ANNUAL REPORT
AND
ACCOUNTS

ISLE OF WIGHT COUNCIL
PENSION FUND
2013-14

Registration number with the Registrar of Occupational and Personal Pensions Schemes 49/22

Contents

Foreword

I am pleased as the Chairman of the Pension Fund Committee to present the annual report and accounts of the pension fund committee for the year ended 31 March 2014.

The overall fund value at 31 March 2014 was £425.9 million, up from £387.8 million at 31 March 2013.

Investment performance in 2013-14 has again been good, following the broadening of the recovery of all major developed economies and the re-emergence of the Eurozone from recession.

The fund’s investment assets generated a healthy return of 10.8% for the year to 31 March 2014. The WM league tables for 100 local authority pension funds put us in overall 3rd place, compared to 2nd overall last year. Our ranking improved in UK Equities (2nd compared to 10th last year), Bonds (25th compared to 73rd) and Property (13th compared to 26th), but performance in Global Equities slipped from 7th last year to 73rd this year.

This year also saw the completion of the formal valuation of the fund by the actuaries, Hymans Robertson LLP. The funding level of the fund (i.e. the extent to which its assets match the future liabilities for pension benefits) has improved to 77.7% at 31 March 2013, compared to 75.3% at the last valuation dated 31 March 2010. The results of this latest valuation, in terms of revised contribution rates, were implemented with effect from April 2014.

The committee has, throughout the year, been receiving information on the changes to the governance of the fund arising from the Public Sector Pensions Act 2013. A health check of governance was undertaken which indicates that the fund is currently operating in line with best practice, and is in a good position to be able to meet the new requirements for governance arrangements which come into force on 1 April 2015.

The committee also reviewed and approved the Funding Strategy Statement, the Statement of Investment Principles and the Governance Compliance Statement.

Councillor Robert Blezzard
Chairman of the Isle of Wight Pension Fund Committee

Scheme management and advisers

Members of the Isle of Wight Council Pension Fund Committee are appointed at the annual meeting of the Full Council. The members during the period were:

		Appointed	Resigned
Councillor P Bingham			as Chair and from committee May 2013
Councillor R Blezzard	Chair	to committee and as Chair May 2013	
Councillor R Abraham			May 2013
Councillor R Barry			
Councillor V Churchman			May 2013
Councillor D Eccles		July 2014	
Councillor L Hillard		May 2013	June 2013
Councillor S Hutchinson			May 2013
		Re-appointed June 2013	
Councillor J Jones-Evans		May 2013	July 2014
Councillor G Kendall		May 2013	
Councillor D Pitcher		May 2013	
Councillor I Ward			May 2013
Councillor I Warlow		May 2013	
Councillor W Whittle			June 2013

The Committee is advised by:

Mr D Burbage, Managing Director and Head of Paid Service
Ms J Holden, Investment Consultant – Mercer Limited
Mrs J Thistlewood, Technical Finance Officer

In addition a non-voting representative of both the admitted/scheduled bodies and staff union attend the Pension Fund Committee meetings

<u>Investment Managers</u>
Baillie Gifford & Co
Calton Square
1 Greenside Row
Edinburgh EH1 3AN
Newton Investment Management Ltd
The Bank of New York Mellon Centre
160 Queen Victoria Street
London EC4V 4LA

Majedie Asset Management Ltd
5th Floor
10 Old Bailey
London EC4M 7NG
Schroder Investment Management Limited
31 Gresham Street
London EC2V 7QA

<u>Actuarial Services</u>
Hymans Robertson LLP
20 Waterloo Street
Glasgow G2 6DB

<u>Investment Consultants</u>
Mercer Limited
Belvedere
12 Booth Street
Manchester M2 4AW

<u>AVC Provider</u>
Prudential
AVC Customer Services
Stirling FK9 4UE

<u>Custodian</u>
JP Morgan Chase Bank NA
Chaseside
Bournemouth BH7 7DA

<u>Auditors</u>
Ernst & Young LLP
Apex Plaza
Forbury Road
Reading RG1 1YE

<u>Bankers</u>
National Westminster
3 Hampshire Corporate Park
PO Box 462
Templars Way
Chandlers Ford
SO53 3RY

<u>Scheme Administrator</u>
Isle of Wight Council
County Hall
Newport
Isle of Wight PO30 1UD

Financial Performance

Analytical review

Fund account	**2013-14 £000**	2012-13 £000	**Notes**
Net withdrawals from dealings with members	**(1,755)**	(3,763)	Small increase in active member numbers; higher pension strain and deficit funding contributions; small increase in pensioner numbers; lower lump sum payments.
Net return on investments	**39,883**	57,503	Lower investment income from Equities; increased management fees as a result of continuing strong performance in UK and Global Equities.
Net increase in net assets	**38,128**	53,740	

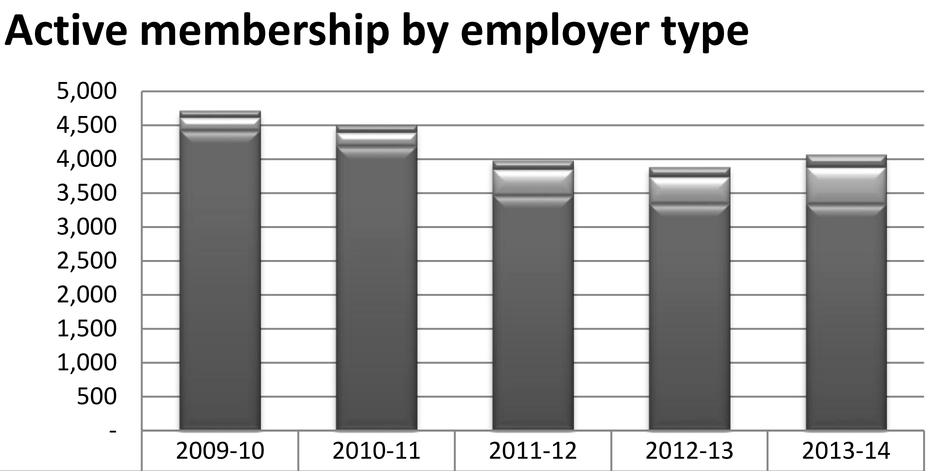
Net Assets Statement	**2013-14 £000**	2012-13 £000	**Notes**
Equities	**98,153**	140,671	Disinvestment from one fund manager during year; strong performance in UK market.
Pooled Investment Vehicles	**324,354**	245,182	New diversified growth fund, arising from disinvestment in equities; good performance in Global Equities.
Cash deposits	**5,703**	4,364	
Other net liabilities	**(2,665)**	(3,203)	
Total net assets	**425,545**	387,014	

Membership data

Total scheme membership continues to grow year on year, and for the first time in six years, active membership numbers increased in 2013-14, primarily as a result of the introduction of automatic enrolment. The profile of membership numbers from 2009 to 2014 is shown below:

	2009-10	2010-11	2011-12	2012-13	2013-14
Pensioners	3,009	3,126	3,431	3,558	3,687
Deferred members	4,278	4,499	5,097	5,265	5,461
Active members	4,713	4,502	3,977	3,883	4,067
Total	12,000	12,127	12,505	12,706	13,215

The creation of academies from previously maintained schools and the council's policy of outsourcing certain services have resulted in a change in the composition of active membership between different types of scheme employers, with the Isle of Wight Council's proportion of active membership declining over recent years. The council remains the largest employer within the fund, although its share of active members has fallen from 94% in 2009-10 to 82% in 2013-14. The composition of active membership numbers is shown below:



	2009-10	2010-11	2011-12	2012-13	2013-14
Admitted bodies	93	105	122	135	179
Scheduled bodies	195	201	385	404	550
Administering authority	4,425	4,196	3,470	3,344	3,338
Total	4,713	4,502	3,977	3,883	4,067

Contributions analysis
The table below sets out the employers of the fund, including the number of active members, the basic employees and employers contributions received in the year, and the number of times (and percentage value) of late paid contributions during the year.
No interest was charged on any of the instances of late payment.

	active members at 31 March 2014	Employees' basic conts. £000	Employers' basic conts. £000	instances late	% value late
Administering Authority					
Isle of Wight Council	3,338	2,756	9,743	1[1]	0.5%
	3,338	2,756	9,743	1	0.5%
Scheduled Bodies					
Isle of Wight College	264	175	629		
Sandown Bay Academy	126	98	356		
Ryde Academy	78	56	205		
Northwood Primary Academy	30	13	47		
St Blasius Academy	26	5	20		
Weston Primary Academy	20	7	27		
Ryde TC	2	3	11		
Wootton Bridge PC	1	1	4		
Northwood PC	1	1	2	1	13.8%
Newport PC	1	2	7	4	40.1%
Chale PC	1	0	1	1	9.0%
Cowes TC	-	-	-		
Yarmouth TC	-	-	-		
	550	361	1,308	6	0.2%

[1] The council has out-sourced its schools' payroll to two external providers. One of the providers was late in paying over the contributions in respect of 6 schools during the year.

	active members at 31 March 2014	Employees' basic conts. £000	Employers' basic conts. £000	instances late	% value late
Admitted Bodies					
Spectrum Housing Limited	53	83	369		
Island Roads	49	80	273	1	9.0%
Southern Vectis	20	17	63		
Childrens Society	16	14	47		
Cowes Harbour Commissioners	6	15	55		
Ventnor Botanic Gardens	6	7	24	1	8.3%
Southern Housing Group	5	9	29		
Spurgeons	5	5	15		
Yarmouth Harbour Commissioners	4	9	29		
St Catherines School Limited	3	9	66	6	49.7%
Planet Ice (IOW) Limited	3	2	4	1	8.0%
IW Society for the Blind	2	3	20	3	24.9%
Riverside Centre Limited	2	2	5		
Visit IOW	2	3	10		
IYWAC	2	3	11	1	7.2%
Trustees of Carisbrooke Castle Museum	1	0	2		
	179	261	1,022	13	6.1%
TOTAL	**4,067**	**3,378**	**12,073**	**20**	**0.9%**

Investment Policy and Performance Report

MERCER

Introduction

The Fund's investments have been managed during the year under review by Majedie, Newton, Baillie Gifford and Schroder. The asset allocation benchmark as at 31 March 2014 was:

Manager	Mandate	Allocation	Control ranges	Benchmarks
Majedie	UK Equities	22.5%	19.5 – 25.5%	FTSE All-Share index
Newton	Global Equities	32.5%	29.5 – 35.5%	MSCI AC (All Countries) World index (net dividends re-invested)
Baillie Gifford	Diversified Growth	15.0%	11.0 – 19.0%	UK Base Rate + 3.5%
Schroder	UK Bonds	22.0%	18.0 – 26.0%	Merrill Lynch Sterling Broad Market
Schroder	UK Property	8.0%	4.0 – 12.0%	IPD Pooled Property Fund indices All Balanced Funds Median
Total		**100.0%**	**-**	

Summary of strategic changes

- Over the year the Committee identified the reliance on equities in the Fund's growth portfolio and decided to diversify the Fund's return seeking assets. As such, during the fourth quarter of 2013, the Fund's investment strategy changed to include a 15% allocation to Baillie Gifford Diversified Growth at the expense of the Schroder UK Equities mandate.
- This resulted in the complete disinvestment of the c£63m of the Fund's assets in the Schroder UK Equity allocation which was then transferred to Baillie Gifford's Diversified Growth Fund.

Asset Allocation

Manager/Asset Class	Actual Asset Allocation				Benchmark Allocation (%)
	Start of Year (£'000)	End of Year (£'000)	Start of Year (%)	End of Year (%)	
Majedie – UK Equity	94,969	111,803	24.3	26.1	22.5
Newton – Global Equity	132,584	141,792	33.9	33.1	32.5
Schroder – UK Equities	59,842	0	15.3	0.0	0.0
Baillie Gifford – Diversified Growth	0	66,655	0.0	15.6	15.0
Schroder – UK Bonds	83,929	84,984	21.5	19.9	22.0
Schroder – UK Property	19,618	22,727	5.0	5.3	8.0
Total	**390,942**	**427,960**	**100.0**	**100.0**	**100.0**

Source: State Street
Figures may not sum to total due to rounding.
Valuations are based on Bid prices where available otherwise mid/single price values are used.

Reasons for variance from Benchmark

At the end of the year the Fund was overweight equities at the expense of bonds and property. While the Fund began the year with an overweight allocation to equities the position has been exaggerated further by the outperformance of equity markets, relative to other assets classes, over the year.

Market Background

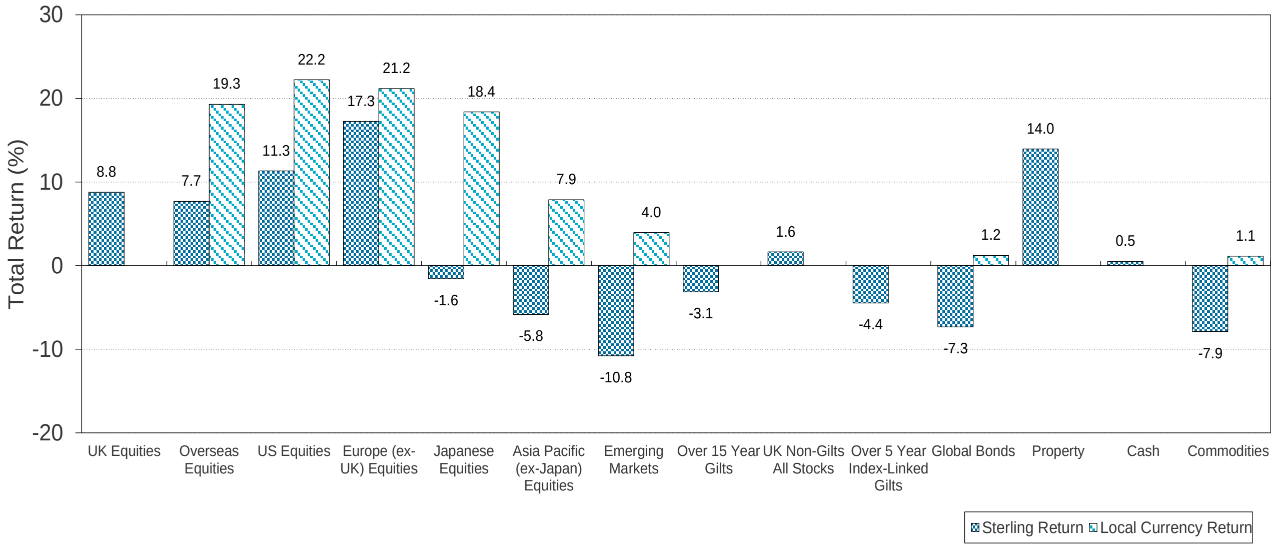
Investment Markets[2]

The year to 31 March 2014 was a stronger year for growth assets than many had anticipated, with solid positive returns from developed equity markets led by the US and UK. As the recovery of all major developed economies began to broaden and the Eurozone emerged from recession, investor sentiment gradually improved over the year albeit it was not a smooth ride. The speech by Mr Bernanke on the potential tapering of the US Quantitative Easing programme in May 2013 and the US Government shutdown in October 2013 heightened investors' fear on the credibility of central bank and government policies and introduced volatility into the markets.

Positive economic data coming from the developed economies, such as the US and UK, shifted up a gear towards the end of 2013 and it appeared that global production growth gained further momentum. The global consensus on real GDP forecast for 2014 remains at 3.0%, according to Consensus Economics, March 2014.

Although global economic activity accelerated notably in many of the developed economies, this has not been the case in many parts of the emerging economies. Emerging markets were laggards in 2013 and remained differentiated both in terms of economic growth prospects and political environment. Interest rates in emerging markets remained higher in those countries at risk of higher inflation due to currency weakness in 2013 and early 2014.

Twelve Month Performance to 31 March 2014



<u>Equities</u>

In light of the improved economic outlook, developed markets, at the global level, as measured by the FTSE World Index, returned 7.6%. Conversely, emerging markets declined by 10.8% according to the FTSE AW Emerging Markets Index.

At a regional level, European markets performed strongly and returned 17.3% over the 12 months to 31 March 2014 as indicated by the FTSE World Europe ex UK Index. At a country level UK stocks as indicated by the FTSE All Share Index produced a return of 8.8%. The FTSE USA Index rose 11.3%, while the FTSE Japan Index declined 1.6%.

All return figures quoted are total returns in Sterling terms over the 12 month period to 31 March 2014.

---

[2] Statistics sourced from Thomson Reuters Datastream unless otherwise specified.

Bonds
Government bonds fared poorly in a market reminiscent of the "risk-on" rallies seen in the post-crisis years. UK Government bonds, measured by the FTSE Gilts All Stocks Index, produced a return of -2.6%, while long dated bonds, as measured by the corresponding Over 15 Year Index decreased by 3.1%. The yield for the FTSE Gilts All Stocks index rose over the year from 2.5% p.a. to 3.0% p.a.

The FTSE All Stocks Index Linked Gilts index returned -3.8% with the corresponding Over 5 Year Index also producing a negative return of 4.4%.

Corporate debt as measured by the BofA Merrill Lynch Sterling Non-Gilts Index returned 1.6%

All return figures quoted are total returns in Sterling terms over the 12 month period to 31 March 2014.

Property
Over the 12 month period to 31 March 2014, the IPD UK Monthly All Property Index returned 14.0% in sterling terms. The three principal sectors of this index each recorded positive returns over the period (retail: 9.6%; office: 18.9%; and; industrial: 18.2%).

Currencies
On the back of the strong UK economic data, Sterling appreciated against all major currencies over the 12 month period to 31 March 2014. Sterling rose 2.3% against Euro from €1.18 to €1.21 and 9.8% against the US Dollar from $1.518 to $1.667. Sterling had a more pronounced rise of 20.3% against the Yen from ¥142.76 to ¥171.69 over the same period.

Investment Performance

Manager/Asset Class	Last Year		Last 3 Years	
	Fund (%)	Benchmark (%)	Fund (% p.a.)	Benchmark (% p.a.)
Majedie – UK Equity	21.6	8.8	16.0	8.8
Newton – Global Equity	6.9	6.2	8.1	7.1
Baillie Gifford – Diversified Growth	0.9*	1.7*	n/a	n/a
Schroder – UK Bonds	1.3	-1.2	7.0	6.3
Schroder – UK Property	13.0	14.0	7.6	7.6
Total	**10.8**	**5.8**	**10.0**	**7.8**

Figures shown are based on performance provided by State Street.
**Since inception (31 October 2013)*

In addition to outperforming the benchmark over the last one and three years, the Fund has also outperformed the benchmark over the longer term. Over the last five years the Fund has produced a total return of 14.9% p.a. compared to the benchmark return of 13.5% p.a., and over the last 10 years the Fund has produced a return of 9.2% p.a. compared to the benchmark return of 8.1% p.a.

Linking the Investment Strategy with the Funding Strategy
Although the investment strategy is set from a long term perspective, it is formally reviewed every 3 years or so after every actuarial valuation. The Committee reviews the investment strategy to ensure that it remains appropriate for the Fund's liability profile.

The Committee feel that the investment strategy provides the Fund with the necessary potential for future returns to meet future benefits while also minimising the risk being taken. The majority of the Fund's investments can be considered liquid to ensure that pensions can be paid as they fall due.

Custodial Arrangements

Manager	Custodian
Majedie	JP Morgan
Newton	Bank Of New York Mellon
Baillie Gifford	Bank Of New York Mellon
Schroder	JP Morgan

Source: Investment Managers
Pooled funds have no direct custody arrangements in place, the custodians shown are appointed by the investments managers.

The Committee is responsible for ensuring the Fund's assets continue to be securely held. The Committee reviews the custodian arrangements from time to time and the Fund auditor is authorised to make whatever investigations it deems are necessary as part of the annual audit procedure.

Investment Manager Fees
Please note that the investment manager fees listed below are the managers' annual management charges. There may be other expenses charged on the Fund's assets, e.g. custodian and administration charges, which would be in addition to these fee scales.

Manager	Asset Class	Fees
Majedie	UK Equities	0.35% p.a. in addition to 20% of any outperformance above the benchmark return plus 1%.
Newton	Global Equities	0.25% p.a. on the first £75m 0.20% p.a. on the remainder
Baillie Gifford	Diversified Growth	0.65% p.a.
Schroder	UK Bonds	0.20% p.a.
Schroder	UK Property	c0.75% p.a.*

**estimated by Schroder*

Social, Environmental and Ethical Considerations
The Committee recognises that social, environmental and ethical considerations are among the factors which investment managers will take into account, where relevant, when selecting investments for purchase, retention or sale. Each of the managers has produced a statement setting out its policy in this regard. The managers have been delegated by the Committee to act accordingly.

The Myners Review and Code of Best Practice
The Myners principles codify best practice in investment decision making. While they are voluntary, pension fund trustees are expected to consider their applicability to their own fund and report on a 'comply or explain' basis how they have used them.

The principles were initially published in 2001 following a Government sponsored review of institutional investment by Paul Myners, which found shortcomings in the expertise and organisation of investment decision making by pension fund trustees.

In March 2008 the Government consulted on proposals to update the Myners principles. This led to the publication of a revised set of six principles for Defined Benefit (DB) schemes in October 2008, together with the establishment of an Investment Governance Group (IGG) to oversee the industry led framework for the application of the principles.

