



## PAPER B

Purpose: For Noting

# Committee report

Committee	<b>ISLE OF WIGHT PENSION FUND COMMITTEE</b>
Date	<b>18 MAY 2018</b>
Title	<b>DRAFT YEAR END RESULTS 2017-18</b>
Report of/to	Technical Finance Manager

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### EXECUTIVE SUMMARY

1. This report presents the committee with the draft financial results for the Isle of Wight Council Pension Fund (“the fund”) for the year ended 31 March 2018, including the decrease in net assets of the fund, the investment performance of the four fund managers for the year ended 31 March 2018, the change in membership numbers for the year, and the indicative interim funding level at 31 March 2018.
2. The committee is asked to note the above elements of the results for the year, in advance of receiving the annual report and accounts for the year ended 31 March 2018 at the July 2018 meeting of the fund.

### BACKGROUND

3. The accounts for the Isle of Wight Council Pension Fund will form part of the council’s annual accounts, which are required by the Accounts and Audit (England) Regulations 2015 to be approved by the council sitting as a whole, or by a committee with delegated powers to make such a decision, no later than 31 July for each financial year.
4. While there is no specific regulatory requirement for the pension fund accounts to be separately approved, it is considered good practice to provide the Pension Fund Committee with the draft results figures as part of the overall approval process.
5. Under the Local Government Pension Scheme Regulations 2013, the fund is also required to publish an annual report containing the accounts and other statutory information by 31 December each year.
6. In accordance with best practice adopted by the council for the approval of its accounts, this report is presented to provide members of the committee with

early notification of the financial results for the previous financial year. This allows members to consider the fund's draft results and financial position at the end of the 2017-18 financial year and to seek clarification of any significant issues arising as a result.

7. The report sets out the fund's draft financial position at 31 March 2017 and supporting information. The financial accounts are still subject to audit.

## STRATEGIC CONTEXT

8. 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 operate 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.
9. Approval of the fund's draft results statements, and the overall stewardship of public funds, form an integral part of the fund's corporate governance framework.

## DRAFT FINANCIAL RESULTS

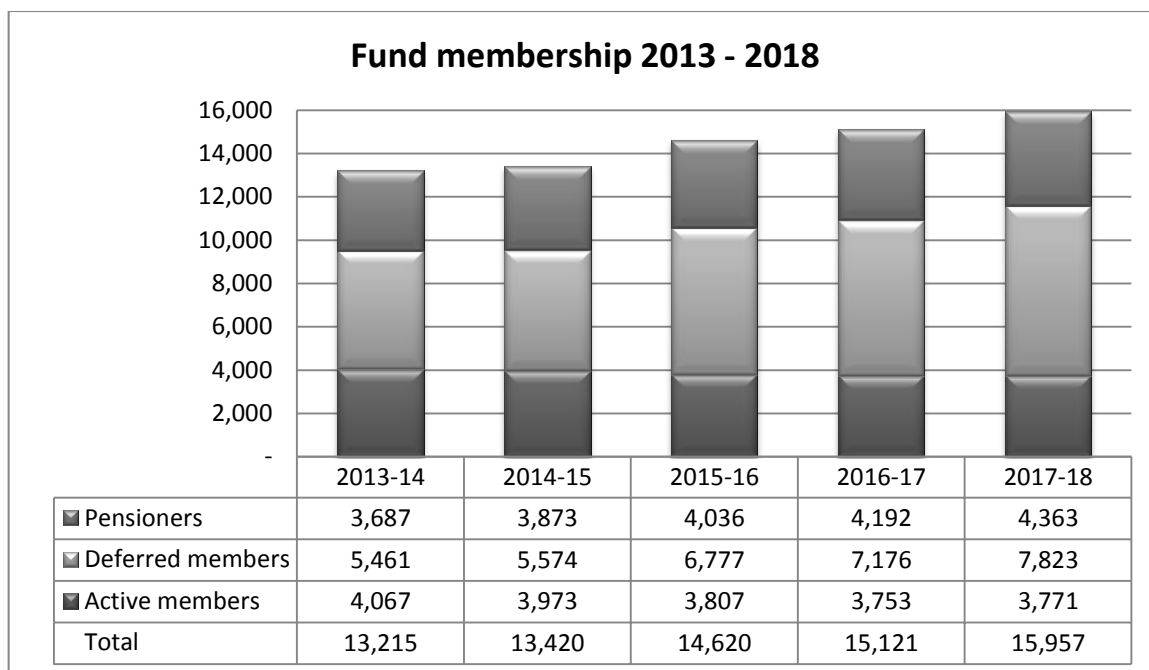
10. Appendix 1 to this report sets out the draft financial results for the year ended 31 March 2018. This shows an increase in the net assets of the fund from £559.5 million at 31 March 2017 to £562.8 million at 31 March 2018, an increase of £3.2 million (0.5 per cent), compared to a £85.5 million increase the previous year. This is directly attributable to the significantly lower performance of the UK and global investment markets during the year compared to the previous year.
11. Contributions received have increased by £156,000 (0.8 per cent) compared to the previous year. Total regular employee and employer contributions increased by £161,000 (0.9 per cent) during the year, offset by a slight reduction in additional employer contributions.
12. Total benefits payable have decreased by £68,000 (0.3 per cent) in comparison to the previous year; inflationary pension increases have been offset by reductions in lump sums payable on retirement this year.
13. Investment income has increased the year, reflecting the revised treatment of income from the global equity portfolio, as well as increases in dividend income of £518,000 and income from the bond portfolio of £626,000.
14. Total management expenses have fallen by £154,000 (7.0 per cent) during 2017-18, primarily as no performance fees were payable in the year.

