle of Man IM99 1AD

Chief Executive

Miss K J Rice, BA (Hons) Solicitor

Borough Treasurer

Mr G M Bolt, CPFA

Auditor

PKF (Isle of Man) LLC
PO Box 16
Analyst House
20 – 26 Peel Road
Douglas
Isle of Man IM99 1AP

Bankers

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

**Consulting Actuary and Investment
Consultant**

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

Scheme Administrator

Capita Hartshead Limited
Hartshead House
2 Cutlers Gate
Sheffield
United Kingdom S4 7TL

Investment Fund Manager

BlackRock (Isle of Man) Limited
3rd Floor Atlantic House
4-8 Circular Road
Douglas
Isle of Man IM1 1AG

Custodian of Securities

BNP Paribas Securities Service S.A
Isle of Man Branch
PO Box 57
Merchant's House
24 North Quay
Douglas
Isle of Man IM99 2P6

AVC Provider

Aviva Life & Pension UK Limited
Rose Lane Business Centre
Norwich NR1 1BB
United Kingdom

Report by Douglas Borough Council

INTRODUCTION

The Isle of Man Local Government Superannuation Scheme 2003 (“the Scheme”) is a statutory public service pension scheme (as defined by the Superannuation Act 1984, an Act of Parliament of Tynwald) 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 other 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

Douglas Borough Council 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 Statement of Accounts of the Isle of Man Local Government Superannuation Scheme.

The Pensions Committee delegates day to day monitoring responsibilities to the officers of Douglas Borough Council. This Committee, which comprises Members of the Council and one independent observer, meets regularly to consider administrative and investment matters as informed by its officers. 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 Statement of Accounts of the Isle of Man Local Government Superannuation 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”), as far as is practicable.

In preparing the Statement of Accounts, 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 pension SORP: Financial Reports of Pension Schemes (Revised May 2007) as far as practicable

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 Fund investments has been delegated to BlackRock (Isle of Man) Limited.

As well as providing actuarial services to the Scheme's Fund, Hymans Robertson LLP also provide investment consulting advice to the Pensions Committee.

The Administering Authority has a contractual arrangement with Capita Hartshead Limited, a trading division of Capita Group plc, to undertake the day to day administration of the Scheme.

The Administering Authority has appointed Aviva Life & Pension UK Limited 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). There was an increase of 0% (2009: 5.0% reduced proportionately for pensions in payment for less than 12 months). This corresponds to the increase applied to state retirement pensions and pensions paid by other public service pension schemes on the Isle of Man, being the rise in the UK's Retail Prices Index during the 12 months ended 30 September 2010 (2009: 30 September 2009).

Report by Douglas Borough Council – continued

ADMINISTRATION (continued)

Code of Best Practice

The *Adherence to Best Practice* document sets out the governance of the administration of the Scheme and investment of funds therein.

The Scheme's investment practices are considered against the following Best Practice principles:-

- Effective decision making
- Investment objective
- Risk and liabilities
- Performance assessment
- Responsible ownership
- Transparency and reporting

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, monitors and reviews these procedures, and updates the documents as required.

Report by Douglas Borough Council – continued

MEMBERSHIP AND BENEFICIARIES

	2011	2010
	No.	No.
Active Membership		
As at the beginning of the year (1 April)	445	437
Late adjustments (new starters)	2	8
Late adjustments (leavers)	(3)	(1)
<i>Add:</i>		
Entrants - new starters	35	36
	-----	-----
	479	480
	-----	-----
Exits - new retirement pensions	(8)	(9)
- deaths in service	(1)	-
- preserved benefits	(23)	(13)
- refunds of contributions	(6)	(13)
	-----	-----
	(38)	(35)
	-----	-----
As at the end of the year (31 March)	441	445
	-----	-----