While there are now only six DB principles, in place of the original ten, their scope is largely unchanged. The principles continue to emphasise the essentials of investment governance, notably the importance of effective decision making, clear investment objectives and a focus on the nature of each scheme's liabilities. The principles also require that trustees include a statement of the scheme's policy on responsible ownership in the Statement of Investment Principles and report periodically to members on the discharge of these responsibilities.

The Committee monitors their investment policies against Myners to ensure that their implementation are in keeping with the revised principles for the Fund. The following table is taken from the Fund's latest Statement of Investment Principles and provides an update on the Fund's compliance with each of the 6 Myners Principles.

Principle	Response on Adherence
Principle 1 Effective Decision Making: Administering authorities should ensure: • That decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and • That those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.	**Compliant** Decisions are taken by the committee which is responsible for the management of the fund. The committee has support from council officers with sufficient experience to assist them. The committee also seeks advice from professional actuarial and investment advisers to ensure it can be familiar with the issues concerned when making decisions. A training needs analysis was undertaken by the committee in January 2012, resulting in a training plan being developed and delivered for the financial year 2012-2013. Following the appointment of a new committee in May 2013, the training needs analysis will be refreshed to inform a new training delivery plan for 2013-14 and beyond. The committee hold a one hour training session before every committee meeting. The committee is able to make robust challenges to advice and is aware of where potential conflicts of interest may reside within the committee and in relation to service providers.
Principle 2 Clear objectives: An overall investment objective should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisers and investment managers.	**Compliant** The committee has established objectives for the fund which takes account of the nature of fund liabilities and the contribution strategy. This involved discussions with the actuary to enable the committee to set the overall risk budget for the fund. This is reflected in the investment mandates awarded to the asset managers. There is dialogue with admitted bodies within the fund in relation to the contributions they pay, their capacity to pay these contributions and the level of guarantees they can provide.
Principle 3 Risk and liabilities: • In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. • These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.	**Compliant** The investment strategy is considered in the light of the nature of the fund liabilities, the timescale over which benefits will be paid, and financial and demographic factors affecting the liabilities, such as inflation and improving longevity. The committee and council officers have discussed the contribution strategy with the actuary taking account of the strength of covenant of the council and its long term horizon. Discussions have also taken place with admitted bodies in relation to the affordability of contributions and the strengths of their covenants.

Principle	Response on Adherence
Principle 4 Performance assessment: • Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers. • Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.	**Partially Compliant** The performance of the fund and its individual managers are monitored on a regular basis. The quality of advisers is assessed on a qualitative basis but is not formally measured. Advisers are subject to periodic re-tender. The committee is developing formal processes to measure its own effectiveness.
Principle 5 Responsible Ownership: Administering authorities should • Adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee (ISC) Statement of Principles on the responsibilities of shareholders and agents. • Include a statement of their policy on responsible ownership in the Statement of Investment Principles. • Report periodically to scheme members on the discharge of such responsibilities.	**Partially Compliant** The committee encourages its investment managers to adopt the ISC Statement of Principles on the responsibilities of shareholders and agents on the fund's behalf This Statement of Investment Principles includes a statement on the fund's policy on responsible ownership. The committee needs to consider the implications of the UK Stewardship Code (issued in September 2012) to ensure it is fully compliant with the new requirements.
Principle 6 Transparency and Reporting: Administering authorities should • Act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives. • Should provide regular communication to scheme members in the form they consider most appropriate.	**Compliant** The committee maintains minutes of meetings which are available on the council website. The committee holds a formal annual meeting for members and also meets periodically with sponsoring employer bodies. An Admitted Bodies representative and a Member representative attend committee meetings. The Statement of Investment Principles is published on the council website and is available to members on request. Other information on the scheme is available to members on the council website.

Actuarial Statement for 2013/14

This statement has been prepared in accordance with Regulation 34(1)(d) of the Local Government Pension Scheme (Administration) Regulations 2008, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2013/14.

Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), dated May 2014. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- not to restrain unnecessarily the Investment Strategy of the Pension Fund so that the Administering Authority can seek to maximise investment returns (and hence meet the costs of benefits) for an appropriate level of risk;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (NB this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer 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.

For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised below the theoretical rate required to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still a better than 75% chance that the Fund will return to full funding over 20 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31 March 2013. This valuation revealed that the Fund's assets, which at 31 March 2013 were valued at £388 million, were sufficient to meet 78% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2013 valuation was £111 million.

Individual employers' contributions for the period 1 April 2014 to 31 March 2017 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 the valuation report dated 26 March 2014.

<u>Method</u>

The liabilities were assessed using an accrued benefits 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.

<u>Assumptions</u>

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 2013 valuation were as follows:

Financial assumptions	31 March 2013	
	% p.a. Nominal	% p.a. Real
Discount rate	4.60%	2.10%
Pay increases	4.30%	1.80%
Price inflation/Pension increases	2.50%	-

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2010 model, assuming the current rate of improvements has reached a peak and will converge to a long term rate of 1.25% p.a.

Based on these assumptions, the average future life expectancies at age 65 are as follows:

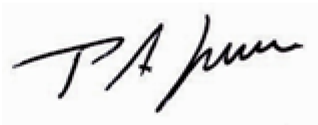
	Males	Females
Current Pensioners	22.4 years	24.5 years
Future Pensioners*	23.8 years	26.7 years

*Currently aged 45

Copies of the 2013 valuation report and Funding Strategy Statement are available on request from Isle of Wight Council, the Administering Authority to the Fund.

Experience over the period since April 2013
Experience has been better than expected since the last valuation (excluding the effect of any membership movements). Real bond yields have risen and asset returns have been better than expected meaning that funding levels are likely to have improved since the 2013 valuation.

The next actuarial valuation will be carried out as at 31 March 2016. The Funding Strategy Statement will also be reviewed at that time.



Peter Summers

Fellow of the Institute and Faculty of Actuaries
For and on behalf of Hymans Robertson LLP
23 June 2014

Hymans Robertson LLP
20 Waterloo Street
Glasgow

Statement of Responsibilities for the Statement of Accounts
(Extracted from Isle of Wight Council Statement of Account 2013-14)

The 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 Head of Finance and Section 151 officer;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- approve the statement of accounts.

The duties of the Chief Financial Officer are carried out by the Head of Finance and Section 151 officer.

The Head of Finance and Section 151 officer's responsibilities

The Head of Finance and Section 151 officer is responsible for the preparation of the authority's statement of accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this statement of accounts, the Head of Finance and Section 151 officer has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that are reasonable and prudent;
- complied with the local authority code.

The Head of Finance and Section 151 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.

I certify that the statement of accounts for the year ended 31 March 2014 required by the Accounts and Audit (England) Regulations 2011 is set out on pages 18 to 154.

I further certify that the statement of accounts present a true and fair view of the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2014.

Head of Finance and Section 151 officer Date: 18 September 2014

Chair of Audit Committee Date: 25 September 2014

Fund Account

2012-13 £000	FUND ACCOUNT	Notes	2013-14 £000
	Dealings with members, employers and others directly involved in the fund		
15,691	Contributions	7	16,948
506	Transfers in from other pension funds	8	717
16	Other income	9	13
16,213			17,678
(18,307)	Benefits	10	(18,578)
(1,247)	Payments to and on account of leavers	11	(364)
(422)	Administrative expenses	12	(491)
(19,976)			(19,433)
(3,763)	Net withdrawals from dealings with members		**(1,755)**
	Returns on investments		
9,738	Investment income	13	9,621
(517)	Taxes on income	14	(523)
49,465	Profit and losses on disposal of investments and changes in the market value of investments	17	32,820
(1,177)	Investment management expenses	15	(2,022)
(6)	Interest payable	16	(13)
57,503	Net returns on investments		39,883
53,740	**Net increase in the net assets available for benefits during the year**		**38,128**

Net Assets Statement

2013 £000	NET ASSETS STATEMENT AS AT 31 MARCH	Notes	2014 £000
386,669	Investment assets	17	422,920
4,364	Cash deposits	17	5,703
391,033			428,623
(15)	Investment liabilities	17	(1,097)
(2,020)	Borrowings	18	(1,380)
-	Long term assets	22	10
337	Current assets	23	693
(1,505)	Current liabilities	24	(891)
387,830	**Net assets of the fund available to fund benefits at the period end**		**425,958**

The fund’s financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed at note 21.

Notes to the accounts

1. Description of the fund

The Isle of Wight Council Pension Fund ("the fund") is part of the Local Government Pension Scheme (LGPS) and is administered by Isle of Wight Council ("the council"). The council is the reporting entity for this pension fund.

The following description of the fund is a summary. For more detail, reference should be made to the Isle of Wight Council Pension Fund Annual Report 2013-14 and the underlying statutory powers underpinning the scheme, namely the Superannuation Act 1972 and the Local Government Pension Scheme Regulations.

a) General

The fund is governed by the Superannuation Act 1972. The fund is administered in accordance with the following secondary legislation:

- the LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended)
- the LGPS (Administration) Regulations 2008 (as amended)
- the LGPS (Management and Investment of Funds) Regulations 2009.

It is a contributory defined benefit pension scheme administered by Isle of Wight Council to provide pensions and other benefits for the majority of local government employees throughout the Isle of Wight, and a range of other scheduled and admitted bodies on the Isle of Wight. Teachers and fire-fighters are not included as they come within other national pension schemes.

The fund is overseen by the Isle of Wight Pension Fund Committee ("the committee"), which is a committee of Isle of Wight Council.

b) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

Organisations participating in the Isle of Wight Council Pension Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the fund.
- Admitted bodies, which are other organisations that participate in the fund under an admission agreement between the fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

The scheduled bodies of the fund with active members at 31 March 2014 are:

Chale Parish Council	Ryde Town Council
Cowes Town Council	Sandown Bay Academy
Isle of Wight College	St Blasius Primary Academy (NEW)
Newport Parish Council	Weston Primary Academy
Northwood Parish Council	Wootton Bridge Parish Council
Northwood Primary Academy (NEW)	Yarmouth Town Council
Ryde Academy	

The admitted bodies of the fund with active members at 31 March 2014 are:

The Childrens Society	Southern Vectis
Cowes Harbour Commissioners	Spectrum Housing Limited
Island Roads Limited (NEW)	Spurgeons
Island Youth Water Activities Centre (NEW)	St Catherine's School Ltd
Isle of Wight Society for the Blind	Trustees of Carisbrooke Castle Museum
Planet Ice (IOW) Ltd	Ventnor Botanic Gardens
Riverside Centre Ltd	Visit IOW Limited
Southern Housing Limited	Yarmouth (IW) Harbour Commissioners

The membership of the scheme is shown below:

Year ended 31 March 2014

	Administering Authority	Scheduled Bodies	Admitted Bodies	Total
Number of employers with active members	1	13	16	**30**
Number of contributors (Active members)	3,338	550	179	**4,067**
Number of frozen refunds [1]	604	10	4	**618**
Number of deferred pensioners [2]	4,514	235	94	**4,843**
Number of pensioners	2,961	126	115	**3,202**
Number of widows/dependant pensioners	450	19	16	**485**
	11,867	940	408	**13,215**

Year ended 31 March 2013

	Administering Authority	Scheduled Bodies	Admitted Bodies	Total
Number of employers with active members	1	11	14	**26**
Number of contributors (Active members)	3,344	404	135	**3,883**
Number of frozen refunds [1]	607	10	4	**621**
Number of deferred pensioners [2]	4,326	227	91	**4,644**
Number of pensioners	2,866	112	108	**3,086**
Number of widows/dependant pensioners	439	16	17	**472**
	11,582	769	355	**12,706**

[1] Frozen refunds are former employees who do not have any pension entitlement apart from a return of the contributions paid into the Scheme during their employment but have not yet claimed the refund

[2] A deferred pensioner is a former employee who has accrued pension rights within the Scheme but has not yet reached retirement age to enable them to access their benefits or transferred their accrued rights to another Scheme/provider

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007.

The pay bands and rates applicable for the year ended 31 March 2014 are detailed below.

Range (Annual full-time equivalent pay)	Contribution rate
Up to £13,700	5.5%
More than £13,701 and up to £16,100	5.8%
More than £16,101 and up to £20,800	5.9%
More than £20,801 and up to £34,700	6.5%
More than £34,701 and up to £46,500	6.8%
More than £46,501 and up to £87,100	7.2%
More than £87,100	7.5%

Employee contributions are matched by employers' contributions which are set based on triennial actuarial valuations. The last such valuation was at 31 March 2013. The current and future employer contribution rates as determined by that valuation are detailed in note 20.

d) Benefits
Pension benefits under the LGPS are based on pensionable pay and length of pensionable service.

Note 6 (Events after the balance sheet date) contains a table summarising the benefits under the current scheme arrangements in comparison with those under the new LGPS 2014 scheme effective from 1 April 2014.

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits. For more details, please refer to the Pensions Office website: http://www.iwight.com/council/OtherServices/Pensions-IWC

Benefits are index-linked in order to keep pace with inflation. In June 2010, the Government announced that the method of indexation would change from the retail prices index to the consumer prices index. This change took effect from 1 April 2011.

2. Basis of preparation

The Statement of Accounts summarises the fund's transactions for the 2013-14 financial year and its position at year-end as at 31 March 2014. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2013/14* which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed at note 21 of these accounts.

3. Summary of significant accounting policies

Fund account – revenue recognition

a) <u>Contribution income</u>

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the actuary in the payroll period to which they relate.

Employers' augmentation contributions and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

b) <u>Transfers to and from other schemes</u>

Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with the LGPS Regulations (see notes 8 and 11).

Individual transfers in/out are accounted for when paid/received, which is normally when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions (see below) to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In (see note 8).

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

c) Investment income

i) Interest income

Interest income is recognised in the fund accounts as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

ii) Dividend income

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

iii) Distributions from pooled funds

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

iv) Movements in the net market value of investments

Movements in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

Fund account – expense items

d) Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

e) Taxation

The fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers from withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

f) Administrative expenses

All administrative expenses are accounted for on an accruals basis. All staff costs of the pensions administration team are charged direct to the fund. Management, accommodation and other overheads are apportioned to the fund in accordance with council policy.

g) Investment management expenses

All investment management expenses are accounted for on an accruals basis.

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly these are based on the market values of the investments under their management and therefore increase or reduce as the value of these investments change.

In addition the fund has negotiated with the following managers that an element of their fee be performance related:

- Newton Investment Management Limited – Global Equities
- Majedie Asset Management Limited – UK Equities

Performance-related fees were £903.5 thousand in 2013-14 (2012-13: £58.0 thousand)

Where an investment manager's fee note has not been received by the balance sheet date, an estimate based on the market value of their mandate as at the end of the year is used for inclusion in the fund account. In 2013-14 no fees are based on such estimates (2012-13: nil)

The cost of obtaining investment advice from external consultants is included in investment management charges.

The costs of the council's in-house fund management team are charged direct to the fund and a proportion of the council's costs representing management time spent by officers on investment management is also charged to the fund.

h) VAT

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs (HMRC). VAT receivable is excluded from income.

Net assets statement

i) Financial assets

Financial assets are included in the net assets statement on a fair value basis at the reporting date. A financial asset is recognised in the net assets statement on the date the fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of the asset are recognised by the fund.

The values of investments as shown in the net assets statement have been determined as follows:

i) Market-quoted investments

The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.

ii) Pooled investment vehicles

Pooled investment vehicles are valued at closing bid price, if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of applicable withholding tax.

j) Foreign currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

k) Cash and cash equivalents

Cash comprises cash in hand and demand deposits.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

l) Financial liabilities

The fund recognises financial liabilities at fair values at the reporting date. A financial liability is recognised in the net assets statement on the date the fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the fund.

m) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards.

As permitted under IAS 26, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (note 21).

n) Additional Voluntary Contributions

Isle of Wight Council Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the pension fund. The fund has appointed Prudential Life and Pensions as its AVC provider. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their accounts and the movements in the year.

AVCs are not included in the accounts in accordance with section 4(2)(b) of the Local Government Pension Scheme (Management and Investment Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (note 25).

o) Events After the Balance Sheet Date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

p) Provisions, Contingent Liabilities and Contingent Assets

i) Provisions

Provisions are made where an event has taken place that gives the fund a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and where a reliable estimate can be made of the amount of the obligation. For instance, the fund may be involved in a court case that could result eventually in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the fund account in the year that the fund becomes aware of the obligation, and are measured at the best estimate, at the balance sheet date, of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made they are charged to the provision carried in the net assets statement. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the authority settles the obligation.

ii) Contingent Liabilities

A contingent liability arises where an event has taken place that gives the fund a possible obligation, whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the fund. Contingent liabilities also arise in circumstances where a provision would otherwise be made, but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the net assets statement but disclosed in note 27 to the accounts.

iii) Contingent Assets

A contingent asset arises where an event has taken place that gives the authority a possible asset, whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the fund.

Contingent assets are not recognised in the net assets statement but disclosed in note 27 to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

4. Critical judgements in applying accounting policies

Pension fund liability

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and summarised in note 20. This estimate is subject to significant variances based on changes to the underlying assumptions.

5. Assumptions made about the future and other major sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for the revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

The key judgements and estimation uncertainty that have a significant risk of causing material adjustment to items in the notes to the accounts within the next financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be provided.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance: A 0.5% increase in the discount rate assumption would result in a decrease in the pension fund deficit of £43m. A 0.5% increase in assumed earnings inflation would increase the deficit by approximately £12m. A 0.5% increase in assumed price inflation/pension increases would increase the deficit by approximately £34m. A one-year increase in assumed life expectancy would increase the deficit by approximately £15m

6. Events after the balance sheet date

LGPS2014

New regulations have been issued setting out the details of the new LGPS scheme effective from 1 April 2014.

<u>Contributions</u>

From that date, the employee contribution rate payable will be based on actual pensionable pay (not the annual full time equivalent). Pension contributions will also be payable on non-contractual overtime. Also from 1 April 2014, employees can elect to pay into the 50/50 section of the fund, paying half the normal contributions and building up half the normal pension benefit.

The pay bands and rates applicable for the year ended 31 March 2015 are detailed below:

Range (Actual pensionable pay)	Contribution rate
Up to £13,500	5.5%
More than £13,501 and up to £21,000	5.8%
More than £21,001 and up to £34,000	6.5%
More than £34,001 and up to £43,000	6.8%
More than £43,001 and up to £60,000	8.5%

More than £60,001 and up to £85,000	9.9%
More than £85,001 and up to £100,000	10.5%
More than £100,001 and up to £150,000	11.4%
More than £150,000	12.5%

<u>Benefits</u>

- All pensions in payment or built up before April 2014 will be fully protected. If you are currently in receipt of a pension or have left with a deferred pension these changes do not affect you. If you are currently a contributing scheme member your pre April 2014 pension will still be based on final salary at retirement, and current Normal Pension Age.
- For service accruing after April 2014, pensions will be based on Career Average Revalued Earnings (CARE), rather than final salary.
- Each year worked will be worth 1/49 x CARE.
- There will continue to be no automatic lump sum, but (as currently) a lump sum of £12 will be paid for each £1 of pension given up.
- The normal pension age, at which benefits will be payable without reduction, will change from 65 to the individual member's State Retirement Age.

Further details on the new LGPS scheme can be found here: http://lgps2014.org/

The table below (prepared by Hymans Robertson as part of their report dated 26 March 2014, on the actuarial valuation of the fund as at 31 March 2013) sets out a summary of the non-discretionary benefits under both the existing scheme in force until 31 March 2014, and the new scheme effective from 1 April 2014 (LGPS 2014).

Provision	**Benefit Structure To 31 March 2008**	**Benefit Structure From 1 April 2008**	**Benefit Structure From 1 April 2014**
Normal retirement age (NRA)	Age 65.	Age 65.	Equal to the individual member's State Pension Age (minimum 65).
Earliest retirement age (ERA) on which immediate unreduced benefits can be paid on voluntary retirement	As per NRA (age 65). Protections apply to active members in the scheme immediately prior to 1 October 2006 who would have been entitled to immediate payment of unreduced benefits prior to 65, due to: The benefits relating to various segments of scheme membership are protected as set out in Schedule 2 to the Local Government Pension Scheme (Transitional Provisions) Regulations 2008 and associated GAD guidance.		As per NRA (minimum age 65). Protections apply to active members in the scheme for pensions earned up to 1 April 2014, due to: a) Accrued benefits relating to pre April 2014 service at age 65. b) Continued 'Rule of 85' protection for qualifying members. c) Members within 10 years of existing NRA at 1 April 2012 – no change to when they can retire and no decrease in pension they receive at existing NRA.
Member contributions	Officers - 6% of pensionable pay Manual Workers – 5% of pensionable pay if has protected lower rates rights or 6% for post 31 March 1998 entrants or former entrants with no protected rights.	Banded rates (5.5%-7.5%) depending upon level of full-time equivalent pay. A mechanism for sharing any increased scheme costs between employers and scheme members is included in the LGPS regulations.	Banded rates (5.5%-12.5%) depending upon level of actual pay. A mechanism for sharing any increased scheme costs between employers and scheme members will be included in the LGPS regulations in due course.
Pensionable pay	All salary, wages, fees and other payments in respect of the employment, excluding non-contractual overtime and some other specified amounts. Some scheme members may be covered by special agreements.		Pay including non-contractual overtime and additional hours.

