Monitoring Officer
Christopher Potter

County Hall, Newport, Isle of Wight PO30 1UD
Telephone (01983) 821000

Agenda

Name of meeting	**ISLE OF WIGHT PENSION FUND COMMITTEE**
Date	**WEDNESDAY 8 FEBRUARY 2023**
Time	**10.00 AM**
Venue	**COUNCIL CHAMBER, COUNTY HALL, ISLE OF WIGHT**
Members of the committee	Cllrs C Jarman (Chairman), A Garratt (Vice-Chairman), D Andre, P Brading, V Churchman, C Critchison and I Ward Steve Milford (Co-Opted) (Non-Voting) Democratic Services Officer: Megan Tuckwell democratic.services@iow.gov.uk

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1. **Apologies and Changes in Membership (If Any)**

   To note any changes in membership of the Committee made in accordance with Part 4B paragraph 5 of the Constitution.

2. **Minutes** (Pages 5 - 10)

   To confirm as a true record the Minutes of the meeting held on 23 November 2022.

3. **Declarations of Interest**

   To invite Members to declare any interest they might have in the matters on the agenda.

4. **Public Question Time - 15 Minutes Maximum**

   Questions may be asked without notice but to guarantee a full reply at the meeting, a question must be put including the name and address of the questioner in writing or by email to Democratic Services at democratic.services@iow.gov.uk, no later than two clear working days before the start of the meeting. The deadline for written questions is Friday 3 February 2023.

Details of this and other committee meetings can be viewed on the Council's website. This information may be available in alternative formats on request. Please note the meeting will be recorded and the recording will be placed on the website (except any part of the meeting from which the press and public are excluded). Young people are welcome to attend Council meetings however be aware that the public gallery is not a supervised area.

5. **Structure Review - Options Report**

To note that the options paper presentation to the Council's Corporate Management Team has been deferred until 7 March 2023.

6. **Report from the Local Pension Board** (Pages 11 - 14)

To receive and note the draft minutes of the Local Pension Board meeting held on 17 January 2023.

7. **External Audit Update**

To receive and note a verbal update on the progress of the 2021-22 audit for the pension fund accounts.

8. **Annual Report and Accounts 2021-22** (Pages 15 - 88)

To receive and adopt the draft annual report and accounts for the year ended 31 March 2022, subject to any changes from external audit, and approve the publication of the draft, unaudited annual report and accounts on the pension fund's website; and to agree the process for completion and publication of the final annual report and accounts.

9. **Triennial Valuation Update** (Pages 89 - 130)

To receive a presentation from the fund's actuaries on the valuation results, to agree the process for the completion of the valuation by 31 March 2023; and to agree the minimum employer contribution rates for the period 1 April 2023 to 31 March 2026.

10. **Funding Strategy Statement** (Pages 131 - 172)

To receive the Funding Strategy Statement arising from the 2022 valuation, (following consultation with scheme employers and the Local Pension Board), and to adopt the Statement and agree its publication on the fund's website.

11. **Knowledge and Understanding Update** (Pages 173 - 190)

To receive a verbal report on the output report from the Hymans Robertson National Knowledge Assessment and note the next steps for action.

12. **Investment Performance and Funding Level**

To receive and note the reports from the fund's investment consultants:

(a) Investment assets as at 31 December 2022 (Pages 191 - 192)

(b) Hymans Robertson December 2022 Investment Manager Report (Pages 193 - 210)

(c) UK Equity Transition Progress (Verbal Update)

13. **Items circulated for Members Attention** (Pages 211 - 212)

To note items circulated to committee members since papers were published for the last committee meeting, for information.

14. **Members' Question Time**

A question must be submitted in writing or by email to Democratic Services no later than 10.00am on Monday 6 February 2023.

15. **Exclusion of the Public and Press**

To consider passing a resolution that, under Section 100(A)(4) of the Local Government Act 1972, the public and press be excluded from the meeting for the following item of business, namely agenda items 16 to 17 on the grounds that there is likely to be disclosure of exempt information as defined in paragraphs 3 of Part 1 of Schedule 12A of the Act and in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

16. **ACCESS Updates:**

(a) ACCESS Update (Pages 213 - 234)

To receive and note the update on activity with the ACCESS pool since the last meeting.

(b) Re-procurement of the Pool's Operator (Pages 235 - 246)

To consider the process for the re-procurement of the pool's operator, including approval of delegations.

17. **Procurement and Contract Management Update** (Pages 247 - 252)

To receive and note an update on procurement and contract management activity since the last meeting.

CHRISTOPHER POTTER
Monitoring Officer
Tuesday, 31 January 2023

Interests

If there is a matter on this agenda which may relate to an interest you or your partner or spouse has or one you have disclosed in your register of interests, you must declare your interest before the matter is discussed or when your interest becomes apparent. If the matter relates to an interest in your register of pecuniary interests then you must take no part in its consideration and you must leave the room for that item. Should you wish to participate as a member of the public to express your views where public speaking is allowed under the Council's normal procedures, then you will need to seek a dispensation to do so. Dispensations are considered by the Monitoring Officer following the submission of a written request. Dispensations may take up to 2 weeks to be granted.

Members are reminded that it is a requirement of the Code of Conduct that they should also keep their written Register of Interests up to date. Any changes to the interests recorded on that form should be made as soon as reasonably practicable, and within 28 days of the change. A change would be necessary if, for example, your employment changes, you move house or acquire any new property or land.

If you require more guidance on the Code of Conduct or are unsure whether you need to record an interest on the written register you should take advice from the Monitoring Officer – Christopher Potter on (01983) 821000, email christopher.potter@iow.gov.uk, or Deputy Monitoring Officer - Justin Thorne on (01983) 821000,
email justin.thorne@iow.gov.uk.

Notice of recording

Please note that all meetings that are open to the public and press may be filmed or recorded and/or commented on online by the council or any member of the public or press. However, this activity must not disrupt the meeting, and if it does you will be asked to stop and possibly to leave the meeting. This meeting may also be filmed for live and subsequent broadcast (except any part of the meeting from which the press and public are excluded).

If you wish to record, film or photograph the council meeting or if you believe that being filmed or recorded would pose a risk to the safety of you or others then please speak with the democratic services officer prior to that start of the meeting. Their contact details are on the agenda papers.

If the press and public are excluded for part of a meeting because confidential or exempt information is likely to be disclosed, there is no right to record that part of the meeting. All recording and filming equipment must be removed from the meeting room when the public and press are excluded.

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http://www.iwight.com/documentlibrary/view/recording-of-proceedings-guidance-note

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democratic.services@iow.gov.uk

ISLE of WIGHT COUNCIL

Minutes

Name of meeting	**ISLE OF WIGHT PENSION FUND COMMITTEE**
Date and Time	**WEDNESDAY 23 NOVEMBER 2022 COMMENCING AT 10.00 AM**
Venue	**COUNCIL CHAMBER, COUNTY HALL, ISLE OF WIGHT**
Present	Cllrs C Jarman (Chairman), A Garratt (Vice-Chairman), D Andre, P Brading, V Churchman, C Critchison and I Ward
Co-opted (Non-Voting)	Steve Milford (Scheme Member Representative)
Also Present	Matthew Collier, Jo Cooke, Jo Thistlewood and Megan Tuckwell Martin Doyle, Barbara Milton (Local Pension Board), Jason Freeman, James Reynolds (Goldman Sachs), Paula Pickens, Sophie Robinson and Craig Alexander (Hymans Robertson)
Also Present (Virtual)	Emma Garrett (Hymans Robertson), Jeff Houston (Barnett Waddingham)

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37. **Apologies and Changes in Membership (If Any)**

No apologies or changes in membership of the committee were received.

38. **Minutes**

RESOLVED:

THAT the minutes of the meeting held on 27 July 2022 be approved.

39. **Declarations of Interest**

No declarations were received.

40. **Public Question Time - 15 Minutes Maximum**

No public questions were received.

41. **Pension Fund Operational Structure Review**

The lead consultant from Barnett Waddingham provided a verbal overview of the process for and progress with the current review of the operational structure for the pension fund. Questions were raised and discussion took place regarding staff recruitment and retention.

RESOLVED:

THAT the verbal update be received and noted.

42. **Report from the Local Pension Board**

The chairman of the Local Pension Board was in attendance to present the draft minutes of the meeting held on 26 October 2022 and the discussions therein. Attention was drawn to the structure review, cyber risk, and climate change activities. Questions were raised in whether the fund could rely on the cyber security measures of the council; consideration needed to be given to wider aspects for the fund including third-party software providers and data transfers with actuary.

RESOLVED:

THAT the draft minutes of the meeting of the Local Pension Board held on 26 October 2022 be noted.

43. **Risk Register**

Consideration was given to the revised risk register for the fund, as recommended for adoption by the Local Pension Board. Questions were raised in relation to an incident where access to an assessment tool had been blocked by internal council firewalls and it was confirmed that the matter had been resolved. Clarity was provided around the risk scoring matrix tool. Concerns were raised regarding the combination of the ‘key person’ risk with that for ‘sufficient resources’ and it was felt that matters addressing both resilience and capacity should be separated. The team were thanked for the development and maintenance of the document.

RESOLVED:

THAT the revised risk register be adopted, and the Local Pension Board be asked to separate the ‘key person’ and ‘sufficient resources’ risks.

44. **Communications Policy**

Consideration was given to the Communications Policy, for publication on the fund’s website, as recommended for adoption by the Local Pension Board. Discussion took place regarding membership numbers and it was confirmed that the Board receive quarterly updates and monitor any changes in membership. Committee members were reminded of the distinction between the council’s role as administering authority and employer within the fund; questions about the take-up of membership among the council’s employees should be addressed to the council, not the pension committee. Comments were made in relation to information accessibility and consultation with scheme members.

RESOLVED:

THAT the Communications Policy be adopted.

45. **Governance Compliance Statement 2021-22**

The Pension Fund Manager presented the Governance Compliance Statement for inclusion in the annual report and accounts, as recommended for adoption by the Local Pension Board. Attention was drawn to the proposed action plan to address areas of non-compliance, and discussion took place regarding staff capacity and whether there was sufficient resources in place to facilitate the delivery of those actions. Members were assured that support would be sought from other funds and consultants to ensure improvement.

RESOLVED:

THAT the Governance Compliance Statement be approved for publication in the fund's annual report and accounts, and the proposed action plan to address areas of non-compliance be approved.

46. **DLUHC Consultation**

Consideration was given to the fund's proposed response to the DLUHC consultation "Local Government Pension Scheme (England and Wales): Governance and reporting of climate change risks". It was suggested that the ESG/RI Working Group be reconvened to consider the development of the fund's TCFD-compliant reporting processes, with the inclusion of the scheme member representative. No comments or questions were raised at this stage.

RESOLVED:

i) THAT the proposed response to the consultation be approved for submission.

ii) THAT the ESG/RI Working Group be reconvened to consider the development of the fund's TCFD-compliant reporting processes.

47. **Knowledge and Understanding Update**

The Pension Fund Manager presented a verbal update on training and development activities undertaken by committee members since the last meeting. Committee members were reminded to complete the recommended training, including the Pension Regulators online toolkit. No comments or questions were raised.

RESOLVED:

THAT the update be noted.

48. **Fund Manager Presentation**

The committee received a presentation and update from Goldman Sachs Asset Management on the Loan Partners IV portfolio, which included a summary of active investments, covid resilience, market opportunities, and a fund profile. Discussion took place regarding investment returns and profits, market exposure in the USA, Russia and China, and oil prices.

RESOLVED:

THAT the presentation from Goldman Sachs Asset Management be noted.

49. Investment Performance and Funding Level

49a Investment assets at 30 September 2022

49b Hymans Robertson Investment Performance Report Q3 2022

The Investment Consultant of Hymans Robertson presented the investment performance report for the quarter ended 30 September 2022, which included a summary of market returns, capital market outlook, asset allocation, fund performance, and fund manager analysis. Consideration was given to the fund's investment assets as at 30 September 2022. The committee noted the recent market volatility, and attention was drawn to the performance against benchmarks for Majedie/Liontrust. It was proposed that the Investment Consultants be asked to pursue the investment reallocation from Liontrust to Blackrock. Concerns were raised in relation to the exposure to the tobacco industry and it was agreed that the removal of this allocation be explored in due course.

RESOLVED:

i) THAT the investment performance and funding level be noted.

ii) THAT the Investment Consultants of Hymans Robertson be authorised to pursue the investment reallocation from Liontrust to Blackrock, with the removal of tobacco exposure to be explored at a later date.

50. Workplan

Consideration was given to the workplan for the Pension Fund Committee and Local Pension Board for the 2022-23 financial year. No comments or questions were raised.

RESOLVED:

THAT the workplan be noted.

51. Items circulated for Members Attention

The committee noted the items circulated for information since the last meeting. No comments or questions were raised.

