APPENDIX 1

DRAFT
ANNUAL REPORT
AND
ACCOUNTS

ISLE OF WIGHT COUNCIL
PENSION FUND
2014-15

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

Contents

Foreword

To be inserted after the AGM

Councillor Ivor Warlow
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 R Blezzard			As Chair only May 2015
Councillor I Warlow	Chair	As Chair only May 2015	
Councillor R Barry			
Councillor D Eccles		July 2014	
Councillor S Hutchinson			
Councillor J Jones-Evans			July 2014
Councillor G Kendall			
Councillor D Pitcher			

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

Investment Managers

Baillie Gifford & Co
Calton Square
1 Greenside Row
Edinburgh EH1 3AN

Majedie Asset Management Ltd
5th Floor
10 Old Bailey
London EC4M 7NG

Newton Investment Management Ltd
The Bank of New York Mellon Centre
160 Queen Victoria Street
London EC4V 4LA

Schroder Investment Management Limited
31 Gresham Street
London EC2V 7QA

Actuarial Services

Hymans Robertson LLP
20 Waterloo Street
Glasgow G2 6DB

Investment Consultants

Mercer Limited
Belvedere
12 Booth Street
Manchester M2 4AW

AVC Provider

Prudential
AVC Customer Services
Stirling FK9 4UE

Custodian

BNP Paribas Securities Services
55 Moorgate
London EC2R 6PA

Auditors

Ernst & Young LLP
Apex Plaza
Forbury Road
Reading RG1 1YE

Bankers

National Westminster
3 Hampshire Corporate Park
PO Box 462
Templars Way
Chandlers Ford
SO53 3RY

Scheme Administrator

Isle of Wight Council
County Hall
Newport
Isle of Wight PO30 1UD

Financial Performance

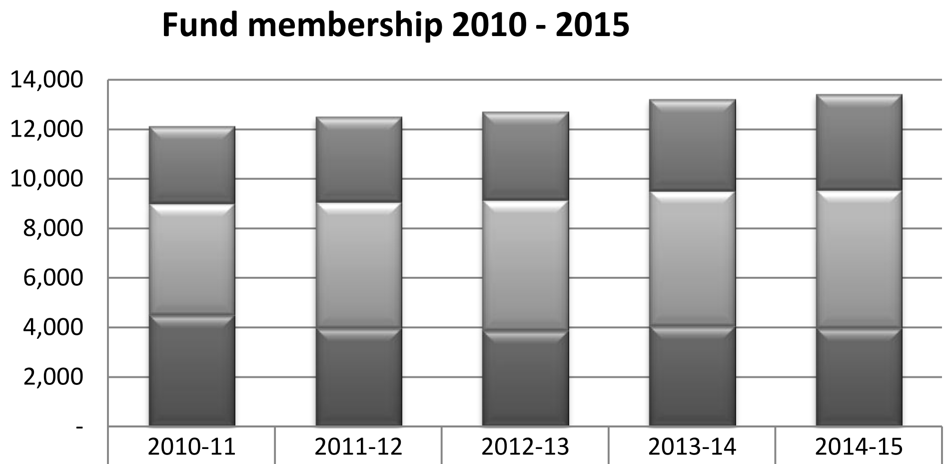
Analytical review

Fund account	2014-15 £000	2013-14 £000	Notes
Net withdrawals from dealings with members	**(2,343)**	(1,264)	Small increase in basic contributions; reduction in pension strain contributions; inflationary increases in benefits paid; higher death grants.
Management expenses	**(2,868)**	(2,513)	Higher performance fees paid to UK and global equity managers, reflecting out-performance of benchmarks.
Net return on investments	**58,730**	41,905	Good performance in UK and global equities markets. All fund managers generated positive absolute returns.
Net increase in net assets	**53,519**	38,128	

Net Assets Statement	2014-15 £000	2013-14 £000	Notes
Equities	**105,258**	98,153	Good performance in UK Equities market
Pooled Investment Vehicles	**375,758**	324,354	Strong performance in Global equities market.
Cash deposits	**1,279**	5,703	Reduction in cash balance held for future investment reflecting low interest rates.
Other net liabilities	**(2,818)**	(2,252)	Increase in short term borrowing to fund operational activities.
Total net assets	**479,477**	425,958	

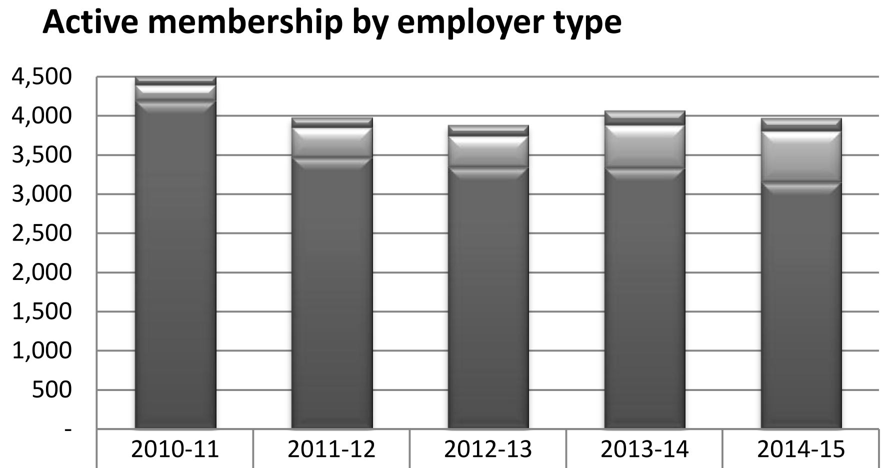
Membership data

Total membership of the fund continues to increase year on year, although active membership has decreased as a result of redundancies within the council. The profile of membership numbers from 2010 to 2015 is shown below:



	2010-11	2011-12	2012-13	2013-14	2014-15
Pensioners	3,126	3,431	3,558	3,687	3,873
Deferred members	4,499	5,097	5,265	5,461	5,574
Active members	4,502	3,977	3,883	4,067	3,973
Total	12,127	12,505	12,706	13,215	13,420

Following the move of two more schools to academy status during the year, and the creation of two other new schools on the Island, the composition of active membership continues to shift away from the council, as administering authority, towards scheduled body employers.
The Isle of Wight Council remains the largest employer in the fund, although its share of active members continues to fall year on year, from 93% in 2010-11 to 79% at 31 March 2015. The composition of active membership numbers is shown below:



	2010-11	2011-12	2012-13	2013-14	2014-15
Admitted bodies	105	122	135	179	162
Scheduled bodies	201	385	404	550	658
Administering authority	4,196	3,470	3,344	3,338	3,153
Total	4,502	3,977	3,883	4,067	3,973

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. The LGPS Regulations specify that contributions must be received by the 19th of the following month.
No interest was charged on any of the instances of late payment.