Provision	Benefit Structure To 31 March 2008	Benefit Structure From 1 April 2008	Benefit Structure From 1 April 2014
Final pay	The pensionable pay in the year up to the date of leaving the scheme. Alternative methods used in some cases, e.g. where there has been a break in service or a drop in pensionable pay. Will be required for the statutory underpin and in respect of the final salary link that may apply in respect of certain members of the CARE scheme who have pre April 2014 accrual.		Not applicable
Period of scheme membership	Total years and days of service during which a member contributes to the Fund. (e.g. transfers from other pension arrangements, augmentation, or from April 2008 the award of additional pension). For part time members, the membership is proportionate with regard to their contractual hours and a full time equivalent). Additional periods may be granted dependent on member circumstances.		Not applicable
Normal retirement benefits at NRA	Annual Retirement Pension - 1/80th of final pay for each year of scheme membership. Lump Sum Retirement Grant - 3/80th of final pay for each year of scheme membership. Additional lump sum can be provided by commutation of pension (within overriding limits) on a basis of £12 additional lump sum for each £1 of pension surrendered.	Annual Retirement Pension - 1/60th of final pay for each year of scheme membership. Lump Sum Retirement Grant – none except by commutation of pension.	Scheme membership from 1 April 2014: Annual Retirement Pension - 1/49th of pensionable pay (or assumed pensionable pay) for each year of scheme membership. Lump Sum Retirement Grant – none except by commutation of pension
Option to increase retirement lump sum benefit	In addition to the standard retirement grant any lump sum is to be provided by commutation of pension. The terms for the conversion of pension in to lump sum is £12 of lump sum for every £1 of annual pension surrendered.	No automatic lump sum. Any lump sum is to be provided by commutation of pension. The terms for the conversion of pension in to lump sum is £12 of lump sum for every £1 of annual pension surrendered.	No automatic lump sum. Any lump sum is to be provided by commutation of pension. The terms for the conversion of pension in to lump sum is £12 of lump sum for every £1 of annual pension surrendered.
Voluntary early retirement benefits (non ill-health)	On retirement after age 60, subject to reduction on account of early payment in some circumstances (in accordance with ERA protections).		On retirement after age 55, subject to reduction on account of early payment in some circumstances (in accordance with ERA protections).

Provision	Benefit Structure To 31 March 2008	Benefit Structure From 1 April 2008	Benefit Structure From 1 April 2014
Employer's consent early retirement benefits (non ill-health)	On retirement after age 55 with employer's consent. Benefits paid on redundancy or efficiency grounds are paid with no actuarial reduction. Otherwise, benefits are subject to reduction on account of early payment, unless this is waived by the employer.		Not applicable Benefits paid on redundancy or efficiency grounds are paid with no actuarial reduction. Otherwise, benefits are subject to reduction on account of early payment, unless this is waived by the employer.
Ill-health benefits	As a result of permanent ill-health or incapacity. Immediate payment of unreduced benefits. Enhancement to scheme membership, dependent on actual membership. Enhancement seldom more than 6 years 243 days.	As a result of permanent ill-health or incapacity and a reduced likelihood of obtaining gainful employment (local government or otherwise) before age 65. Immediate payment of unreduced benefits. Enhanced to scheme membership, dependent on severity of ill health. 100% of prospective membership to age 65 where no likelihood of undertaking any gainful employment prior to age 65; 25% of prospective membership to age 65 where likelihood of obtaining gainful employment after 3 years of leaving, but before age 65; or 0% of prospective membership where there is a likelihood of undertaking gainful employment within 3 years of leaving employment	As a result of permanent ill-health or incapacity and a reduced likelihood of obtaining gainful employment (local government or otherwise) before NRA. Immediate payment of unreduced benefits. Enhanced to scheme membership, dependent on severity of ill health. 100% of prospective membership to age 65 where no likelihood of undertaking any gainful employment prior to age 65; 25% of prospective membership to age 65 where likelihood of obtaining gainful employment after 3 years of leaving, but before age 65; or 0% of prospective membership where there is a likelihood of undertaking gainful employment within 3 years of leaving employment.

Provision	Benefit Structure To 31 March 2008	Benefit Structure From 1 April 2008	Benefit Structure From 1 April 2014
Flexible retirement	After 5th April 2006, a member who has attained the age of 50, with his employer's consent, reduces the hours he works, or the grade in which he is employed, may elect in writing to the appropriate administering authority that such benefits may, with his employer's consent, be paid to him notwithstanding that he has not retired from that employment. Benefits are paid immediately and subject to actuarial reduction unless the reduction is waived by the employer.	A member who has attained the age of 55 and who, with his employer's consent, reduces the hours he works, or the grade in which he is employed, may make a request in writing to the appropriate administering authority to receive all or part of his benefits, Benefits are paid immediately and subject to actuarial reduction unless the reduction is waived by the employer.	
Pension increases	All pensions in payment, deferred pensions and dependant's pensions other than benefits arising from the payment of additional voluntary contributions are increased annually. Pensions are increased partially under the Pensions (Increases) Act and partially in accordance with statutory requirements (depending on the proportions relating to pre 88 GMP, post 88 GMP and excess over GMP).		
Death after retirement	A spouse's or civil partner's pension of one half of the member's pension (generally post 1 April 1972 service for widowers' pension and post 6 April 1988 for civil partners) is payable; plus If the member dies within five years of retiring and before age 75 the balance of five years' pension payments will be paid in the form of a lump sum; plus Children's pensions may also be payable.	A spouse's, civil partner's or nominated cohabiting partner's pension payable at a rate of 1/160th of the member's total membership multiplied by final pay (generally post 1 April 1972 service for widowers' pension and post 6 April 1988 for civil partners and nominated cohabiting partners) is payable; plus If the member dies within ten years of retiring and before age 75 the balance of ten years' pension payments will be paid in the form of a lump sum; plus Children's pensions may also be payable.	

Provision	Benefit Structure To 31 March 2008	Benefit Structure From 1 April 2008	Benefit Structure From 1 April 2014
Death in service	A lump sum of two times final pay; plus A spouse's or civil partner’s pension of one half of the ill-health retirement pension that would have been paid to the scheme member if he had retired on the day of death (generally post 1 April 1972 service for widowers’ pension and post 6 April 1988 for civil partners); plus Children’s pensions may also be payable.	A lump sum of three times final pay; plus A spouse’s, civil partner’s or cohabiting partner’s pension payable at a rate of 1/160th of the member's total (augmented to age 65) membership (generally post 1 April 1972 service for widowers’ pension and post 6 April 1988 for civil partners and nominated cohabiting partners), multiplied by final pay; plus Children’s pensions may also be payable.	
Leaving service options	If the member has completed three months’ or more scheme membership, deferred benefits with calculation and payment conditions similar to general retirement provisions ; or A transfer payment to either a new employer's scheme or a suitable insurance policy, equivalent in value to the deferred pension; or If the member has completed less than three months' scheme membership, a return of the member's contributions with interest, less a State Scheme premium deduction and less tax at the rate of 20%.		If the member has completed two years or more scheme membership, deferred benefits with calculation and payment conditions similar to general retirement provisions ; or A transfer payment to either a new employer's scheme or a suitable insurance policy, equivalent in value to the deferred pension; or If the member has completed less than two years scheme membership, a return of the member's contributions with interest, less a State Scheme premium deduction and less tax at the rate of 20%.
State pension scheme	The Fund is contracted-out of the State Second Pension and the benefits payable to each member are guaranteed to be not less than those required to enable the Fund to be contracted-out.		
Assumed pensionable pay	Not applicable		This applies in cases of reduced contractual pay (CPP) resulting from sickness, child related and reserve forces absence, whereby the amount added to the CPP is the assumed pensionable pay rather than the reduced rate of pay actually received.
50/50 option	Not applicable		Optional arrangement allowing 50% of main benefits to be accrued on a 50% contribution rate.

Other than the above, there are no post balance sheet events recorded prior to the authorised for issue date and any events that occurred after this date have not been recognised in the statement of accounts.

7. Contributions receivable

By category:

2012-13 £000		2013-14 £000
	Employers	
11,761	Normal	12,073

192	Special (Capitalisation)	733
384	Additional (deficit funding and cessations)	745
12,337		13,551
	Members	
3,332	Normal	3,378
22	Additional	19
3,354		3,397
15,691		**16,948**

By authority:

2012-13 £000		2013-14 £000
12,922	Administering authority	13,148
1,532	Scheduled bodies	1,715
1,237	Admitted bodies	2,085
15,691		**16,948**

8. Transfers in from other pension funds

2012-13 £000		2013-14 £000
-	Group transfers	-
506	Individual transfers	717
506		**717**

9. Other income

2012-13 £000		2013-14 £000
16	Miscellaneous income	13
-	Contribution Equivalent Premiums	-
16		**13**

Contribution Equivalent Premiums (CEPs) are sums relating to National Insurance Contributions payable when an employee leaves the pension fund without entitlement to benefits. Sums are held as a contingent asset and/or liability and these amounts remain so until the relevant employee requests a refund of contributions payable, a transfer is made to another pension fund or the employee returns to the employ of the Isle of Wight Council (see note 27).

10. Benefits payable

By category:

2012-13 £000		2013-14 £000
14,585	Pensions	15,323
3,440	Commutation of pension and lump sum retirement benefits	2,960
282	Lump sum death benefits	295
18,307		**18,578**

By authority:

2012-13 £000		2013-14 £000
16,711	Administering authority	16,880
547	Scheduled bodies	600
1,049	Admitted bodies	1,098
18,307		**18,578**

11. Payments to and on account of leavers

2012-13 £000		2013-14 £000

-	Refund of contributions	2
-	Group transfers	-
1,247	Individual transfers	362
1,247		**364**

12. Administrative expenses

2012-13 £000		2013-14 £000
257	Administering authority	286
77	IT costs	98
19	External audit fees	21
61	Actuarial fees	84
8	Other expenses	2
422		**491**

13. Investment income

2012-13 £000		2013-14 £000
5,340	Equity dividends	5,259
	Income from pooled investment vehicles:	
763	- Property	856
3,492	- Bonds	3,476
35	- Unit Trusts	29
6	Interest on cash deposits	1
102	Other	-
9,738		**9,621**

14. Taxation

2012-13 £000		2013-14 £000
517	Withholding tax - equities	523
517		**523**

15. Investment management

2012-13 £000		2013-14 £000
1,123	Management fees	1,965
16	Custodian fees	19
9	Performance monitoring fees	9
29	Investment consultancy	29
1,177		**2,022**

The management fees disclosed above include all investment management fees directly incurred by the fund including those charges on pooled fund investments.

16. Interest payable

2012-13 £000		2013-14 £000
6	Interest on short term borrowing	13
6		**13**

17. Investments

Market value 31 March 2013 £000		Market value 31 March 2014 £000
	Investment assets	
140,671	Equities	98,153
245,182	Pooled Investment Vehicles	324,354
4,364	Cash deposits	5,703
668	Investment income due	280
72	Amounts receivable for sales	99
76	Recoverable withholding tax	34
391,033	**Total investment assets**	**428,623**
	Investment liabilities	
(15)	Amounts payable for purchases	(1,097)
(15)	**Total investment liabilities**	**(1,097)**
391,018	**Net investment assets**	**427,526**

17a) Reconciliation of movements in investments

	Market value 1 April 2013	Purchases during the year	Sales during the year	Change in market value during the year	**Market value 31 March 2014**
	£000	£000	£000	£000	**£000**
Equities	140,671	57,889	(122,048)	21,641	**98,153**
Pooled Investment Vehicles					
Global Equities	132,584	-	-	9,208	**141,792**
Property	18,876	-	-	1,670	**20,546**
Bonds	83,929	3,476	-	(2,422)	**84,983**
Diversified Growth Fund	-	66,066	-	589	**66,655**
Unit Trusts	9,793	600	(2,165)	2,150	**10,378**
	385,853	128,031	(124,213)	32,836	**422,507**
Cash with custodian	4,364			(16)	**5,703**
Amounts receivable for sales of investments	72				**99**
Investment income due	668				**280**
Recoverable withholding tax	76				**34**
Amounts payable for purchases of investments	(15)				**(1,097)**
Net investment assets	391,018			32,820	**427,526**

	Market value 1 April 2012	Purchases during the year	Sales during the year	Change in market value during the year	**Market value 31 March 2013**
	£000	£000	£000	£000	**£000**
Equities	117,935	48,793	(46,132)	20,075	**140,671**
Pooled Investment Vehicles					
Global Equities	106,962	-	-	25,622	**132,584**
Property	18,888	402	-	(414)	**18,876**
Bonds	77,103	3,492	-	3,334	**83,929**
Unit Trusts	9,103	114	(283)	859	**9,793**
	329,991	52,801	(46,415)	49,476	**385,853**
Cash with custodian	4,335			(11)	**4,364**
Amounts receivable for sales of investments	42				**72**
Investment income due	512				**668**
Recoverable withholding tax	101				**76**
Amounts payable for purchases of investments	(66)				**(15)**
Net investment assets	334,915			49,465	**391,018**

17b) Analysis of investments

31 March 2013 £000		31 March 2014 £000
	EQUITIES	
	UK	
130,806	Quoted	81,007
	Overseas	
9,865	Quoted	17,146
140,671		**98,153**
	POOLED FUNDS – ADDITIONAL ANALYSIS	
	UK	
245,182	Quoted	324,354
245,182		**324,354**
385,853		**422,507**

Investments analysed by fund manager

Market value 31 March 2013			Market value 31 March 2014	
£000	%		£000	%
83,929	21.5	Schroder Investment Management – Bonds	84,984	19.9
59,842	15.3	Schroder Investment Management – UK Equities	-	0.0
19,618	5.0	Schroder Investment Management – Property	22,165	5.2
132,584	33.9	Newton Investment Management – Overseas Equities	141,792	33.2
94,969	24.3	Majedie Asset Management – UK Equities	111,895	26.1
-	0.0	Baillie Gifford – Diversified Growth Fund	66,655	15.6
390,942			**427,491**	
76	0.0	Recoverable withholding tax	34	0.0
391,018			**427,526**	

All the above companies are registered in the United Kingdom.

The following investments represent more than 5% of the total net assets of the fund

Market value 31 March 2013			Market value 31 March 2014	
£000	% of total fund		£000	% of total fund
132,584	34.19	Newton International Growth X Account	141,792	33.29
83,929	21.64	Schroder Institutional Sterling Broad Market X Account	84,983	19.95
-	0.00	Baillie Gifford – Diversified Growth Fund	66,655	15.65

The following investments represent more than 5% of their asset class

Market value 31 March 2013			Market value 31 March 2014	
£000	% of asset class		£000	% of asset class
		Equities		
5,793	4.11	Royal Dutch Shell	9,925	10.11
7,898	5.61	BP plc	8,419	8.58
6,308	4.48	GlaxoSmithKline plc	6,426	6.55
8,547	6.07	Vodafone Group	4,532	4.62

Market value 31 March 2013			Market value 31 March 2014	
£000	% of asset class		£000	% of asset class
		Pooled Investment Vehicles		
		Global Equities		
132,584	100.00	Newton International Growth X Account	141,792	100.00
		Bonds		
83,929	100.00	Schroder Institutional Sterling Broad Market X Account	84,983	100.00
		Property		
18,876	100.00	Schroder UK Property Fund	20,546	100.00
		Diversified Growth Funds		
-	0.00	Baillie Gifford	66,655	100.00
		Unit Trusts		
7,977	81.46	Majedie Asset Management Special Situations Investment Fund	10,378	100.00
1,218	12.44	Schroder Recovery Fund A Inc	-	0.00
598	6.10	Schroder Institutional UK Smaller Companies Fund	-	0.00

18. Financial instruments

18a) Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities (excluding cash) by category and net assets heading. No financial assets were reclassified during the period.

31 March 2013				31 March 2014		
Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost		Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost
£000	£000	£000		£000	£000	£000
			Financial assets			
140,671			Equities	98,153		
245,182			Pooled investment vehicles	324,354		
	4,364		Cash		5,718	
816			Other investment balances	413		
	6		Debtors		11	
386,669	**4,370**	**-**		**422,920**	**5,729**	**-**
			Financial liabilities			
(15)			Other investment balances	(1,097)		
		(414)	Creditors			(629)
		(2,020)	Borrowings			(1,380)
(15)	**-**	**(2,434)**		**(1,097)**	**-**	**(2,009)**
386,654	**4,370**	**(2,434)**		**421,823**	**5,729**	**(2,009)**

18b) Net gains and losses on financial instruments

31 March 2013 £000		31 March 2014 £000
	Financial assets	
49,476	Fair value through profit and loss	32,836
(11)	Loans and receivables	(16)
	Financial liabilities	
-	Fair value through profit and loss	-
-	Financial liabilities measured at amortised cost	-
49,465	**Total**	**32,820**

18c) Fair value of financial instruments

The following table summarises the carrying values of the financial assets and financial liabilities by class of instrument compared to their fair values.

31 March 2013			31 March 2014	
Carrying value	Fair value		Carrying value	Fair value
£000	£000		£000	£000
		Financial assets		
386,669	386,669	Fair value through profit and loss	422,920	422,920
4,370	4,370	Loans and receivables	5,729	5,729
391,039	**391,039**	**Total financial assets**	**428,649**	**428,649**
		Financial liabilities		
(15)	(15)	Fair value through profit and loss	(1,097)	(1,097)
(2,434)	(2,434)	Financial liabilities measured at amortised cost	(2,009)	(2,009)
(2,449)	**(2,449)**	**Total financial liabilities**	**(3,106)**	**(3,106)**

The carrying value of financial instruments and liabilities is the market value prevailing at the balance sheet dates.

The fund has not entered into any financial guarantees that are required to be accounted for as financial instruments.

18d) Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information available to determine fair values.

Level 1

Financial instruments quoted at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant impact on the instrument's valuation is not based on observable market data.

Such instruments would include unquoted equity investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

At 31 March 2014, the fund does not have any investments which should be classified as Level 3.

The following table provides an analysis of the fund's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy:

At 31 March 2014			
Type of Asset	Level 1	Level 2	Level 3
	£000	£000	£000
Equities	98,153	-	-
Pooled Investment Vehicles:			
Global Equities	141,792	-	-
Property	-	20,546	-
Bonds	84,984	-	-
Diversified Growth Fund	-	66,555	-
Unit Trusts	10,377	-	-
Cash and Cash Equivalents	5,703	-	-
TOTAL	**341,009**	**87,101**	**-**

At 31 March 2013			
Type of Asset	Level 1	Level 2	Level 3
	£000	£000	£000
Equities	140,671	-	-
Pooled Investment Vehicles:			
Global Equities	132,584	-	-
Property	-	18,876	-
Bonds	83,929	-	-
Unit Trusts	9,793	-	-
Cash and Cash Equivalents	4,364	-	-
TOTAL	**371,341**	**18,876**	**-**

19. Nature and extent of risks arising from financial instruments

Risk and risk management

The fund's objective is to generate positive investment returns for a given level of risk. Therefore the fund holds financial instruments such as securities (equities, bonds), collective investment schemes (or pooled funds) and cash and cash equivalents. In addition debtors and creditors arise as a result of its operations. The value of these financial instruments in the financial statements approximates to their fair value.

The main risks from the fund's holding of financial instruments are market risk, credit risk and liquidity risk. Market risk includes price risk, interest rate risk and foreign currency risk.

Responsibility for the fund's risk management strategy rests with the pension fund committee. Risk management policies are established to identify and analyse the risks faced by the council's pensions operations, Policies are reviewed regularly to reflect changes in activity and market conditions.

The Fund's investments are held by J P Morgan Chase Bank NA, who act as custodian on behalf of the Fund.

Because the fund adopts a long term investment strategy, the high level risks described below will not alter significantly during the year unless there are significant strategic or tactical changes in the portfolio.

a) Market risk

Market risk represents the risk that the fair value of a financial instrument will fluctuate because of changes in market prices, interest rates or currencies. The fund is exposed through its investments in equities, bonds and investment funds, to all these market risks. The aim of the investment strategy is to manage and control market risk within acceptable parameters, while optimising the return from the investment portfolio.

In general, excessive volatility in market risk is managed through the diversification of the investments held by asset class, investment mandate guidelines and investment managers. The risk arising from exposure to specific markets is limited by the strategic asset allocation, which is regularly monitored by the committee.

The fund's investments are managed on behalf of the fund by the appointed investment managers. Each investment manager is required to invest the assets managed by them in accordance with the terms of their investment guidelines or pooled fund prospectus. The committee has determined that the investment management structure is appropriate and is in accordance with its investment strategy. The committee regularly monitors each investment manager and considers and takes advice on the nature of the investments made and associated risks.

Other price risk
Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of factors other than interest rate or foreign currency movements, whether those changes are caused by factors specific to the individual instrument, its issuer or factors affecting the market in general.

Other price risk arises from uncertainty about the future value of the financial instruments that the fund holds. All investments present a risk of loss of capital, the maximum risk being determined by the fair value of the financial instruments. The investment managers mitigate this risk through diversification in line with their own investment strategies and mandate guidelines.

Other price risk - sensitivity analysis
The sensitivity of the fund's investments to changes in market prices has been analysed using the volatility of return experienced by each investment portfolio during the reporting period. The volatility data is broadly consistent with a one-standard deviation movement in the value of the assets. The analysis assumes that all other variables remain constant.