RESOLVED:

THAT the items circulated for attention be noted.

52. Members' Question Time

Cllr Churchman asked an oral question seeking clarification around LDI funds. The Fund's Actuaries and Investment Consultant at Hymans Robertson provided a response.

Following discussion, the committee adjourned for a five-minute comfort break.

53. **Exclusion of Public and Press**

RESOLVED:

THAT the public and press be excluded.

54. **Triennial Valuation**

The committee received an update from the Fund's Actuaries at Hymans Robertson on the progress with the triennial valuation, including the whole fund results and employer engagement progress. Discussion took place regarding contribution rates and LGPS fund risks.

RESOLVED:

i) THAT the presentation, the valuation results for the whole fund, and the process for the finalisation of the valuation (including the process for the circulation and agreement of individual employer results) be noted.

ii) THAT the draft Funding Strategy Statement, and the process for consultation prior to its adoption, be noted.

55. **Strategic Asset Allocation**

The committee received the report on the initial results of the modelling in respect of the fund's strategic investment asset allocation.

RESOLVED:

i) THAT the presentation be noted.

ii) THAT the committee agree to consider any changes to the strategic asset allocation once the triennial valuation is completed.

56. **ACCESS Update**

The Pension Fund Manager presented the report on recent ACCESS pool activities since the last meeting. No comments or questions were raised.

RESOLVED:

THAT the update be noted.

57. **Procurement / Contract Management Update**

57a **Procurement and Contract management activity**

The Pension Fund Manager presented the confidential update on procurement and contract management activities since the last meeting. No comments or questions were raised.

RESOLVED:

i) THAT the update be noted.

ii) THAT the following contract awards be noted; (a) the global custodian contract to Northern Trust Limited, (b) the structure review contract to Barnett Waddingham LLP, and (c) the member tracing services contract to Target professional Services (UK) Limited.

iii) THAT the extension of the governance consultancy contract for a further 12 months to 1 January 2024 be noted.

57b **Annual Compliance Statement in respect of Contract Management**

Consideration was given to the annual compliance statement in respect of contract management. No comments or questions were raised.

RESOLVED:

i) THAT the current objectives for the fund's investment consultants be noted.

ii) THAT the fund's compliance with the requirements of Parts 3 and 7 of the Investment Consultancy and Fiduciary Management Market Investigation Order 2019 be confirmed.

iii) THAT the chairman be authorised to sign the annual compliance statement after 9 December 2022 (to be submitted before 6 January 2023), and a report be presented to the Committee at its next meeting in February 2023 confirming it's submission.

CHAIRMAN

Minutes

Name of meeting	**LOCAL PENSION BOARD**
Date and Time	**TUESDAY 17 JANUARY 2023 COMMENCING AT 2.00 PM**
Venue	**COUNCIL CHAMBER, COUNTY HALL, ISLE OF WIGHT**
Present	M Doyle (Chairman), N Cain, A Curzon, L Kingston, M Lilley, B Milton and T Ould
Also Present	Matthew Collier, Jo Thistlewood and Megan Tuckwell, Jo Cooke (Virtual)

29. **Minutes**

RESOLVED:

THAT the minutes of the meeting held on 26 October 2022 be approved.

30. **Declarations of Interest**

No declarations were received at this stage.

31. **Report from the Pension Fund Committee**

Consideration was given to the draft minutes of the meeting of the Pension Fund Committee held on 23 November 2022, and the decisions taken therein. No comments or questions were raised at this stage and the update was noted.

RESOLVED:

THAT the report from the Pension Fund Committee be noted.

32. **Report from the ACCESS Joint Committee**

The Board received a verbal update on the ACCESS Joint Committee meeting held on 5 December 2022 which was attended by the chairman and a scheme member representative to observe the ACCESS Pool from a governance perspective. Discussion took place with regards to cyber risk and national LGPS pooling activities. Concerns were raised regarding and the references to climate change being removed from the responsible investment guidelines and the Pension Fund Manager agreed to raise the matter at an upcoming ACCESS officer working group meeting. It was suggested development session on ACCESS Pooling be arranged.

RESOLVED:

THAT the update from the ACCESS Joint Committee be noted.

33. **Report from the Pensions Administration Team**

The Pensions Manager presented the report on administration statistics, employer compliance with end of month reporting and payment deadlines for the year 2022-23 to date, complaints recorded, and breaches of the law identified. Attention was drawn to key updates relating to the target tracing service, the i-Connect project, the Altair Image document management system, and McCloud data. Consideration was given to the key performance indicators and the hard work of the team was acknowledged. Discussion took place regarding the options available to address the repeated poor performance and issues with obtaining data and contribution payments from St Catherine’s School since re-joining the fund in May 2022, (including issuing penalty fines and writing to scheme members).

Cllr Michael Lilley declared an interest in respect of employer engagement as a member of Ryde Town Council and as the Mayor of Ryde.

RESOLVED:

THAT the report from the Pensions Administration Team be noted.

34. **External Audit Update**

The Pension Fund Manager provided a verbal update on the progress with the 2021-22 audit for the pension fund accounts. It was advised that the external audit had commenced and would be completed in February 2023. The results would be presented to the Audit Committee in March 2023, the Board in April 2023, and the Pension Fund Committee in May 2023.

RESOLVED:

THAT the external audit progress update be noted.

35. **Annual Report and Accounts (Draft)**

The Pension Fund Manager presented the draft annual report and accounts for the year ended 31 March 2022 and confirmed that the Board would be notified of the completion of the external audit (for both the pension fund and the Council) and when the annual report and accounts had been published (both in draft and final form). Comments were raised regarding risk and attendance at development sessions.

RESOLVED:

THAT the draft annual report and accounts for the year ended 31 March 2022 be noted.

36. **Policy for the Recording and Reporting of Breaches of the Law**

The Pension Fund Manager provided a verbal update on the revision of the fund’s policy for the recording and reporting of breaches of the law, and the timetable for its recommendation to the Pension Fund Committee in July 2023. No comments or questions were raised at this stage and the update was noted.

RESOLVED:

THAT the progress update be noted.

37. **Funding Strategy Statement**

The Pension Fund Manager presented the draft Funding Strategy Statement 2023. The Board were asked to participate in the consultation process and to provide any comments back to the Pension Fund Manager by Friday, 27 January 2023 for inclusion in the version to be presented to the Pension Fund Committee in February 2023. Questions were raised in relation to funding assumptions and investment rates.

RESOLVED:

THAT the process for the review and update of the Funding Strategy Statement be noted.

38. **Risk Management**

The Board noted that no work had been undertaken on the risk register since the last meeting. Consideration was given to the Pension Fund Committee’s request and it was agreed that the resourcing risk would be separated into two; resilience (key person risk) and capacity (insufficient resources). Discussion took place regarding the development of a cyber risk policy and it was agreed that this would be included in the action plan. Concerns were raised regarding resourcing risks and it was noted that the operational structure review was almost complete, and the outcomes would be considered by the council’s Corporate Management Team in February 2023.

RESOLVED:

THAT the risk management update be noted.

39. **Knowledge and Understanding**

The Pension Fund Manager presented the report which included the outcome of the Hymans Robertson National Knowledge Assessment. Discussion took place regarding future development sessions, training events and fund manager presentations. The chairman requested that all board members complete the Hymans Robertson Online Learning Academy training by 31 March 2023 and the Pension Fund Manager agreed to recirculate the relevant links. Consideration was given to board members meeting outside the regular meeting schedule to support completion of the online learning modules.

RESOLVED:

THAT the knowledge and understanding update be noted.

40. **Items circulated for Members Attention**

The committee noted the items circulated for information since the last meeting. No comments or questions were raised at this stage.

RESOLVED:

THAT the items circulated for attention be noted.

41. **Workplan**

Consideration was given to the work programme for forthcoming meetings of the Committee and Board. No comments or questions were raised, and the update was noted, including future board and committee meeting dates.

RESOLVED:

THAT the workplan be noted.

42. **Other matters for the Board's attention**

No other matters were raised.

CHAIRMAN

Agenda Item 8

Purpose: For Decision

Committee report

Committee	**PENSION FUND COMMITTEE**
Date	**8 FEBRUARY 2023**
Title	**ANNUAL REPORT AND ACCOUNTS 2021-22**
Report of	**PENSION FUND MANAGER**

EXECUTIVE SUMMARY

1. This report presents the annual report and accounts for the Isle of Wight Council Pension Fund for the year ended 31 March 2022, which is still subject to external audit.

2. The pension fund accounts contained within the annual report will form part of the accounts of the Isle of Wight Council, as administering authority for the fund, which will be presented to Audit Committee for approval in March 2023.

3. The separate external audit of the pension fund accounts has begun but will not be complete until February 2023. A verbal update on this matter is presented elsewhere on this agenda.

4. Publication of the draft, unaudited annual report and accounts will ensure the fund is compliant with Local Government Association best practice, albeit after the statutory deadline.

5. Delegation of the publication of the final document on conclusion of the external audit process to the Pension Fund Manager will avoid further delay to the completion of the 2021-22 year end reporting process.

RECOMMENDATION

6. That the committee adopts the draft annual report and accounts for the year ended 31 March 2022, subject to any changes from external audit, and approves the publication of the draft, unaudited document on the fund’s website as soon as practical after the committee meeting.

7. That the committee is notified of the completion of the external audit for both the pension fund and the Council, following the Audit Committee meeting on 20 March 2023.

8. That the committee delegates authority to the Pension Fund Manager, in consultation with the Director of Finance and the chairman of the Pension

Fund Committee, to update the annual report and account for any changes arising from the audit, and to publish the final annual report and accounts as soon as practical after the Audit Committee meeting.

9. That the committee and pension board are notified of the conclusion of the pension fund's external audit and the publication of the final annual report and accounts, and a report be presented to each body at the first meeting after the conclusion of the process.

BACKGROUND

10. Local Government Pension Scheme (LPGS) Regulations 2013 (the regulations) require pension funds to publish an annual report on or before 1 December each year. The content of the annual report is specified by the regulations.

11. For the current year, ended 31 March 2022, the fund has been unable to meet this deadline, due to significant delays in the external audit process for both the fund itself and the council, as administering authority. This breach of the regulations was reported to the Local Government Association (LGA) and the Pensions Regulator (TPR) as soon as it became apparent. Both bodies determined that no further action was necessary in respect of this breach.

12. Current guidance from the LGA is that funds should publish their draft, unaudited annual report and accounts as soon as it is available; funds should publish an updated version once the external audit of the relevant administering authority's accounts has been completed.

13. The draft financial result for the pension fund for the year ended 31 March 2022, including investment performance and employers' contributions analysis, was presented to the pension fund committee at its meeting on 27 July 2022. The annual report contains the same information but presented in accordance with statutory reporting guidelines.

14. Regulation 57 of the regulations covers the requirement for, content of, and publication arrangements for LGPS pension fund annual reports.

15. A full list of the contents of the annual report is listed below. The full document is in excess of 250 pages long, so is not presented in its entirety. The full document can be provided if required on request from the Pension Fund Manager.

16. Attached to this report as Appendix 1, is the information that has not been seen previously by this committee, indicated in *italics* in the table below. Where details have been submitted previously a link has been provided to the document.

17. There is no annual report from the Local Pension Board presented as part of the fund's annual report and accounts for the current year, as the board was not operational between September 2021 and April 2022.

CORPORATE PRIORITIES AND STRATEGIC CONTEXT

Corporate Aims

18. There is nothing contained in this report which directly contributes to the priorities contained in the Corporate Plan 2021 - 2025. Publication of this report supports the Corporate Plan key value of "being fair and transparent".

Pension Fund Strategic Aims

19. 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.

20. The fund has also agreed the following objective, which is supported by information in this report:
    (a) Ensure compliance with the LGPS Regulations, other relevant legislation and the Pensions Regulator's Codes of Practice.

21. Approval of the fund's draft annual report and accounts, and the overall stewardship of public funds, form an integral part of the fund's corporate governance framework.

LOCAL PENSION BOARD VIEW

22. The Local Pension Board considered the draft annual report and accounts at its meeting on 17 January 2023. This meeting also considered the fund's compliance with the disclosure requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA) *Code of Practice on Local Authority Accounting in the United Kingdom 2021/22*.

23. The board noted that there are no areas where the fund's annual report and accounts do not comply with the disclosure requirements of the code.

FINANCIAL / BUDGET IMPLICATIONS

24. There are no direct financial implications associated with this report.

25. The financial information included in this report was presented in summary at the committee meeting in July 2022. However, on an annual basis 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, and with the Local Government Pension Scheme Regulations 2013.

LEGAL IMPLICATIONS

26. The Local Government Pension Scheme Regulations 2013 require that LGPS funds prepare an annual report, including specified contents, which must be published on or before 1 December each year.