	Active members at 31 March 2015	Employee basic conts. £000	Employer basic conts. £000	instances late	% value late
Administering Authority					
Isle of Wight Council	3,153	2,801	10,010		
	3,153	2,801	10,010		
Scheduled Bodies					
Isle of Wight College	289	201	760		
Sandown Bay Academy	105	94	340		
Ryde Academy	73	51	186	1	7.3%
Cowes Enterprise College	56	25	93		
Lanesend Academy	37	11	44		
Northwood Primary	32	13	50		
St Blasius Academy	26	10	40		
Weston Primary	20	6	17		
Island Free School	10	6	20		
IoW Studio School	4	2	8		
Ryde TC	2	3	12	3	25.1%
Wootton PC	1	1	2		

	Active members at 31 March 2015	Employee basic conts. £000	Employer basic conts. £000	instances late	% value late
Northwood PC	1	1	2	2	16.6%
Newport PC	1	2	7	4	33.2%
Gurnard PC	1	1	2		
Chale PC	-	-	0	1	100.0%
	658	426	1,583	11	1.2%
Admitted Bodies					
Spectrum Housing Group	52	86	272		
Island Roads	41	65	225		
Southern Vectis	18	15	71		
Childrens Society	14	12	43		
Cowes Harbour Commissioners	7	18	49		
Ventnor Botanic Gardens	6	7	20	5	41.0%
Southern Housing Group	5	10	37		
Yarmouth Harbour Commissioners	4	9	30		
St Catherines School	3	11	27	3	22.4%
Planet Ice (IOW) Ltd	3	2	6	2	17.3%
Spurgeons	3	4	10		
IWYAC	2	1	4		
Visit IOW Ltd	2	3	11		
Trustees of Carisbrooke Castle Museum	1	0	2		
Riverside Centre Ltd	1	1	-		
IW Society For The Blind	-	0	1	1	100.0%
	162	244	807	11	2.7%
TOTAL	**3,973**	**3,470**	**12,401**	**22**	**0.3%**

ISLE OF WIGHT COUNCIL PENSION FUND
Report and Accounts for the period ending 31 March 2015

Introduction
The Fund's investments have been managed during the year under review by Majedie, Newton, Baillie Gifford and Schroder. The strategic benchmark allocation as at 31 March 2015 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%**	**-**	

Source: Statement of Investment Principles

Summary of strategic changes
There have been no strategic benchmark changes over the year. The asset allocation at the start and end of the year is shown in the table below.

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	111,803	116,264	26.1	24.1	22.5
Newton – Global Equity	141,792	171,943	33.1	35.6	32.5
Baillie Gifford – Diversified Growth	66,655	72,004	15.6	14.9	15.0
Schroder – UK Bonds	84,984	96,647	19.9	20.0	22.0
Schroder – UK Property	22,727	26,561	5.3	5.5	8.0
Total	**427,960**	**483,419**	**100.0**	**100.0**	**100.0**

Source: State Street
Figures may not sum to total due to rounding.

Reasons for variance from Benchmark

Despite significant market movements over the period, the Fund's actual asset allocation was maintained within the control ranges set relative to the strategy benchmark.

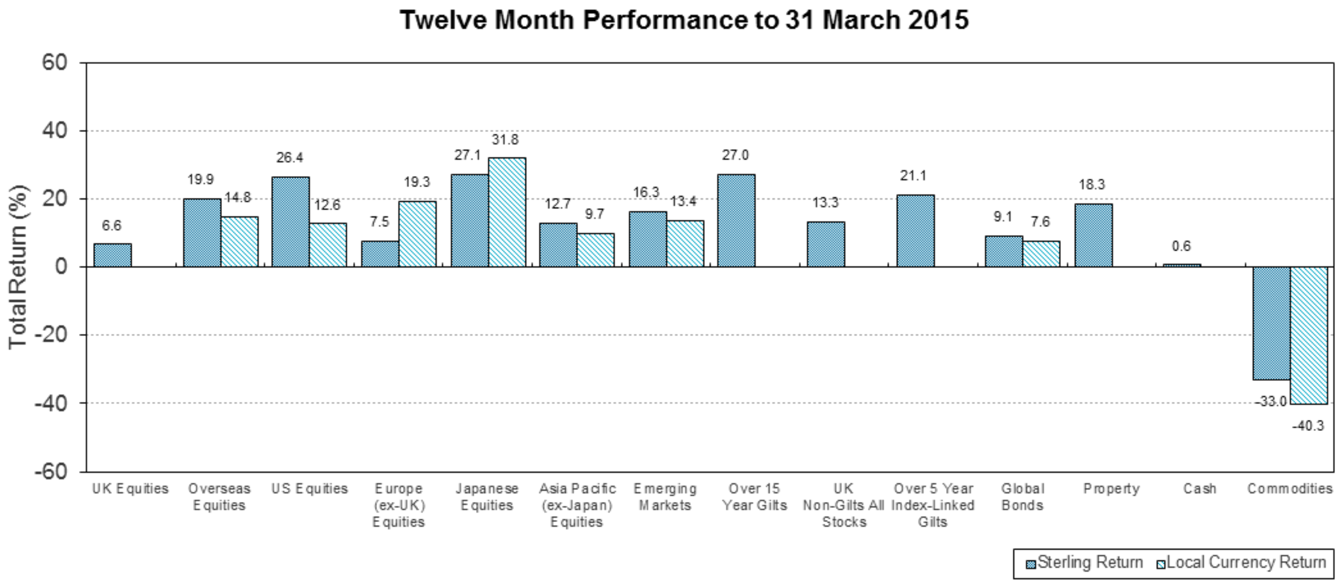
The Fund began the year with an overweight to equities and underweight to bonds and property. The Fund has remained overweight to equities and underweight property and bonds over the year. Performance of the diversified growth fund has been below equities, bonds and property and as such has moved from being overweight at the start of the year to being underweight at the end.