Report by Douglas Borough Council – continued

MEMBERSHIP AND BENEFICIARIES - continued

Membership as at 31 March 2011 by employer

	Active	Deferred	Pensioners	2011 Total	2010 Total
Local Authorities					
Castletown Town Commissioners	10	5	9	24	24
Douglas Borough Council	246	104	121	471	461
Laxey Village Commissioners	2	0	0	2	2
Michael Village Commissioners	1	1	0	2	2
Onchan District Commissioners	40	21	32	93	90
Peel Town Commissioners	19	7	8	34	34
Port Erin Village Commissioners	16	8	3	27	27
Port St Mary Village Commissioners	7	11	8	26	24
Ramsey Town Commissioners	41	12	17	70	71
Resolution Bodies					
(a) Parish Districts					
Braddan Parish Commissioners	6	0	0	6	6
Bride Parish Commissioners	1	0	0	1	1
Malew Parish Commissioners	6	4	1	11	10
Marown Parish Commissioners	1	0	0	1	1
(b) Joint Boards					
Castletown & Malew Elderly Persons Housing Board	1	0	0	1	0
Marashen Crescent Housing Committee	4	0	1	5	5
Northern Local Authorities Swimming Pool Board	7	2	1	10	9
Peel & Western District Housing Committee	0	0	1	1	1
Ramsey & Northern District Housing Committee	6	0	4	10	11
Southern Civic Amenity Site Board	3	2	1	6	6
Southern Local Authorities Swimming Pool Board	12	4	7	23	23
Admitted Bodies					
Crossroads Caring for Carers	0	2	2	4	4
Department of Community, Culture and Leisure – Villa Marina	0	1	1	2	2
Leonard Cheshire Foundation	1	1	2	4	4
Manx Blind Welfare	0	1	0	1	1
Manx Foundation for Physically Disabled	1	2	0	3	3
Manx Churches Adoption & Welfare Society	7	3	5	15	14
Vicar and Wardens of Kirk Braddan	2	1	0	3	3
Vicar and Wardens of St Peters Church Onchan	1	0	0	1	1
	441	192	224	857	840

Report by Douglas Borough Council – continued

Membership as at 31 March 2011 (continued)

Bodies with no Members

The following bodies had no members during the year:

Resolution Bodies:

(a) Parish Districts

Andreas Parish Commissioners
Arbory Parish Commissioners
Ballaugh Parish Commissioners
German Parish Commissioners
Jurby Village Parish Commissioners
Lezayre Parish Commissioners
Lonan Parish Commissioners
Maughold Parish Commissioners
Patrick Parish Commissioners
Rushen Parish Commissioners
Santon Parish Commissioners

(b) Joint Boards and Committees

Cooil Roi Housing Authority
Northern Parishes Refuse Collection Board
Western Civic Amenity Site Committee
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 2010 which showed that it continued to be in deficit.

The Actuarial Statement from the 2010 valuation is reproduced on pages 17 and 18 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 information communications systems, 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 Pensions Committee).

I certify that the financial statements present fairly the Fund Account and Net Assets Statement position of the Isle of Man Local Government Superannuation Scheme 2003 for the year ended 31 March 2011.

G M BOLT, CPFA

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

27 July 2011

The Statement of Accounts were approved by the Pensions Committee on 27 July 2011 and passed to PKF (Isle of Man) LLC for audit.

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 are in accordance with the Scheme's investment policy which 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 is 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 other than to 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 bonds (which are lower risk relative to the Scheme's liabilities) and to property (a "real" asset with a different performance cycle to equities).

The Administering Authority employs BlackRock (Isle of Man) Limited as its sole Investment Fund Manager.

INVESTMENT PERFORMANCE BENCHMARK

The benchmark is used as a reference point to compare the performance of the portfolio. It allows the overall performance of the Investment 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 Investment Fund Manager for particular markets or for individual stocks.

Investments - continued

INVESTMENT FUND MANAGER'S REPORT

The assets of the Plan are invested in a balanced portfolio with BlackRock (Isle of Man) Limited, which is a subsidiary of the largest asset manager in the world, BlackRock Inc. The investment manager is licensed by the Financial Supervision Commission of the Isle of Man to carry on investment business.

The objective is to seek to outperform the Composite Benchmark by 0.65% per annum gross of fees over rolling three year periods on the basis of the investment restrictions set out in the investment management agreement and subject to the risks normally associated with active investment management.

The assets are held by the appointed Custodian, BNP Paribas Securities SA, Isle of Man Branch.

The prices for these valuations were based on market closing prices on the respective dates.

Review of Performance

Summary

The portfolio increased in value by £5,049,320 over the year (with net inflows of £2,200,000). This equates to a rise of 8.2% over the period which performed in line with the composite benchmark return of 8.4%.

UK Equities

The FTSE All Share rose 8.7% in total return terms, as markets continued to be supported by evidence of improving economic conditions. Mobile telecoms, life insurers and mining shares were the best performing sectors over the 12-month period, while banks were by far the worst performing. Small and medium-sized companies outperformed the largest names in the market. The Scheme's UK equity sub-portfolio outperformed the index through strong stock selection and active sector rotation (9.9%). The Manager's smaller company exposure led outperformance during the period, along with holdings in commodities-related companies and insurers.

Overseas Equities

In aggregate, the Scheme's overseas equities performed broadly in line with the benchmark component in sterling terms with the Overseas equities returning +8.6%. In sterling terms, the Pacific Basin ex Japan led overseas returns followed by the United States and Europe ex-UK. Japan declined over the 12 months. The tactical overweight to North America proved successful but the overweight in emerging markets was a detractor. Stock selection in the overseas portfolio was also a neutral contributor.