Movements in market prices would have increased or decreased the net assets, as held by the fund's custodian, by the amounts shown below.

	Value as at 31 March 2014	Volatility of return	Value on increase	Value on decrease
	£000	%	£000	£000
Cash & cash equivalents	5,703	0.0	5,703	5,703
Investment portfolio assets				
Equities – UK	81,007	4.5	84,654	77,359
Equities – overseas	17,146	10.0	18,858	15,434
Pooled investment vehicles:				
Global equities	141,792	2.2	144,954	138,630
Property	20,546	2.7	21,097	19,995
Bonds	84,984	1.5	86,298	83,670
Diversified Growth Fund	66,655	4.9	69,931	63,378
Unit Trusts	10,377	10.1	11,426	9,328
Amounts receivable for sales	99	0.0	99	99
Investment income due	280	0.0	280	280
Recoverable withholding tax	34	0.0	34	34
Amounts payable for purchases	(1,097)	0.0	(1,097)	(1,097)
Total	427,526		442,237	412,813

	Value as at 31 March 2013	Volatility of return	Value on increase	Value on decrease
	£000	%	£000	£000
Cash & cash equivalents	4,364	0.0	4,364	4,364
Investment portfolio assets				
Equities – UK	130,806	5.0	137,342	124,271
Equities – overseas	9,865	34.7	13,290	6,441
Pooled investment vehicles:				
Global equities	132,584	6.9	141,785	123,383
Property	18,876	0.3	18,941	18,810
Bonds	83,929	2.3	85,836	82,022
Unit Trusts	9,793	5.3	10,314	9,271
Amounts receivable for sales	72	0.0	72	72
Investment income due	668	0.0	668	668
Recoverable withholding tax	76	0.0	76	76
Amounts payable for purchases	(15)	0.0	(15)	(15)

Total	391,018		412,673	369,363

b) Interest rate risk

Interest rate risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market interest rates which will affect the value of fixed interest and index linked securities. The amount of income receivable from cash balances will be affected by fluctuations in interest rates.

Interest rate risk - sensitivity analysis

The fund does not directly hold any fixed interest securities; hence a change in interest rates will not impact on the fair value of assets.

Changes in interest rates do not impact on the fair value of cash balances, but they will impact on the interest income earned.

c) Currency risk

Currency risk represents the risk that the fair value of financial instruments when expressed in sterling, the fund's base currency, will fluctuate because of changes in foreign exchange rates. The fund is exposed to currency risk on investments denominated in a currency other than sterling. For a sterling based investor, when sterling weakens, the sterling value of foreign currency denominated investments rises. As sterling strengthens, the sterling value of foreign currency denominated investment falls.

The following table summarises the fund's currency exposure as at 31 March 2014, and as at the previous period end:

	Asset value as at 31 March 2014	Asset value as at 31 March 2013
	£'000	£'000
Equities	17,079	9,865
Investment income due	52	80
	17,131	**9,945**

Currency risk – sensitivity analysis

Following analysis of historical data, the council considers the likely volatility associated with foreign exchange movements to be 3.61% (2012-13: 3.44%) (as measured by one standard deviation), based on historical movements on the month-end exchange rates over a rolling 36-month period.

This analysis assumes that all other variables, in particular interest rates, remain constant.

Movements in the relative strength of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows:

	Value as at 31 March 2014	Value on increase +3.61%	Value on decrease -3.61%
	£'000	£'000	£'000
Equities	17,079	17,696	16,463
Investment income due	52	54	51
	17,131	**17,750**	**16,514**

	Value as at 31 March 2013	Value on increase +3.44%	Value on decrease -3.44%
	£'000	£'000	£'000
Equities	9,865	10,205	9,526
Investment income due	80	83	78
	9,945	**10,288**	**9,604**

d) Credit Risk

Credit risk represents the risk that the counterparty to a transaction or financial instrument will fail to meet an obligation and cause the fund to incur a financial loss. This is often referred to as counterparty risk.

The fund is exposed to credit risk through its underlying investments (including cash balances) and the transactions it undertakes to manage its investments. The careful selection and monitoring of counterparties including brokers, custodian and investment managers minimises credit risk that may occur though the failure to settle transactions in a timely manner.

Contractual credit risk is represented by the net payment or receipt that remains outstanding, and the cost of replacing the position in the event of a counterparty default. Bankruptcy or insolvency of the custodian may affect the fund's access to its assets. However, all assets held by the custodian are ring-fenced as "client assets" and therefore cannot be claimed by creditors of the custodian. The fund manages its risk by monitoring the credit quality and financial position of the custodian.

The fund does not hold any fixed interest securities directly, hence has limited credit risk through its underlying investments in bonds.

Another source of credit risk is the cash balances held to meet operational requirements or by the managers at their discretion. Internally held cash is managed on the fund's behalf by the council's treasury management team in line with the council's Treasury Management Strategy which sets out the permitted counterparties and limits. The fund invests surplus cash held with the custodian in diversified money market funds.

The fund does not engage in securities lending activities, hence is not exposed to the counterparty risk of the collateral provided by borrowers against the securities lent.

The fund does not have any foreign exchange contracts, hence is not subject to credit risk in relation to the counterparties of the contracts.

The council believes it has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits over the past five financial years.

e) Liquidity Risk
Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as they fall due.

A substantial portion of the fund's investments consist of readily realisable securities, in particular equities and fixed income investments, even though a significant proportion is held in pooled funds. However, the main liability of the fund is the benefits payable which fall due over a long period and the investment strategy reflects the long term nature of these liabilities. Therefore the fund is able to manage the liquidity risk that arises from its investments in less liquid asset classes such as property which are subject to longer redemption periods and cannot be considered as liquid as the other investments.

The fund maintains a cash balance to meet working requirements, which is supported by an available credit line from the Isle of Wight Council. Note 26 includes details of borrowing from the council for this purpose.

Management prepares periodic cash flow forecasts to understand and manage the timing of the fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the fund investment strategy.

All financial liabilities at 31 March 2014 are due within one year.

Refinancing risk
The key risk is that the council will be bound to replenish a significant proportion of its pension fund financial instruments at a time of unfavourable interest rates. The council does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategies.

20. Funding arrangements
In line with the Local Government Pension Scheme (Administration) Regulations 2008, the fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The fund's triennial actuarial valuation applicable to the year ended 31 March 2014 was undertaken as at 31 March 2010. The most recent valuation was undertaken as at 31 March 2013.

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

- To ensure the long term solvency of the Pension fund and of the share of the Pension Funds attributable to individual employers;

- 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 Pension Fund so that the Administering Authority can seek to maximise investment returns (and hence meet the costs of benefits) for an appropriate level of risk;
- To help employers recognise and manage pension liabilities as they accrue with consideration to the effect on the operation of their business where the Administering Authority considers this appropriate;
- To minimize the degree of short term change in the level of each employer's contributions where the Administering Authority considers it reasonable to do so;
- To use reasonable measures to reduce the risk to other employers and ultimately to the Council taxpayer from and employer defaulting on its pension obligations;
- To address the different characteristics of the disparate employers to the extent that this is practical and cost-effective; and
- To minimise the cost of the Scheme to employers.

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. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised below the theoretical rate required to return their portion of the Fund to full funding over 21 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the modelling, there is still as sufficiently high likelihood that the Fund will return to full funding over 21 years.

2010 valuation
At the March 2010 valuation, the fund was assessed as 75.3% funded, compared to the previous valuation of 80.2%. The resulting deficit at the 2010 valuation was £97 million (2007: £64.9 million deficit).

Individual employer's 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.

Minimum Total Contribution Rates expressed as a percentage of pensionable pay are as set out below:-

Employer Name	Minimum Contributions for the Year Ending 31 March		
	2012	2013	2014
	% of pay	% of pay	% of pay
Isle of Wight Council	22.0	22.0	22.0
Isle of Wight College (from 1 August)	20.2	21.7	22.8
Spectrum Housing Group (Medina HA)	24.6	26.6	28.6
Southern Housing Group (South Wight HA)	20.8	20.8	20.8
Yarmouth Harbour Commissioners	21.6	21.6	21.6
Cowes Harbour Commissioners	24.3	24.3	24.3
St Catherine's School Ltd	40.0	45.0	50.6
IOW Society for the Blind	45.1	45.1	45.1
Riverside Centre Ltd	15.9	15.9	15.9
Trustees of Carisbrooke Castle Museum	25.0	25.0	25.0
Planet Ice (IOW) Ltd	15.1	15.1	15.1
Osel Enterprises Ltd	22.0	22.0	22.0

In addition, certain employers make a lump sum contribution:

Employer Name	Minimum Contributions for the Year Ending 31 March		
	2012	2013	2014
	Lump sum £000	Lump sum £000	Lump sum £000
Southern Housing Group (South Wight HA)	132	132	132
Yarmouth Harbour Commissioners	42	44	47

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

Financial Assumptions

Assumption	Derivation	Rate at 31 March 2010	
		Nominal	Real
Price Inflation (CPI)	Market expectation of long term future inflation as measured by the difference between yields on fixed and index linked Government bonds as at the valuation date, less 0.5% p.a.	3.3%	-
Pay Increases*	CPI plus 2.0% p.a.	5.3%	2.0%
Gilt Based Discount Rate	The yield on fixed interest (nominal) and index linked (real) Government bonds	4.5%	1.2%
Funding basis discount rate	"Gilt based" discount rate plus an asset out-performance assumption of 1.6% p.a.	6.1%	2.8%

* 1% p.a. for 2010-11 and 2011-12, reverting to 5.3% thereafter. Plus an allowance for promotional pay increases.

(Explanatory note: The pay increases shown above are for the purposes of the actuarial valuation only and not a reflection of what actual pay rises will be in the short-term. The assumptions are consistent with other assumptions used in the actuarial valuation and reflect longer term trends.)

Mortality assumptions

Future life expectancy based on the actuary's fund-specific mortality review was:

	Males	Females
Current Pensioners	22.9 years	25.7 years
Future Pensioners	24.9 years	27.7 years

* based on members aged 45 at the valuation date.

2013 valuation

At the March 2013 valuation, the fund was assessed as 77.7% funded, compared to the previous valuation of 75.3%. The resulting deficit at the 2013 valuation was £111 million (2010: £97 million deficit).

Individual employer's contributions for the period 1 April 2014 to 31 March 2017 were set in accordance with the Fund's funding policy as set out in its FSS.

Minimum Total Contribution Rates expressed as a percentage of pensionable pay are as set out below:-

Employer Name	Minimum Contributions for the Year Ending 31 March		
	2015	2016	2017
	% of pay	% of pay	% of pay
Isle of Wight Council	22.0	23.0	23.5
St Catherine's School Ltd	20.3	20.3	20.3
IOW Society for the Blind	45.1	45.1	45.1
Riverside Centre Ltd	26.5	26.5	26.5
Planet Ice (IOW) Ltd	21.1	21.1	21.1
Yarmouth Harbour Commissioners	21.6	21.6	21.6
Cowes Harbour Commissioners	21.0	21.0	21.0
Trustees of Carisbrooke Castle Museum	22.3	22.3	22.3
Southern Housing Group	25.7	25.7	25.7
Spectrum Housing Group	20.5	20.5	20.5
Isle of Wight College (from 1 August)	23.8	23.8	23.8
Spurgeons	17.5	17.5	17.5
Children's Society	21.4	21.4	21.4
Ryde Academy	20.3	20.3	20.3
Sandown Bay Academy	21.3	21.3	21.3
Southern Vectis (Wightbus)	27.7	27.7	27.7
Weston Academy	17.4	17.4	17.4
Ventnor Botanical Gardens	18.9	18.9	18.9
Visit Isle of Wight	23.5	23.5	23.5

In addition, certain employers make a lump sum contribution:

Employer Name	Minimum Contributions for the Year Ending 31 March		
	2015	2016	2017
	Lump sum £000	Lump sum £000	Lump sum £000
St Catherine's School Ltd	44	44	44
IOW Society for the Blind	41	41	41
Yarmouth Harbour Commissioners	53	56	59
Cowes Harbour Commissioners	20	20	20
Southern Housing Group	122	122	122
Spectrum Housing Group	109	109	109
Ryde Academy	60	60	60
Sandown Bay Academy	132	132	132
Southern Vectis (Wightbus)	1	1	1
Weston Academy	4	4	4

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

Financial Assumptions

Assumption	Rate at 31 March 2013	
	Nominal	Real
Discount rate	4.6%	2.1%
Salary Increases *	4.3%	1.8%
Price inflation/Pension Increases	2.5%	-

* Plus an allowance for promotional pay increases.

(Explanatory note: The pay increases shown above are for the purposes of the actuarial valuation only and not a reflection of what actual pay rises will be in the short-term. The assumptions are consistent with other assumptions used in the actuarial valuation and reflect longer term trends.)

Mortality assumptions

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2010 model, assuming the current rate of improvements has reached a peak and will converge to a long term rate of 1.25% p.a.

Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	22.4 years	24.5 years
Future Pensioners *	23.8 years	26.7 years

* based on members aged 45 at the valuation date.

Copies of the 2010 and 2013 valuation reports and the Funding Strategy Statement are available on request from the Finance Department of the Isle of Wight Council, administering authority to the fund.

21. Actuarial present value of promised retirement benefits

In addition to the triennial funding valuation, the fund's actuary also undertakes a valuation of the pension fund liabilities, on an IAS19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year.

In order to assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions, set out below, from those used for funding purposes (see note 20). The actuary has also valued ill health and death benefits in line with IAS19.

Year ended	31 March 2014 £ m	31 March 2013 £ m
Present value of Promised Retirement Benefits	599	564

The fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2013. It is estimated that this liability at 31 March 2014 comprises £219 million (2013: £272 million) in respect of employee members, £105 million (2013: £90 million) in respect of deferred pensioners and £275 million (2013: £202 million) in respect of pensioners. The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member may not be reliable.

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report as required by the Code of Practice. These are given below. It is estimated that the impact of the change of assumptions to 31 March 2014 is to increase the actuarial present value by £14 million.

Financial assumptions

Year ended	31 March 2014 % p.a.	31 March 2013 % p.a.
Pension Increase Rate	2.8%	2.8%
Salary Increase Rate *	4.6%	5.1%
Discount Rate	4.3%	4.5%

* Salary increases are 1% p.a. nominal until 31 March 2015 reverting to the long term rate thereafter.

(Explanatory note: The pay increases shown above are for the purposes of the actuarial valuation only and not a reflection of what actual pay rises will be in the short-term. The assumptions are consistent with other assumptions used in the actuarial valuation and reflect longer term trends.)

Longevity assumption

	Males	Females
Current Pensioners	22.4 years	24.5 years
Future Pensioners *	23.8 years	26.7 years

* Future pensioners are assumed to be currently aged 45

Please note that the assumptions have changed since the previous IAS26 disclosure for the Fund.

Commutation assumption
An allowance is included for future retirements to elect to take 25% of the maximum additional tax-fee cash up to HMRC limits for pre-April 2008 service and 63% of the maximum tax-free cash for post-April 2008 service.

22. Long term assets

31 March 2013 £000		31 March 2014 £000
	Debtors	
-	• Contributions due - employers	10
-		**10**

Analysis of debtors

31 March 2013 £000		31 March 2014 £000
-	Local authorities	10
-		**-**

23. Current assets

31 March 2013 £000		31 March 2014 £000
	Debtors	
43	• Contributions due - employees	120
228	• Contributions due - employers	508
60	• Taxation	39
6	• Sundry debtors	11
-	Cash balances	15
337		**693**

Analysis of debtors

31 March 2013 £000		31 March 2014 £000
60	Central government bodies	39
58	Local authorities	10
219	Other entities and individuals	629
337		**678**

24. Current liabilities

31 March 2013 £000		31 March 2014 £000
	Creditors	
169	• Taxation	193
1,013	• Accruals	612
37	• Sundry creditors	86
286	Short term provisions	-
1,505		**891**

Analysis of creditors

31 March 2013 £000		31 March 2014 £000
169	Central government bodies	193
66	Local authorities	78
984	Other entities and individuals	620
1,219		**891**

25. Additional voluntary contributions (AVCS)

Market value 31 March 2013 £000		Market value 31 March 2014 £000
1,132	Prudential Life and Pensions	995

AVCs of £90.5 thousand were separately invested with Prudential Life and Pensions (2012-13: £99.6 thousand).

26. Related party transactions

Isle of Wight Council

The Isle of Wight Council Pension Fund is administered by Isle of Wight Council. Consequently there is a strong relationship between the council and the pension fund.

The council incurred costs of £286 thousand (2012-13: £257 thousand) in relation to the administration of the fund and was subsequently reimbursed by the fund for these expenses. The council is also the single largest employer of members of the pension fund and contributed £10.4 million (2012-13: £10.1 million) to the fund in 2013-14. All monies owing to the fund, with the exception of deferred balances in respect of pension strain costs totalling £14 thousand (2013: £58 thousand), were paid during the year.

During the year, the pension fund borrowed funds from the council to support its working cash flow requirements; interest was charged on these borrowings at the broker local authority interest rate relevant to the amount and duration of the borrowing at the time it was made. The maximum amount borrowed during 2013-14 was £2.7 million (2012-13: £2.1 million). The balance due to the council at 31 March 2014 is £1.38 million (2013: £2.02 million), repayable within 1 month. Interest of £3.4 thousand (2012-13: £5.6 thousand) was paid on these borrowings.

Governance

There are three members of the pension fund committee who are in receipt of pension benefits from the Isle of Wight Council Pension Fund (Cllrs Barry, Blezzard and Kendall). In addition committee members Cllrs Barry, Jones-Evans, Kendall and Warlow are active members of the pension fund.

Each member of the pension fund committee is required to declare their interests at each meeting.

Council members named in note 29 form the Pension Fund Committee as trustees.

Key Management Personnel

Paragraph 3.9.4.3 of the Code exempts local authorities from the key management personnel disclosure requirements of IAS 24, on the basis that the disclosure requirements for officer remuneration and members allowances detailed in section 3.4 of the Code (which are derived from the requirements of Regulation 7(2)-(4) of the Accounts and Audit (England) Regulations 2011) satisfy the key management personnel disclosure requirements of paragraph 16 of IAS24. This applies in equal measure to the accounts of the Isle of Wight Council Pension Fund.

The disclosures required by Regulation 7(2)-(4) of the Accounts and Audit (England) Regulations 2011 can be found in the main accounts of Isle of Wight Council.

IAS 24 defines key management personnel as those persons having authority and responsibility for planning, directing, and controlling the activities of the entity, directly or indirectly, including any directors (whether executive or otherwise) of the entity.

The fund is advised by the Managing Director. As he is not a member of the Isle of Wight Council Pension Fund, no separate disclosures are made in the fund accounts.

27. Contingent assets and liabilities

At 31 March 2014 there were contingencies relating to Contribution Equivalent Premiums (CEPs) amounting to a net sum of £142 thousand (2013: £142 thousand) due to the Pension Fund. Assets amounted to £186 thousand and liabilities totalled £44 thousand (2013: £186 thousand and £44 thousand respectively). The sums do not form part of the net assets of the fund. Refunds and payments will only be made on application by the employee.

In 2006 a decision was taken by the Investment Panel to join in a Class Action against the HMRC to recover tax credits on overseas dividends. A sum of £880 thousand has been estimated as the possible benefit to the pension fund. This case is on-going. The sums do not form part of the net assets of the fund.

28. Capital commitments

There were no capital commitments as at 31 March 2014 (2013: nil)

29. Trustees report 2013-14

The trustees of the pension fund are the members for the time being of the Pension Fund Committee, who at 31 March 2014 were Councillors Blezzard (chair), Barry, Hutchinson, Jones-Evans, Kendall, Pitcher and Warlow. Subsequent to the year end Cllr Jones-Evans has resigned from the committee, and has been replaced by Cllr Eccles.

The committee is advised by the Managing Director, Mercer Limited, the fund's investment consultants, and Hymans Robertson LLP, the fund's actuaries. In addition, non-voting representatives from the admitted bodies and the staff union attend the committee.

Investment Performance

The net assets of the fund at 31 March 2014 were £426.0 million, a rise of 9.8% on the 31 March 2013 valuation of £387.8 million. The fund's total investments out-performed the agreed benchmarks by 5.0% during the year, due to continuing strong performance by Majedie in UK equities.

Funding Level

The Fund's last triennial actuarial valuation was undertaken at 31 March 2013, showing a funding level of 77.7%, compared to 75.3% at the previous valuation at 31 March 2010. The results of this latest valuation, in terms of revised contribution rates, were implemented with effect from April 2014.

The actuary's funding projection report at 31 March 2014 showed that the notional funding level had increased to 86.7% (2013: 77.7%). This is largely as a result of an increase in bond yields, and subsequent higher discount rate, which places a lower value on the Fund's liabilities, and asset performance being greater than expected.

Governance

The Committee continues to keep its governance arrangements under review. It regularly reviews its risk register to identify, monitor and control, as far as possible, the risks to the fund. It also considered an internal audit report on the administration of the pension scheme.

In accordance with the training plan developed in the previous year, training sessions were held before each committee meeting, including an overview of the fund and the role of the committee (for the new committee members), holding fund managers to account, governance changes as a result of the Public Sector Pensions Act 2013, risk management in the context of the Bond portfolio, and current investment and actuarial issues.