Market Background

Investment Markets[1]

Performance was positive both for growth and defensive assets, with long dated government bonds outperforming the equity market. In the UK, economic growth remained strong throughout the year, as the Office for National Statistics revised the real GDP growth rate for 2014 from 2.6% to 2.8%, the fastest calendar year growth rate since 2006. The annual inflation rate fell to zero in February 2015.

Whilst economic growth in the UK has been strong, growth was strongest in the US which led to a US Dollar rally against Sterling and most other currencies. Sterling, however, appreciated against the Euro and the Japanese Yen. Emerging market assets underperformed their developed counterparts as falling commodity prices and the rising US dollar affected a number of countries in this region significantly.



Equities

At a global level, developed markets as measured by the FTSE World index, returned 18.8% meanwhile, a return of 16.3% was recorded by the FTSE AW Emerging Markets index. European markets returned 7.5% as indicated by the FTSE World Europe ex UK index. UK stocks as measured by the FTSE All Share index returned 6.6%. The FTSE USA index returned 26.4%, while the FTSE Japan index rose to 27.1%.

Bonds

Returns on UK Government Bonds as measured by the FTSE Gilts All Stocks Index, recorded growth of 13.9%, while long dated issues as measured by the corresponding Over 15 Year Index recorded growth of 27.0%. The yield for the FTSE Gilts All Stocks index fell over the year from 3.0% to 2.0%. The FTSE All Stocks Index Linked Gilts index returned 18.6% with the corresponding 15 year index also exhibiting a positive return of 28.1%.

Corporate debt as measured by the BofA Merrill Lynch Sterling Non-Gilts index returned 13.3%.

Property

UK property investors continued to benefit from the improving property market. Over the 12 month period to 31 March 2015, the IPD UK All Property Index returned 18.3% in Sterling terms. The three main sectors of the UK Property market each recorded strong positive returns over the period (retail: 13.4%; office: 22.9%; and; industrial 22.7%).

[1] Statistics sourced from Thomson Reuters Datastream unless otherwise specified for the 12 month period to 31 March 2015.

Currencies

Over the 12 month period to 31st March 2015, Sterling fell 11.0% against the US Dollar from $1.667 to $1.485. Sterling appreciated 3.7% against the Yen from ¥171.69 to ¥178.03, and also appreciated against the Euro by 14.3% from €1.21 to €1.38 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	7.1	6.6	16.3	10.6
Newton – Global Equity	21.0	18.5	17.0	13.6
Baillie Gifford – Diversified Growth	8.0	4.0	6.2*	4.0*
Schroder – UK Bonds	13.5	14.2	7.7	6.6
Schroder – UK Property	17.7	18.3	10.9	11.4
Total	**13.7**	**12.5**	**14.0**	**10.6**

Figures shown are based on performance provided by State Street.
**Since inception (31 October 2013) and sourced from Baillie Gifford*

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 10.7% p.a. compared to the benchmark return of 8.8% 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 believes that the investment strategy in place 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	BNP Paribas

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. plus 20% of any outperformance above the benchmark return plus 1% on an annualised 3 year rolling basis
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	c0.5% 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 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 is 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 was 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 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	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 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.

Important Notices

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For the most recent approved ratings of an investment strategy, and a fuller explanation of their meanings, contact your Mercer representative.

For Mercer's conflict of interest disclosures, contact your Mercer representative or see www.mercer.com/conflictsofinterest.

Please also note:

- The value of investments can go down as well as up and you may not get back the amount you have invested. In addition investments denominated in a foreign currency will fluctuate with the value of the currency.
- The valuation of investments in property based portfolios, including forestry, is generally a matter of a valuer's opinion, rather than fact.
- When there is no (or limited) recognised or secondary market, for example, but not limited to property, hedge funds, private equity, infrastructure, forestry, swap and other derivative based funds or portfolios it may be difficult for you to obtain reliable information about the value of the investments or deal in the investments.
- Where the investment is via a fund of funds the investment manager typically has to rely on the underlying managers for valuations of the interests in their funds.
- Care should be taken when comparing private equity / infrastructure performance (which is generally a money-weighted performance) with quoted investment performance (which is generally a time-weighted performance). Direct comparisons are not always possible.

Jo Holden
May 2015

Isle of Wight Council Pension Fund ("the Fund") Actuarial Statement for 2014/15

This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme Regulations 2013, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2014/15. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

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.

Method

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.

Assumptions

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

The key financial assumptions adopted for the 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 2014

Experience has been worse than expected over the year to 31 March 2015 (excluding the effect of any membership movements). Real bond yields have fallen dramatically and the effect of this has been only partially offset by the effect of strong asset returns, meaning that funding levels are likely to have worsened and deficits increased over this period.

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

1 May 2015

Hymans Robertson LLP

20 Waterloo Street

Glasgow

Statement of Responsibilities for the Statement of Accounts

From IWC accounts, including signatures

Fund Account

2013-14 £000	FUND ACCOUNT	Notes	2014-15 £000
	Dealings with members, employers and others directly involved in the fund		
16,948	Contributions	6	17,108
717	Transfers in from other pension funds	7	455
13	Other income	8	21
17,678			17,584
(18,578)	Benefits	9	(19,550)
(364)	Payments to and on account of leavers	10	(377)
(18,942)			(19,927)
(1,264)			**(2,343)**
(2,513)	Management expenses	11	**(2,868)**
	Returns on investments		
9,621	Investment income	12	8,601
(523)	Taxes on income	13	(377)
32,820	Profit and losses on disposal of investments and changes in the market value of investments	17	50,513
(13)	Interest payable	15	(7)
41,905	Net returns on investments		**58,730**
38,128	**Net increase in the net assets available for benefits during the year**		**53,519**

Net Assets Statement

2014 £000	NET ASSETS STATEMENT AS AT 31 MARCH	Notes	2015 £000
422,920	Investment assets	16	481,403
5,703	Cash deposits	16	1,279
428,623			482,682
(1,097)	Investment liabilities	16	(13)
(1,380)	Borrowings	17	(3,025)
10	Long term assets	21	16
693	Current assets	22	796
(891)	Current liabilities	23	(979)
425,958	**Net assets of the fund available to fund benefits at the period end**		**479,477**

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 20.