Investments - continued

INVESTMENT FUND MANAGER'S REPORT

Bonds

For the second consecutive 12-month period, government bond markets were volatile and produced weak (capital only) returns, as investors focused on deficit issues in the developed world. The FT-A UK Government All-Stocks Index returned 5.2% over the twelve months but only 0.7%, before coupon payments. Both the 5-15 Year and Over 15 Year segments outperformed the broad index, returning 6.1% and 6.9% in total return terms, while index-linked gilts returned 6.7%. Short-dated gilts returned 2.1% but declined 2.1% in capital value. UK corporate bonds returned to normality after the strong rebound witnessed in the previous period.

Property

Property rose by 9.3% over the twelve month period broadly in line with the benchmark. The underweight to property was maintained and the asset class outperformed others, so this decision detracted from relative returns. The Manager is seeking appropriate price entry points to increase the exposure to a neutral position.

Inflation during the year

Inflation has risen during the twelve month period. In the year to March 2011, RPI annual inflation was 5.3%, higher than levels seen prior to the global financial crisis. CPI annual inflation – the UK government's target measure – was 4.0% in March. Again this represents a significant rise over the twelve month period, although a reduction from 4.4% in the period to the end of February. The reasons for the continued elevated levels are widespread and in a good part reflect higher commodity prices.

Investments - continued

INVESTMENT FUND MANAGER'S REPORT (continued)

Performance Analysis – Cumulative returns

	12 Months to 31/03/11	12 Months to 31/03/11	3 Years to 31/03/11	3 Years to 31/03/11	12 Months to 31/03/10	12 Months to 31/03/10	12 Months to 31/03/09	12 Months to 31/03/09
	Fund %	Benchmark %	Fund % pa	Benchmark % pa	Fund %	Benchmark %	Fund %	Benchmark %
UK Equities	9.9	8.7	6.6	5.4	51.9	52.4	-27.5	-29.3
Overseas Equities	8.6	8.1	8.6	7.8	52.0	46.5	-22.4	-20.9
<i>North America</i>	7.8	9.6	6.4	10.4	35.4	43.2	-17.4	-14.1
<i>Japan</i>	-1.2	-4.1	-2.0	3.5	31.8	29.6	-27.6	-10.8
<i>Europe (ex UK)</i>	-1.4	6.9	3.0	2.8	50.6	47.8	-26.3	-31.4
<i>Pacific Basin</i>	11.6	14.4	11.3	13.4	65.6	66.8	-25.3	-23.5
<i>Emerging Mkts/Other</i>	22.0	11.6	-	-	-	46.0	-	-26.5
<i>Global Equities</i>	-	-	-	-	-	-	-	-
UK Bonds	7.2	6.1	7.1	4.1	7.1	1.6	7.0	4.7
Corporate Bonds	6.9	5.2	15.9	11.4	45.5	21.0	-	8.6
UK Index Linked	7.3	6.7	2.9	4.6	12.1	10.4	-9.5	-2.8
Overseas Fixed Interest	4.0	2.1	12.9	11.8	11.6	-	23.9	36.7
Property	9.3	9.1	-12.1	-4.4	18.4	10.2	-47.5	-27.4
Cash and other	-1.3	0.4	-2.4	1.4	-10.6	0.4	5.2	3.4
Total	8.2	8.4	6.6	6.2	35.1	33.5	-17.2	-17.1

Investments - continued

INVESTMENT FUND MANAGER'S REPORT (continued)

INVESTMENTS – 2011

	Strategic Allocation %	Asset Distribution as at 31/03/11 %	Value GBP	Strategic Allocation %	Asset Distribution as at 31/03/10 %	Value GBP	Asset Control Ranges %
UK Equities	27.0	27.7	11,431,782	27.0	28.3	10,250,444	17-37
Overseas Equities	33.0	36.6	15,022,270	33.0	36.3	13,148,096	23-43
<i>North America</i>	13.0	14.7	6,066,686	13.0	12.9	4,672,464	0-26
<i>Japan</i>	4.0	2.6	1,073,019	4.0	4.2	1,521,267	0-8
<i>Europe (ex UK)</i>	8.0	6.7	2,765,088	8.0	5.7	2,064,577	0-16
<i>Pacific Basin</i>	3.0	3.1	1,279,369	3.0	5.1	1,847,253	0-6
<i>Emerging Mkts /Other</i>	5.0	9.3	3,838,107	5.0	8.4	3,042,535	0-10
<i>Global Equities</i>	-	-	-	-	-	-	-
UK Bonds	9.5	11.8	4,869,857	9.5	11.6	4,201,596	0-19.5
Corporate Bonds	9.5	9.6	3,961,917	9.5	9.1	3,296,079	0-19.5
UK Index Linked	9.0	4.6	1,898,419	9.0	4.1	1,485,047	0-19
Overseas Fixed Interest	0.0	0.4	165,080	-	0.6	217,324	0-5
Property	12.0	8.8	3,631,758	12.0	8.3	3,006,314	4-17
Cash	0.0	0.7	288,890	-	1.7	615,752	0-10
Total	100.0	100.0	£41,269,972	100.0	100.0	£36,220,652	