In 2013-14, the committee implemented the previous year's decision to pursue a Diversified Growth Fund allocation, and reduce the fund's exposure to UK equities, appointing Baillie Gifford as fund manager. It also agreed to undertake a procurement exercise for global custodian services.
It received reports on, and agreed, the Statement of Investment Principles, Funding Strategy Statement and Governance Compliance Statement; received reports on the progress and results of the 2013 triennial valuation; and received regular updates on proposed changes to the Local Government Pension Scheme following the Hutton review of public service pensions, including LGPS 2014 and the Public Services Pension Act, which received Royal Assent in April 2013.

In addition, the Committee continues to receive presentations from its fund managers on the fund's investment performance as well as performance benchmarking and advice from its independent adviser, Mercer Limited.

Knowledge and Skills Framework Compliance Statements

Dated: 11 July 2014

Policy statements

1. This organisation adopts the key recommendations of the Code of Practice on Public Sector Pensions Finance Knowledge and Skills.

2. This organisation recognises that effective financial administration and decision-making can only be achieved where those involved have the requisite knowledge and skills.

3. Accordingly this organisation will ensure that it has formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective acquisition and retention of the relevant public sector pension scheme finance knowledge and skills for those in the organisation responsible for financial administration and decision-making.

4. These policies and practices will be guided by reference to a comprehensive framework of knowledge and skills requirements such as that set down in the CIPFA Pensions Finance Knowledge and Skills Frameworks.

5. This organisation will report on an annual basis how these policies have been put into practice throughout the financial year.

6. This organisation has delegated the responsibility for the implementation of the requirements of the CIPFA Code of Practice to the Managing Director and Head of Paid Service, who will act in accordance with the organisation's policy statement, and, where he is a CIPFA member, with CIPFA Standards of Professional Practice (where relevant).

Member and officer training report

A training plan for delivery in 2013-14 was formulated following a training needs analysis undertaken in January 2012, and updated following the appointment of new committee members in May 2013.

Members undertake training before the start of each of the scheduled committee meetings in future. These training sessions are to be delivered by a combination of officers, external advisers and fund managers. Separate agendas are issued for these sessions and a record of member and officer attendance is maintained.

During 2013-14, the committee received presentations from each of the fund managers in respect of the performance of their particular portfolios. The investment consultants provided briefings on general investment issues, monitoring the performance of fund managers, and the use of the bond portfolio to manage inflation risk within the fund. The fund's actuaries gave a presentation on the process for the triennial valuation of the fund. Officers delivered information sessions on the role of the committee and an overview of the LGPS, and on changes to the governance of the fund as a result of the implementation of the Public Sector Pensions Act 2013.

In addition, members of the committee attended external conferences for further development, including:

- Councillor Blezzard and the Technical Finance Officer attended the CIPFA Pensions Network annual conference in November 2013.
- Councillor Blezzard attended the LAPF Investments Strategic Investment Forum in February 2014.

Reports from these conferences were provided to the committee at subsequent meetings.

The Technical Finance Officer also attended the following CIPFA Pensions Network events in relation to pension fund accounting and reporting:

- Good governance and efficiency workshop – July 2013
- Pensions accounting and audit workshop – February 2014

The committee members' attendance at the scheduled training sessions and committee meetings during 2013-14 is set out in the tables below.

Overall attendance at committee meetings has improved from 74% last year to 90% in 2013-14. This is the first year that attendance at training sessions has been reported.

Training

Councillor:	24 May 2013	18 Jul 2013 (AGM)	29 Nov 2013	28 Feb 2014	%
R Blezzard(Chair)	√	√	√	√	100%
R Barry	apols	√	√	apols	50%
L Hillard	√	n/a	n/a	n/a	100%
S Hutchinson	n/a	√	√	√	100%
J Jones Evans	√	√	√	√	100%
G Kendall	apols	√	√	√	75%
D Pitcher	√	√	apols	apols	50%
I Warlow	√	√	√	√	100%
W Whittle	√	n/a	n/a	n/a	100%
	75%	100%	86%	71%	83%
Non-voting members:					
Employer representative	√	√	√	√	100%
Union representative	√	√	√	√	100%

Meetings

Councillor:	24 May 2013	18 Jul 2013 (AGM)	29 Nov 2013	28 Feb 2014	%
R Blezzard(Chair)	√	√	√	√	100%
R Barry	apols	√	√	√	75%
L Hillard	√	n/a	n/a	n/a	100%
S Hutchinson	n/a	√	√	√	100%
J Jones Evans	√	√	√	√	100%
G Kendall	√	√	√	√	100%
D Pitcher	√	√	apols	apols	50%
I Warlow	√	√	√	√	100%
W Whittle	√	n/a	n/a	n/a	100%
	88%	100%	86%	86%	90%
Non-voting members:					
Employer representative	√	√	√	√	100%
Union representative	√	√	√	√	100%

Due to the change in administration following the May 2013 elections, there were 8 elected members on the Pension fund committee at the 24 May 2013 meeting. This was resolved subsequent to that meeting, with the membership reverting to its constituted level.

Communications Policy Statement

Effective communication between the Isle of Wight Council (the council), the scheme members, and the employers within the fund is essential to the proper management of the Isle of Wight Council Pension Fund (the fund) on a transparent and accountable basis.

This document sets out a policy framework within which the council, as administering authority for the fund, will communicate with:-

- Members of the scheme (current, deferred and pensioner)
- Representatives of members
- Employing bodies and
- Prospective members

It identifies the format, frequency and method of distributing information and publicity. It also outlines the processes for promoting the scheme to prospective members and employing bodies.

Members of the scheme:
The key point of contact for members is the pension administration team. They can be contacted by telephone, email or in writing.
Although the pensions team operate an open door policy for visitors, pre booked appointments are preferable.

A pensions page is maintained on the council's website, http://www.iwight.com/council/OtherServices/Pensions-IWC, which provides:

- Guides to the Local Government Pension Scheme (LGPS) including pension sharing on divorce, increasing pension benefits and the appeals process
- Policy Statements, including the Statement of Investment Principles, the Funding Strategy Statement, and Governance Compliance Statement.
- Annual Reports
- Pensions Bulletins
- Contact list for Pensions Team
- Links to other useful sites including the Local Government Pensions Committee (LGPC), the Department for Communities and Local Government (DCLG) and the LGPS Regulations.

The information held on the pensions page will be reviewed and updated on a regular basis.

Frequency of Communication:
Monthly:
Payslips (if required) to Pensioner Members

Annually:
Benefits Statements to contributing members
Notification of pensions pay award every April.
Publication of the Annual Report of the fund
Annual General Meeting for all employing bodies

Ad hoc:
Statutory notices
Amendments to membership (changes in hours, etc.)
Notice of proposed changes to the scheme
Workshops/employee briefings
General policy is to issue statutory notifications and statements within the prescribed limits and to respond to written enquiries within 10 working days.

Representatives of members
A representative sits on the Pension Fund Committee in a non-voting capacity
Employee representatives are invited to the Annual General Meeting

Employing bodies
A representative sits on the Pension Fund Committee in a non-voting capacity
Invitation to the Annual General Meeting
Consultation on changes to the Funding Strategy Statement
Notification of changes or proposed changes to scheme conditions
Consultation on actuarial valuation prospects and options
Advice on statutory framework.

Prospective members
All new starters receive information about the scheme and how to join.

This policy statement will be reviewed annually.

Governance Policy Statement

Isle of Wight Council ("the council"), as the administering authority to the fund, has delegated its functions with regard to the fund to its Pension Fund Committee ("the committee").

The committee oversees the proper administration and management of the fund. It is responsible for:

- appointing external fund managers and advisers
- making suitable custody arrangements for the fund's investments
- considering and approving actuarial valuations every three years and determining the level of employers' contributions
- considering changes in Local Government Pension Scheme ("LGPS") regulations and determining actions required
- considering and approving strategic advice on investment policy
- considering and approving the external managers' asset allocation and investment strategies
- monitoring the investment performance of the managers against the scheme specific benchmarks
- the periodic review of this statement, the Statement of Investment Principles, the Funding Strategy Statement and the Communications Policy

The committee normally meets with its fund managers and investment advisor four times each year, in February, May, July and November. Each meeting considers the strategy and performance of the managers, together with any business matters that require attention. These include, at least once per annum, consideration of fund management and investment advice arrangements, and the investment strategy of the fund.

The July meeting also forms the annual meeting to which all employers and employee representatives are invited to discuss fund performance and developments in the statutory framework.

As well as these formal meetings, ad hoc sessions are arranged as required, principally in order to explore available investment strategy options in some depth.

The committee is constituted to reflect the views of the council as administering authority and the largest member employer with 82% of the contributing membership.

The committee consists of

- seven councillors with voting rights plus the Leader of the Council in an ex-officio capacity
- one representatives of the admission bodies/scheduled bodies in an observer capacity
- one representative of the trade unions in an observer capacity

Terms of Reference of Pension Fund Committee

Extracted from the council's Constitution July 2013 version 6.0

Membership
7 elected members
1 non-voting employee representative nominated by Unison
1 non-voting representative nominated by Admitted Bodies
Panel to be quorate when 3 elected members are in attendance

In Attendance
Strategic Director of Resources (or his nominated representative)
Leader of the Council can attend as necessary
2 representatives as required from Pension Fund Investment Managers
1 representative from Investment Advisors
1 administrative support
1 representative from Actuaries will be invited to attend as required e.g. to consider annual report and after triennial fund valuations

Terms of Reference

- Annually, to elect a chairman (when full Council has decide not to so appoint)
- To hold an annual meeting of employer representatives
- To periodically review the Funding Strategy Statement and Statement of Investment Principles of the Fund
- To determine strategic investment policy
- To appoint, and regularly monitor performance of fund managers, investment advisors and actuaries
- To periodically review the structure of Investment Management for the Fund and implement new arrangements as appropriate
- To periodically review and set limits for the overall Asset Allocation of the Fund
- To periodically review issues which have an impact on the Fund's long term solvency including those issues over which the administering body has discretion
- To tender and/or re-tender contracts for the provision of all actuarial and investment management services required by the Fund in accordance with the Council's standing order.
- To undertake member training on investment issues
- To consider applications for admitted body status

Annual Report
The Panel will produce an annual report on the performance of the Investment Fund and this will be circulated to all members and will be formally reported to the Audit Committee.

APPENDIX A – Glossary of Terms

Accrual rate
The proportion of earnings that a defined benefit pension scheme pays as pension for each year of membership.

Accrued liabilities
A measure of the value in today's money of all pension entitlements to be paid in the future that have been earned to date.

Accrued income
The amount of dividend income declared on a shareholding but not paid at the accounting date.

Active members
Current employees who are contributing to an organisations pension scheme.

Actuarial assumptions
The assumptions that an actuary must make in order to arrive at a valuation for a pension fund. These include life expectancy, rates of inflation, expected earnings and the income that will be received from pension scheme investments.

Actuarial liability
The value placed on the accrued benefits of the fund using actuarial methods and assumptions for outgoings, including expenses, expected to fall on the fund after the valuation date based on benefits accrued for service up to the valuation date.

Actuarial valuation
A review of the pension fund, which takes place every three years, to ensure that employers' contributions are sufficient to maintain the solvency of the fund.

Actuary
An independent consultant who carries out the actuarial valuation and may also advise on changes in benefit structure and on investment strategies. The actuary will perform calculations based on information about prevailing circumstances and analysis of statistics.

Additional voluntary contributions (AVCs)
An extra pension contribution which can be made by a member of an occupational pension scheme. AVCs can be made into the occupational scheme or to a standalone product called a freestanding AVC plan.

Administering authority
A local authority required to maintain a pension fund under the local government pension scheme regulations.

Admitted bodies/transferee admission bodies
Bodies, including those from the voluntary and charitable sectors and contractors, whose staff can become members of an LGPS fund by virtue of an admission agreement between the administering authority and the relevant body.

All Share Index
Properly the FTSE All Share Index which summarises the state of the UK equity market. It covers around 900 of the major UK industrial, commercial and financial companies.

Asset allocation
The apportionment of a fund's assets between asset classes and/or markets (also see Bet). Asset allocation may be strategic, i.e. long-term, or tactical, i.e. short-term, aiming to take advantage of relative market movements.

Asset classes
A specific category of assets or investments, such as stocks, bonds, cash, international securities and real estate. Assets within the same class generally exhibit similar characteristics, behave similarly in the marketplace and are subject to the same laws and regulations.

Asset/liability modelling
A statistical tool designed to help establish the most appropriate asset mix for a pension fund, in the context of its liabilities.

Automatic enrolment
A pension scheme where an individual is made a member by default and has actively to decide to leave the scheme.

Authorised Unit trusts
A unit trust which is approved by the Financial Services Authority (FSA) to be sold to members of the public.

Benchmark
A "notional" fund or model portfolio which is developed to provide a standard against which a manager’s performance is measured.
A target return is generally expressed as some margin over the benchmark.

Bond
A security issued by a corporate or government body borrowing in the capital markets. Bonds promise to pay interest (coupons) during the life of the bond plus the main amount borrowed. Bonds may be secured over assets of the firm or they can be unsecured.

Bonus issue
Bonus, scrip or free issue mean the same thing. Free shares are issued to existing shareholders out of company reserves.

Career average revaluation of earnings scheme (CARE)
A defined benefit scheme that gives individuals a pension based on a percentage of the salary earned in each year of their working life.

Cash
Cash is defined as cash instruments (e.g. money market deposits) and cash in bank and in hand.

Corporate governance
Governance for local authorities is defined as how they ensure that they do the right things, in the right way, for the right people in a timely, inclusive, open, honest and accountable manner. It comprises the systems processes, culture and values, by which local government bodies are directed and controlled, and through which they account to, engage with and where appropriate lead their communities.

Coupon
The interest payments on bonds.

Currency hedging
An approach aimed at eliminating or reducing foreign exchange risks.

Custody/custodian
Safe-keeping of securities by a financial institution. The custodian keeps a register of holdings and will collect income and distribute monies according to client instructions.

Deferred members
Scheme members who have left employment or ceased to be an active member of the scheme while remaining in employment, but retain an entitlement to a pension from the scheme.

Defined benefit scheme
A scheme where the benefits are defined and paid, irrespective of contributions or investment performance.

Defined contribution scheme
A scheme where the benefits paid are dependent on contributions paid and investment performance. These are also called money purchase schemes.

Discount rate
Future benefit payments due need to be discounted to give the present value of the liabilities. A discount rate is chosen to reflect the investment return that is expected on the pension fund.

Diversification
The spreading of a fund's investments among different asset classes, markets and geographical areas in order to reduce risk. Diversification is a basic principle of multi-asset management.

Dividend
A payment distributed by a company to equity shareholders

Equities
The general term for ordinary shares issued in UK and overseas companies.

Ethical investment
Where investment is restricted to companies undertaking business in accord with an ethical definition. This could cover companies not engaging in arms manufacture.

Ex
Without. If a share is sold ex-dividend, the buyer does not get the last dividend that was declared.

Financial Services Authority (FSA)
The lead regulator. An agency which is not a government department.

Fund managers
Firms of investment professionals appointed by an investments or pensions committee to make day-to-day investment decisions for the fund within the terms of an investment management agreement (IMA).

Funding Strategy Statement (FSS)
The funding strategy statement provides a clear and transparent fund specific strategy for meeting an employer's pension liabilities in the future. It also defines a prudent longer term view of funding these liabilities while keeping within the regulatory framework to maintain a constant stable employer's contribution rate.

FTSE
A company that specialises in index calculation. Although not part of a stock exchange, co-owners include the London Stock Exchange and the Financial Times. They are best known for the FTSE 100, an index of the top 100 UK companies (ranked by size).

Futures
The right to buy a fixed quantity of a commodity on a date in the future at a price fixed earlier

Gilts
Fixed or index linked securities issues by the UK government (bonds).

Hedging
A strategy which aims to eliminate the possibility of loss in an investment transaction or to minimise a risk by offsetting the exposure to a risk by entering into an investment with the exact opposite pay off pattern. Often used in the context of overseas investments to eliminate any potential currency loss (or profit).

IAS 19
An international accounting standard that sets out the accounting treatment for employee benefits, including post-employment benefits such as pensions.

Index-linked securities
UK government issued stocks on which the interest and eventual repayment of the loan are based on movements in the retail price index.

Investment adviser
A professionally qualified individual or company whose main livelihood is derived from providing objective, impartial investment advice to companies, pension funds or individuals, for a stated fee.

Listed security
A security (a share) that is quoted on a major stock exchange.

Mandate
Instructions given to the manager by the client on the performance target, restrictions on stocks etc.

Market value
The price at which an investment can be bought or sold at a given date.

Maturity
The maturity of a pension scheme indicates the number of active members relative to the number receiving pensions.

Member
A person who has been admitted to membership of a pension scheme and is entitled to benefit under the scheme.

Mid-price
Halfway between the bid price and the offer price

Mortality assumptions
One of the greatest unknowns for a pension fund is how long benefits will be paid for. People are currently living longer than they did in the past. Actuaries assess future mortality, using tables based on research and additionally can access databases which enable mortality to be analysed and modelled at a detailed level within employer's geographical areas. Club Vita is an example of such a database.

Pooled fund
A fund managed by a fund manager in which investors hold units. Stocks, bonds, properties etc. are not held directly by each client, but as part of a "pool". This contrasts with a segregated fund.

Realised
This is when the value of loss or profit is received when an investment is sold

Return
This is the percentage change of the total value invested over a set period.

Rights issue
An issue of new shares by a company, offered to existing shareholders in proportion to their holdings. The new shares are usually offered at a discount to encourage shareholders to buy. However, this can cause the existing price to fall.

Risk
Generally taken to mean the variability of returns. Investments with a greater perceived risk must usually promise a higher return than a more stable investment before rational investors will consider buying them. Generally the higher the potential return the higher the associated risk.

Scheduled bodies
These are the organisations listed in the Local Government Pension Scheme (Administration) Regulations 2008 (Schedule 2, Part 1) and include county councils and district councils.

Scrip dividend
A dividend paid in the form of additional shares rather than cash.

Securities
Investments in company shares, fixed interest or index-linked stocks.

Socially responsible investment (SRI)
Investment where social, environmental or ethical considerations are taken into account in the selection, retention and realisation of the investment, and the responsible use of rights (such as voting rights) attached to investments.

Stock
Commonly used as a name for ordinary shares (common stock in the US) More correctly it is the name for UK gilts.

Strategic asset allocation
Long-term allocation between the main asset classes with the aim of meeting the investors risk and return objectives.

Transfer value
The amount of the transfer payment which is made to another pension arrangement.

Unit trust
An open ended trust investing in a wide spread of stocks, shares and cash (depending on FSA limits) Investors buy units directly from the fund manager.

Unquoted security
A security which is not quoted on stock exchange

Unrealised Gains/(Losses)
The increase/(decrease) at year end in the market value of investments held by the fund since the date of their purchase

Withholding tax
A tax deducted from overseas investment income.

Yield
A measure of the return earned on an investment.

APPENDIX B – Analysis of market value by Industrial Sector

	Majedie UK Equities £000	Majedie International Equities £000	Newton Overseas Equities £000	Schroder Property £000	Schroder Bonds £000	Baillie Gifford Diversified Growth £000	TOTAL £000
Oil & Gas							
Oil & Gas Producers	18,344	743	-	-	-	-	19,087
Basic Materials							
Forestry & Paper	1,291	-	-	-	-	-	1,291
Mining	130	-	-	-	-	-	130
Industrials							
Aerospace & Defence	3,290	1,039	-	-	-	-	4,329
Construction & Materials	205	-	-	-	-	-	205
Support Services	3,855	-	-	-	-	-	3,855
Consumer Goods							
Automobiles & Parts	358	-	-	-	-	-	358
Food Producers	293	-	-	-	-	-	293
Household Goods & Home Construction	125	478	-	-	-	-	603
Healthcare							
Healthcare Equipment & Services	803	-	-	-	-	-	803
Pharmaceuticals & Biotechnology	10,999	157	-	-	-	-	11,156
Consumer Services							
Food & Drug Retailers	4,387	-	-	-	-	-	4,387
General Retailers	3,807	-	-	-	-	-	3,807
Media	1,987	391	-	-	-	-	2,378
Travel & Leisure	4,591	1,608	-	-	-	-	6,199
Telecommunications							
Fixed Line Telecommunications	3,477	4,394	-	-	-	-	7,871
Mobile Telecommunications	4,532	2,951	-	-	-	-	7,483
Utilities							
Electricity	481	-	-	-	-	-	481
Gas, Water & Multi Utilities	5,964	2,537	-	-	-	-	8,501
Financials							
Banks	5,289	1,163	-	-	-	-	6,452
Life Insurance	2,734	-	-	-	-	-	2,734
Non-Life Insurance	2,154	-	-	-	-	-	2,154
Financial Services	928	-	-	-	-	-	928
Financial Services	64	-	-	-	-	-	64
Technology							
Software & Computer Services	96	433	-	-	-	-	529
Technology Hardware & Equipment	823	1,252	-	-	-	-	2,075
Equities subtotal	81,007	17,146	-	-	-	-	98,153
Pooled Funds							
Bonds Managed Fund	-	-	-	-	84,983	-	84,983
Managed Funds	10,378	-	-	-	-	-	10,378
Overseas Equities Managed Fund	-	-	141,792	-	-	-	141,792
Property Managed Fund	-	-	-	20,546	-	-	20,546
Diversified Growth Fund	-	-	-	-	-	66,655	66,655
Pooled Funds subtotal	10,378	-	141,792	20,546	84,983	66,655	324,354
Grand total	91,385	17,146	141,792	20,546	84,983	66,655	422,507

APPENDIX C – Statement of Investment Principles

Dated: 16 May 2014

This is the Statement of Investment Principles ("the statement") required by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (the "2009 Regulations").
The statement has been adopted by the Isle of Wight Pension Fund Committee ("the committee"), which acts on the delegated authority of Isle of Wight Council ("the council"), the administering authority for the Isle of Wight Council Pension Fund ("the fund"). The statement is subject to review from time to time and certainly within six months of any material change in investment policy or other matters as required by law. In preparing this statement the committee has consulted with the administrating authority and has taken and considered written advice from the actuaries.