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 2014-15 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme Regulations.

a) General

The fund is governed by the Public Service Pensions Act 2013. The fund is administered in accordance with the following secondary legislation:

- the Local Government Pension Scheme Regulations 2013 (as amended)
- the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- the Local Government Pension Scheme (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 2015 are:

Cowes Enterprise College, an Ormiston Academy (NEW)	Northwood Primary Academy
Gurnard Town Council (NEW)	Ryde Academy
Isle of Wight College	Ryde Town Council
Isle of Wight Free School (NEW)	Sandown Bay Academy
Isle of Wight Studio School (NEW)	St Blasius Primary Academy
Lanesend Primary Academy (NEW)	Weston Primary Academy
Newport Parish Council	Wootton Bridge Parish Council
Northwood Parish Council	

The admitted bodies of the fund with active members at 31 March 2015 are:

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

The membership of the scheme is shown below:

Year ended 31 March 2015

	Administering Authority	Scheduled Bodies	Admitted Bodies	Total
Number of employers with active members	1	15	15	**31**
Number of contributors (Active members)	3,153	658	162	**3,973**
Number of frozen refunds [1]	602	10	4	**616**
Number of deferred pensioners [2]	4,610	248	100	**4,958**
Number of pensioners	3,100	145	126	**3,371**
Number of widows/dependant pensioners	464	22	16	**502**
	11,929	1,083	408	**13,420**

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**

[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 Regulations 2013.

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%

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 19.

d) Benefits
Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, summarised below.

	Service pre 1 April 2008	Service post 31 March 2008
Pension	Each year worked is worth 1/80 x final pensionable salary	Each year worked is worth 1/60 x final pensionable salary
Lump Sum	Automatic lump sum of 3 x salary. In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with the Consumer Prices Index.

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

2. BASIS OF PREPARATION

The Statement of Accounts summarises the fund's transactions for the 2014-15 financial year and its position at year-end as at 31 March 2015. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2014/15* 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 20 of these accounts.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund account – revenue recognition

a) Contribution income

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.

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule for contributions set by the scheme actuary or on receipt if earlier than the due date.

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) Transfers to and from other schemes

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 7 and 10).

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 7).

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 (where material) 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) Movement in the net market value of investments

Changes 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) Management expenses

The code does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency, the council discloses its pension fund management expenses in accordance with the CIPFA guidance *Accounting for Local Government Pension Scheme Management Costs*

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. Associated management, accommodation and other overheads are apportioned to the fund in accordance with council policy.

Oversight and governance costs
All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund.

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:

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

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 2014-15 no fees are based on such estimates (2013-14: nil)

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

A proportion of the council's costs representing management time spent by officers on investment management is also charged to the fund.

g) 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
h) 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.

i) 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.

j) Cash and cash equivalents
Cash comprises cash in hand and demand deposits and includes amounts held by the fund's external managers.

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.

k) 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.

l) 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 the Code, 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 20).

m) 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 24).

n) 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 26 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 26 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 19. 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. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that actual outcomes could differ from those estimates.

The items in the net assets statement at 31 March 2015 for which there is a significant risk of material adjustment within the forthcoming 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. CONTRIBUTIONS RECEIVABLE

By category:

2013-14 £000		2014-15 £000
13,551	Employers	13,617
3,397	Members	3,491
16,948		**17,108**

By authority:

2013-14 £000		2014-15 £000
13,148	Administering authority	13,111
1,715	Scheduled bodies	2,096
2,085	Admitted bodies	1,901
16,948		**17,108**

By type:

2013-14 £000		2014-15 £000
3,378	Employees' normal contributions	3,470
19	Employees' additional contributions	21
12,073	Employers' normal contributions	12,401
745	Employers' deficit recovery contributions	823
733	Employers' augmentation contributions	393
16,948		**17,108**

7. TRANSFERS IN FROM OTHER PENSION FUNDS

2013-14 £000		2014-15 £000
-	Group transfers	-
717	Individual transfers	455
717		**455**

8. OTHER INCOME

2013-14 £000		2014-15 £000
13	Miscellaneous income	19
-	Contribution Equivalent Premiums	2
13		**21**

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 26).

9. BENEFITS PAYABLE

By category:

2013-14 £000		2014-15 £000
15,323	Pensions	16,099
2,960	Commutation and lump sum retirement benefits	2,879
295	Lump sum death benefits	572
18,578		**19,550**

By authority:

2013-14 £000		2014-15 £000
16,880	Administering authority	17,490
600	Scheduled bodies	838
1,098	Admitted bodies	1,222
18,578		**19,550**

10. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2013-14 £000		2014-15 £000
2	Refund of contributions	14
-	Group transfers	-
362	Individual transfers	363
364		**377**

11. MANAGEMENT EXPENSES

2013-14 £000		2014-15 £000
346	Administrative costs	375
1,984	Investment management expenses	2,303
183	Oversight and governance costs	190
2,513		**2,868**

The analysis of the costs of managing the Isle of Wight Council Pension Fund during the period has been prepared in accordance with CIPFA guidance.

The investment management expenses above include £1,405.4 thousand (2014-15: £903.5 thousand) in respect of performance-related fees paid/payable to the fund's investment managers.

In addition to these costs, indirect costs are incurred through the bid-offer spread on investments sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sales of investments (see note 16a).