Investments - continued

CUSTODIAL ARRANGEMENTS

The Administering Authority has appointed BNP Paribas as its custodian.

The custodian will arrange for the Fund's UK securities (other than bearer securities for which the custodian shall arrange safekeeping) to be registered in the name of a nominee company, normally Securities Services Nominees Limited, a wholly owned subsidiary of BNP Paribas Securities Services S.A, directly or indirectly as bare Trustee for the customer. Any non-UK securities of the Fund will be held by the custodian, or to the order of the custodian, by subcustodians chosen by it. Securities relating to investments of the Fund in In-House Funds will normally be registered in the name of BNP Paribas Securities Nominees Limited, a Jersey-based Affiliated Company 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.

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 (Isle of Man) Limited to give the custodian instructions regarding such accounts on the Scheme's behalf.
- In BlackRock (IOM) Limited Specified Client Bank Accounts (as defined in Part 3 of the Financial Services Rule Book 2009) (the "Rule Book") with those institutions being Recognised Banks (as defined by the Rule Book) which meet the minimum short-term credit rating of A1/P1 and which may include the custodian or any of its associates.

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.

Investments - continued

REMUNERATION BASIS OF THE INVESTMENT FUND 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 2010 to 31 March 2011:

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 Superannuation 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 for 2010/11

This statement has been prepared in accordance with The Isle of Man Local Government Pension Scheme Regulations 2003, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2010/11.

Descriptions of Funding Policy

The funding policy is set out in the Borough of Douglas Funding Strategy Statement (FSS). In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund;
- to ensure that sufficient funds are available to meet all benefits as they fall due for payment;
- not to restrain unnecessarily the investment strategy of the Fund so that the Administering Authority can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk;
- to minimise the degree of short-term change in the level of employer's contributions where the Administering Authority considers it reasonable to do so, and;
- to use reasonable measures to reduce the risk to other employers and ultimately to the Ratepayers from an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under The Isle of Man Local Government Pension Scheme Regulations 2003 was as at 31 March 2010. This valuation revealed that the Fund's assets, which at 31 March 2010 were valued at £36.6 million, were sufficient to meet 74% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2010 valuation was £12.8 million. Employer contributions have been approved to attempt to address the deficit over 20 years.

Individual employers' contributions for the period 1 April 2011 to 31 March 2014 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in my valuation report dated 28 March 2011.

Actuarial Statement for 2010/11 - continued

METHOD

The liabilities were assessed using the projected unit valuation method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

ASSUMPTIONS

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2010 valuation were as follows:

Financial Assumptions	31 March 2010	
	% p.a Nominal	% p.a Real
Discount rate	6.1	2.8
Pay increases*	5.3	2.0
Price inflation/pension increase	3.3	-

* plus an allowance for promotional pay increases. Short term pay growth was assumed to be 1% p.a for 2010/11 and 2011/12, reverting to 5.3% p.a thereafter.

The key demographic assumption was the allowance made for longevity. The baseline longevity assumptions adopted at this valuation were in line with standard SAPS mortality tables, and included improvements based on medium cohort projections and a 1% p.a underpin effective from 2007. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	20.1 years	22.9 years
Future Pensioners	22.0 years	24.8 years

Copies of the 2010, 2007 and 2004 valuation reports and the Funding Strategy Statement can be found on the Council's website.

The next actuarial valuation will be carried out as at 31 March 2013. The Funding Strategy Statement will also be reviewed at that time.

Peter Summers FFA

Fellow of the Institute of Faculty and Actuaries
For and on behalf of Hymans Robertson LLP

13 June 2011

Independent Auditor's Report

To Douglas Borough Council as the Administering Authority of the Isle of Man Local Government Superannuation Scheme 2003

We have audited the financial statements of Isle of Man Local Government Superannuation Scheme 2003 for the year ended 31 March 2011 which comprise the fund account, the net assets statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Scheme's administering authority, as a body, in accordance with the 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 Scheme and the Administering Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of administering authority and auditor

As explained more fully in the administering authority's responsibilities statement, the administering authority is responsible for the preparation of financial statements which show a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Scheme's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the administering authority; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the statement of accounts to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Independent Auditor's Report - continued

Opinion

In our opinion the financial statements:

- show a true and fair view of the financial transactions of the Scheme during the year ended 31 March 2011, and of the amount and disposition at that date of its assets and liabilities; other than the liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- contain the information specified in the Superannuation Act 1984.