27. Due to delays in the external audit process, the fund has not been able to comply with this deadline. It has self-reported to both the Local Government Association (LGA) and the Pensions Regulator (TPR).

28. The fund will comply with LGA guidance to publish its draft, unaudited annual report and accounts on the fund's website as soon as practical after this committee meeting.

29. The external auditors expect to issue their report and opinion on the council's accounts, including those of the pension fund, on 20 March 2023.

30. 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 on 20 March 2023, prior to issue of their final report and audit certificate to be published with the council's statement of accounts.

31. On completion of the external audit, the fund's final annual report and accounts will be published on the fund's website, and the draft version removed.

EQUALITY AND DIVERSITY

32. The council, as a public body, is required to meet its statutory obligations under the Equality Act 2010 to have due regard to eliminate unlawful discrimination, promote equal opportunities between people from different groups and to foster good relations between people who share a protected characteristic and people who do not share it. The protected characteristics are: age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation.

33. The approval of the fund's annual report and accounts, subject to external audit, has no impact on any of the above protected characteristics.

OPTIONS

34. To support the completion of the fund's annual report and accounts for the year ended 31 March 2022, the following options can be considered:

    (a) That the committee adopts the draft annual report and accounts for the year ended 31 March 2022, subject to any changes from external audit, and approves the publication of the draft, unaudited document on the fund's website as soon as practical after the committee meeting.

    (b) That the committee adopts the draft annual report and accounts for the year ended 31 March 2022, subject to any changes from external audit, but does not approve the publication of the draft, unaudited document on the fund's website.

(c) That the committee delegates authority to the Pension Fund Manager, in consultation with the Director of Finance and the chairman of the Pension Fund Committee, to update the annual report and account for any audit adjustments required, and to publish the final annual report and accounts as soon as practical after the Audit Committee meeting.

(d) That the committee does not adopt the draft annual report and accounts for the year ended 31 March 2022, and requests that the final annual report and accounts be presented to committee for adoption and publication once the external audit process is completed.

RISK MANAGEMENT

35. This pension fund's accounts are not required to be separately published, but form part of the council's statement of accounts.

36. The key risk relates to not publishing the pension fund annual report in accordance with the Local Government Pension Scheme Regulations 2013; presenting a potential risk to the reputation of the council.

37. In the current year, the delays in the external audit process for both the pension fund and the council have meant that the statutory deadlines for publication have not been met. The potential reputational damage has been mitigated by the reporting of the delay and hence the breach of legislative requirements to the Pensions Regulator and the Local Government Association as soon as the delay was identified.

38. There is a further risk that the conclusion of the external audit process for either the council or the pension fund, or indeed both, is delayed beyond the expected March 2023 date. This is beyond the control of pension fund officers, who are providing all information promptly as requested by the external auditors.

39. Should this delay materialise, the committee will be notified, and alternative publication arrangements will be made.

EVALUATION

40. If the committee does not adopt the draft annual report and accounts, subject to any changes from external audit, at the current meeting, there will be a need to convene an additional committee meeting after the March 2023 audit committee meeting to review and adopt the audited annual report and accounts.

41. If the committee do adopt the draft annual report and accounts, subject to any changes from external audit, but do not delegate authority to the Pension Fund Manager, in consultation with the Director of Finance and the chairman of the Pension Fund Committee, to update the annual report and account for any audit adjustments required, and to publish the final annual report and accounts, there will be a need to convene an additional committee meeting after the March 2023 audit committee meeting.

42. Finding time in committee members' calendars to convene an additional pension fund committee meeting is likely to be challenging, particularly given the workload at the current time of year, in respect of the agreement of the council's budget.

43. There is little risk to the fund in not publishing the draft, unaudited annual report and accounts on the fund's website, as this is not a legislative requirement. However, failure to do so will be going against best practice and may reflect poorly on the fund.

44. Accordingly, options at paragraphs 34a) and 34 c) are recommended.

APPENDICES ATTACHED

45. Appendix 1: Extracts from the Isle of Wight Council Pension Fund Annual report and accounts for the year ended 31 March 2022.

BACKGROUND PAPERS

46. Isle of Wight Pension Fund Committee, 27 July 2022, Draft Pension Fund Accounts 2021-22 https://iow.moderngov.co.uk/documents/s8755/ITEM%207a%20Draft%20Accounts%202021-22.pdf.

Contact Point: Joanna Thistlewood, Pension Fund Manager, ☎ 821000
e-mail *jo.thistlewood@iow.gov.uk*

CHRIS WARD
Director of Finance
and Section 151 Officer

COUNCILLOR CHRIS JARMAN
Chairman of the Isle of Wight
Pension Fund Committee

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EXTRACTS FROM

ANNUAL REPORT
AND
ACCOUNTS

ISLE OF WIGHT COUNCIL
PENSION FUND
2021-22

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

Isle of Wight Pension Fund Annual Report 2021/22
Foreword

As the Chairman of the Pension Fund Committee, I am pleased to introduce the annual report and accounts of the Isle of Wight Council Pension Fund for the year ended 31 March 2022, setting out the overall financial activity of the fund.

Despite significant market turmoil at the end of the financial year, following the invasion of Ukraine by Russian forces, the fund's investment assets continued to grow, reaching a value of £723.6 million at 31 March 2022, compared to £695.4 million at 31 March 2021 – an increase of £28.2 million in the financial year.

Market volatility has continued since the end of the year as the crisis in Ukraine has impacted financial markets globally, largely due to the impact of utility prices. Coupled with the impact of policy changes in central government, increasing inflation and bank interest rates, the compounding effect on markets and market confidence has brought widespread downward pressure. The impact of all this uncertainty and downward pressure has been a decline in the value of the fund's investments, with the value at 30 September 2022 being £648.3 million.

Following a change in overall control of the council after the local elections in May 2021, a virtually new committee was formed, with only two members returning from the previous administration at that time. Membership of the committee changed a number of times during the financial year.

The committee recommenced in-person meetings from June 2021, holding five meetings (one under the former administration and four under the new), with each meeting covering all aspects of pension fund business. During the year the committee:

- Received an induction briefing from the Pension Fund Manager, and a number of development sessions facilitated by the fund's advisers.
- Completed the first investment into the fund's Infrastructure asset allocation; by 31 March 2022 £7.7 million had been invested in this asset class.
- Completed the transition of £145 million from its active equity allocation into the UBS passively managed climate aware fund, under a jointly procured arrangement with other authorities in the ACCESS pool.
- Continued its engagement with the ACCESS pool, with officers and councillors attending meetings throughout the year. No additional actively managed assets were transitioned into the pool during the year; at 31 March 2022 69.4 per cent of the fund's investments were under pooled management (a reduction from the proportion at the previous year end, due to market conditions).
- Reviewed the governance decision making framework for the fund, and adopted a decision making matrix, in compliance with which all future decisions will be made.
- Agreed and adopted a comprehensive risk register for the fund, which is monitored at all pension board and committee meetings.
- Received regular updates on the developments in administration of the fund.

During 2021-22, the constitution and membership of the pension board was reviewed and revised, following end of the term of office for most members in September 2021, leaving only one scheme member representative. As a result, board meetings were suspended, and the Pensions Regulator was informed of the situation.

Following the review, the size of the board was increased from four to six, and a new independent chair position was introduced. Recruitment activity during the second half of the financial year resulted in the appointment of five new representatives (three employer and two scheme member representatives), and an independent chair.

The newly constituted board met for the first time in April 2022; accordingly no board annual report for 2021-22 is presented.

2022-23 has been a very busy year to date and continues to be, with the following key areas being covered by both committee and board:

- Undertaking the triennial valuation at 31 March 2022, including briefings from the fund's actuaries and engagement with fund employers.
- Completion of the Hymans Robertson National Knowledge Assessment, with a view to developing a fund-specific training and development policy.
- Review of the fund's statutory documentation, including the communication policy, governance compliance statement, reporting breaches of the law policy, complaints and disputes procedures, and the pension administration strategy.
- Continued engagement with the ACCESS pool, including the development of investment solutions for illiquid assets.
- Response to the government's consultations on climate risk reporting and consideration of the fund's own ESG/RI policy.
- Preparation for the procurement of the fund's administration software system, and other consultancy contracts.
- Continued review and improvements in the operation of the fund's governance and administration activities, including the commissioning of an external review.

Councillor Chris Jarman – Chairman – Isle of Wight Pension Fund Committee

Financial Summary
Analytical review

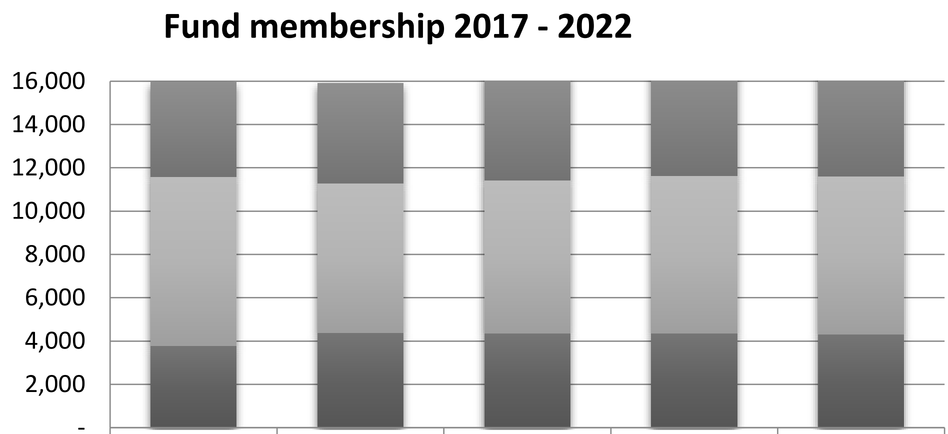
Fund account	2021-22 £000	2020-21 £000	Notes
Net withdrawals from dealings with members	**(2,979)**	(2,104)	Increase in basic contributions; increase in transfers in; inflationary increases in benefits paid & increase in number of pensioners; increased payments to leavers and on death
Management expenses	**(5,750)**	(7,166)	Prior Year included large initial investment cost re transfer of assets into ACCESS Pool
Net return on investments	**46,166**	**138,262**	Decrease in value of holdings especially UK & Global Equities
Net decrease in net assets	**37,437**	128,992	

Net Assets Statement	2021-22 £000	2020-21 £000	Notes
Pooled Investment Vehicles	**633,779**	648,719	UK & Global Equites partial disinvestment to fund investment into Private Debt and Infrastructure, with balance in Direct Cash holdings
Property	**44,453**	37,459	
Private Debt	**23,605**	9,186	Increased direct Investment into fund during year
Infrastructure	**7,762**	-	Commenced investing into fund during 2021/22
Cash deposits	**14,003**	-	Cash held for future investment into Private Debt and Infrastructure funds
Other net assets / (liabilities)	**4,532**	(4,667)	Reduction in short-term borrowing partially offset by reduction in operating cash balance
Total net assets	**728,134**	690,697	

Further detail can be found in the financial statements and notes on pages 216 to 252

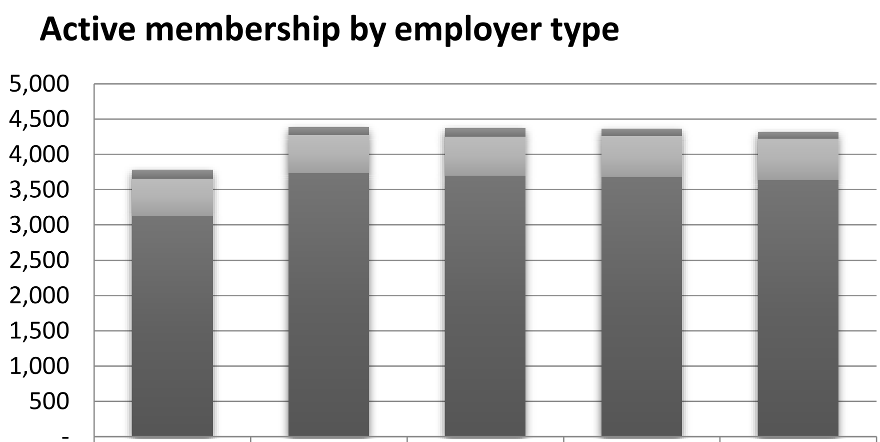
Membership data

Total membership of the fund continues to increase year on year, although active membership has fallen slightly compared to last year. The profile of membership numbers from 2017 to 2022 is shown below:



	2017-18	2018-19	2019-20	2020-21	2021-22
Pensioners	4,363	4,631	4,846	5,073	5,293
Deferred members	7,816	6,899	7,063	7,282	7,291
Active members	3,778	4,381	4,370	4,363	4,314
Total	15,957	15,911	16,279	16,718	16,898