12. INVESTMENT INCOME

2013-14 £000		2014-15 £000
5,259	Equity dividends	4,020
	Income from pooled investment vehicles:	
856	- Property	945
3,476	- Bonds	3,615
29	- Unit Trusts	-
1	Interest on cash deposits	4
-	Other	17
9,621		**8,601**

13. TAXATION

2013-14 £000		2014-15 £000
523	Withholding tax - equities	377
523		**377**

14. INVESTMENT MANAGEMENT

2013-14 £000		2014-15 £000
1,965	Management fees	2,274
19	Custodian fees	29
1,984		**2,303**

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

15. INTEREST PAYABLE

2013-14 £000		2014-15 £000
13	Interest on short term borrowing	7
13		**7**

16. INVESTMENTS

Market value 31 March 2014 £000		Market value 31 March 2015 £000
	Investment assets	
98,153	Equities	105,258
324,354	Pooled Investment Vehicles	375,758
5,703	Cash deposits	1,279
280	Investment income due	317
99	Amounts receivable for sales	34
34	Recoverable withholding tax	36
428,623	**Total investment assets**	**482,682**
	Investment liabilities	
(1,097)	Amounts payable for purchases	(13)
(1,097)	**Total investment liabilities**	**(13)**
427,526	**Net investment assets**	**482,669**

16A) RECONCILIATION OF MOVEMENTS IN INVESTMENTS

	Market value 1 April 2014	Purchases during the year	Sales during the year	Change in market value during the year	**Market value 31 March 2015**
	£000	£000	£000	£000	**£000**
Equities	98,153	47,056	(45,076)	5,125	**105,258**
Pooled Investment Vehicles					
Global Equities	141,792	-	-	30,150	**171,942**
Property	20,546	2,545	-	2,681	**25,772**
Bonds	84,983	3,616	-	8,048	**96,647**
Diversified Growth Fund	66,655	57	-	5,292	**72,004**
Unit Trusts	10,378	-	(200)	(785)	**9,393**
	422,507	53,274	(45,276)	50,511	**481,016**
Cash deposits	5,703			(7)	**1,279**
Amounts receivable for sales of investments	99				**34**
Investment income due	280			9	**317**
Recoverable withholding tax	34				**36**
Amounts payable for purchases of investments	(1,097)				**(13)**
Net investment assets	427,526			50,513	**482,669**

	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 deposits	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**

16B) ANALYSIS OF INVESTMENTS

31 March 2014 £000		31 March 2015 £000
	Equities	
	UK	
81,007	Quoted	85,812
	Overseas	
17,146	Quoted	19,446
98,153		**105,258**
	Pooled funds – additional analysis	
	UK	
324,354	Quoted	375,758
324,354		**375,758**
422,507		**481,016**

Investments analysed by fund manager

Market value 31 March 2014			Market value 31 March 2015	
£000	%		£000	%
84,984	19.9	Schroder Investment Management – Bonds	96,647	20.0
22,165	5.2	Schroder Investment Management – Property	25,775	5.3
141,792	33.2	Newton Investment Management – Overseas Equities	171,942	35.6
111,895	26.1	Majedie Asset Management – UK Equities	116,265	24.1
66,655	15.6	Baillie Gifford – Diversified Growth Fund	72,004	15.0
427,491			**482,633**	
34	0.0	Recoverable withholding tax	36	0.0
427,526			**482,669**	

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 2014			Market value 31 March 2015	
£000	% of total fund		£000	% of total fund
141,792	33.29	Newton International Growth X Account	171,942	35.86
84,983	19.95	Schroder Institutional Sterling Broad Market X Account	96,647	20.16
66,655	15.65	Baillie Gifford Diversified Growth Pension Fund	72,004	15.02
20,546	4.82	Schroder UK Property Fund	25,772	5.38

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

Market value 31 March 2014			Market value 31 March 2015	
£000	% of asset class		£000	% of asset class
		Equities		
4,532	4.62	Vodafone Group	6,443	6.12
8,419	8.58	BP plc	5,976	5.68
2,377	2.42	HSBC	5,626	5.35
6,426	6.55	GlaxoSmithKline plc	5,233	4.97
9,925	10.11	Royal Dutch Shell	3,543	3.37

Market value 31 March 2014			Market value 31 March 2015	
£000	% of asset class		£000	% of asset class
		Pooled Investment Vehicles		
		Global Equities		
141,792	100.00	Newton International Growth X Account	171,942	100.00
		Bonds		
84,983	100.00	Schroder Institutional Sterling Broad Market X Account	96,647	100.00
		Property		
20,546	100.00	Schroder UK Property Fund	25,772	100.00
		Diversified Growth Funds		
66,655	100.00	Baillie Gifford Diversified Growth Pension Fund	72,004	100.00
		Unit Trusts		
10,378	100.00	Majedie Asset Management Special Situations Investment Fund	9,393	100.00

17. FINANCIAL INSTRUMENTS

17A) 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 2014				31 March 2015		
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			
98,153			Equities	105,258		
324,354			Pooled investment vehicles	375,758		
	5,718		Cash		1,369	
413			Other investment balances	387		
	11		Debtors		83	
422,920	**5,729**	**-**		**481,403**	**1,452**	**-**
			Financial liabilities			
(1,097)			Other investment balances	(13)		
		(629)	Creditors			(710)
		(1,380)	Borrowings			(3,025)
(1,097)	**-**	**(2,009)**		**(13)**	**-**	**(3,735)**
421,823	**5,729**	**(2,009)**		**481,390**	**1,452**	**(3,735)**

17B) NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

31 March 2014 £000		31 March 2015 £000
	Financial assets	
32,836	Fair value through profit and loss	50,520
(16)	Loans and receivables	(7)
	Financial liabilities	
-	Fair value through profit and loss	-
-	Financial liabilities measured at amortised cost	-
32,820	**Total**	**50,513**

17C) 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 2014			31 March 2015	
Carrying value	Fair value		Carrying value	Fair value
£000	£000		£000	£000
		Financial assets		
422,920	422,920	Fair value through profit and loss	481,403	481,403
5,729	5,729	Loans and receivables	1,452	1,452
428,649	**428,649**	**Total financial assets**	**482,585**	**482,585**
		Financial liabilities		
(1,097)	(1,097)	Fair value through profit and loss	(13)	(13)
(2,009)	(2,009)	Financial liabilities measured at amortised cost	(3,735)	(3,735)
(3,106)	**(3,106)**	**Total financial liabilities**	**(3,748)**	**(3,748)**

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.