PKF (Isle of Man) LLC
Douglas Isle of Man

Date **26 October 2011**

Independent Auditor's Statement about Contributions

To Douglas Borough Council as the Administering Authority of the Isle of Man Local Government Superannuation Scheme 2003

We have examined the summary of contributions to Isle of Man Local Government Superannuation Scheme 2003 for the Scheme year ended 31 March 2011 to which this statement is attached.

This statement is made solely to the Scheme's Administering Authority, as a body, in accordance with the Superannuation Act 1984. Our 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 statement about contributions under the Scheme 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, for our work, for this statement, or for the opinions we have formed.

Respective responsibilities of trustees and auditor

The Administering Authority are responsible for ensuring that there is prepared, maintained and from time to time revised a Schedule of Contributions showing the rates and due dates of certain contributions payable towards the Scheme by or on behalf of the employer and the active members of the Scheme. The Administering Authority are also responsible for keeping records in respect of contributions received in respect of active members of the Scheme and for monitoring whether contributions are made to the Scheme by the employer in accordance with the Schedule of Contributions.

It is our responsibility to provide a statement about contributions paid under the Schedule of Contributions and to report our opinion to you.

Scope of work on statement about contributions

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the summary of contributions have been paid in accordance with the relevant requirements. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions paid to the Scheme and the timing of those payments under the schedule of contributions.

Statement about contributions

In our opinion contributions for the Scheme year ended 31 March 2011 as reported in the summary of contributions have been paid in accordance with the Schedule of Contributions certified by the Scheme Actuary on 28 March 2011.

PKF (Isle of Man) LLC
Douglas Isle of Man

Date **26 October 2011**

Summary of Contributions

Summary of Contributions payable in the year to 31 March 2011

Contributions payable under the Schedule of Contributions/ Payment Schedule:

Employer normal contributions	£2,430,212
Employee normal contributions	£618,803
Employee additional contributions	<u>£18,730</u>
Total contributions payable under the Schedule	<u>£3,067,745</u>

Other contributions:

Employer other contributions	<u>£23,961</u>
Total contributions payable to the Scheme:	<u>£3,091,706</u>

Signed on behalf of the Administering Authority:

D W CHRISTIAN JP
Chairman
Pensions Committee
Douglas Borough Council

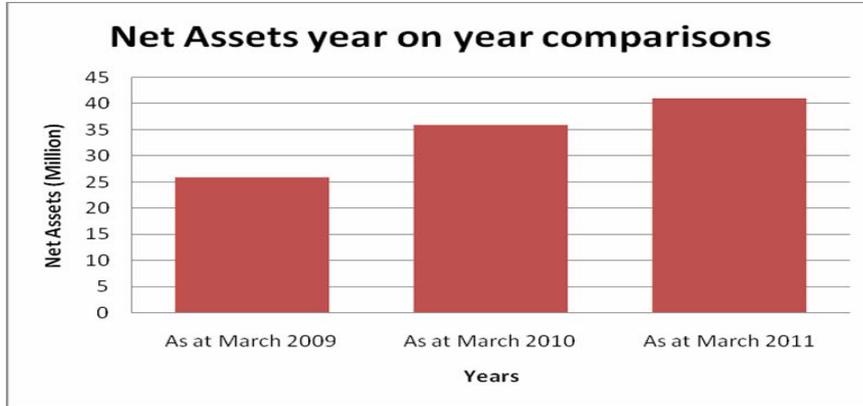
26 October 2011

G M BOLT, CPFA
Borough Treasurer
Douglas Borough Council

26 October 2011

Foreword to the Financial Statements

As at the 31 March 2011 the accumulated Fund Net assets stood as £41,429,926 (2010: £36,579,606). The Fund's investment has increased in value by £5,049,320 and has broadly performed in line with the benchmark, and an explanation can be found in the Investment Fund Managers report on page 11.