Details of the changes in the composition of the employers in the fund can be found below the contributions analysis on page 9.
The Isle of Wight Council remains the largest employer in the fund, and its share of the active members has taken a slight downwards turn in real numbers during 2021/22. There has been an overall increase in the proportion from 82.9% in 2017/18 to 84.3% in 2021/22. The composition of active membership numbers is shown below:



	2017-18	2018-19	2019-20	2020-21	2021-22
Admitted bodies	117	106	116	102	88
Scheduled bodies	530	541	552	583	589
Administering authority	3,131	3,734	3,702	3,678	3,637
Total	3,778	4,381	4,370	4,363	4,314

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 2022	Employee basic conts. £000	Employer basic conts. £000	Instances Payment Late	Instances Return Late
Administering Authority					
Isle of Wight Council	3,637	3,627	13,609	-	-
	3,637	3,627	13,609	-	-
Scheduled Bodies					
Isle of Wight College	240	204	802	-	-
Ryde Academy	68	49	192	-	1
Lanesend Academy	67	38	143	-	-
Cowes Enterprise College	51	59	228	-	1
Northwood Primary	37	18	70	-	-
St Francis Primary	35	38	128	-	-
St Blasius Academy	29	14	72	1	1
Island Free School	35	13	64	-	1
Ryde Town Council	12	20	76	-	-
Newport and Carisbrooke Community Council	6	9	33	-	-
Shanklin Town Council	3	4	16	-	-
Cowes Town Council	2	2	9	1	-
Gurnard Parish Council	1	1	3	-	-
Wootton Bridge Parish Council	1	1	2	-	-
Northwood Parish Council	1	2	7	-	-
Sandown Town Council	1	1	4	-	-
	589	473	1,849	2	4
Admitted Bodies					
Southern Housing	26	8	36	-	-
Island Roads	22	52	-	-	-
Accomplish [1]	10	19	77	-	-
Barnardo's [2]	7	10	40	-	-
CleanTEC [3]	6	2	10	1	2
Southern Vectis	6	4	8	-	-
Sovereign Housing	3	66	272	1	-
Yarmouth Harbour Commissioners	2	4	14	-	-
Caterlink Limited	1	1	4	-	-
Cowes Harbour Commissioners	1	3	8	-	-
RM Ltd	1	2	8	-	-
Solutions 4 Health	1	1	6	-	-
Top Mops	1	-	2	-	-
Ventnor Botanic Gardens	1	2	-	-	-
Nviro [4]	-	2	7	-	-
Trustees of Carisbrooke Castle Museum [5]	-	3	8	-	-
St Catherine's School [6]	-	-	-	-	-
	88	179	500	2	2

The level of contributions from both employers and employees can be found with in the financial statements, which are included within this report, on page 216 and page 252 respectively.

1 Accomplish entered into a revised contract with the Council from December 2021.
2 Barnardo's commenced a new contract with the Council on 1 April 2021.
3 CleanTEC joined the fund in September 2021, following an outsourcing from Ryde Academy.
4 Nviro ceased participation in the fund in August 2021, following the termination of their contract with Ryde Academy.
5 The last active member from Carisbrooke Castle Museum retired in October 2021.
6 St Catherine's School have rejoined the fund with effect from 1 April 2022.

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Isle of Wight Council Pension Fund 2021/22
Scheme management and advisers

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

			Joined	Resigned
Councillor C Jarman	Ind	Chair	26 May 2021	
Councillor D Andre	Ind		26 May 2021	
Councillor P Brading	Con		19 Jan 2022	
Councillor V Churchman	Con		26 May 2021	
Councillor C Critchison	Green	Vice-chair (Resigned 18 May 2022)	26 May 2021	
Councillor W Drew	Con		21 July 2021	19 Jan 2022
Councillor A Garrett	Lib	Vice-chair (from 18 May 2022)	18 May 2022	
Councillor M Oliver	Con		19 Jan 2022	7 July 2022
Councillor R Quigley	Lab		21 July 2021	18 May 2022
Councillor J Robertson	Con		26 May 2021	21 July 2021
Councillor I Ward	Con		26 May 2021	19 Jan 2022
Councillor I Ward (reappointed)	Con		20 July 2022	

The Committee is advised by:

Mr C Ward, Director of Finance and section 151 officer

Mr D Walker, Investment Consultant – Hymans Robertson LLP

Mrs J Thistlewood, Pension Fund Manager

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

ACCESS Pool Operator

Link Asset Services,
LF ACCESS Pool Authorised Contractual Scheme
Sunderland SR43 4AT

Investment Managers through Pool

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

Liontrust Investment Partners LLP
2 Savoy Court
London
WC2R 0EZ

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

Direct Investment Managers

Goldman Sachs Asset Management International
Plumtree Court
25 Shoe Lane
London EC4A 4AU

Partners Group (UK) Ltd

14th Floor
110 Bishopsgate
London EC2N 4AY

Schroder Investment Management Limited
31 Gresham Street
London EC2V 7QA

UBS Asset Management
5 Broadgate
London EC2M 2QS

Actuarial Services

Hymans Robertson LLP
20 Waterloo Street
Glasgow G2 6DB

Investment Consultants

Hymans Robertson LLP
20 Waterloo Street
Glasgow G2 6DB

AVC Provider

Prudential
AVC Customer Services
Stirling FK9 4UE

Custodian

Northern Trust
50 Bank Street
London E14 5NT

Bankers

Lloyds Bank
3 Town Quay
Southampton
SO14 2AQ

Auditors

Ernst & Young LLP
Wessex House
19 Threefield Lane
Southampton SO14 3QB

Scheme Administrator

Isle of Wight Council
County Hall
Newport
Isle of Wight PO30 1UD
pensions@iow.gov.uk
http://www.isleofwightpensionfund.org/
Direct Tel No 01983 823626

In addition, the Isle of Wight Pension Fund is a member of the Pensions and Lifetime Savings Association (PLSA).

Investment Policy and Performance Report

Report and Accounts for the period ending 31 March 2022

Introduction

The Fund's investments have been managed during the year under review by Liontrust Asset Management, Newton Investment Management, UBS, Baillie Gifford, Goldman Sachs Merchant Banking Division, Partners Group and Schroders. The Liontrust, Newton and Baillie Gifford funds are accessed through the ACCESS pool.

The strategic benchmark allocation as at 31 March 2022 was:

Manager	Mandate	Allocation	Control ranges	Benchmark
Liontrust (ACCESS)	UK Equities	12.5%	10.5% – 14.5%	FTSE All-Share Index
Newton (ACCESS)	Global Equities	18.75%	16.75% – 20.75%	MSCI AC (All Countries) World Index (Net dividends re-invested)
Baillie Gifford (ACCESS)	Diversified Growth	10.0%	6.0% – 14.0%	UK Base Rate + 3.5%
UBS	Global Equities	18.75%	16.75% – 20.75%	FTSE All-World Developed Index
Partners	Infrastructure	5.0%	N/A	Not managed to a benchmark
Schroders	UK Bonds	22.0%	18.0% – 26.0%	50% iBoxx GBP Gilts TR + 50% iBoxx GBP Non-Gilts
Schroders	UK Property	8.0%	4.0% – 12.0%	IPD Pooled Property Fund indices All Balanced Funds Median
Goldman Sachs	Private Debt	5.0%	N/A	Not managed to a benchmark
Total		**100.0%**	**-**	

Source: Investment Strategy Statement

Summary of strategic changes

Following the review of the 2019 actuarial valuation, the Committee agreed to several strategic changes in order to achieve its long-term target of being fully funded within the next 20 years.

In July 2020, the Committee agreed a new 5% allocation to two new mandates (private debt and infrastructure) that would be drawn down over time. In January 2021, the Fund committed the 5% private debt allocation to Goldman Sachs Merchant Banking Division Broad Street Loan Partners IV. This investment has continued to be drawn down throughout the year and as at 31 March 2022 represented 3.3% of the Fund's assets. In July 2021, the first allocation to Partners Direct Infrastructure Fund was drawn and 1.1% of the Fund's assets were invested in the mandate as at 31 March 2022. These allocations will continue to be built up over time.

Following the equity review in November 2020, the Committee agreed to introduce a passively managed global mandate to provide a more balanced equity investment approach. In December 2021, a new allocation of £145m was invested in the UBS Global Aware mandate. The agreed benchmark for the new passive global equity mandate was 18.75%. To achieve the redistribution, the target allocations in the Liontrust and Newton mandates were reduced from 17.5% to 12.5% and 32.5% to 18.75%, respectively.

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 (%)	
Liontrust – UK Equity (ACCESS)	144,137	**99,534**	20.7	**13.7**	12.5
Newton – Global Equity (ACCESS)	249,157	**149,384**	35.9	**20.6**	18.75
Baillie Gifford – Diversified Growth (ACCESS)	114,515	**113,532**	16.5	**15.7**	10.0
UBS – Global Equity	-	**139,377**	-	**19.3**	18.75
Partners - Infrastructure	-	**7,975**	-	**1.1**	5.0
Schroders – UK Bonds	139,879	**131,508**	20.1	**18.2**	22.0
Schroders – UK Property	37,904	**45,100**	5.5	**6.2**	8.0
Goldman Sachs – Private Debt	9,067	**23,571**	1.3	**3.3**	5.0
Cash	-	**14,000**	-	**1.9**	-
Total	**694,660**	**723,982**	**100.0**	**100.0**	**100.0**

Note: UBS, Partners and Cash were not reported for the period ending 31 March 2021, thus values are only provided for 31 March 2022.
Source: Investment Managers
Figures may not sum to total due to rounding.

Reasons for variance from Benchmark

The Fund is slightly overweight to UK Equities, Global Equities and Diversified Growth, relative to strategic benchmark and correspondingly underweight to Corporate Bonds, Property and Private Debt. The new Infrastructure and Private Debt allocations continue to draw down capital.

All portfolios were within their target ranges as at 31 March 2022, except for Diversified Growth mandate which marginally exceeded target.

Market Background

Investment Markets

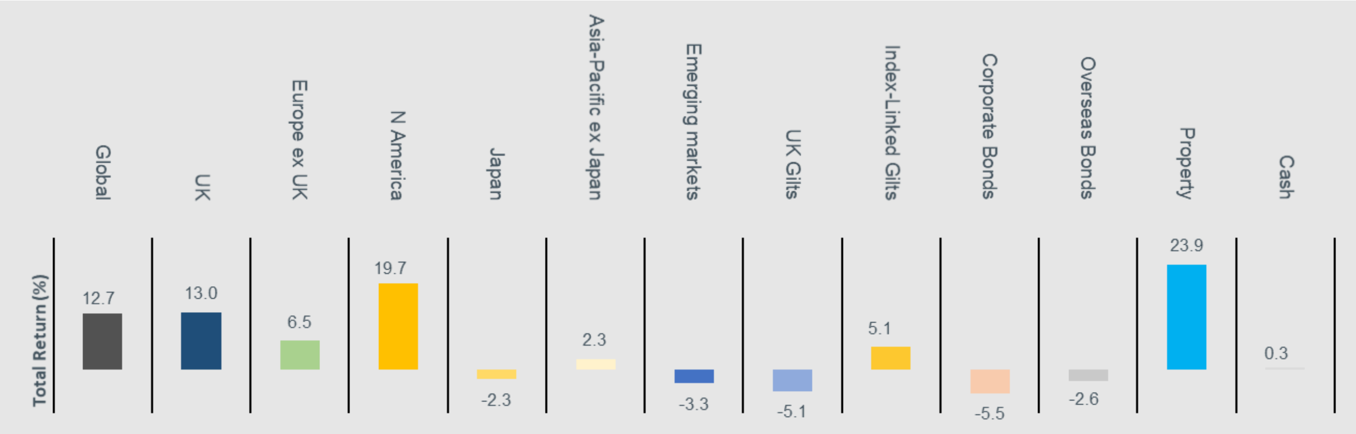
Global GDP has risen rapidly as major economies moved towards a more permanent easing of pandemic restrictions; however, momentum has started to ease in recent months. Physical disruptions and sanctions caused by the Russia-Ukraine conflict have triggered broad commodity price rises which, alongside existing inflationary pressures, are increasing input costs and weighing on consumer's real incomes. As a result, CPI forecasts have reached new highs while consensus forecasts for global growth have been revised downwards, but still point to a robust pace of growth over 2022 and 2023 by post-GFC standards.

Soaring energy costs pushed headline inflation higher, but core inflation, which excludes volatile energy and food costs, also rose and is running at a 30-year high. UK and US headline CPI inflation increased to 7.0% and 8.5% year-on-year, respectively in March.

The inflation backdrop has seen central banks turn more hawkish this year, despite the potential downside risks to growth from higher commodity prices. After a first hike in December, the Bank of England raised rates twice in Q1, to 0.75% p.a., and, as expected, the US Federal Reserve raised rates by 0.25% p.a. in March, with the median voting member now expecting seven rate rises in 2022 and four in 2023. The European Central Bank confirmed its asset purchases will end this year, leaving the door open to an interest rate rise, while the Fed noted plans to reduce the size of its balance sheet.