17D) 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 2015, 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) grouped into Levels 1 to 3, based on the level at which the fair value is observable:

At 31 March 2015			
Type of Asset	Level 1	Level 2	Level 3
	£000	£000	£000
Equities	105,258	-	-
Pooled Investment Vehicles:			
Global Equities	171,942	-	-
Property	-	25,772	-
Bonds	96,647	-	-
Diversified Growth Fund	-	72,004	-
Unit Trusts	9,393	-	-
Cash and Cash Equivalents	1,279	-	-
TOTAL	**384,519**	**97,776**	**-**

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	-	66,655	-
Unit Trusts	10,377	-	-
Cash and Cash Equivalents	5,703	-	-
TOTAL	**341,009**	**87,201**	**-**

18. 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.

Since 2 February 2015, the fund's investments are held by BNP Paribas Securities Services, who act as custodian on behalf of the fund. Before that date, the custodian was J P Morgan Chase Bank NA.

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 2015	Volatility of return	Value on increase	Value on decrease
	£000	%	£000	£000
Cash & cash equivalents	1,279	0.0	1,279	1,279
Investment portfolio assets				
Equities – UK	85,812	2.6	88,069	83,556
Equities – overseas	19,446	6.0	20,619	18,273
Pooled investment vehicles:				
Global equities	171,942	5.5	181,359	162,526
Property	25,772	7.5	27,713	23,832
Bonds	96,647	4.4	100,929	92,365
Diversified Growth Fund	72,004	2.2	73,623	70,385
Unit Trusts	9,393	3.3	9,700	9,086
Amounts receivable for sales	34	0.0	34	34
Investment income due	317	0.0	317	317
Recoverable withholding tax	36	0.0	36	36
Amounts payable for purchases	(13)	0.0	(13)	(13)
Total	482,669		503,665	461,676

	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	84,985	1.5	86,298	83,670
Diversified Growth Fund	66,655	4.9	69,931	63,378
Unit Trusts	10,378	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

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 2015, and as at the previous period end:

	Asset value as at 31 March 2015	Asset value as at 31 March 2014
	£'000	£'000
Equities	19,102	17,079
Investment income due	134	52
	19,236	**17,131**

Currency risk – sensitivity analysis

Following analysis of historical data, the council considers the likely volatility associated with foreign exchange movements to be 4.24% (2013-14: 3.61%) (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 2015	Value on increase +4.24%	Value on decrease -4.24%
	£'000	£'000	£'000
Equities	19,102	19,911	18,292
Investment income due	134	140	128
	19,236	**20,051**	**18,420**

	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**

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 25 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 2015 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.

19. FUNDING ARRANGEMENTS
This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme Regulations 2013, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2014/15. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

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.

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	*	22.0	23.0	23.5
Sandown Bay Academy	*	22.0	23.0	23.5
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	*	-	-	-
Sandown Bay Academy	*	-	-	-
Southern Vectis (Wightbus)		1	1	1
Weston Academy		4	4	4

* During 2014-15, academies within the fund were asked whether they wished to pool with the administering authority for contribution rate purposes only. Two of the academies in operation at the time of the last valuation opted to pool, and the pooled rates are shown above.

A revised Rates and Adjustments Certificate reflecting the changes noted above was issued by the funds actuary on 11 May 2015. This revised certificate included contribution rates payable by employers who joined the fund after 1 April 2013, as shown below:

Employer Name		Minimum Contributions for the Year Ending 31 March		
		2015	2016	2017
		% of pay	% of pay	% of pay
Island Roads		22.0	23.0	23.5
Island Youth Water Activities Centre		22.0	23.0	23.5
Northwood Academy		22.0	23.0	23.5
St Blasius Academy		22.0	23.0	23.5
Lanesend Academy		22.0	23.0	23.5
Cowes Enterprise College, an Ormiston Academy		22.0	23.0	23.5
The Island Free School	**	20.7	20.7	20.7
Isle of Wight Studio School	**	20.7	20.7	20.7

** The Island Free School and Isle of Wight Studio School are to pay a contribution rate of 20.7% of payroll (equal to the future service rate of the Isle of Wight Council). The contribution rate for each employer is to be reassessed on an annual basis and may therefore be subject to change for the years ending 31 March 2016 and 31 March 2017.

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.

Method
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.

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

The key financial assumptions adopted for the 2013 valuation were as follows:

Financial Assumptions	31 March 2013	
	% p.a. Nominal	% p.a. Real
Discount rate	4.60%	2.10%
Salary Increases	4.30%	1.80%
Price inflation/Pension Increases	2.50%	-

(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.)

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

Experience over the period since April 2014
Experience has been worse than expected over the year to 31 March 2015 (excluding the effect of any membership movements). Real bond yields have fallen dramatically and the effect of this has been only partially offset by the effect of strong asset returns, meaning that funding levels are likely to have worsened and deficits increased over this period.

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

20. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

CIPFA's Code of Practice on Local Authority Accounting 2014/15 requires Administering Authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits.

The actuarial present value of promised retirement benefits is to be calculated similarly to the defined benefit obligation under IAS19. There are three options for its disclosure in pension fund accounts:
- showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;
- as a note to the accounts; or
- by reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS26 requires the most recent valuation to be used as a base and the date of the valuation disclosed. The valuation should be carried out using assumptions in line with IAS19 and not the Pension Fund's funding assumptions.

Balance sheet

Year ended	31 March 2015 £ m	31 March 2014 £ m
Present value of Promised Retirement Benefits	689	599

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2013. The actuary estimates this liability at 31 March 2015 comprises £295m in respect of employee members (2014: £219 million), £125m in respect of deferred pensioners (2014: £105 million) and £268m in respect of pensioners (2014: £275 million). 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. However, the actuary is satisfied the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises. The actuary has not made any allowance for unfunded benefits.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the accounts of the Pension Fund. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

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. The actuary estimates that the impact of the change of assumptions to 31 March 2015 is to increase the actuarial present value by £92m.

Financial assumptions

Year ended	31 March 2015 % p.a.	31 March 2014 % p.a.
Inflation/Pension Increase Rate	2.40%	2.80%
Salary Increase Rate	4.30%	4.60%
Discount Rate	3.20%	4.30%

(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
The life expectancy assumption is 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 long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	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 are identical to those used for 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-free cash up to HMRC limits for pre-April 2008 service and 63% of the maximum tax-free cash for post-April 2008 service.