## ANNUAL INVESTMENT PERFORMANCE

15. Appendix 2 to this report shows the performance of the fund's investments by asset category, and by fund manager, supported by an annual report for the fund's investment consultants, Mercer Limited.
16. The market value of the fund's investments as a whole increased by £3.76 million, generating a return of 1.9 per cent in the year to 31 March 2018, compared to a combined benchmark increase of 2.7 per cent.
17. Equity markets were low performing throughout 2017-18. The fund's UK equity portfolio declined in value by £6.1 million, underperforming its benchmark (FTSE All Share index) by 3.0 per cent. The global equity portfolio recovered in the fourth quarter, but not significantly enough to completely turn around the negative performance of the first three quarters. The portfolio increased in value by £0.8 million, but underperformed its benchmark (MSCI All Countries World index) return by 2.5 percent.
18. As reported in paragraph 14 above, there were no performance related fees payable to either Majedie or Newton in respect of their investment performance in the years to 30 June 2017 and 31 December 2017 respectively.
19. Both the Schroder bond portfolio and the Schroder property portfolio outperformed their relative benchmarks in the year, matching their outperformance targets of 1 per cent and 0.5 per cent respectively.
20. The Baillie Gifford diversified growth portfolio also exceeded its benchmark target by 0.8 per cent.

## MEMBERSHIP NUMBERS

21. Total members of the fund at 31 March 2018 were 15,957, an increase of 836 since 31 March 2017.
22. The graph below shows the total change in membership, and the composition of the membership (active members, deferred members and pensioners) for the last five years.



23. Active membership has increased slightly this year, as a result of auto-enrolment within the council and scheduled bodies. The council's proportion of active members has fallen this year to 83.0 per cent, compared to 83.9 per cent at 31 March 2016 which can be attributed membership growth in scheduled body employers (including academies and the college).
24. The graph below shows the movement in active membership numbers by type of employer (council (as administering authority), admitted body and scheduled body) over the last five years.

25. In addition to the council, there are 31 other employers within the pension fund. Appendix 3 lists the employers of the fund, with their membership numbers, basic employee and employer contributions received in the year and the number of occurrences (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.
26. Of the 31 external employers, there were eight who were late in paying over contributions at least once during the year, primarily small employers. There were 6 instances of late payment in total, amounting to 0.7 per cent of total contributions (£120,000). The pension administration team are in regular dialogue with those employers to improve performance. No interest was charged on any of the instances of late payment.
27. One of the key priorities for 2018-9 will be the introduction of an Administration Policy, which will set out clearly the respective responsibilities of the council (as administering authority) and the employers (including the council), including the requirement for timely submission of membership information and contribution payments. It will also formalise the sanctions which can be applied for late payment.