In Annex 1, the committee has set out details of the extent to which the fund complies with the six principles set out in the Chartered Institute of Public Finance and Accountancy ("CIPFA") publication, 'Investment Decision Making and Disclosure in the Local Government Pension Scheme 2012 – a guide to the application of the 2008 Myners Principles to the management of LGPS funds'.

Fund Objective

The primary objective of the fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependents, in accordance with the Local Government Pension Scheme ("LGPS") regulations and statutory provisions.

The committee aims to fund the fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the fund's assets and that an appropriate level of contributions is agreed by the employer to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed but will take account of future salary increases.
This funding position will be reviewed at each triennial actuarial valuation, or more frequently as required.

Investment Strategy

The committee has translated its objectives into a suitable strategic asset allocation benchmark for the fund (Annex II). The strategic benchmark is reflected in the investment structure adopted by the committee; this comprises a mix of segregated and pooled manager mandates. The fund benchmark is consistent with the committee's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the fund's liabilities.

The committee monitors investment strategy relative to the agreed asset allocation benchmark. It is intended that investment strategy will be reviewed at least every three years following actuarial valuations of the fund.

Schedule 1 of the 2009 Regulations: Limit on Investments

At their meeting on 24 July 2009, the committee agreed to an increase in the limit on investments in units subject to the trusts of unit trust schemes managed by any single entity, from 25% to 35% (the upper limit specified in Schedule 1). Before taking this decision, the committee took proper advice from its then investment adviser, Hymans Robertson LLP, in relation to the impact of the increase on overall risk within the fund and how the committee monitors and manages that risk. The decision was taken because making use of the pooled funds concerned was considered to be effective both in terms of cost and in terms of broader portfolio diversification within the pooled funds concerned.
The committee reviewed the strategic asset allocation of the fund at its meeting on 30 November 2012, following advice from its current investment advisers, Mercer Ltd. No change was made to the limits on investments above.

Types of investment to be held

The fund may invest in quoted and unquoted securities of UK and overseas markets, including equities, fixed interest and index linked bonds, cash, property and commodities, either directly or through pooled funds.

The fund may also make use of contracts for differences and other derivatives either directly or in pooled funds investing in these products, for the purpose of efficient portfolio management or to hedge specific risks. The committee considers all of these classes of investment to be suitable in the circumstances of the fund.

The strategic asset allocation of the fund includes a mix of asset types across a range of geographies in order to provide diversification of returns.

Balance between different kinds of investments

The committee has appointed a number of investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business.

The committee, after seeking appropriate investment advice, has agreed specific benchmarks with each manager so that, in aggregate, they are consistent with the overall asset allocation for the fund. The fund's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market and asset class, the managers will maintain diversified portfolios through direct investment or pooled vehicles.

Risk

In order to achieve its investment objective the fund takes investment risk including equity risk and active management risk. It is understood and acknowledged that this leads to significant volatility of returns and an ultimate risk that its objectives will not be met. The fund pursues a policy of lowering risk through diversification of investments by asset class, manager and geography. Risk is also controlled by setting appropriate benchmarks and investment guidelines and maintaining a robust investment monitoring regime.

The fund's risk register is appended to this statement at Annex III.

Expected return on investments

Over the long term, the overall level of investment returns is expected to exceed the rate of return assumed by the actuary in funding the fund.

Realisation of investments

The majority of assets held within the fund may be realised quickly if required.

Social, Environmental and Ethical Considerations

The committee recognises that social, environmental and ethical considerations are among the factors which investment managers will take into account, where relevant, when selecting investments for purchase, retention or sale. Each of the managers has produced a statement setting out its policy in this regard. The managers have been delegated by the committee to act accordingly.

Exercise of Voting Rights

The committee has delegated the exercise of voting rights to the investment managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. Accordingly, the managers have produced written guidelines of their process and practice in this regard. Copies of the fund managers' latest corporate governance reports are available from the Technical Finance Officer. The managers are encouraged to vote in line with their guidelines in respect of all resolutions at annual and extraordinary general meetings of companies.

Stock Lending

Within segregated mandates, the committee has absolute discretion over whether stock lending is permitted. The committee has considered its approach to stock lending, taking advice from its investment adviser. After consideration of that advice, the committee has decided not to permit stock lending within any of its segregated investment mandates.

The committee has no direct control over stock lending in pooled funds as it is for the managers of those pooled funds to determine whether to undertake a certain amount of stock lending on behalf of unit holders. If a pooled fund engages in this activity, the extent to which it does so is disclosed by the manager. None of the managers of the pooled funds in which the fund invests engages in stock lending.

Additional Voluntary Contributions (AVCs)

The committee gives members the opportunity to invest in a range of vehicles at the members' discretion.

Annex I: Myners Principles

Principle	Response on Adherence
Principle 1 Effective Decision Making: Administering authorities should ensure: • That decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and • That those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.	**Compliant** Decisions are taken by the committee which is responsible for the management of the fund. The committee has support from council officers with sufficient experience to assist them. The committee also seeks advice from professional actuarial and investment advisers to ensure it can be familiar with the issues concerned when making decisions. . Following the appointment of a new committee in May 2013, the training needs analysis has been refreshed to inform a new training delivery plan for 2013-14 and beyond. This training plan was approved in principle at the committee meeting in February 2014. The committee hold a one hour training session before every committee meeting. The committee is able to make robust challenges to advice and is aware of where potential conflicts of interest may reside within the committee and in relation to service providers.
Principle 2 Clear objectives: An overall investment objective should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisers and investment managers.	**Compliant** The committee has established objectives for the fund which takes account of the nature of fund liabilities and the contribution strategy. This involved discussions with the actuary to enable the committee to set the overall risk budget for the fund. This is reflected in the investment mandates awarded to the asset managers. There is dialogue with admitted bodies within the fund in relation to the contributions they pay, their capacity to pay these contributions and the level of guarantees they can provide.
Principle 3 Risk and liabilities: • In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. • These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.	**Compliant** The investment strategy is considered in the light of the nature of the fund liabilities, the timescale over which benefits will be paid, and financial and demographic factors affecting the liabilities, such as inflation and improving longevity. The committee and council officers have discussed the contribution strategy with the actuary taking account of the strength of covenant of the council and its long term horizon. Discussions have also taken place with admitted bodies in relation to the affordability of contributions and the strengths of their covenants.
Principle 4 Performance assessment: • Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers. • Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.	**Partially Compliant** The performance of the fund and its individual managers are monitored on a regular basis. The quality of advisers is assessed on a qualitative basis but is not formally measured. A template for assessing the performance of the fund's advisers is currently being developed. Advisers are subject to periodic re-tender. The committee is developing formal processes to measure its own effectiveness, as part of its review of the impact of changes to the governance of the LGPS on the fund.

Principle	Response on Adherence
Principle 5 Responsible Ownership: Administering authorities should • Adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee (ISC) Statement of Principles on the responsibilities of shareholders and agents. • Include a statement of their policy on responsible ownership in the Statement of Investment Principles. • Report periodically to scheme members on the discharge of such responsibilities.	**Partially Compliant** The committee encourages its investment managers to adopt the ISC Statement of Principles on the responsibilities of shareholders and agents on the fund's behalf This Statement of Investment Principles includes a statement on the fund's policy on responsible ownership. The committee will be working with its investment advisers to consider the implications of the UK Stewardship Code (issued in September 2012) to ensure it is fully compliant with the new requirements.
Principle 6 Transparency and Reporting: Administering authorities should • Act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives. • Should provide regular communication to scheme members in the form they consider most appropriate.	**Compliant** The committee maintains minutes of meetings which are available on the council website. The committee holds a formal annual meeting for members and also meets periodically with sponsoring employer bodies. An Admitted Bodies representative and a Member representative attend committee meetings. The Statement of Investment Principles is published on the council website and is available to members on request. Other information on the scheme is available to members on the council website.

Annex II: Strategic Asset Allocation

During November 2013 the committee transferred the fund's holding in the UK equity portfolio with Schroder (c15% of the fund's assets) to a new Diversified Growth mandate managed by Baillie Gifford. Following this change, the strategic asset allocation of the fund, together with control ranges and the benchmark index for each asset class is as follows:

Asset Class	Strategic Allocation %	Control Range %	Benchmark Index
UK Equities	22.5	+/-3%	FTSE All-Share index
Global equities (ex UK)	32.5	+/-3%	MSCI AC (All Countries) World index (net dividends re-invested)
TOTAL EQUITIES	**55.0**	+/- 5%	
Diversified Growth Fund	15.0	+/- 4%	UK Base Rate
Property	8.0	+/- 4%	IPD Pooled Property Fund indices All Balanced Funds Median
Bonds	22.0	+/- 4%	Merrill Lynch Sterling Broad Market
Cash	-		
TOTAL ASSETS	**100.0**		

For the purpose of measuring performance, an appropriate benchmark index is used.
Where this is not possible or appropriate, for example, where an asset is illiquid or is not reflected in a measurable index, the committee will consider an appropriate performance benchmark.

Fund Managers

As at 17 March 2014, the following fund managers are appointed within each of the above asset classes

Asset Class	**Fund Managers**	**Note**
UK Equities	Majedie Asset Management Limited	1
Global equities (ex UK)	Newton Investment Management Limited	
Diversified Growth Fund	Baillie Gifford & Company	2
Property	Schroder Investment Management Limited	
Bonds	Schroder Investment Management Limited	
Cash	All	

Note 1: Although the Majedie Asset Management portfolio remains a UK Equity portfolio, it has been agreed that a maximum of 20% of the portfolio may be invested in non-UK equities.

Note 2: Baillie Gifford's Diversified Growth Fund invests across a number of different asset classes. The fund's aim is to generate positive absolute returns, which are similar to returns achieved from equity markets over the long term but with a lower volatility. The fund looks to achieve this objective by holding a diverse portfolio of assets.

<u>Annex III: Pension Fund Risk Register</u>

Risks identified by the committee as at 17 March 2014

Risk Ref	Details	Initial risk score	Target risk score	Target date	Risk Owner
PF0008	Inadequate preparation for changes to governance arising from new regulatory requirements under Public Sector Pensions Act 2013	15	3	1 April 2015	David Burbage
PF0009	Custodian arrangements are unfit for purpose	16	2	1 Oct 2014	David Burbage
PF0010	Managing admitted bodies to the fund	9	2	Ongoing	David Burbage
PF0011	Inability to manage increasing workloads through changing membership and increasing employer numbers, as well as changes to regulatory requirements	12	5	1 April 2015	Jo Thistlewood
PF0012	New pension fund committee may not have necessary knowledge and skills to undertake their role, particularly in light of new regulatory changes	9	2	1 April 2015	David Burbage
PF0013	Impact of triennial valuation 2013 results on liabilities/deficit/contribution levels	9	2	1 April 2014	David Burbage

Risk scoring matrix

Likelihood/Probability					
	4 V likely	7 Medium	11 Medium	14 High	16 VERY HIGH
	3 Likely	4 Low	8 Medium	12 High	15 VERY HIGH
	2 Unlikely	2 Low	5 Low	9 Medium	13 High
	1 Remote	1 Low	3 Low	6 Low	10 Medium
	Scale	*1 Low*	*2 Medium*	*3 High*	*4 Major*
	Impact/Severity				

APPENDIX D – Funding Strategy Statement

1 Introduction

1.1 What is this document?

This is the Funding Strategy Statement (FSS) of the Isle of Wight Council Pension Fund (“the Fund”), which is administered by Isle of Wight Council, (“the Administering Authority”).

It has been prepared by the Administering Authority in collaboration with the Fund’s actuary, Hymans Robertson LLP, and after consultation with the Fund’s employers and investment adviser. It will be presented for approval at the 16 May 2014 meeting of the committee, and will be effective from that date.

1.2 What is the Isle of Wight Council Pension Fund?

The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole of the UK. The Administering Authority runs the Isle of Wight Fund, in effect the LGPS for the Isle of Wight area, to make sure it:

- receives the proper amount of contributions from employees and employers, and any transfer payments;
- invests the contributions appropriately, with the aim that the Fund’s assets grow over time with investment income and capital growth;
- uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives), and to their dependants (as and when members die), as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

The roles and responsibilities of the key parties involved in the management of the Fund are summarised in Appendix B.

1.3 Why does the Fund need a Funding Strategy Statement?

Employees’ benefits are guaranteed by the LGPS Regulations, and do not change with market values or employer contributions. Investment returns will help pay for some of the benefits, but probably not all, and certainly with no guarantee. Employees’ contributions are fixed in those Regulations also, at a level which covers only part of the cost of the benefits.

Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions,
- transparency of processes,
- stability of employers’ contributions, and
- prudence in the funding basis.

There are also regulatory requirements for an FSS, as given in Appendix A.

The FSS is a summary of the Fund's approach to funding its liabilities, and this includes reference to the Fund's other policies; it is not an exhaustive statement of policy on all issues. The FSS forms part of a framework of which includes:

- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report;
- the Fund's policies on admissions, cessations and bulk transfers;
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Statement of Investment Principles (see Section 4).

1.4 How does the Fund and this FSS affect me?

This depends who you are:

- a member of the Fund, i.e. a current or former employee, or a dependant: the Fund needs to be sure it is collecting and holding enough money so that your benefits are always paid in full;
- an employer in the Fund (or which is considering joining the Fund): you will want to know how your contributions are calculated from time to time, that these are fair by comparison to other employers in the Fund, and in what circumstances you might need to pay more. Note that the FSS applies to all employers participating in the Fund;
- an Elected Member whose council participates in the Fund: you will want to be sure that the council balances the need to hold prudent reserves for members' retirement and death benefits, with the other competing demands for council money;
- a Council Tax payer: your council seeks to strike the balance above, and also to minimise cross-subsidies between different generations of taxpayers.

1.5 What does the FSS aim to do?

The FSS sets out the objectives of the Fund's funding strategy, such as:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- not to restrain unnecessarily the Investment Strategy of the Pension Fund so that the Administering Authority can seek to maximise investment returns (and hence meet the costs of benefits) for an appropriate level of risk;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (**NB** this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

How do I find my way around this document?

In Section 2 there is a brief introduction to some of the main principles behind funding, i.e. deciding how much an employer should contribute to the Fund from time to time.

In Section 3 we outline how the Fund calculates the contributions payable by different employers in different situations.

In Section 4 we show how the funding strategy is linked with the Fund's investment strategy.

In the Appendices we cover various issues in more detail if you are interested:

A. the regulatory background, including how and when the FSS is reviewed,

B. who is responsible for what,

C. what issues the Fund needs to monitor, and how it manages its risks,

D. some more details about the actuarial calculations required,

E. the assumptions which the Fund actuary currently makes about the future,

F. a glossary explaining the technical terms occasionally used here.

If you have any other queries please contact Jo Thistlewood, Technical Finance Officer, in the first instance at e-mail address jo.thistlewood@iow.gov.uk or on telephone number 01983 821000 extension 6371.

2 Basic Funding issues

(More detailed and extensive descriptions are given in Appendix D).

2.1 How does the actuary calculate a contribution rate?

Employer contributions are normally made up of two elements:

a) the estimated cost of future benefits being built up from year to year, referred to as the "*future service rate*"; plus

b) an adjustment for the difference between the assets built up to date and the value of past service benefits, referred to as the "*past service adjustment*". If there is a deficit the past service adjustment will be an increase in the employer's total contribution; if there is a surplus there may be a reduction in the employer's total contribution. Any past service adjustment will aim to return the employer to full funding over an appropriate period (the "deficit recovery period").

2.2 How is a deficit (or surplus) calculated?

An employer's "funding level" is defined as the ratio of:

- the market value of the employer's share of assets, to
- the value placed by the actuary on the benefits built up to date for the employer's employees and ex-employees (the "liabilities"). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

If this is less than 100% then it means the employer has a shortfall, which is the employer's deficit; if it is more than 100% then the employer is said to be in surplus. The amount of deficit or shortfall is the difference between the asset value and the liabilities value.

A larger deficit will give rise to higher employer contributions. If a deficit is spread over a longer period then the annual employer cost is lower than if it is spread over a shorter period.

2.3 How are contribution rates calculated for different employers?

The Fund's actuary is required by the Regulations to report the *Common Contribution Rate*, for all employers collectively at each triennial valuation, combining items (a) and (b) above. The deficit under (b) is currently spread over a period of 20 years. This is based on actuarial assumptions about the likelihood, size and timing of benefit payments to be made from the Fund in the future, as outlined in Appendix E.

The Fund's actuary is also required to adjust the *Common Contribution Rate* for circumstances specific to each individual employer. The sorts of specific circumstances which are considered are discussed in Section 3. It is this adjusted contribution rate which the employer is actually required to pay, and the rates for all employers are shown in the Fund's Rates and Adjustments Certificate.

In effect, the *Common Contribution Rate* is a notional quantity, as it is unlikely that any employer will pay that exact rate. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific circumstances.

Details of the outcome of the Actuarial Valuation as at 31 March 2013 can be found in the formal valuation report dated 26 March 2014, including an analysis at Fund Level of the *Common Contribution Rate*. Further details of individual employer contribution rates can also be found in the formal report.

2.4 What else might affect the employer's contribution?

Employer covenants, and likely term of membership, are also considered when setting contributions: more details are given in Section 3.

For some employers it may be agreed to pool contributions, see 3.4.

Any costs arising from non ill-health early retirements must be paid as lump sum payments, either at the time of the employers decision or by instalments shortly thereafter, see 3.6.

If an employer is approaching the end of its participation in the Fund then its contributions may be amended appropriately, so that the assets meet (as closely as possible) the value of its liabilities in the Fund when its participation ends.

Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of the higher rate will be taken by the Fund Actuary at subsequent valuations.

2.5 What different types of employer participate in the Fund?

Historically the LGPS was intended for local authority employees only. However over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now participate. There are currently more employers in the Fund than ever before, an increasingly significant part of this being due to new academies.

In essence, participation in the LGPS is open to public sector employers providing some form of service to the local community. Whilst the majority of members will be local authority employees (and ex-employees), the majority of participating employers are those providing services in place of (or alongside) local authority services: academy schools, contractors, housing associations, charities, etc.

The LGPS Regulations define various types of employer as follows:

Scheduled bodies - councils, and other specified employers such as academies and further education establishments. These must provide access to the LGPS in respect of their employees who are not eligible to join another public sector scheme (such as the Teachers Scheme). These employers are so-called because they are specified in a schedule to the LGPS Regulations.

It is now possible for Local Education Authority schools to convert to academy status, and for other forms of school (such as Free Schools) to be established under the academies legislation. All such academies, as employers of non-teaching staff, become separate new employers in the Fund. As academies are defined in the LGPS Regulations as "Scheduled Bodies", the Administering Authority has no discretion over whether to admit them to the Fund, and the academy has no discretion whether to continue to allow its non-teaching staff to join the Fund. There has also been guidance issued by the DCLG regarding the terms of academies' membership in LGPS Funds.

Designating employers - employers such as town and parish councils are able to participate in the LGPS via resolution (and the Fund cannot refuse them entry where the resolution is passed). These employers can designate which of their employees are eligible to join the scheme.

Other employers are able to participate in the Fund via an admission agreement, and are referred to as 'admission bodies'. These employers are generally those with a "community of interest" with another scheme employer – **community admission bodies** ("CAB") or those providing a service on behalf of a scheme employer – **transferee admission bodies** ("TAB"). CABs will include housing associations and charities, TABs will generally be contractors. The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund's admissions policy are not met.

2.6 How does the Fund recognise that contribution levels can affect council and employer service provision, and council tax?

The Administering Authority and the Fund actuary are acutely aware that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services. For instance:

- Higher pension Fund contributions may result in reduced council spending, which in turn could affect the resources available for council services, and/or greater pressure on council tax levels;
- Contributions which Academies pay to the Fund will therefore not be available to pay for providing education;
- Other employers will provide various services to the local community, perhaps through housing associations, charitable work, or contracting council services. If they are required to pay more in pension contributions to the LGPS then this may affect their ability to provide the local services.

Whilst all this is true, it should also be borne in mind that:

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees;
- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;

- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible;
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result;
- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see 3.1). In deciding which of these techniques to apply to any given employer, the Fund will consider a risk assessment of that employer using a knowledge base which is regularly monitored and kept up-to-date. This database will include such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc. This helps the Fund establish a picture of the financial standing of the employer, i.e. its ability to meet its long term Fund commitments.