21. LONG TERM ASSETS

31 March 2014 £000		31 March 2015 £000
	Debtors	
10	• Contributions due - employers	16
10		**16**

Analysis of debtors

31 March 2014 £000		31 March 2015 £000
10	Local authorities	4
-	Other entities and individuals	12
10		**16**

22. CURRENT ASSETS

31 March 2014 £000		31 March 2015 £000
	Debtors	
120	• Contributions due - employees	121
508	• Contributions due - employers	468
39	• Taxation	34
11	• Sundry debtors	9
-	• Payments in advance	74
15	Cash balances	90
693		**796**

Analysis of debtors

31 March 2014 £000		31 March 2015 £000
39	Central government bodies	34
10	Local authorities	9
629	Other entities and individuals	663
678		**706**

23. CURRENT LIABILITIES

31 March 2014 £000		31 March 2015 £000
	Creditors	
193	• Taxation	204
612	• Accruals	689
86	• Sundry creditors	86
891		**979**

Analysis of creditors

31 March 2014 £000		31 March 2015 £000
193	Central government bodies	204
78	Local authorities	81
620	Other entities and individuals	694
891		**979**

24. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCS)

Market value 31 March 2014 £000		Market value 31 March 2015 £000
995	Prudential Life and Pensions	914

AVCs of £70.9 thousand were separately invested with Prudential Life and Pensions (2013-14: £90.5 thousand).

25. 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 (2013-14: £286 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 £10.3 million (2013-14: £10.4 million) to the fund in 2014-15. All monies owing to the fund, with the exception of deferred balances in respect of pension strain costs totalling £9 thousand (2014: £9 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 2014-15 was £3.0 million (2013-14: £2.7 million). The balance due to the council at 31 March 2015 is £3.03 million (2014: £1.38 million), of which £1.63 million is repayable within 1 month, and £1.4 million is repayable within 7 months. Interest of £6.7 thousand (2013-14: £3.4 thousand) was paid on these borrowings.

Governance
There are four members of the pension fund committee who are in receipt of pension benefits from the Isle of Wight Council Pension Fund (Cllrs Barry, Blezzard, Kendall and Warlow). In addition committee members Cllrs Barry, 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 28 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.

26. CONTINGENT ASSETS AND LIABILITIES
At 31 March 2015 there were contingencies relating to Contribution Equivalent Premiums (CEPs) amounting to a net sum of £140 thousand (2014: £142 thousand) due to the Pension Fund. Assets amounted to £186 thousand and liabilities totalled £46 thousand (2014: £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.

27. CAPITAL COMMITMENTS
There were no capital commitments as at 31 March 2015 (2014: nil)

28. TRUSTEES REPORT 2014-15
The trustees of the pension fund are the members for the time being of the Pension Fund Committee, who at 31 March 2015 were Councillors Blezzard (chair), Barry, Eccles, Hutchinson, Kendall, Pitcher and Warlow.

The committee is advised by the Managing Director, the Technical Finance Officer, 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.

<u>Investment Performance</u>
The net assets of the fund at 31 March 2015 were £479.5 million, a rise of 12.6% on the 31 March 2014 valuation of £426.0 million. The fund's total investments out-performed the agreed benchmarks by 1.2% during the year.
The fund has benefitted from a strong annual performance in the global equities market, which generated a return of 18.5%; the funds global equities manager, Newton Investment Management Limited outperformed this benchmark by 2.5%.
As well as another strong annual performance, the fund has also outperformed annualised benchmark returns for three years (3.4% outperformance) and five years (1.9% outperformance).

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 interim funding projection report at 31 March 2015 showed that the notional funding level had decreased to 81.5% (2014: 86.7%), but was still higher than that at the last triennial valuation at 31 March 2013. Lower bond yields have placed a higher value on the liabilities, but greater than assumed asset performance in the year has resulted in an improved funding position at 31 March 2015.

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 carried out a recruitment exercise for a new employer representative to the committee.

In accordance with the training plan developed in the previous year, training sessions were held before each committee meeting, including an asset allocations quiz from one of the fund managers, governance changes as a result of the Public Sector Pensions Act 2013, , and current investment and actuarial issues.

Following the enactment of the Public Service Pensions Act 2013 in April 2013, the committee reviewed the requirements for the establishment of a Local Pensions Board. In November 2014, the committee agreed to recommend to full council that a Local Pension Board be constituted, including proposed terms of reference. This was duly approved by the council at its meeting on 21 January 2015.

In 2014-15, the committee implemented the previous year's decision to undertake a procurement exercise for global custodian services, appointing BNP Paribas Securities Services with effect from 1 February 2015, following a procurement exercise undertaken using the National LGPS framework for custodian services. Also during the year the committee participated in the procurement process for new administration software.

It received reports on, and agreed, the Statement of Investment Principles, the Funding Strategy Statement and the Governance Compliance Statement; and received regular updates on governance changes, new and ceasing employers, membership numbers and contribution payments.

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: *24 July 2015*

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

The training plan formulated following a training needs analysis undertaken in January 2012, and updated following the appointment of new committee members in May 2013, was kept under review during the year.

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. Training sessions were not held before the annual meeting in July 2014 and the February 2015 meeting.

During 2014-15, the committee received presentations from each of the fund managers in respect of the performance of their particular portfolios. One of the fund's investment managers delivered as session on asset allocation strategies, in the form of an interactive quiz, which was well received by the members. . Officers delivered information sessions 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 2014.
- Councillor Blezzard attended the LAPF Investments Strategic Investment Forum in February 2014.
- Councillor Barry attended Schroder Trustee workshops in February and March 2015.
- Councillor Kendall attended an SPS conference: Local Authority Pension Fund Investment Strategies and Current Issues in March 2015.

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:

- Future Structure of the LGPS – April 2014
- LGPS Governance Summit – January 2015
- Pensions accounting and audit workshop – February 2015

Reports from these conferences were also provided to the committee at subsequent meetings, where appropriate.

The committee members' attendance at the scheduled training sessions and committee meetings during 2014-15 is set out in the tables below.

Overall attendance at committee meetings has remained at a high level during the year, consistent with the previous year. Despite there being fewer training sessions, and them being held immediately before the committee meetings, overall attendance at training has fallen slightly from 83% to 79%.