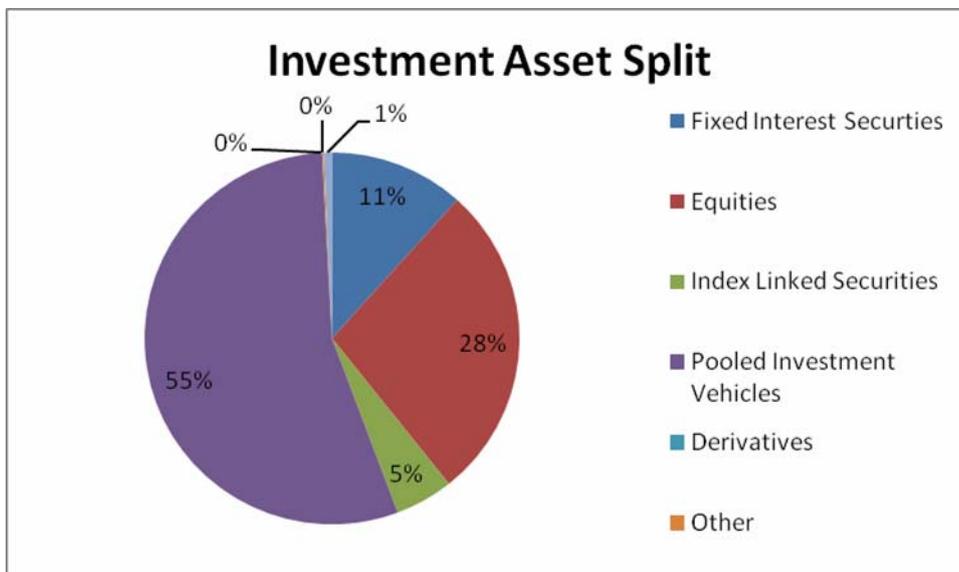


The Fund Value comparison for the last three years can be seen in the graph.

The net income from all transfer values received has increased by £463,886 (2009/2010 decreased by £336,107). Contributions have decreased by £9,900 (2009/2010 increased by £107,483). This has resulted in an increase in income in respect of Scheme members of £453,986 (2009/2010 decreased by £228,624). Retirement benefits and other benefits made to or in respect of Scheme members during the year have increased by £159,424 (2009/2010 increased by £54,602).

In overall terms the net additions from dealings with Scheme members during the year amount to £2,036,241 (2009/2010: £1,703,342).

The scheme invests in a variety of different areas, as demonstrated by the chart below. A substantial proportion of the Fund's investments are made in equities, but pooled investment vehicles make up the largest investment area. These include the property market and other UK and overseas investment areas.



Financial Statements for the year ended 31 March 2011

	Notes	2010/2011 £	2009/2010 £
FUND ACCOUNT			
Contributions and Benefits			
Contributions	3	3,091,706	3,101,606
Transfers in	4	556,606	92,720
		<u>3,648,312</u>	<u>3,194,326</u>
Benefits	5	(1,360,158)	(1,200,734)
Leavers	6	(12,736)	(68,719)
Administrative expenses	7	(239,177)	(221,531)
		<u>(1,612,071)</u>	<u>(1,490,984)</u>
Net additions from dealings with members		<u>2,036,241</u>	<u>1,703,342</u>
Returns on investments			
Investment income	8	789,886	714,253
Change in market value of investments	9a	2,177,867	8,298,088
Investment management expenditure		(153,674)	(82,644)
Net return on investments		<u>2,814,079</u>	<u>8,929,697</u>
Net increase / (decrease) in the Scheme during the year		<u>4,850,320</u>	<u>10,633,039</u>
Net assets of the Scheme			
At year beginning		<u>36,579,606</u>	<u>25,946,567</u>
At year end		<u>41,429,926</u>	<u>36,579,606</u>

The notes on pages 26 to 33 form part of these Financial Statements.

Financial Statements for the year ended 31 March 2011 - continued

	Notes	As at 31 March 2011 £	As at 31 March 2010 £
NET ASSETS STATEMENT			
Investments	9b	41,269,972	36,220,652
Current Assets	11	372,781	477,471
Current Liabilities	12	(212,827)	(118,517)
Net Assets of the Scheme at year end		41,429,926	36,579,606

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 end of the Scheme year are not dealt with in the financial statements. The actuarial position of the Scheme, which does take account of such obligations, is dealt with in the Actuarial Statement on pages 17 and 18 and these financial statements should be read in conjunction with that Statement.

The notes on pages 26 to 33 form part of these Financial Statements.

These accounts were approved and authorised for issue by the Pensions Committee on behalf of the Administering Authority.

D W CHRISTIAN JP
Chairman
Pensions Committee
Douglas Borough Council

26 October 2011

G M BOLT, CPFA
Borough Treasurer
Douglas Borough Council

26 October 2011

Notes to the Financial Statements

1. Basis of Preparation

The financial statements have been prepared in accordance with the Superannuation Act 1984 and with the guidelines set out in the Statement of Recommended Practice, "Financial Reports of Pension Schemes" (Revised May 2007), ("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

Transfer 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.