For instance, where an employer is considered relatively low risk then the Fund will permit greater smoothing (such as stabilisation or a longer deficit recovery period relative to other employers) which will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, an employer whose risk assessment indicates a less strong covenant will generally be required to pay higher contributions (for instance, with a more prudent funding basis or a shorter deficit recovery period relative to other employers). This is because of the higher probability that at some point it will fail or be unable to meet its pension contributions, with its deficit in the Fund then falling to other Fund employers.

The Fund actively seeks employer input, including to its funding arrangements, through various means: see Appendix A.

3 Calculating contributions for individual Employers

3.1 General comments

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, there are a number of methods which the Administering Authority may permit, in order to improve the stability of employer contributions. These include, where circumstances permit:-

- capping of employer contribution rate changes within a pre-determined range ("stabilisation")
- the use of extended deficit recovery periods
- the phasing in of contribution rises or reductions
- the pooling of contributions amongst employers with similar characteristics
- the use of some form of security or guarantee to justify a lower contribution rate than would otherwise be the case.

These and associated issues are covered in this Section.

The Administering Authority recognises that there may occasionally be particular circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. Therefore the Administering Authority may, at its sole discretion, direct the actuary to adopt alternative funding approaches on a case by case basis for specific employers.

3.2 The effect of paying contributions below the theoretical level

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than the theoretical contribution rate. Such employers should appreciate that:

- their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the choice of method,
- lower contributions in the short term will be assumed to incur a greater loss of investment returns on the deficit. Thus, deferring a certain amount of contribution will lead to higher contributions in the long-term, and
- it will take longer to reach full funding, all other things being equal.

Overleaf (3.3) is a summary of how the main funding policies differ for different types of employer, followed by more detailed notes where necessary.

Section 3.4 onwards deals with various other funding issues which apply to all employers.

3.3 The different approaches used for different employers

<table>
<tr><th>Type of employer</th><th colspan="3">Scheduled Bodies</th><th colspan="2">Community Admission Bodies and Designating Employers</th><th>Transferee Admission Bodies</th></tr>
<tr><td>Sub-type</td><td>Local Authority</td><td>College</td><td>Academies</td><td>Open to new entrants</td><td>Closed to new entrants</td><td>(all)</td></tr>
<tr><td>Basis used</td><td colspan="3">Ongoing, assumes long-term Fund participation (see Appendix E)</td><td colspan="2">Ongoing, but may move to “gilts basis” - see Note (a)</td><td>Ongoing, assumes fixed contract term in the Fund (see Appendix E)</td></tr>
<tr><td>Future service rate</td><td colspan="4">Projected Unit Credit approach (see Appendix D – D.2)</td><td>Attained Age approach (see Appendix D – D.2)</td><td>Projected Unit Credit approach (see Appendix D – D.2)</td></tr>
<tr><td>Stabilised rate?</td><td>Yes - see Note (b)</td><td>No</td><td>No</td><td>No</td><td>No</td><td>No</td></tr>
<tr><td>Maximum deficit recovery period – Note (c)</td><td>20 years</td><td>20 years</td><td>20 years</td><td>20 years</td><td>20 years</td><td>Outstanding contract term</td></tr>
<tr><td>Deficit recovery payments – Note (d)</td><td>% of payroll or monetary amount</td><td>% of payroll or monetary amount</td><td>% of payroll or monetary amount</td><td>% of payroll or monetary amount</td><td>monetary amount</td><td>% of payroll or monetary amount</td></tr>
<tr><td>Treatment of surplus</td><td>Covered by stabilisation arrangement</td><td colspan="5">Preferred approach: contributions kept at future service rate. However, reductions may be permitted by the Admin. Authority</td></tr>
<tr><td>Phasing of contribution changes</td><td>Covered by stabilisation arrangement</td><td colspan="4">At the discretion of the Administering Authority. May be 3 years - Note (e)</td><td>None</td></tr>
<tr><td>Review of rates – Note (f)</td><td colspan="5">Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations</td><td>Particularly reviewed in last 3 years of contract</td></tr>
<tr><td>New employer</td><td>n/a</td><td>n/a</td><td>Note (g)</td><td colspan="2">Note (h)</td><td>Notes (h) & (i)</td></tr>
<tr><td>Cessation of participation: cessation debt payable</td><td colspan="3">Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt principles applied would be as per Note (j).</td><td colspan="2">Can be ceased subject to terms of admission agreement. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see Note (j).</td><td>Participation is assumed to expire at the end of the contract. Cessation debt (if any) calculated on ongoing basis. Awarding Authority will be liable for future deficits and contributions arising.</td></tr>
</table>

Note (a) (Basis for CABs and Designating Employers closed to new entrants)

In the circumstances where:

- the employer is a Designating Employer, or an Admission Body but not a Transferee Admission Body, and
- the employer has no guarantor, and
- the admission agreement is likely to terminate, or the employer is likely to lose its last active member, within a timeframe considered appropriate by the Administering Authority to prompt a change in funding,

the Administering Authority may vary the discount rate used to set employer contribution rate. In particular contributions may be set for an employer to achieve full funding on a more prudent basis (e.g. using a discount rate set equal to gilt yields) by the time the agreement terminates or the last active member leaves, in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

The Administering Authority also reserves the right to adopt the above approach in respect of those Designating Employers and Admission Bodies with no guarantor, where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease or the Designating Employer alters its designation.

Note (b) (Stabilisation)

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers' rates to be relatively stable. In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund Actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" (and may therefore be paying less than their theoretical contribution rate) should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

This stabilisation mechanism allows short term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on the basis that a long term view can be taken on net cash inflow, investment returns and strength of employer covenant.

The current stabilisation mechanism applies if:

- the employer satisfies the eligibility criteria set by the Administering Authority (see below) and;
- there are no material events which cause the employer to become ineligible, e.g. significant reductions in active membership (due to outsourcing or redundancies), or changes in the nature of the employer (perhaps due to Government restructuring).

On the basis of modelling carried out prior to the 2013 valuation exercise (see Section 4), the standard stabilisation arrangements that will apply for employers are as follows. Other stabilisation arrangements may, on occasion, be allowed if the actuary considers them to be prudent.

Type of employer	Council
Max cont. increase	+1% of pay
Max cont. decrease	-1% of pay

The stabilisation criteria and limits will be reviewed at the 31 March 2016 valuation, to take effect from 1 April 2017. This will take into account the employer's membership profiles, the issues surrounding employer security, and other relevant factors.

Note (c) (Deficit Recovery Periods)

The Administering Authority instructs the actuary to adopt specific deficit recovery periods for all employers when calculating their contributions. The Administering Authority normally targets the recovery of any deficit over a period not exceeding 20 years, unless there are specific circumstances which would warrant recovery over a shorter period.

The deficit recovery period starts at the commencement of the revised contribution rate (1 April 2014 for the 2013 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative spreading periods, for example where there were no new entrants.

Where stabilisation applies, the resulting employer contribution rate would be amended to comply with the stabilisation mechanism.

For employers with no (or very few) active members at this valuation, the deficit should be recovered by a fixed monetary amount over a period to be agreed with the body or its successor, not to exceed 20 years.

Note (d) (Deficit Recovery Payments)

For employers where stabilisation is not being applied, the deficit recovery payments for each employer covering the three year period until the next valuation will often be set as a percentage of salaries. However, the Administering Authority reserves the right to amend these rates between valuations and/or to require these payments in monetary terms instead.

Note (e) (Phasing in of contribution changes)

All phasing is subject to the Administering Authority being satisfied as to the strength of the employer's covenant.

Requests from employers to phase in contribution rises will be considered by the Administering Authority if stability of contributions is an issue.

Any contribution reductions may be phased in over a period agreed with the Administering Authority for all employers except:

- Transferee Admission Bodies; and
- employers where the contribution reduction is due to significant additional contributions having been paid to the Pension Fund since the last valuation for the purpose of reducing the deficit.

Employers which have no active members at this valuation will not be phased.

Note (f) (Regular Reviews)

Such reviews may be triggered by significant events including but not limited to: significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the Administering Authority.

The result of a review may be to require increased contributions (by strengthening the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee.

Note (g) (New Academy employers)

At the time of writing, the Fund's policies on academies' funding issues are as follows:

a) The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with those of the other academies in the MAT;

b) The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. The share will be based on the active members' funding level, having first allocated assets to fully fund deferred and pensioner members. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;

c) The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion;

d) The new academy's initial contribution rate will be calculated using market conditions, the council funding position and, membership data, all as at the day prior to conversion;

e) As an alternative to (d), the academy will have the option to elect to pay contributions initially in line with the ceding LEA instead. However, this election will not alter its asset or liability allocation as per (b) and (c) above. Ultimately, all academies remain responsible for their own allocated deficit.

The Fund's policies on academies are subject to change in the light of any amendments to DCLG guidance. Any changes will be notified to academies, and will be reflected in a subsequent version of this FSS. In particular, policies (d) and (e) above will be reconsidered at each valuation.

Note (h) (New Admission Bodies)

With effect from 1 October 2012, the LGPS 2012 Miscellaneous Regulations introduced mandatory new requirements for all Admission Bodies brought into the Fund from that date. Under these Regulations, all new Admission Bodies will be required to provide some form of security, such as a guarantee from the letting employer, an indemnity or a bond. The security is required to cover some or all of the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;
- allowance for the risk of a fall in gilt yields;
- allowance for the possible non-payment of employer and member contributions to the Fund;
- the current deficit.

For all new Transferee Admission Bodies, the security must be to the satisfaction of the Administering Authority as well as the letting employer, and will be reassessed on an annual basis. The details of the required security will be specified in the employer's admission agreement.

The Administering Authority will only consider requests from Community Admission Bodies (or other similar bodies, such as section 75 NHS partnerships) to join the Fund if it is required by the terms of their contract with the relevant letting authority. Details of security required will be specified in the employer's admission agreement.

The above approaches reduce the risk to other employers in the Fund, of potentially having to pick up any shortfall in respect of Admission Bodies ceasing with an unpaid deficit.

Note (i) (New Transferee Admission Bodies)

A new TAB usually joins the Fund as a result of the letting/outsourcing of some services from an existing employer (normally a Scheduled Body such as a council or academy) to another organisation (a "contractor"). This involves the TUPE transfer of some staff from the letting employer to the contractor. Consequently, for the duration of the contract, the contractor is a new participating employer in the Fund so that the transferring employees maintain their eligibility for LGPS membership. At the end of the contract the employees revert to the letting employer or to a replacement contractor.

Ordinarily, the TAB would be set up in the Fund as a new employer with responsibility for all the accrued benefits of the transferring employees; in this case, the contractor would usually be assigned an initial asset allocation equal to the past service liability value of the employees' Fund benefits. The quid pro quo is that the contractor is then expected to ensure that its share of the Fund is also fully funded at the end of the contract: see Note (j).

Employers which "outsource" have flexibility in the way that they can deal with the pension risk potentially taken on by the contractor. In particular there are three different routes that such employers may wish to adopt. Clearly as the risk ultimately resides with the employer letting the contract, it is for them to agree the appropriate route with the contractor:

i) Pooling

Under this option the contractor is pooled with the letting employer. In this case, the contractor pays the same rate as the letting employer, which is may be under the stabilisation approach.

ii) Letting employer retains pre-contract risks

Under this option the letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff. The contractor's contribution rate could vary from one valuation to the next. It would be liable for any deficit at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term.

iii) Fixed contribution rate agreed

Under this option the contractor pays a fixed contribution rate and doesn't pay any cessation deficit.

The Administering Authority is willing to administer any of the above options as long as the approach is documented in the Admission Agreement as well as the transfer agreement. The Admission Agreement should ensure that some element of risk transfers to the contractor where it relates to their decisions and it is unfair to burden the letting employer with that risk. For example the contractor should typically be responsible for pension costs that arise from;

- above average pay increases, including the effect in respect of service prior to contract commencement even if the letting employer takes on responsibility for the latter under (ii) above;
- redundancy and early retirement decisions.

Note (j) (Admission Bodies Ceasing)

Notwithstanding the provisions of the Admission Agreement, the Administering Authority may consider any of the following as triggers for the cessation of an admission agreement with any type of body:

- Last active member ceasing participation in the Fund;
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body; where there is a surplus it should be noted that current legislation does not permit a refund payment to the Admission Body.

For non-Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Administering Authority must look to protect the interests of other ongoing employers. The actuary will therefore adopt an approach which, to the extent reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future:

a) Where there is a guarantor for future deficits and contributions, the cessation valuation will normally be calculated using the ongoing basis as described in Appendix E;

b) Alternatively, it may be possible to simply transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise any deficit. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee;

c) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a "gilts cessation basis", which is more prudent than the ongoing basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.

Under (a) and (c), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund would look to any bond, indemnity or guarantee in place for the employer.

In the event that the Fund is not able to recover the required payment in full, then the unpaid amounts fall to be shared amongst all of the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund, or instead be reflected in the contribution rates set at the next formal valuation following the cessation date.

As an alternative, where the ceasing Admission Body is continuing in business, the Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing Admission Body. Under this agreement the Fund would accept an appropriate alternative security to be held against any deficit, and would carry out the cessation valuation on an ongoing basis: deficit recovery payments would be derived from this cessation debt. This approach would be monitored as part of each triennial valuation: the Fund reserves the right to revert to a "gilts cessation basis" and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases, as the Body would have no contributing members.

3.4 Pooled contributions

From time to time the Administering Authority may set up pools for employers. At the present time the only pool in operation is the Council pool, which includes various legacy bodies and employers associated with the Council.

Smaller admitted bodies may be pooled with the letting employer, provided all parties (particularly the letting employer) agree.

Academies will be regarded as separate employers in their own right and will not be pooled with other employers in the Fund, the only possible exception being when the Academy is part of a Multi Academy Trust (MAT).

Those employers which have been pooled are identified in the Rates and Adjustments Certificate.

3.5 Additional flexibility in return for added security

The Administering Authority may permit greater flexibility to the employer's contributions if the employer provides added security to the satisfaction of the Administering Authority.

Such flexibility includes a reduced rate of contribution, an extended deficit recovery period, or permission to join a pool with another body (e.g. the Local Authority).

Such security may include, but is not limited to, a suitable bond, a legally-binding guarantee from an appropriate third party, or security over an employer asset of sufficient value.

The degree of flexibility given may take into account factors such as:

- the extent of the employer's deficit;
- the amount and quality of the security offered;
- the employer's financial security and business plan;
- whether the admission agreement is likely to be open or closed to new entrants.

3.6 Non ill health early retirement costs

It is assumed that members' benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit (and without requiring their employer's consent to retire). (**NB** the relevant age may be different for different periods of service, following the benefit changes from April 2008 and April 2014).

Employers are required to pay additional contributions ('strain') wherever an employee retires before attaining this age. These contributions may, at the absolute discretion of the Administering Authority, be spread over an appropriate period of time to be advised by the Administering Authority. In any event the spread period cannot exceed the period to the **member's normal retirement date.**

The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health.

3.7 Ill health early retirement costs

Admitted Bodies will usually have an 'ill health allowance'; Scheduled Bodies may have this also, depending on their agreement terms with the Administering Authority. The Fund monitors each employer's ill health experience on an ongoing basis. If the cumulative cost of ill health retirement in any financial year exceeds the allowance at the previous valuation, the employer will be charged additional contributions on the same basis as apply for non ill-health cases. Details will be included in each separate Admission Agreement.

3.8 Ill health insurance

There is no obligation for employers in the fund to maintain ill health insurance. However, if an employer provides satisfactory evidence to the Administering Authority of a current insurance policy covering ill health early retirement strains, then:

- the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total contribution is unchanged, and
- there is no need for monitoring of allowances.

The employer must keep the Administering Authority notified of any changes in the insurance policy's coverage or premium terms, or if the policy is ceased.

3.9 Employers with no remaining active members

In general an employer ceasing in the Fund, due to the departure of the last active member, will pay a cessation debt on an appropriate basis (see 3.3, Note (j)) and consequently have no further obligation to the Fund. Thereafter it is expected that one of two situations will eventually arise:

a) The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;

b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund employers.

c) In exceptional circumstances the Fund may permit an employer with no remaining active members to continue contributing to the Fund. This would require the provision of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements, as set out in the original admission agreement, in the future, however. The Administering Authority may need to seek legal advice in such cases, as the employer would have no contributing members.

3.10 Policies on bulk transfers

The Fund has a separate written policy which covers bulk transfer payments into, out of and within the Fund. Each case will be treated on its own merits, but in general:

- The Fund will not pay bulk transfers greater than the lesser of (a) the asset share of the transferring employer in the Fund, and (b) the value of the past service liabilities of the transferring members;
- The Fund will not grant added benefits to members bringing in entitlements from another Fund unless the asset transfer is sufficient to meet the added liabilities;
- The Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's Fund contributions to increase between valuations.

4 Funding strategy and links to investment strategy

4.1 What is the Fund's investment strategy?

The Fund has built up assets over the years, and continues to receive contribution and other income. All of this must be invested in a suitable manner, which is the investment strategy.

Investment strategy is set by the administering authority, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Statement of Investment Principles (SIP), which is available to members and employers.

The investment strategy is set for the long-term, but is reviewed from time to time. Normally a full review is carried out after each actuarial valuation, and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile.

The same investment strategy is currently followed for all employers.

4.2 What is the link between funding strategy and investment strategy?

The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa.

Therefore, the funding and investment strategies are inextricably linked.

4.3 How does the funding strategy reflect the Fund's investment strategy?

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The asset outperformance assumption contained in the discount rate (see E3) is within a range that would be considered acceptable for funding purposes; it is also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see A1).

However, in the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of this target. The stability measures described in Section 3 will damp down, but not remove, the effect on employers' contributions.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

4.4 How does this differ for a large stable employer?

The Actuary has developed four key measures which capture the essence of the Fund's strategies, both funding and investment:

- Prudence - the Fund should have a reasonable expectation of being fully funded in the long term;
- Affordability – how much can employers afford;
- Stewardship – the assumptions used should be sustainable in the long term, without having to resort to overly optimistic assumptions about the future to maintain an apparently healthy funding position;
- Stability – employers should not see significant moves in their contribution rates from one year to the next, and this will help to provide a more stable budgeting environment.

The key problem is that the key objectives often conflict. For example, minimising the long term cost of the scheme (i.e. keeping employer rates affordable) is best achieved by investing in higher returning assets e.g. equities. However, equities are also very volatile (i.e. go up and down fairly frequently in fairly large moves), which conflicts with the objective to have stable contribution rates.

Therefore a balance needs to be maintained between risk and reward, which has been considered by the use of Asset Liability Modelling: this is a set of calculation techniques applied by the Fund's actuary, to model the range of potential future solvency levels and contribution rates.

The Actuary was able to model the impact of these four key areas, for the purpose of setting a stabilisation approach (see 3.3 Note (b)). The modelling demonstrated that retaining the present investment strategy, coupled with constraining employer contribution rate changes as described in 3.3 Note (b), struck an appropriate balance between the above objectives. In particular the stabilisation approach currently adopted meets the need for stability of contributions without jeopardising the Administering Authority's aims of prudent stewardship of the Fund.

Whilst the current stabilisation mechanism is to remain in place until 2017, it should be noted that this will need to be reviewed following the 2016 valuation.

4.5 Does the Fund monitor its overall funding position?

The Administering Authority monitors the relative funding position, i.e. changes in the relationship between asset values and the liabilities value, quarterly. It reports this to the Pensions Committee annually.

Appendix A – Regulatory framework

A1 Why does the Fund need an FSS?

The Department for Communities and Local Government (DCLG) has stated that the purpose of the FSS is:

- *"to establish a **clear and transparent fund-specific strategy** which will identify how employers' pension liabilities are best met going forward;*
- *to support the regulatory framework to maintain **as nearly constant employer contribution rates as possible**; and*
- *to take a **prudent longer-term view** of funding those liabilities."*

These objectives are desirable individually, but may be mutually conflicting.

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2012) and to its Statement of Investment Principles.

This is the framework within which the Fund's actuary carries out triennial valuations to set employers' contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

A2 Does the Administering Authority consult anyone on the FSS?

Yes. This is required by LGPS Regulations. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to "consultation with such persons as the authority considers appropriate", and should include "a meaningful dialogue at officer and elected member level with council tax raising authorities and with corresponding representatives of other participating employers".

In practice, for the Fund, the consultation process for this FSS was as follows:

a) A draft version of the FSS was issued to all participating employers in March 2014 for comment;

b) Comments were requested within 30 days;

c) Following the end of the consultation period the FSS was updated where required and then published, in June 2014.

A3 How is the FSS published?

The FSS is made available through the following routes:

- Published on the website, at http://www.iwight.com/council/OtherServices/Pensions-IWC;
- A copy sent by e-mail to each participating employer in the Fund;
- A full copy included in the annual report and accounts of the Fund;
- Copies sent to investment managers and independent advisers;
- Copies made available on request.

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the triennial valuation. This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation in 2016.

It is possible that (usually slight) amendments may be needed within the three year period. These would be needed to reflect any regulatory changes, or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- trivial amendments would be simply notified at the next round of employer communications,
- amendments affecting only one class of employer would be consulted with those employers,
- other more significant amendments would be subject to full consultation.