Government bond yields rose in line with the recovery in growth and inflation expectations, with UK 10-year government bonds rising 0.8% p.a., to 1.6% p.a. UK 10-year implied inflation, as measured by the difference between conventional and inflation-linked bonds of the same maturity, rose from 3.7% p.a. to 4.4% p.a.

12 Month performance to 31 March 2022



Equities

Despite a weakening outlook towards the end of the period, the ongoing economic and earnings recovery supported a 12.7% return from global equities. Amid surging oil and gas prices, the energy sector notably outperformed whilst commodity price rises also benefitted basic materials. Rising yields benefitted the financial sector whilst rising input costs and a squeeze on real incomes weighed on the industrial and consumer discretionary sectors, respectively.

The UK was the top performing region, benefitting from above-average exposure to energy, metals, and miners. Emerging Market equities have been the worst performing region, pulled lower by weak performance from China, where announcements of tighter regulation have been compounded by a slowdown in Chinese property and manufacturing sectors, and high energy prices.

Bonds

Global investment-grade credit spreads rose 0.3% p.a. and European high yield bond spreads rose 0.9% p.a., while their US counterparts were little changed: the larger rise in European credit spreads perhaps reflecting expectations of a larger negative impact from the Russia-Ukraine conflict. Rises in underlying yields had a larger negative impact on total returns in longer-duration investment-grade credit markets.

Property

An 18.0% rise in the MSCI UK AREF capital value index over the 12 months to the end of March is largely attributable to a 36.8% rise in industrial capital values. Return on the all-property index, including income, was 23.9% in the 12 months to end-March.

Investment Performance

The Fund marginally underperformed its strategic benchmark over 12 months by 0.4%. The main laggard to 12-month performance were holdings in Liontrust due to poor stock selection and the sell-off in equity markets following the outbreak of the Russia/Ukraine war seen in Q1 2022. The fixed income mandate also lagged performance due to rising yields and expectations of further increases in interest rates.

The Fund is ahead of its benchmark over 3 years returning 7.6% against a benchmark of 7.0%, particularly due to the outperformance in the Schroders mandates.

The newly implemented Private Debt and Infrastructure mandates' performance are not included in the below table as it is too early for these investments to have a meaningful performance figure.

The table below provides the 12-month and 3-year performance of the Fund as at 31 March 2022.

Manager/Asset Class	Last Year		Last 3 Years	
	Fund (%)	Benchmark (%)	Fund (% p.a.)	Benchmark (% p.a.)
Liontrust – UK Equity (ACCESS)	6.2	13.0	3.8	5.3
Newton – Global Equity (ACCESS)	11.1	12.4	14.1	13.4
Baillie Gifford – Diversified Growth (ACCESS)	3.8	3.6	3.9	3.8
UBS[1]	-3.8	-3.6	-	-
Schroders – UK Bonds	-5.9	-5.2	1.7	0.4
Schroders – UK Property	19.6	19.9	8.0	7.2
Total	**6.9**	**7.3**	**7.6**	**7.0**

[1]UBS performance is for the period since inception (I.e., December 2021)
Figures shown are based on performance provided by the investment managers. Performance figures are gross of fees.

Linking the Investment Strategy with the Funding Strategy

The Committee regularly reviews the investment strategy to ensure that it remains appropriate for the Fund's liability profile. Although the investment strategy is set from a long-term perspective, it is formally reviewed every 3 years or after every actuarial valuation. The Committee reviewed the Fund's investment strategy following the results of the 2019 Actuarial Valuation and agreed to make strategic allocations to Infrastructure and Private Debt and to restructure the Fund's equities. As at 31 March 2022, the Committee have made allocations to investment solutions for both Private Debt and Infrastructure. The Private Debt solution started to draw down capital in January 2021 and the Infrastructure solution started to draw down capital in July 2021.

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

Custodial Arrangements

Manager	Custodian
Liontrust (ACCESS)	Northern Trust
Newton (ACCESS)	Northern Trust
Baillie Gifford (ACCESS)	Northern Trust
UBS	JP Morgan
Partners Group	JP Morgan
Schroders	Northern Trust
Goldman Sachs	Goldman Sachs & Co.

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.

Environmental, Social and Governance considerations

The Committee have developed a defined set of investment beliefs that include their views on Environmental, Social and Governance ("ESG") issues. The Committee believes that long-term sustainable investment returns are an important consideration, and ESG issues can have a material impact on the long-term performance of its investments.

The Committee recognises that ESG 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 investment managers has produced a statement setting out its policy in this regard. The investment managers have been delegated by the Committee to act accordingly.

The Fund has committed the UK Stewardship Code 2012 as published by the Financial Reporting Council. An enhanced UK Stewardship Code 2020 took effect on 1 January 2020. The Committee are yet to consider becoming a signatory to the new code and aims to work closely with ACCESS on stewardship and engagement issues including ESG issues and voting rights.

In May 2021, the Committee undertook climate risk scenario analysis and commissioned an ESG and carbon report for the Fund's assets. This aimed to illustrate how the Fund's mandates perform from an ESG perspective and the carbon intensity of the Fund's investments. The Committee consider the ESG implications of any strategic investment decisions they make.

In line with the new LGPS regulations which will come into effect by April 2023, the Fund will work towards becoming compliant with the Taskforce for Climate-related Financial Disclosures ("TCFD") framework and will seek to report against the four key areas of governance, strategy, risk management, and metrics and targets.

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 Investment Strategy Statement 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 an extract taken from the Fund's latest Investment Strategy Statement 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.** **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	**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.**

of their own effectiveness as a decision-making body and report on this to scheme members.	**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 or Investment Strategy Statement. • 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.** **The Investment Strategy Statement includes a statement on the fund's policy on responsible ownership.** **The Committee needs to consider the implications of the new enhanced UK Stewardship Code issued in January 2021 and the extent to which it is 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 Investment Strategy Statement is published on the council website and is available to members on request. Other information on the scheme is available to members on the dedicated pension fund website.**

Prepared by:

Emma Garrett, Senior Investment Consultant
Annabel Preston, Investment Analyst
Stefan Chilom, Investment Analyst

For and on behalf of Hymans Robertson LLP

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Isle of Wight Pension Fund ("the Fund") Actuarial Statement for 2021/22

This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme Regulations 2013. 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 March 2020. 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 (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 to have a sufficiently high likelihood of achieving the funding target over 20 years. 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 at least an 80% likelihood that the Fund will achieve the funding target over 20 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2019. This valuation revealed that the Fund's assets, which at 31 March 2019 were valued at £596 million, were sufficient to meet 95% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2019 valuation was £32 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure as per the FSS. Individual employers' contributions for the period 1 April 2020 to 31 March 2023 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 2019 valuation report.

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 2019 valuation were as follows:

Financial assumptions	31 March 2019
Discount rate	3.4%
Salary increase assumption	3.1%
Benefit increase assumption (CPI)	2.3%

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 2018 model, an allowance for smoothing of recent mortality experience and 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	21.7 years	23.8 years
Future Pensioners*	22.4 years	25.2 years

*Aged 45 at the 2019 Valuation.

Copies of the 2019 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

Experience over the period since 31 March 2019

Markets were severely disrupted by COVID 19 in March 2020, but over most of 2020/21 and 2021/22 they recovered strongly. However, due to the war in Ukraine, March 2022 markets were particularly volatile, which affects values as at the accounting date. All other things being equal, the funding level of the Fund as at 31 March 2022 is likely to be better than that reported at the previous formal valuation as at 31 March 2019.

It is important to note that the formal triennial funding valuation exercise is as at 31 March 2022 and this may show a different picture when the finalised position is disclosed in next year's annual report. In particular, changes in Fund membership, changes in anticipated real investment returns, and changes in demographic assumptions will affect the valuation results. The Funding Strategy Statement will also be reviewed as part of the triennial funding valuation exercise.

Craig Alexander FFA

17 May 2022

For and on behalf of Hymans Robertson LLP

Knowledge and Skills Framework Compliance Statements
Dated: 13 December 2022

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 Director of Finance and Section 151 Officer, 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

Following local elections in May 2021, a virtually new committee was returned, with only two members remaining following the change in administration. In addition, the local pension board was dissolved in September 2021, following the end of terms of office for two members; the board was reconstituted in April 2022.
Despite the return to in-person committee and board meetings, most training and development workshops continued to be delivered virtually, outside of the normal committee meeting cycle. Members of both committee and board were invited to attend all events held.

The development and training workshops held in 2021-22 covered the following topics:

- 02 June 2021: induction meeting for new committee members.
- 21 June 2021: Asset classes and Responsible Investment/Environmental, Governance and Social risks, including Climate change
- 07 September 2021: Decision making framework
- 06 October 2021: Risk management framework
- 29 October 2021: Introduction to LAPFF
- 10 November 2021: Introduction to ACCESS and investment pooling
- 21 January 2022: ACCESS Responsible Investment guidelines
- 02 February 2022: Triennial valuation

These workshops were facilitated by the fund's external advisers, with the exception of the LAPFF and ACCESS workshops which were delivered by officers from those organisations.

Table 1: development attendance

		02-Jun-21	29-Jun-21	07-Sep-21	06-Oct-21	29-Oct-21	10-Nov-21	26-Jan-22	02-Feb-22	
committee	Chair	x	√	√	x	√	x	√	√	63%
	Vice-chair	√	x	x	√	√	x	√	√	63%
	Elected member 1	√	x	x	x	x	√	√	√	50%
	Elected member 2	√	√	√	x	√	√	√	√	88%
	Elected member 3.1	√	x							50%
	Elected member 3.2			√	x	x	x			25%
	Elected member 3.3							√	√	100%
	Elected member 4			x	x	√	√	√	√	67%
	Elected member 5.1	x	√	√	x	√	√			67%
	Elected member 5.2							√	√	100%
	Scheme member rep	x	√	√	√	x	√	√	√	75%
	Employer rep									n/a
board	Chair (Employer 1)	x	√	√						67%
	Employer 2			x	x	x	x	x	x	0%
	Employer 3							x	√	50%
	Scheme member 1	x	√	√						67%
	Scheme member 2	x	√	√			√	√	√	83%
	Scheme member 3									n/a
Committee Total		50%	50%	63%	25%	63%	63%	100%	100%	**73%**
Board Total		0%	100%	75%	n/a	n/a	n/a	n/a	n/a	n/a

In addition to the above workshops, during the year the committee received presentations from three of the fund's seven investment managers in respect of the performance of their portfolios, and relevant issues impacting the financial markets.

Many advisers and investment managers for the LGPS held virtual development events throughout the year. Members of both committee and board were encouraged to attend these webinars.

During the year, the committee's nominated elected member, together with the Pension Fund Manager, attended four joint committee meetings of the ACCESS group, in respect of pooling of investments.

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ISLE OF WIGHT COUNCIL PENSION FUND

2020-21 £000	FUND ACCOUNT	Notes	2021-22 £000
	Dealings with members, employers and others directly involved in the fund		
20,357	Contributions	7	21,015
585	Transfers in from other pension funds	8	953
10	Other income	9	15
20,952			21,983
(22,369)	Benefits	10	(24,067)
(687)	Payments to and on account of leavers	11	(895)
(23,056)			(24,962)
(2,104)			**(2,979)**
(7,166)	Management expenses	12	**(5,750)**
	Returns on investments		
19,112	Investment income	13	14,433
(14)	Taxes on income	14	-
119,220	Profit and losses on disposal of investments and changes in the value of investments	17A	31,801
(56)	Interest payable	16	(68)
138,262	Net returns on investments		**46,166**
128,992	**Net increase/(decrease) in the net assets available for benefits during the year**		**37,437**
561,705	Opening Net Assets of the Scheme		690,697
690,697	Closing Net Assets of the Scheme		**728,134**

ISLE OF WIGHT COUNCIL PENSION FUND

2021 £000	NET ASSETS STATEMENT AS AT 31 MARCH	Notes	2022 £000
695,385	Investment assets	17	709,599
-	Cash deposits	17	14,003
695,385			**723,602**
-	Investment liabilities	17	-
(5,500)	Short-term borrowings	19A	-
155	Long-term assets	23	183
1,138	Current assets	24	4,935
(481)	Current liabilities	25	(586)
690,697	**Net assets of the fund available to fund benefits at the period end**		**728,134**

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 22.

ISLE OF WIGHT COUNCIL PENSION FUND

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 2021-22 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 2016.