Other expenses

Administrative expenses and investment management expenses are accounted for on an accruals basis. Expenses are recognised net of any recoverable VAT. Investment management expenses include fees paid to the custodian.

Notes to the Financial Statements – continued

2. Accounting Policies (continued)

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. Any foreign exchange contracts held by the Scheme on the 31 March 2011 are valued using the applicable month end foreign exchange rate to calculate the unrealised gain/loss at that date, which is reflected in derivatives.

3. Contributions

	2010/2011	2009/2010
	£	£
Employers		
normal	2,430,212	2,451,106
other	23,961	8,176
Members		
normal	618,803	622,496
scheme additional	18,730	17,638
other	-	2,190
	<u>3,091,706</u>	<u>3,101,606</u>

Notes to the Financial Statements – continued

3. Contributions (continued)

Contributions breakdown

	2010/2011			Total £	2009/2010 Total £
	Employers Normal £	Employees Normal £	Employees Scheme Additional £		
Braddan Parish Commissioners	50,854	13,267	-	64,121	63,828
Bride Parish Commissioners	872	228	-	1,100	1,078
Castletown Town Commissioners	53,437	13,253	-	66,690	72,002
Douglas Borough Council	1,412,887	359,711	15,478	1,788,076	1,781,601
Laxey Village Commissioners	9,056	2,363	-	11,419	11,406
Leonard Cheshire Foundation	2,054	447	-	2,501	3,564
Malew Parish Commissioners	31,663	8,086	-	39,749	36,944
Manx Churches Adoption & Welfare Society	47,432	12,374	-	59,806	61,458
Manx Foundation for Physically Disabled	7,177	1,872	-	9,049	11,862
Marashen Crescent Housing Committee	18,576	4,295	-	22,871	22,976
Marown Parish Commissioners	4,555	1,174	-	5,729	2,455
Michael Village Commissioners	4,382	1,100	-	5,482	5,554
Northern Local Authorities Swimming Pool Board	25,948	6,697	-	32,645	30,267
Onchan District Commissioners	215,260	55,425	-	270,685	300,895
Peel Town Commissioners	114,190	29,518	-	143,708	132,651
Port Erin Village Commissioners	75,010	19,037	-	94,047	95,870
Port St Mary Village Commissioners	39,132	10,208	-	49,340	59,052
Ramsey & Northern District Housing Committee	20,315	4,628	-	24,943	30,929
Ramsey Town Commissioners	227,165	57,449	3,252	287,866	286,735
Southern Local Authorities Swimming Pool Board	41,823	10,653	-	52,476	45,475
Southern Civic Amenity Site Board	15,223	3,971	-	19,194	18,633
Vicar and Wardens of Kirk Braddan	9,215	2,008	-	11,223	11,062
Vicar and Wardens of St Peters Church Onchan	3,986	1,039	-	5,025	4,943
	2,430,212	618,803	18,730	3,067,745	3,091,240
Backdated contributions – Laxey Village Commissioners Augmentations –	-	-	-	-	10,366
Ramsey Town Commissioners	23,961	-	-	23,961	-
	2,454,173	618,803	18,730	3,091,706	3,101,606

Notes to the Financial Statements – continued

4. Transfers In

	2010/2011 £	2009/2010 £
Individual transfers in from other Pension Schemes and Private Sector Institutions	556,606	92,720

5. Benefits

	2010/2011 £	2009/2010 £
Retirement and dependants' pensions	1,063,867	1,005,815
Lump sum retirement grants	259,780	194,059
Lump sum death grants	36,511	860
	1,360,158	1,200,734

Pensions are paid including added benefits awarded by some employers. The value of pensions shown above is arrived at after netting off the added benefits, as these have been recharged to respective employers amounting to £29,606 (2009/2010: £29,436).

6. Leavers

	2010/2011 £	2009/2010 £
Refunds of contributions	3,398	7,247
Payments to State Second Pension	389	1,916
Individual transfers to other schemes	8,949	59,556
	12,736	68,719

7. Administrative Expenses

	2010/2011 £	2009/2010 £
Administering Authority (see note 13)	38,681	53,215
Fund Administrator	64,757	67,614
Actuarial	33,400	9,700
Investment Advice	79,375	79,879
Audit Fees	16,617	11,096
Legal & Professional	1,745	-
Other Fees	4,602	27
	239,177	221,531

Notes to the Financial Statements – continued

8. Investment Income

	2010/2011 £	Restated 2009/2010 £
Income from fixed interest securities	180,938	223,186
Dividends from equities	385,225	364,436
Income from pooled investment vehicles	188,846	67,240
Interest on cash deposits	9,258	5,446
Income from index-linked securities	25,619	53,945
	789,886	714,253

Tax is not recoverable and so income from pooled investment vehicles has been reclassified for 2009/2010 to reflect this. There is no effect on the net asset position of the fund.