Training

Councillor:	16 May 2014	28 Nov 2014	%
R Blezzard(Chair)	√	apols	50%
R Barry	√	√	100%
D Eccles	n/a	√	100%
S Hutchinson	√	√	100%
J Jones Evans	apols	n/a	0%
G Kendall	√	√	100%
D Pitcher	apols	√	50%
I Warlow	√	√	100%
	71%	86%	79%
Non-voting members:			
Employer representative	√	√	100%
Union representative	√	√	100%

Meetings

Councillor:	16 May 2014	11 Jul 2014 (AGM)	28 Nov 2014	06 Feb 2015	%
R Blezzard(Chair)	√	√	apols	√	75%
R Barry	√	√	√	√	100%
D Eccles	n/a	√	√	√	100%
S Hutchinson	√	√	√	√	100%
J Jones Evans	apols	n/a	n/a	n/a	0%
G Kendall	√	√	√	apols	75%
D Pitcher	√	√	√	√	100%
I Warlow	√	√	√	√	100%
	86%	100%	86%	86%	89%
Non-voting members:					
Employer representative	√	√	√	√	100%
Union representative	√	√	√	√	100%

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 November 2014 version 7.5

Membership
7 elected members
1 non-voting employee representative nominated by Unison
1 non-voting representative nominated by Admitted Bodies (external companies who have staff who are members of the pension scheme as a result of staff transfers to them)
Panel to be quorate when 3 elected members are in attendance

In Attendance
Managing Director (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	Majedie Overseas Equities	Newton Global Equities	Schroder Property	Schroder Bonds	Baillie Gifford Diversified Growth	TOTAL
	£000	£000	£000	£000	£000	£000	£000
Oil & Gas	10,013	-	-	-	-	-	10,013
Basic Materials	1,723	328	-	-	-	-	2,051
Industrials	7,337	1,277	-	-	-	-	8,614
Consumer Goods	204	852	-	-	-	-	1,056
Healthcare	9,366	-	-	-	-	-	9,366
Consumer Services	21,166	3,499	-	-	-	-	24,665
Telecommunications	10,180	9,031	-	-	-	-	19,211
Utilities	1,856	326	-	-	-	-	2,182
Financials	22,763	4,133	-	-	-	-	26,896
Technology	1,204	-	-	-	-	-	1,204
	85,812	19,446	-	-	-	-	105,258
Pooled Funds							
Bonds Managed Fund	-	-	-	-	96,647	-	96,647
Managed Funds	9,393	-	-	-	-	-	9,393
Overseas Equities Managed Fund	-	-	171,942	-	-	-	171,942
Property Managed Fund	-	-	-	25,772	-	-	25,772
Diversified Growth Fund	-	-	-	-	-	72,004	72,004
Pooled Funds subtotal	9,393	-	171,942	25,772	96,647	72,004	375,758
Grand total	95,205	19,446	171,942	25,772	96,647	72,004	481,016

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.

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

Updated May 2015

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. The training needs analysis was 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.

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 31 March 2015, 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.

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

Type of employer	Scheduled Bodies			Community Admission Bodies and Designating Employers		Transferee Admission Bodies
Sub-type	**Local Authority**	**College**	**Academies**	**Open to new entrants**	**Closed to new entrants**	**(all)**
Basis used	Ongoing, assumes long-term Fund participation (see Appendix E)			Ongoing, but may move to “gilts basis” - see Note (a)		Ongoing, assumes fixed contract term in the Fund (see Appendix E)
Future service rate	Projected Unit Credit approach (see Appendix D – D.2)				Attained Age approach (see Appendix D – D.2)	Projected Unit Credit approach (see Appendix D – D.2)
Stabilised rate?	Yes - see Note (b)	No	No	No	No	No
Maximum deficit recovery period – Note (c)	20 years	20 years	20 years	20 years	20 years	Outstanding contract term
Deficit recovery payments – Note (d)	% of payroll or monetary amount	% of payroll or monetary amount	% of payroll or monetary amount	% of payroll or monetary amount	monetary amount	% of payroll or monetary amount
Treatment of surplus	Covered by stabilisation arrangement	Preferred approach: contributions kept at future service rate. However, reductions may be permitted by the Admin. Authority				
Phasing of contribution changes	Covered by stabilisation arrangement	At the discretion of the Administering Authority. May be 3 years - Note (e)				None
Review of rates – Note (f)	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations					Particularly reviewed in last 3 years of contract
New employer	n/a	n/a	Note (g)	Note (h)		Notes (h) & (i)
Cessation of participation: cessation debt payable	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).			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).		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.

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 persistent under-performance
Pay and price inflation significantly more than	The focus of the actuarial valuation process is on real

Risk	Summary of Control Mechanisms
anticipated.	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.
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

Risk	Summary of Control Mechanisms
	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 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*[2], 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[3]. 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.

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[2] See LGPS (Administration) Regulations 36(5).
[3] 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
As at 31 March 2015
Dated: 29 May 2015

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. At the January 2015 meeting of the Isle of Wight Council, a new Local Pension Board was constituted, and draft terms of reference were approved, in accordance with the requirements of the Public Sector Pensions Act 2013 (PSPA13). The membership composition of the Board was approved in principle. A training event on 21 May 2015 will provide greater detail about the next steps required in populating the Board and convening the first meeting.
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. c)
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 has not been formally updated since July 2013, although the training plan is regularly reviewed and updated throughout the year. The membership of the committee has been relatively stable since July 2013, so the underlying level of understanding of members is unchanged. 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 The terms of reference for the new Local Pensions Board specify that it will meet on a sufficiently regular basis to fulfil its statutory obligations. The meetings (once convened) will be synchronised with those of the Committee, whose decisions it will be reviewing. A training event attended on 21 May 2015 will provide more information about the operation of the board.

Principle	Detailed Best Practice Principle	Compliance statement
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 committee.	**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 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) The committee now receives 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. A governance health check was undertaken during the year, which indicated that the committee was operating effectively.
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.	**Fully compliant** a) All statutory statements and policies form part of the fund's annual report, which is published on the council's website. All strategies and policies are now available on the Pensions section of the council's website

Independent auditor's report to the Members of Isle of Wight Council

To be inserted on completion of audit