It is a contributory defined benefit pension scheme administered by Isle of Wight Council to provide pensions and other benefits for pensionable employees of Isle of Wight Council, and a range of other scheduled and admitted bodies on the Isle of Wight. Teachers, police officers 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 the terms of an admission agreement between the fund and the employer. Admitted bodies include voluntary, charitable and similar not-for-profit organisations 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 2022 are:

Cowes Town Council	Northwood Primary Academy
Cowes Enterprise College, an Ormiston Academy	Ryde Academy
Gurnard Parish Council	Ryde Town Council
Isle of Wight College	Sandown Town Council
Isle of Wight Free School	Shanklin Town Council
Lanesend Primary Academy	St Blasius Primary Academy
Newport and Carisbrooke Community Council	St Francis Academy
Northwood Parish Council	Wootton Bridge Parish Council

The admitted bodies of the fund with active members at 31 March 2022 are:

- Accomplish Group Ltd
- Barnados
- Caterlink
- CleanTEC (new)
- Cowes Harbour Commissioners
- Island Roads Limited
- RM Ltd
- Solutions 4 Health
- Southern Housing Limited
- Southern Vectis
- Sovereign Housing Limited
- Top Mops Ltd
- Ventnor Botanic Gardens
- Yarmouth (IW) Harbour Commissioners

The membership of the scheme is shown below:

Year ended 31 March 2022

	Administering Authority	**Scheduled Bodies**	**Admitted Bodies**	**Total**
Number of employers with active members	1	16	14	**31**
Number of contributors (Active members)	3,637	589	88	**4,314**
Number of frozen refunds 1	840	103	4	**947**
Number of deferred pensioners 2	5,575	646	123	**6,344**
Number of pensioners/ widows/dependant pensioners	4,719	360	214	**5,293**
	14,771	**1,698**	**429**	**16,898**

Year ended 31 March 2021

	Administering Authority	**Scheduled Bodies**	**Admitted Bodies**	**Total**
Number of employers with active members	1	16	15	**32**
Number of contributors (Active members)	3,678	583	102	**4,363**
Number of frozen refunds 1	520	12	4	**536**
Number of deferred pensioners 2	5,911	707	128	**6,746**
Number of pensioners/ widows/dependant pensioners	4,541	328	204	**5,073**
	14,650	**1,630**	**438**	**16,718**

[1] Frozen refunds are former employees who do not have any pension entitlement apart from a return of the contributions paid into the Fund 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 Fund but has not yet reached retirement age to enable them to access their benefits or transferred their accrued rights to another Fund/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 2022 are detailed below.

Range (Actual pensionable pay)	Contribution rate
Up to £14,600	5.50%
More than £14,601 and up to £22,900	5.80%
More than £22,901 and up to £37,200	6.50%
More than £37,201 and up to £47,100	6.80%
More than £47,101 and up to £65,900	8.50%
More than £65,901 and up to £93,400	9.90%
More than £93,401 and up to £110,000	10.50%
More than £110,001 and up to £165,000	11.40%
More than £165,001	12.50%

Employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2019. The current and future employer contribution rates as determined by that valuation are detailed in note 21.

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 increased annually in line with the Consumer Prices Index.

A range of other benefits are also provided including early retirement, disability pensions and death benefits. as explained on the LGPS website – see www.lgpsmember.org. For more details, please refer to the Pension Fund website: http://www.isleofwightpensionfund.org/

2. BASIS OF PREPARATION

The Statement of Accounts summarises the fund's transactions for the 2021-22 financial year and its position at 31 March 2022. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2021-22* which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts report on the net assets available to pay pension benefits. They 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 22 of these accounts.

The accounts have been prepared on a going concern basis. Isle of Wight Council remains satisfied the LGPS that it administers continues to be a going concern, with detailed consideration of the period up to the twelve months from the date of approval of these accounts.

The Pension Fund's latest actuarial valuation, as at 31 March 2019, showed it to be 95% funded – an increase from the position 3 years prior of 92%. Investment markets were impacted by the effect of the Russian invasion of Ukraine in February 2022 and the increase in the cost of living. The Fund will be undertaking the next scheduled triennial valuation as at 31 March 2022 and will implement an agreed recovery period in its Funding Strategy Statement, should this be necessary, to make good any funding deficit that may arise as a result of this exercise.

The vast majority of employers in the pension scheme (92% of the Fund by active membership, are scheduled bodies excluding Further and Higher Education employers) have secure public sector funding, and therefore there should be no doubt in their ability to continue to make their pension contributions.

Following the latest actuarial valuation and schedule of employer contribution payments, the Pension Fund has reviewed its cashflow forecast and is confident in its ability to meet its ongoing obligations to pay pensions from its cash balance. In the unlikely event that investments need to be sold, 89.5% of the Fund's investments can be converted into cash within 3 months.

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 as follows:

- Employees contribution rates are set in accordance with LGPS regulations, using common percentage rates for all schemes which rise according to pensionable pay.
- Employer contributions are set at the percentage rate recommended by the fund actuary for the period to which they relate.

Employer deficit funding contributions are accounted for on the basis advised by the fund actuary in the rates and adjustment certificate issued to the relevant employing body.

Additional employers' contributions in respect of ill-health and early retirements are accounted for in the year the event arose. 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 Local Government Pension Scheme Regulations 2013 (see notes 8 and 11).

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

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

Bulk (group) transfers are accounted for 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.

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 value of investments

Changes in the 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, providing that payment has been approved.

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 fund discloses its pension fund management expenses in accordance with the CIPFA guidance *Accounting for Local Government Pension Scheme Management Costs (2016),* as shown below. All items of expenditure are charged to the fund on an accruals basis as follows:

Administrative expenses

All staff costs relating to the pension's administration team are charged direct to the fund. Council recharges for management, accommodation and other overhead costs are also accounted for as administrative expenses of the fund.

Oversight and governance costs

All costs associated with governance and oversight are separately identified, apportioned to this activity and charged as expenses to the fund.

Investment management expenses

Investment fees are charged directly to the fund as part of management expenses and are not included in, or netted off from, the reported return on investments. Where fees are netted off returns by investment managers, these expenses are grossed up to increase the change in market value of investments.

Fees charged by external investment managers and custodians are set out in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

Where an investment manager's fee note has not been received by the year-end 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 2021-22 no fees are based on such estimates (2020-21: nil)

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

A proportion of the 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

All investment assets are included in the financial statements on a fair value basis as 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. Any amounts due or payable in respect of trades entered into, but not yet complete, at 31 March each year as accounted for as financial instruments held at amortised and reflected in the reconciliation of movements in investments in Note 17A.

Any gains or losses on investment sales arising from changes in the fair value of the asset are recognised in the fund account.

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS13 (see Note 18). For the purposes of disclosing levels of fair value hierarchy, the fund has adopted the classification guidelines recommended in *Practical Guidance on Investment Disclosures* (PRAG/Investment Association, 2016).

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, 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.

All cash balances 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

A financial liability is recognised in the net assets statement on the date the fund becomes legally responsible for that liability. The fund recognises financial liabilities relating to investment trading at fair value and any gains or losses arising from changes in the fair value of the liability between contract date, the year-end date and the eventual settlement date are recognised in the fund account as part of the change in value of investments.

Other financial liabilities classed as amortised cost are carried in the net asset statement at the value of the outstanding principal at 31 March each year. Any interest due not yet paid is accounted for on an accruals basis and included in administration costs.

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 22).

m) Additional Voluntary Contributions

The 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(1)(b) of the Local Government Pension Scheme (Management and Investment Funds) Regulations 2016 but are disclosed for information in note 26.

n) Accruals of expenditure and income

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the council, as administering authority for the pension fund.
- Revenue from the provision of services is recognised when the council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the council, as administering authority for the pension fund.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the balance sheet.

- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather that when payments are made.

- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure based on the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

o) Contingent Liabilities and Contingent Assets

A contingent liability arises where an event prior to the year-end has created a possible financial obligation whose existence will only be confirmed or otherwise by future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the Balance Sheet date to measure the value of the financial obligation reliably.

A contingent asset arises where an event has taken place giving rise to a possible asset, whose existence will only be confirmed or otherwise by future events.

Contingent assets and liabilities are not recognised in the net asset statement but disclosed by way of a narrative in the notes (see note 28).

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.

This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in note 22.

These actuarial revaluations are used to set future contribution rates and underpin the fund's most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short-term yield/growth.

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 reported. Estimates and assumptions take account of historical experience, current trends and future expectations, however actual outcomes could differ from the assumption and estimates made.

The items in the net assets statement at 31 March 2022 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 (Note 22)	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, salary increases, changes in retirement ages, mortality rates and returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	For instance: A 0.1% decrease in the discount rate assumption would result in a increase in the pension fund deficit of £18m. A 0.1% increase in assumed earnings inflation would increase the deficit by approximately £1m. A 0.1% increase in assumed price inflation/pension increases would increase the deficit by approximately £16m. A one-year increase in assumed life expectancy would increase the deficit by approximately £37m

Pooled Property Funds (Note 18)	Valuation techniques are used to determine the carrying amount of pooled property funds. Where possible these valuation techniques are based on observable data, but where this is not possible management uses the best available data.	Changes in the valuation assumptions used, together with significant changes in rental growth, vacancy levels or the discount rate could affect the fair value of property-based investments.
Private Debt (Note 18)	These investments are valued at fair value in accordance with *International Private Equity and Venture Capital Valuation Guidelines* (December 2018), based on the fund manager valuations as at the end of the reporting period. These Investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	Private Debt investments are valued at £23.6m in the financial statements. There is a risk that this investment may be over or understated in the accounts.
Infrastructure (Note 18)	These investments are valued at fair value in accordance with *International Private Equity and Venture Capital Valuation Guidelines* (December 2018), based on the fund manager valuations as at the end of the reporting period. Investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	Infrastructure investments are valued at £7.8m in the financial statements. There is a risk that this investment may be over or understated in the accounts. The fund made its initial investment in July 2021.

6. EVENTS AFTER THE BALANCE SHEET DATE

These are events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide additional information about conditions that existed at the end of the reporting period (adjusting events) and
- those that relate to events occurring after the reporting period (non-adjusting events)

Events taking place after the date of authorisation for issue are not reflected in the financial statements.

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

7. CONTRIBUTIONS RECEIVABLE

By category:

2020-21 £000		2021-22 £000
4,147	Employees' normal contributions	4,277
10	Employees' additional contributions	5
4,157		**4,282**
15,406	Employers' normal contributions	15,951
170	Employers' deficit recovery contributions	158
624	Employers' augmentation contributions	624
16,200		**16,733**
20,357		**21,015**

By type of employer:

2020-21 £000		2021-22 £000
16,816	Administering authority	17,364
2,256	Scheduled bodies	2,322
1,285	Admitted bodies	1,329
20,357		**21,015**

8. TRANSFERS IN FROM OTHER PENSION FUNDS

2020-21 £000		2021-22 £000
-	Group transfers	-
585	Individual transfers	953
585		**953**

9. OTHER INCOME

2020-21 £000		2021-22 £000
10	Miscellaneous income	15
10		**15**

10. BENEFITS PAYABLE

By category:

2020-21 £000		2021-22 £000
19,783	Pensions	20,110
2,208	Commutation and lump sum retirement benefits	3,207
378	Lump sum death benefits	750
22,369		**24,067**

By type of employer:

2020-21 £000		2021-22 £000
19,729	Administering authority	20,824
1,155	Scheduled bodies	1,422
1,485	Admitted bodies	1,821
22,369		**24,067**

11. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2020-21 £000		2021-22 £000
58	Refund to members leaving service	80
-	Group transfers	-
629	Individual transfers	815
687		**895**

12. MANAGEMENT EXPENSES

2020-21 £000		2021-22 £000
494	Administrative costs	557
6,194	Investment management expenses	4,638
478	Oversight and governance costs	555
7,166		**5,750**

12A. INVESTMENT MANAGEMENT EXPENSES

2021-22	Total £'000	Management Fees £'000	Performance Related Fees £'000	Transaction Fees £'000
Bonds	366	278	-	88
Equities	-	-	-	-
Pooled Investments *	2,623	1,903	-	720
Pooled Property Investments	554	449	-	105
Private Debt	287	151	104	32
Infrastructure	783	749	-	34
	4,613	**3,530**	**104**	**979**
Custody Fees	25			
Total	**4,638**			

‘* Included £2.6m charged to the pension fund by ACCESS regional asset pool (£4.3m in 2020-21)

2020-21	Total £'000	Management Fees £'000	Performance Related Fees £'000	Transaction Fees £'000
Bonds	433	280	-	153
Equities	633	257	-	376
Pooled Investments *	4,284	1,399	-	2885
Pooled Property Investments	607	254	-	353
Private Debt	219	29	40	150
	6,176	**2,219**	**40**	**3,917**
Custody Fees	18			
Total	**6,194**			