#### INTERIM FUNDING LEVEL

28. Hymans Robertson, the fund's actuaries, prepares a quarterly report ("Navigator report") which illustrates the development of the funding position of the fund from the date of the last formal valuation.
29. The funding level at 31 March 2016 was 91.5 per cent - an improvement since the previous formal valuation at 31 March 2013, when the funding level was 77.7 per cent.
30. Appendix 4 contains the Navigator report for the quarter ended 31 March 2018, which shows an indicative funding level of 89.6 per cent, and an increase in the deficit to £65 million from £44 million at 31 March 2016.
31. Any change in the funding level of the fund in the period between formal valuations has no actual impact on the level of contributions payable by the council or other employers, but is indicative of the potential impact of changes in market conditions and financial assumptions which will be reflected in the next triennial valuation, which will be as at 31 March 2019.

#### CONSULTATION

32. There has been no consultation as this report is for information only. The information contained in this report will be updated and reviewed as part of the year end process and is subject to audit.

## FINANCIAL / BUDGET IMPLICATIONS

33. There are no direct financial implications associated with this report.
34. Information on the investment performance of the fund's managers is presented to the committee on a quarterly basis, and information about membership numbers and funding levels is provided half yearly. As an annual process, it is necessary to produce financial information in this format to comply with external reporting requirements, codes of practice and the specific requirements of the Accounts and Audit (England) Regulations 2015.

## LEGAL IMPLICATIONS

35. The pension fund annual accounts form part of the council's annual statement of accounts. The Accounts and Audit (England) Regulations 2015 require approval of the council's Statement of Accounts by the council sitting as a whole, or by a committee with delegated powers to make such a decision, no later than 31 July for each financial year.
36. While there is no specific regulatory requirement for the pension fund accounts to be separately approved, it is considered good practice to provide the Pension Fund Committee with the draft results figures as part of the overall approval process.
37. The audit of the pension fund accounts is scheduled to commence on 14 May 2018 and the external auditors expect to issue their report and opinion on the accounts before 31 July 2018, the statutory date for publication of the council's audited Statement of Accounts. The independent report of the external auditor on both the council's accounts and the pension fund accounts will be presented to the Audit Committee at its July 2018 meeting, prior to issue of their final report and audit certificate to be published with the council's statement of accounts.
38. The independent report of the external auditor for the pension fund accounts will be presented to this committee in November 2018, and will be published in the pension fund annual report and accounts before the end of December 2016

## EQUALITY AND DIVERSITY

39. The council has a legal duty under the Equality Act 2010 to seek to eliminate discrimination, victimisation and harassment in relation to age, disability, gender re-assignment, pregnancy and maternity, race, religion, sex, sexual orientation and marriage and civil partnership.
40. Initial screening has indicated that there are no specific equality and diversity issues arising from the content of this report.

## RECOMMENDATION

41. That the committee receives this report for information, notes the draft financial results for the pension fund for the year ended 31 March 2018, and requests any additional clarification as required.

## APPENDICES ATTACHED

42. [Appendix 1 – Draft financial results for the year ended 31 March 2018.](#)
43. [Appendix 2 – Fund manager investment performance for the year ended 31 March 2018.](#)
44. [Appendix 3 – Employers and contributions analysis.](#)
45. [Appendix 4 – Hymans Robertson Navigator report at 31 March 2018.](#)

Contact Point: Jo Thistlewood, Technical Finance Manager, ☎ 821000  
e-mail [jo.thistlewood@iow.gov.uk](mailto:jo.thistlewood@iow.gov.uk)

CHRIS WARD  
*Director of Finance  
and Section 151 Officer*

CLLR ADRIAN AXFORD  
*Chair of Pension Fund Committee*

**The checklist at the beginning of this template MUST be completed before the report is sent to Democratic Services.**