9a. Investments

	Restated Value at Purchases 1.04.10 £	at Cost £	Sales Proceeds £	Change in Market Value £	Value at 31.3.11 £
Fixed interest securities	5,332,639	1,433,205	(2,505,814)	544,293	4,804,323
Equities	10,230,471	3,638,836	(3,141,863)	690,172	11,417,616
Index-linked securities	1,708,960	1,156,013	(905,733)	111,088	2,070,328
Pooled investment vehicles	18,240,370	18,614,258	(15,077,450)	864,342	22,641,520
Derivatives	39,276	6,470,887	(6,487,230)	(32,028)	(9,095)
	35,551,716	31,313,199	(28,118,090)	2,177,867	40,924,692
Other	53,832				59,588
Cash Deposits	615,104				285,692
	36,220,652				41,269,972

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.

Transaction costs are included in the cost of purchases and sales proceeds. Transaction costs include costs charged directly to the Scheme such as fees, commissions and other expenses. Transaction costs incurred during the year amounted to £50,226 (2009/2010: £56,724). In addition to the transaction costs disclosed above, for certain funds indirect costs may be incurred due to the bid offer spread on investments within these pooled vehicles. The amount of indirect cost is not separately provided to the Scheme.

In previous years derivatives were shown under the “Other” category, however to be consistent with the SORP, derivatives are now shown separately.

Notes to the Financial Statements – continued

9b. Investments (continued)

Investments with Investment Fund Manager	As at 31 March 2011 £	As at 31 March 2010 £
Fixed interest securities		
UK public sector quoted	4,804,323	4,134,087
Overseas public sector quoted	-	1,198,552
	<u>4,804,323</u>	<u>5,332,639</u>
Equities		
UK quoted	<u>11,417,616</u>	<u>10,230,471</u>
Index-linked securities		
UK quoted	<u>2,070,328</u>	<u>1,708,960</u>
Pooled investment vehicles		
Unit trusts - property	3,632,085	3,019,257
- UK other	3,009,595	2,078,084
- overseas other	15,076,442	13,143,029
- Pooled Funds	923,398	-
	<u>22,641,520</u>	<u>18,240,370</u>
Derivative		
Forward foreign exchange contracts	<u>(9,095)</u>	<u>39,276</u>
Cash deposits		
Sterling	<u>285,692</u>	<u>615,104</u>
Other		
Accrued investment income	<u>59,588</u>	<u>53,832</u>
Total Investments	<u>41,269,972</u>	<u>36,220,652</u>

There are 3 holdings above the 5% level at 31 March 2011:

BlackRock UK Property Fund	8.8%
BlackRock Corporate Bond Fund	7.3%
SPDR S&P 500 ETF	9.4%

Notes to the Financial Statements – continued

9b. Investments (continued)

Forward Foreign Exchange Contracts

Forward foreign exchange contracts (derivatives) are used by the Scheme to reduce risk. At present these are used solely for the purpose of hedging the foreign currency exposure introduced when investing in overseas securities. The Scheme's exposure to overseas securities and hence currency forward contracts is restricted. Derivative receipts and payments represent the realised gains and losses on derivative contracts. All contracts have an expiry date within one year. The table below shows all such contracts as at the year end.

Settlement Date	Currency Bought	Value of Currency Bought £	Currency Sold	Value of Currency Sold £	As at 31 March 2011 Assets	As at 31 March 2011 Liabilities
3 months	GBP	608,132	EUR	(619,491)	-	(11,359)
4 months	GBP	550,000	JPY	(546,935)	3,065	-
4 months	GBP	155,279	USD	(156,080)	-	(801)
					3,065	(12,160)
					3,065	(12,160)

Summary of 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 their 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 Isle of Man Local Government Superannuation Scheme 2003.

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.

Summary of 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 cost of living rises as determined by the Parliament of Tynwald.

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.

Full details of the Pension Scheme can be found on the website (www.douglas.gov.im).

This page does not form part of the audited financial statements

Any enquiries regarding this Report should be addressed to:

Mr A J T Boyd
Assistant Borough Treasurer (Financial Services)
Borough Treasurer's Department
Douglas Borough Council
P O Box 2, Town Hall
Ridgeway Street
Douglas
ISLE OF MAN
IM99 1AD

Tel: 01624 696360
Fax: 01624 696400

A short form report incorporating a Summary Financial Review
and the Actuary's Statement is available to all members.

MR373