13. INVESTMENT INCOME

2020-21 £000		2021-22 £000
2,672	Income from equities	-
	Income from pooled investment vehicles:	
3,552	- ACCESS Global Equity	2,801
209	- ACCESS UK Equity	2,272
701	- ACCESS Diversified Growth	1,597
1,141	- Property	1,397
4,135	- Bonds	3,779
47	- Unit Trusts	-
124	- Private Debt	1,106
-	- Infrastructure	1,483
-	- Interest on cash deposits	3
6,531	- Other	(5)
19,112		**14,433**

14. TAXATION

2020-21 £000		2021-22 £000
14	Withholding tax - equities	-
14		**-**

15. EXTERNAL AUDIT COSTS

2020-21 £000		2021-22 £000
23	Payable in respect of external audit	62
23		**62**

16. INTEREST PAYABLE

2020-21 £000		2021-22 £000
56	Interest on short term borrowing	68
56		**68**

17. INVESTMENTS

Market value 31 March 2021 £000		Market value 31 March 2022 £000
	Investment assets	
-	**Equities**	-
-	**Unit Trust**	-
	Pooled Investment Vehicles	
144,137	Pooled UK Equity	99,534
249,157	Pooled Global Equity	288,761
140,911	Pooled Fixed Income unit trusts	113,532
114,514	Pooled Diversified Growth Fund	131,952
648,719		**633,779**
	Other Investments	
37,459	Pooled Property Investments	44,453
9,186	Private Debt	23,605
-	Infrastructure	7,762
46,645		**75,820**
-	Cash deposits	14,003
-	Investment income due	-
-	Amounts receivable for sales	-
21	Recoverable withholding tax	-
21		**14,003**
695,385	**Total investment assets**	**723,602**
	Investment liabilities	
-	Amounts payable for purchases	-
-	**Total investment liabilities**	**-**
695,385	**Net investment assets**	**723,602**

17A. RECONCILIATION OF MOVEMENTS IN INVESTMENTS

	Market value 01/04/21	Purchases during year	Sales during year	Change in Mkt value	**Mkt Value 31/03/22**
	£000	£000	£000	£000	£000
Equities	**-**	-	-	-	**-**
Unit Trusts	**-**	-	-	-	**-**
Pooled Investment Vehicles	**648,719**	150,376	(190,468)	25,152	**633,779**
Pooled Property Investments	**37,459**	1,240	(105)	5,859	**44,453**
Private Debt	**9,186**	14,078	(535)	876	**23,605**
Infrastructure	**-**	9,188	(848)	(578)	**7,762**
	695,364	**174,882**	**(191,956)**	**31,309**	**709,599**
Cash deposits	**-**			492	**14,003**
Amounts receivable for sales of investments	**-**			-	**-**
Investment income due	**-**			-	**-**
Recoverable withholding tax	**21**			-	**-**
Amounts payable for purchases of investments	**-**			-	**-**
Net investment assets	**695,385**			**31,801**	**723,602**

	Market value 01/04/20	Purchases during year	Sales during year	Change in Mkt value	**Mkt Value 31/03/21**
	£000	£000	£000	£000	£000
Equities	**104,665**	41,906	(157,864)	11,293	**-**
Unit Trusts	**7,331**	47	(9,330)	1,952	**-**
Pooled Investment Vehicles	**415,419**	154,236	(25,629)	104,693	**648,719**
Pooled Property Investments	**35,053**	1,826	(242)	822	**37,459**
Private Debt	**-**	9,049	(70)	207	**9,186**
Infrastructure	**-**				**-**
	562,468	**207,064**	**(193,135)**	**118,967**	**695,364**
Cash deposits	**5,275**			253	**-**
Amounts receivable for sales of investments	**834**			-	**-**
Investment income due	**223**			-	**-**
Recoverable withholding tax	**35**			-	**21**
Amounts payable for purchases of investments	**(403)**			-	**-**
Net investment assets	**568,432**			**119,220**	**695,385**

17B. INVESTMENTS ANALYSED BY FUND MANAGER

Market value 31 March 2021			Market value 31 March 2022	
£000	%		£000	%
Investments Managed by ACCESS pool:				
249,157	35.8%	ACCESS – Global Equities - Newton	149,384	21.1%
114,514	16.5%	ACCESS - Diversified Growth - Baillie Gifford	113,532	16.0%
144,137	20.7%	ACCESS - UK Equities - Liontrust (Majedie)	99,534	14.0%
-	0.0%	UBS Life Climate Aware World Equity Fund	139,377	19.6%
507,808	**73.0%**		**501,827**	**70.7%**
Investments Managed outside ACCESS pool:				
140,911	20.3%	Schroder Investment Management – Bonds	131,952	18.6%
37,459	5.4%	Schroder Investment Management – Property	44,453	6.3%
9,186	1.3%	Goldman Sachs - Private Debt	23,605	3.3%
-	0.0%	Partners Investment - Infrastructure	7,762	1.1%
187,556	**27.0%**		**207,772**	**29.3%**
695,364	**100.0%**		**709,599**	**100.0%**
21	0.0%	Recoverable withholding tax	-	0.0%
695,385	**100.0%**		**709,599**	**100.0%**

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

Market value 31 March 2021			Market value 31 March 2022	
£000	%		£000	%
249,157	36.07%	ACCESS – Overseas Equities - Newton	149,384	20.52%
-	0.00%	UBS Life Climate Aware World Equity Fund	139,377	19.14%
140,911	20.40%	Schroder Institutional Sterling Broad Market X Account	131,952	18.12%
114,514	16.58%	ACCESS - Diversified Growth - Baillie Gifford	113,532	15.59%
144,137	20.87%	ACCESS - UK Equities - Liontrust	99,534	13.67%
37,459	5.42%	Schroder UK Property Fund	44,453	6.11%

17C. STOCK LENDING

The fund’s investment strategy sets the parameters for its stock-lending programme.
Prior to joining the ACCESS pool, the fund did not undertake stock lending.
Since transitioning to the pool, the fund participates in a collateralised stock lending programme undertaken for each of the sub-funds by the pool's custodian, Northern Trust.
At the year-end, the value of quoted equities on loan was £35.8m (31 March 2021: £Nil).
These equities continue to be recognised in the fund’s financial statements. No liabilities are associated with the loaned assets.
All income earned by lending securities is accumulated in the sub-fund and is reported in the value of investments.

18. FAIR VALUE – BASIS OF VALUATION

All investments are held at fair value in accordance with the requirements of the Code and IFRS13. The valuation bases are set out below. All assets have been valued using fair value techniques based on the characteristics of each instrument, with the overall objective of maximising the use of market-based information. There has been no change in the valuation techniques used during the year.

Description of Asset	Valuation Hierarchy	Basis of Valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not Required
Exchange traded pooled investments	Level 1	Closing bid value on published exchanges	Not required	Not Required
Pooled investments – overseas unit trusts and property funds	Level 2	Closing bid price where bid and offer prices are published Closing single price where single price published	NAV- based pricing set on a forward pricing basis	Not Required
Private Debt	Level 3	The valuation is taken from the unaudited 31 March 2022 Goldman Sachs quarterly reports. The quarterly valuation is calculated in accordance with the fair value assessment described in Accounting Standards Codification 820 ("Fair Value Measurements and Disclosures") and in accordance with US GAAP. The Fund monitors audited year end to unaudited quarterly valuations to check the consistency of the unaudited and audited information. To date, the audited accounts for Goldman Sachs Asset Management Private Credit Funds have been given unqualified opinions without any identified exceptions.	Management's cash flow projections, estimates of growth expectations and profitability; profit margin expectations; gross domestic product; inflation; interest rates; discount rates; tax rates; Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA) and adjustments to current prices for similar assets, valuation techniques.	Valuations could be affected by material events occurring between the date of the financial statements provided and the Pension Funds reporting date by changes to expected cash flows, fair value adjustments, discount factors used, EBITDA and recent transaction prices.
Infrastructure	Level 3	Fair values as per International Private equity and venture capital guidelines (2012)	valuation of underlying investments, assets and companies; Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA) multiples	Valuations could be affected by changes in market conditions; industry specific conditions; differences in estimation techniques used in valuations.

Sensitivity of assets valued at Level 3

The Fund has determined that the valuation methods described above are likely to be accurate to within the following ranges and has set out below the consequent potential impact on the closing value of investments held at 31 March 2022.

	Potential variation in fair value	Value at 31 March 2022 £'000	Potential value on increase £'000	Potential value on decrease £'000
Private Debt	+ / - x%	23,605		
Infrastructure	+ / - x%	7,762		
Total		31,367	-	-

Data for this table is still being sought and it will be updated prior to publication of the final accounts.

18A. FAIR VALUE HEIRARCHY

Asset and liability valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur.

Level 1
Assets and liabilities 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 bonds and unit trusts.

Level 2
Assets and liabilities 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 based on observable data.

Level 3
Assets and liabilities 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.

The following table provides an analysis of the assets and liabilities of the pension fund grouped into Levels 1 to 3, based on the level at which the fair value is observable:

31 March 2021					**31 March 2022**			
Quoted Market Price Level 1 £000	Using Observable Inputs Level 2 £000	With Significant Unobservable Inputs Level 3 £000	Total £000		Quoted Market Price Level 1 £000	Using Observable Inputs Level 2 £000	With Significant Unobservable Inputs Level 3 £000	Total £000
648,719	37,459	9,186	695,364	Financial assets at fair value through profit and loss	633,779	44,453	31,367	709,599
-	-	-	-	Financial liabilities at fair value through profit and loss	-	-	-	-
648,719	**37,459**	**9,186**	**695,364**	**Net investment assets**	**633,779**	**44,453**	**31,367**	**709,599**

18A. RECONCILIATION OF FAIR VALUE MEASUREMENTS WITH LEVEL 3

	Private Debt £,000	Infrastructure £'000	Total £,000
Value at 1 April 2021	9,186	-	9,186
Purchases	14,078	9,188	23,266
Sales	(535)	(848)	(1,383)
Unrealised Gains and Losses*	823	(578)	245
Realised Gains and Losses*	53	-	53
Value at 31 March 2022	**23,605**	**7,762**	**31,367**

	Private Debt £,000	Infrastructure £'000	Total £,000
Value at 1 April 2020	-	-	-
Purchases	9,049	-	9,049
Sales	(70)	-	(70)
Unrealised Gains and Losses*	215	-	215
Realised Gains and Losses*	(8)	-	(8)
Value at 31 March 2021	**9,186**	**-**	**9,186**

* Unrealised and realised gains and losses are recognised in the changes in value of investments line of the fund account.

Investment into Private debt commenced in January 2021.

Investment into Infrastructure commended in July 2021.

19. FINANCIAL INSTRUMENTS

19A. CLASSIFICATION OF FINANCIAL INSTRUMENTS

The following table analyses the carrying amounts of financial instruments by category and the net assets statement heading. No financial instruments were reclassified during the accounting period.

31 March 2021				31 March 2021		
Fair value through profit and loss £000	Assets at amortised costs £000	Liabilities at amortised cost £000		Fair value through profit and loss £000	Assets at amortised costs £000	Liabilities at amortised cost £000
			Financial assets			
-	-	-	Equities	-	-	-
686,178	-	-	Pooled investment vehicles	678,232	-	-
9,186	-	-	Private Debt	23,605	-	-
-	-	-	Infrastructure	7,762	-	-
-	791	-	Cash	-	18,290	-
-	-	-	Other investment balances	-	-	-
-	8	-	Debtors	-	8	-
695,364	**799**	**-**		**709,599**	**18,298**	**-**
			Financial liabilities			
-	-	-	Other investment balances	-	-	-
-	-	(268)	Creditors	-	-	(378)
-	-	-	Bank Balance	-	-	-
-	-	(5,500)	Borrowings	-	-	-
-	**-**	**(5,768)**		**-**	**-**	**(378)**
695,364	**799**	**(5,768)**		**709,599**	**18,298**	**(378)**

20. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Risk and risk management

The fund's primary long-term risk is that its assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the fund and to maximise the opportunity for gains across the whole fund portfolio. The fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk, and interest rate risk) and credit risk to an acceptable level. In addition, the fund manages its liquidity risk to ensure there is sufficient liquidity to meet the fund's forecast cash flows. The council manages these investment risks as part of its overall pension fund risk management programme.

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 pension fund's operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

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 is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, while optimising investment return.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the pension fund and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

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 both considers and takes advice on the nature of the investments made as well as the associated risks.

Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or by factors affecting all such instruments in the market.

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 price risk through diversification. The selection of securities and other financial instruments is monitored to ensure it is within limits specified in the fund investment strategy.

Other price risk - sensitivity analysis

In consultation with its investment advisors, the fund has determined that the following movements in market price risk are reasonably possible for 2021-22 assuming that all other variables, in particular foreign exchange rates and interest rates, remain the same:

Had the market price of the fund investments increase/decreased in line with the percentages below, the change in the net assets available to pay benefits in the market price would have been as follows (the prior year comparator is shown below).