In any event, changes to the FSS would need agreement by the Isle of Wight Pension Fund Committee and would be included in the relevant Committee Meeting minutes.

A5 How does the FSS fit into other Fund documents?

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example there are a number of separate statements published by the Fund including the Statement of Investment Principles, Governance Strategy and Communications Strategy. In addition, the Fund publishes an Annual Report and Accounts with up to date information on the Fund.

These documents can be found on the web at http://www.iwight.com/council/OtherServices/Pensions-IWC

Appendix B – Responsibilities of key parties

The efficient and effective operation of the Fund needs various parties to each play their part.

B1 The Administering Authority should:-

- operate the Fund as per the LGPS Regulations;
- effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
- collect employer and employee contributions, and investment income and other amounts due to the Fund;
- ensure that cash is available to meet benefit payments as and when they fall due;
- pay from the Fund the relevant benefits and entitlements that are due;
- invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Statement of Investment Principles (SIP) and LGPS Regulations;
- communicate appropriately with employers so that they fully understand their obligations to the Fund;
- take appropriate measures to safeguard the Fund against the consequences of employer default;
- manage the valuation process in consultation with the Fund's actuary;
- prepare and maintain a FSS and a SIP, after consultation;
- notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
- monitor all aspects of the fund's performance and funding and amend the FSS/SIP as necessary and appropriate.

B2 The Individual Employer should:-

- deduct contributions from employees' pay correctly;
- pay all contributions, including their own as determined by the actuary, promptly by the due date;
- have a policy and exercise discretions within the regulatory framework;
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
- notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.

B3 The Fund Actuary should:-

- prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;
- provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);

- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
- assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
- advise on the termination of Admission Bodies' participation in the Fund; and
- fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

B4 Other parties:-

- investment advisers (either internal or external) should ensure the Fund's SIP remains appropriate, and consistent with this FSS;
- investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the SIP;
- auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;
- governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;
- legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures.

Appendix C – Key risks and controls

C1 Types of risk

The Administering Authority has an active risk management programme in place. The measures that it has in place to control key risks are summarised below under the following headings:

- financial;
- demographic;
- regulatory; and
- governance.

C2 Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term.	Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing. Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc. Analyse progress at three yearly valuations for all employers. Inter-valuation roll-forward of liabilities between valuations at whole Fund level.
Inappropriate long-term investment strategy.	Investment strategy set on back of investment adviser's advice on risk and reward. Review asset allocation annually. Appointment of Independent advisor to Committee.
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	Stabilisation modelling at whole Fund level allows for the probability of this within a longer term context. Inter-valuation monitoring, as above. Some investment in bonds helps to mitigate this risk.
Active investment manager under-performance relative to benchmark.	Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark. This will be supplemented with an analysis of absolute returns against those underpinning the valuation. This gives an early warning of contribution rises ahead. In the short term, volatility is damped down by stability measures on contributions. However, if under-performance is sustained over periods over 5 years employer contributions would rise more. Investment managers would be changed following

Risk	Summary of Control Mechanisms
	persistent under-performance
Pay and price inflation significantly more than anticipated.	The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Inter-valuation monitoring, as above, gives early warning. Some investment in bonds helps to mitigate this risk. Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions. Seek feedback from employers on their ability to absorb short-term contribution rises.
Orphaned employers give rise to added costs for the Fund	The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future. If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).

C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	Set mortality assumptions with some allowance for future increases in life expectancy. The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.
Deteriorating patterns of early retirements	Employers are charged the extra cost of non ill-health retirements following each individual decision. Employer ill health retirement experience is monitored, and insurance is an option.

Risk	Summary of Control Mechanisms
Reductions in payroll causing insufficient deficit recovery payments	In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows: Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3). For other employers, review of contributions is permitted in general between valuations (see Note (f) to 3.3) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.

C4 Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. The results of the most recent reforms have been built into the 2013 valuation. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.

C5 Governance risks

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data. The Administering Authority will monitor membership movements on a half-yearly basis, as part of a report on administration issues, including membership, cash flows and financial performance. The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions (under Regulation 38) between triennial valuations. Deficit contributions may be expressed as monetary amounts.
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way	The Administering Authority maintains close contact with its specialist advisers. Advice is delivered via formal meetings involving Elected Members, and recorded appropriately. Actuarial advice is subject to professional requirements such as peer review.
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes. Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken. The contract end dates are monitored on the Administering Authority's employers' database.
An employer ceasing to exist with insufficient funding or adequacy of a bond.	The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by: Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see Notes (h) and (j) to 3.3). Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. Vetting prospective employers before admission. Where permitted under the regulations requiring a bond

Risk	Summary of Control Mechanisms
	to protect the Fund from various risks.

Appendix D – The calculation of Employer contributions

In Section 2 there was a broad description of the way in which contribution rates are calculated. This Appendix considers these calculations in much more detail.

The calculations involve actuarial assumptions about future experience, and these are described in detail in Appendix E.

D1 What is the difference between calculations across the whole Fund and calculations for an individual employer?

Employer contributions are normally made up of two elements:

a) the estimated cost of future benefits being accrued, referred to as the "future service rate"; plus

b) an adjustment for the funding position of accrued benefits relative to the Fund's solvency target, "*past service adjustment*". If there is a surplus there may be a reduction in the employer's contribution rate. If there is a deficit there will be an increase in the employer's contribution rate, with the surplus or deficit spread over an appropriate period. The aim is to return the employer to full funding over that period. See Section 3 for deficit recovery periods.

The Fund's actuary is required by the regulations to report the *Common Contribution Rate*[3], for all employers collectively at each triennial valuation. It combines items (a) and (b) and is expressed as a percentage of pay; it is in effect an average rate across all employers in the Fund.

The Fund's actuary is also required to adjust the Common Contribution Rate for circumstances which are deemed "peculiar" to an individual employer[4]. It is the adjusted contribution rate which employers are actually required to pay. The sorts of "peculiar" factors which are considered are discussed below.

In effect, the *Common Contribution Rate* is a notional quantity. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific past service deficit spreading and increased employer contribution phasing periods.

D2 How is the Future Service Rate calculated?

The future service element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members' **future** service in the Fund. This is based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year.

The future service rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The calculation is on the "ongoing" valuation basis (see Appendix E), but where it is considered appropriate to do so the Administering Authority reserves the right to set a future service rate by reference to liabilities valued on a more prudent basis (see Section 3).

The approach used to calculate each employer's future service contribution rate depends on whether or not new entrants are being admitted. Employers should note that it is only Admission Bodies and Designating Employers that may have the power not to automatically admit all eligible new staff to the Fund, depending on the terms of their Admission Agreements and employment contracts.

---

3 See LGPS (Administration) Regulations 36(5).
4 See LGPS (Administration) Regulations 36(7).

a) Employers which admit new entrants

These rates will be derived using the "Projected Unit Method" of valuation with a one year period, i.e. only considering the cost of the next year's benefit accrual and contribution income. If future experience is in line with assumptions, and the employer's membership profile remains stable, this rate should be broadly stable over time. If the membership of employees matures (e.g. because of lower recruitment) the rate would rise over time.

b) Employers which do not admit new entrants

To give more long term stability to such employers' contributions, the "Attained Age" funding method is normally adopted. This measures benefit accrual and contribution income over the whole future anticipated working lifetimes of current active employee members.

Both approaches include expenses of administration to the extent that they are borne by the Fund, and include allowances for benefits payable on death in service and ill health retirement.

D3 How is the Solvency / Funding Level calculated?

The Fund's actuary is required to report on the "solvency" of the whole Fund in a valuation which should be carried out at least once every three years. As part of this valuation, the actuary will calculate the solvency position of each employer.

'Solvency" is defined to be the ratio of the market value of the employer's asset share to the value placed on accrued benefits on the Fund actuary's chosen assumptions. This quantity is known as a funding level.

For the value of the employer's asset share, see D5 below.

For the value of benefits, the Fund actuary agrees the assumptions to be used with the Administering Authority – see Appendix E. These assumptions are used to calculate the present value of all benefit payments expected in the future, relating to that employer's current and former employees, based on pensionable service to the valuation date only (i.e. ignoring further benefits to be built up in the future).

The Fund operates the same target funding level for all employers of 100% of its accrued liabilities valued on the ongoing basis, unless otherwise determined (see Section 3).

D4 What affects a given employer's valuation results?

The results of these calculations for a given individual employer will be affected by:

- past contributions relative to the cost of accruals of benefits;
- different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
- the effect of any differences in the valuation basis on the value placed on the employer's liabilities;
- any different deficit/surplus spreading periods or phasing of contribution changes;
- the difference between actual and assumed rises in pensionable pay;
- the difference between actual and assumed increases to pensions in payment and deferred pensions;
- the difference between actual and assumed retirements on grounds of ill-health from active status;

- the difference between actual and assumed amounts of pension ceasing on death;
- the additional costs of any non ill-health retirements relative to any extra payments made;

over the period between each triennial valuation.

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers, to the extent that employers in effect share the same investment strategy. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers.

D5 How is each employer's asset share calculated?

The Administering Authority does not account for each employer's assets separately. Instead, the Fund's actuary is required to apportion the assets of the whole Fund between the employers, at each triennial valuation.

This apportionment uses the income and expenditure figures provided for certain cash flows for each employer. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as "analysis of surplus".

The Fund actuary does not allow for certain relatively minor events, including but not limited to:

- the actual timing of employer contributions within any financial year;
- the effect of the premature payment of any deferred pensions on grounds of incapacity.

These effects are swept up within a miscellaneous item in the analysis of surplus, which is split between employers in proportion to their liabilities.

The methodology adopted means that there will inevitably be some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund.

The asset apportionment is capable of verification but not to audit standard. The Administering Authority recognises the limitations in the process, but it considers that the Fund actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

Appendix E – Actuarial assumptions

E1 What are the actuarial assumptions?

These are expectations of future experience used to place a value on future benefit payments ("the liabilities"). Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants' benefits.

Changes in assumptions will affect the measured value of future service accrual and past service liabilities, and hence the measured value of the past service deficit. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The combination of all assumptions is described as the "basis". A more optimistic basis might involve higher assumed investment returns (discount rate), or lower assumed salary growth, pension increases or life expectancy; a more optimistic basis will give lower liability values and lower employer costs. A more prudent basis will give higher liability values and higher employer costs.

E2 What basis is used by the Fund?

The Fund's standard funding basis is described as the "ongoing basis", which applies to most employers in most circumstances. This is described in more detail below. It anticipates employers remaining in the Fund in the long term.

However, in certain circumstances, typically where the employer is not expected to remain in the Fund long term, a more prudent basis applies: see Note (a) to 3.3.

E3 What assumptions are made in the ongoing basis?

a) Investment return / discount rate

The key financial assumption is the anticipated return on the Fund's investments. This "discount rate" assumption makes allowance for an anticipated out-performance of Fund returns relative to long term yields on UK Government bonds ("gilts"). There is, however, no guarantee that Fund returns will out-perform gilts. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

Given the very long-term nature of the liabilities, a long term view of prospective asset returns is taken. The long term in this context would be 20 to 30 years or more.

For the purpose of the triennial funding valuation at 31 March 2013 and setting contribution rates effective from 1 April 2014, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 1.6% per annum greater than gilt yields at the time of the valuation (this is the same as that used at the 2010 valuation). In the opinion of the Fund actuary, based on the current investment strategy of the Fund, this asset out-performance assumption is within a range that would be considered acceptable for the purposes of the funding valuation.

b) Salary growth

Pay for public sector employees is currently subject to restriction by the UK Government until 2016. Although this "pay freeze" does not officially apply to local government and associated employers, it has been suggested that they are likely to show similar restraint in respect of pay awards. Based on long term historical analysis of the membership in LGPS funds, the salary increase assumption at the 2013 valuation has been set to 1.0% above the retail prices index (RPI) per annum. This is a change from the previous valuation, which assumed a two year restriction at 1% per annum followed by longer term growth at RPI plus 1.5% per annum.

c) Pension increases

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. This change was allowed for in the valuation calculations as at 31 March 2010. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

As at the previous valuation, we derive our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. This is then reduced to arrive at the CPI assumption, to allow for the "formula effect" of the difference between RPI and CPI. At this valuation, we propose a reduction of 0.8% per annum. This is a larger reduction than at 2010, which will serve to reduce the value placed on the Fund's liabilities (all other things being equal).

d) Life expectancy

The longevity assumptions that have been adopted at this valuation are a set of "VitaCurves", produced by the Club Vita's detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with "medium cohort" and a 1.25% per annum minimum underpin to future reductions in mortality rates. This is a higher allowance for future improvements than was made in 2010.

The combined effect of the above changes from the 2010 valuation approach is to increase life expectancy.
The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members' benefits.

e) General

The same financial assumptions are adopted for all employers, in deriving the past service deficit and the future service rate: as described in (3.3), these calculated figures are translated in different ways into employer contributions, depending on the employer's circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

Appendix F – Glossary

Actuarial assumptions/basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of **liabilities**. The main assumptions will relate to the **discount rate**, salary growth, pension increases and longevity. More prudent assumptions will give a higher liability value, whereas more optimistic assumptions will give a lower value.
Administering Authority	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
Admission Bodies	Employers which voluntarily participate in the Fund, so that their employees and ex-employees are **members**. There will be an Admission Agreement setting out the employer's obligations. For more details (see 2.5).
Common contribution rate	The Fund-wide **future service rate** plus **past service adjustment**. It should be noted that this will differ from the actual contributions payable by individual **employers**.
Covenant	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
Deficit	The shortfall between the assets value and the **liabilities** value. This relates to assets and liabilities built up to date, and ignores the future build-up of pension (which in effect is assumed to be met by future contributions).
Deficit repair/recovery period	The target length of time over which the current **deficit** is intended to be paid off. A shorter period will give rise to a higher annual **past service adjustment** (deficit repair contribution), and vice versa.
Designating Employer	Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.
Discount rate	The annual rate at which future assumed cash flows (in and out of the Fund) are discounted to the present day. This is necessary to provide a **liabilities** value which is consistent with the present day value of the assets, to calculate the **deficit**. A lower discount rate gives a higher liabilities value, and vice versa. It is similarly used in the calculation of the **future service rate** and the **common contribution rate**.
Employer	An individual participating body in the Fund, which employs (or used to employ) **members** of the Fund. Normally the assets and **liabilities** values for each employer are individually tracked, together with its **future service rate** at each **valuation**.
Funding level	The ratio of assets value to **liabilities** value: for further details (see 2.2).

Future service rate	The actuarially calculated cost of each year's build-up of pension by the current active **members**, excluding members' contributions but including Fund administrative expenses. This is calculated using a chosen set of **actuarial assumptions**.
Gilt	A UK Government bond, i.e. a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but their main use in funding is as an objective measure of solvency.
Guarantee / guarantor	A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's **covenant** to be as strong as its guarantor's.
Letting employer	An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy.
Liabilities	The actuarially calculated present value of all pension entitlements of all **members** of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the **deficit**. It is calculated on a chosen set of **actuarial assumptions**.
LGPS	The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 101 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.
Maturity	A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.
Members	The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).
Past service adjustment	The part of the employer's annual contribution which relates to past service **deficit** repair.

Pooling	Employers may be grouped together for the purpose of calculating contribution rates, so that their combined membership and asset shares are used to calculate a single contribution rate applicable to all employers in the pool. A pool may still require each individual employer to ultimately pay for its own share of **deficit**, or (if formally agreed) it may allow **deficits** to be passed from one employer to another. For further details of the Fund's current pooling policy (see 3.4).
Profile	The profile of an employer's membership or liability reflects various measurements of that employer's **members**, i.e. current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its **maturity** also.
Rates and Adjustments Certificate	A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal **valuation**. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.
Scheduled Bodies	Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc., other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).
Solvency	In a funding context, this usually refers to a 100% **funding level**, i.e. where the assets value equals the **liabilities** value.
Stabilisation	Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund. Different methods may involve: probability-based modelling of future market movements; longer deficit recovery periods; higher discount rates; or some combination of these.
Theoretical contribution rate	The employer's contribution rate, including both **future service rate** and **past service adjustment**, which would be calculated on the standard **actuarial basis**, before any allowance for **stabilisation** or other agreed adjustment.
Valuation	An actuarial investigation to calculate the liabilities, future service contribution rate and common contribution rate for a Fund, and usually individual employers too. This is normally carried out in full every three years (last done as at 31 March 2013), but can be approximately updated at other times. The assets value is based on market values at the valuation date, and the liabilities value and contribution rates are based on long term bond market yields at that date also.

APPENDIX E - Governance Compliance Statement
For the year ended 31 March 2014
Dated: 16 May 2014

Principle	Detailed Best Practice Principle	Compliance statement
A. Structure	a) The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council. b) That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee. c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels. d) That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	**Fully compliant** a) The Isle of Wight Pension Fund Committee forms part of the council's constitution, which includes the terms of reference for the committee. b) The terms of reference for the committee specify that the membership should include employer and member representatives. c) There is no secondary committee. d) Not applicable. The committee is considering what changes may be needed to the governance structure, following changes introduced by the Public Sector Pensions Act 2013 (PSPA13)
B. Committee Membership and Representation	a) That all key stakeholders are afforded the opportunity to be represented, within the main or secondary committee structure. These include:- i) employing authorities (including non-scheme employers, e.g. admitted bodies); ii) scheme members (including deferred and pensioner scheme members); iii) where appropriate, independent professional observers, and iv) expert advisors (on an ad-hoc basis) b) That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	**Fully compliant** a) The committee membership (as stated in the council's constitution) includes 7 elected members (the council being the largest employer), 1 employee representative (UNISON) and 1 employer representative nominated by the admitted bodies). The committee is advised by fund managers, actuaries and independent investment advisers. b) All members are given equal access to meetings and papers, which are published on the council's website. All members are invited to attend all training sessions, and any ad-hoc meetings convened for specific purposes (for example appointment of advisers)

Principle	Detailed Best Practice Principle	Compliance statement
C. Selection and role of lay members	a) That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee. b) That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda	**Fully compliant** a) The role of the committee is fully explained in the council's constitution. Training has been provided to all members on the background to the LGPS, the role of the committee, the governance structure and future changes. b) There is a standing agenda item at the start of each committee meeting to record declarations of interest.
D. Voting	a) The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	**Fully compliant** a) Voting rights for each type of membership are set out in the council's constitution.
E. Training/Facility time/Expenses	a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process. b) That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum. c) That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.	**Fully compliant** a) These items are set out in the council's constitution. b) All items contained in the constitution are applicable to all members of the committee. c) The committee training needs analysis was updated in July 2013, which formed the basis for the training plan for the period to 31 March 2015. The training plan is regularly reviewed and updated throughout the year. Members' attendance at committee training sessions and external training is reported in the fund's Knowledge and Skills Compliance Statement, as part of the annual report.
F. Meetings (frequency/quorum)	a) That an administering authority's main committee or committees meet at least quarterly. b) That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits. c) That an administering authority who does not include lay members in their formal governance arrangements, must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented	**Fully compliant** a) The committee meets four times a year. b) Not applicable c) All employers are invited to the annual general meeting of the committee in July. Employers are also invited to meetings to consider the triennial valuation results.
G. Access	a) That, subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main	**Fully compliant** a) All agendas, papers and minutes are available to members and the public via the council's website. All papers are published in advance of the meetings, in accordance with the

Principle	Detailed Best Practice Principle	Compliance statement
	committee.	council’s democratic service standards.
H. Scope	a) That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	**Fully compliant** a) In advance of the governance changes brought about by PSPA13, the committee now received reports on membership (including employers), administration standards, and funding levels as well as continuing to receive reports and presentations from fund managers. Reporting will continue to develop as regulations and guidance on the new governance arrangements are produced.
I. Publicity	a) That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	**Partially compliant** a) All statutory statements and policies form part of the fund’s annual report, which is published on the council’s website. Following the council’s upgrade of its external website, some of the policy documents have not yet been replaced on the Pensions Administration webpages.

Independent auditor's statement to the Members of Isle of Wight Council on the Pension Fund Financial Statements

We have examined the pension fund financial statements for the year ended 31 March 2014, which comprise the Fund Account, the Net Assets Statement and the related notes 1 to 29.

This report is made solely to the members of Isle of Wight Council, as a body, in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the authority and the authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Head of Finance and Section 151 Officer and the auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 16, the Head of Finance and Section 151 Officer is responsible for the preparation of the pension fund's financial statements in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements within the pension fund annual report with the pension fund financial statements in the statement of accounts of Isle of Wight Council, and its compliance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

We also read the other information contained in the pension fund annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements. The other information consists only the Foreword, Scheme Management and Advisers, Financial Performance, Investment Policy and Performance, Actuarial Statement for 2013-14, Knowledge and Skills compliance statements, Communications Policy Statements, Governance Policy Statement, Terms of Reference of Pension Fund Committee, and appendices.

We conducted our work in accordance with guidance issued by the Audit Commission. Our report on the administering authority's full annual statement of accounts describes the basis of our opinion on those financial statements.

Opinion

In our opinion, the pension fund financial statements are consistent with the full annual statement of accounts of Isle of Wight Council for the year ended 31 March 2014 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

Baldeep Singh
for and on behalf of Ernst & Young LLP, Appointed Auditor
Reading
26 September 2014