	Value as at 31 March 2022	Volatility of return	Value on increase	Value on decrease
	£000	%	£000	£000
Equities - UK	-	-	-	-
Equities - Overseas	-	-	-	-
Bonds	131,952	3.30%	136,307	127,598
Unit Trusts	-	-	-	-
Pooled Investment vehicles:				
UK Equities	99,534	2.40%	101,923	97,145
Global Equities	149,384	3.60%	154,762	144,006
Diversified Growth Fund	113,532	2.80%	116,711	110,353
UBS Climate Aware	139,377	3.00%	143,558	135,196
Pooled Property Investments	44,453	4.10%	46,279	42,633
Private Debt	23,605	19.90%	28,302	18,907
Infrastructure	7,762	23.60%	9,594	5,930
Cash & Cash Equivalents	14,003	0.00%	14,003	14,003
Amounts Receivable for Sales	-	-	-	-
Investment Income due	-	-	-	-
Recoverable withholding tax	-	-	-	-
Amounts payable for puchases	-	-	-	-
Total	**723,602**		**751,439**	**695,771**

	Value as at 31 March 2022	Volatility of return	Value on increase	Value on decrease
	£000	%	£000	£000
Equities - UK	-	-	-	-
Equities - Overseas	-	-		
Bonds	140,911	1.60%	143,165	138,656
Unit Trusts	-	-	-	-
Pooled Investment vehicles:				
UK Equities	144,137	3.10%	148,577	139,698
Global Equities	249,157	5.80%	263,608	234,706
Diversified Growth Fund	114,514	4.20%	119,324	109,705
UBS Climate Aware				
Pooled Property Investments	37,459	1.00%	37,834	37,084
Private Debt [1]	9,186	0.00%	9,186	9,186
Infrastructure				
Cash & Cash Equivalents	-	-	-	-
Amounts Receivable for Sales	-	-	-	-
Investment Income due	-	-	-	-
Recoverable withholding tax	21	0.00%	21	21
Amounts payable for puchases	-	-	-	-
Total	**695,385**		**721,715**	**669,056**

[1] The price sensitivity for Private Debt is assessed at zero due to the short period that the fund has been invested in it. The fund made its initial investment in January 2021. This is in alignment with the estimated variation on the valuation as mentioned in Note 5 above.

b) Interest rate risk

The fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Interest rate risk - sensitivity analysis

The fund recognises that interest rates can vary and can affect both income to the fund and the carrying value of fund assets, both of which affect the value of the net assets available to pay benefits.

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 future cash flows will fluctuate because of changes in foreign exchange rates. The fund is exposed to currency risk on any cash balances and investment assets not denominated in UK 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 2022, and as at the previous period end:

	Asset value as at 31 March 2022 £000	**Asset value as at 31 March 2021** £000
Private Debt	23,605	9,186
Infrastructure	7,762	-
Investment Income	2,588	-
	33,955	**9,186**

Currency risk – sensitivity analysis

Following analysis of historical data, the fund considers the likely volatility associated with foreign exchange movements to not exceed be 7.09% (2020-21: 3.28%). This analysis assumes that all other variables, in particular interest rates, remain constant.

A 7.09% strengthening/weakening 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 2022	Value on increase +7.09%	Value on decrease -7.09%
	£000	£000	£000
Private Debt	23,605	25,279	21,931
Infrastructure	7,762	8,312	7,212
Investment income due	2,588	2,771	2,405
	33,955	**36,362**	**31,548**

	Value as at 31 March 2021	Value on increase +3.28%	Value on decrease -3.28%
	£000	£000	£000
Private Debt	9,186	9,487	8,885
Infrastructure	-	-	-
Investment income due	-	-	-
	9,186	**9,487**	**8,885**

d) Credit Risk

Credit risk represents the risk that the counterparty to a financial transaction will fail to discharge an obligation and cause the fund to incur a financial loss. Assets potentially affected by this risk are investment assets, cash deposits and third-party loans. The selection of high-quality counterparties, brokers, custodian and investment managers minimises credit risk and the market values of investments generally reflect an assessment of credit risk.

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 is exposed to counterparty risk in its operational activities through securities lending, via the ACCESS pool. This risk is managed through the pool's custodian bank holding non-cash collateral as security, at the typical market rate of 102% of stock lent, or 105% for cross-currency, to allow for foreign exchange exposure.

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

Credit risk may also occur if an employing body not supported by central government does not pay contributions promptly, or defaults on its obligations. The pension fund has not experienced any actual defaults in recent years. All contributions due at 31 March 2022 and 31 March 2021 (£495k and £195k respectively) were received in the first month of the financial year.

e) Liquidity Risk

Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as they fall due. The pension fund therefore takes steps to ensure that it has adequate cash resources to meet its commitments. 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 27 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's investment strategy.

A substantial portion of the fund's investments consist of readily realisable securities, in particular equities and fixed income investments, even though they are 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. 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.

All financial liabilities at 31 March 2022 are due within one year.

f) **Refinancing risk**
The key risk is that the pension fund will need to replenish a significant proportion of its financial instruments at a time of unfavourable interest rates. The pension fund does not have any financial instruments that have a refinancing risk as part of its investment strategy.

21. FUNDING ARRANGEMENTS

In accordance with the Local Government Pension Scheme Regulations 2013, the fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2019 and the next valuation will take place as at 31 March 2022.

Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), dated March 2020. 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 that balances risk and return (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 Taxpayer 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 to have a sufficiently high likelihood of achieving the funding target over 20 years. 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 at least an 80% likelihood that the Fund will achieve the funding target over 20 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2019. This valuation revealed that the Fund's assets, which at 31 March 2019 were valued at £596 million (2016: £474 million), were sufficient to meet 95% of the liabilities (2016: 92%) (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2019 valuation was £32 million (2016: deficit £44 million)..

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure as per the FSS. Individual employers' contributions for the period 1 April 2020 to 31 March 2023 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		
		2021 % of pay	2022 % of pay	2023 % of pay
Isle of Wight Council		23.5	23.5	23.5
Barnardos		Nil	Nil	Nil
Caterlink		23.5	23.5	23.5
Cowes Enterprise College, an Ormiston Academy	*	23.5	23.5	23.5
Cowes Harbour Commissioners		21.5	21.5	21.5
The Island Free School		19.6	19.6	19.6
Island Roads		Nil	Nil	Nil
Isle of Wight College (from 1 August)		23.8	23.8	23.8
Lanesend Academy	*	21.1	21.1	21.1
Northwood Academy	*	23.5	23.5	23.5
Nviro		23.5	23.5	23.5
Ryde Academy, Academies Enterprise Trust	*	23.5	23.5	23.5
Sandown Bay Academy	*	23.5	23.5	23.5
Southern Vectis (Wightbus)		10.3	10.3	10.3
Southern Housing Group		31.6	31.6	31.6
Sovereign Housing Group		29.7	29.7	29.7
St Blasius Academy	*	23.5	23.5	23.5
St Catherine's School Ltd		26.6	26.6	26.6
St Francis Academy	*	23.5	23.5	23.5
Top Mops		21.5	21.5	21.5
Trustees of Carisbrooke Castle Museum		35.4	35.4	35.4
Ventnor Botanical Gardens		Nil	Nil	Nil
Yarmouth Harbour Commissioners		24.8	24.8	24.8

in addition, certain employers make a lump sum contribution

Employer Name	Minimum Contributions for the Year		
	2021 Lump Sum £000	2022 Lump Sum £000	2023 Lump Sum £000
St Catherine's School Ltd	32	33	34
Yarmouth Harbour Commissioners	57	57	57
Cowes Harbour Commissioners	19	19	19
Southern Housing Group	274	274	274
Sovereign Housing Group	198	198	198

* During 2019-20, academies within the fund were asked whether they wished to pool with the administering authority for contribution rate purposes only. Seven of the academies in operation at the time of the 2019 valuation opted to pool, and the pooled rates are shown above.

Employers that have joined the fund since the last valuation have opted to pay the administering authority's contribution rate. This will be reviewed at the next valuation, 31 March 2022.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2019 valuation report.

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 2019 valuation were as follows:

Financial Assumptions	**31 March 2019** % p.a. Nominal
Discount rate (Investment returns)	3.4%
Salary Increases	3.1%
Price inflation/Pension Increases	2.3%

(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 2018 model, an allowance for smoothing of recent mortality experience and a long-term rate of 1.25% p.a. for both women and men.

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

	Males	**Females**
Current Pensioners	21.7 years	23.8 years
Future Pensioners *	22.4 years	25.2 years

* based on members aged 45 at the valuation date.

Copies of the 2019 valuation report and the Funding Strategy Statement are available on the Isle of Wight Pension Fund website www.isleofwightpension.org.

Experience over the period since 31 March 2019
Markets were severely disrupted by COVID 19 in March 2020, but over most of 2020/21 and 2021/22 they recovered strongly. However, due to the war in Ukraine, March 2022 markets were particularly volatile, which affects values as at the accounting date. All other things being equal, the funding level of the Fund as at 31 March 2022 is likely to be better than that reported at the previous formal valuation as at 31 March 2019.

It is important to note that the formal triennial funding valuation exercise is as at 31 March 2022 and this may show a different picture when the finalised position is disclosed in next year's annual report. In particular, changes in Fund membership, changes in anticipated real investment returns, and changes in demographic assumptions will affect the valuation results. The Funding Strategy Statement will also be reviewed as part of the triennial funding valuation exercise.

22. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

In addition to the triennial funding valuation, the fund's actuary also undertakes a valuation of the pension fund liabilities, on an IAS 19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year but taking account of changes in membership numbers and updating assumptions to the current year. This valuation is not carried out on the same basis as that used for setting fund contribution rates and the fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

In order to assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 21). The actuary has also used valued ill health and death benefits in line with IAS 19.

Present value of promised retirement benefits

Year ended	31 March 2022 £m	31 March 2021 £m
Active members	385	379
Deferred members	216	233
Pensioners	319	345
Net Liability	**920**	**957**

The promised retirement benefits at 31 March 2022 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2019. The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However, the actuary is satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value. The actuary has not made any allowance for unfunded benefits.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the pension fund accounts. 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 and are different as at 31 March 2022 and 31 March 2021. The actuary estimates that the impact of the change in financial assumptions to 31 March 2022 is to decrease the actuarial present value by £67m. The actuary estimates that the impact of the change in demographic and longevity assumptions is to decrease the actuarial present value by £5m.

Financial assumptions

Year ended	31 March 2022 % p.a.	31 March 2021 % p.a.
Pension Increase Rate (CPI)	3.20%	2.85%
Salary Increase Rate	4.00%	3.65%
Discount Rate	2.70%	2.00%

(Explanatory note: The pay increases shown above are for the purposes of the actuarial valuation only and are 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.)

Demographic assumptions

The longevity assumptions have changed since the previous IAS26 disclosure for the Fund.

Life expectancy is based on the fund's VitaCurves with improvements in line with the CMI 2021 model, with a 0% weighting of 2021 (and 2020 data), standard smoothing (Sk7), initial adjustment of 0.25% and a long-term rate of improvement of 1.5% p.a.

Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current Pensioners	21.7 years	24.0 years
Future Pensioners *	22.6 years	25.7 years

* Future pensioners are assumed to be aged 45 at the most recent formal valuation date, 31 March 2019

All other demographic assumptions are unchanged from last year and as per the latest funding valuation of the Fund.

Sensitivity Analysis

CIPFA guidance requires the disclosure of the sensitivity of the results to the methods and assumptions used. The sensitivities regarding the principal assumptions used to measure the liabilities are set out below:

change in assumption at 31 March 2022	Approximate % increase to promised retirement benefits	Approximate monetary amount (£m)
0.1% p.a. decrease in the discount rate	2%	18
1-year increase in member life expectancy	4%	37
0.1% p.a. increase in the Salary Increase Rate	0%	1
0.1% p.a. increase in the Pension Increase Rate (CPI)	10%	80

23. LONG TERM ASSETS

31 March 2021 £000		31 March 2022 £000
	Debtors	
11	Contributions due - employers	29
144	Reimbursement of annual tax allowances	154
155		**183**

24. CURRENT ASSETS

31 March 2021 £000		31 March 2022 £000
	Debtors	
42	Contributions due - employees	99
153	Contributions due - employers	396
195		**495**
13	Taxation	8
8	Sundry debtors	8
131	Payments in advance	137
791	Cash balances	4,287
1,138		**4,935**

25. CURRENT LIABILITIES

31 March 2021 £000		31 March 2022 £000
	Creditors	
213	Taxation	208
167	Accruals	359
101	Sundry creditors	19
481		**586**

26. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCS)

Market value 31 March 2021 £000		Market value 31 March 2022 £000
786	Prudential life and pensions	824

AVC contributions of £148.0 thousand were paid directly to Prudential Life and Pensions during the year (2020-21: £117.1 thousand).

AVC amounts are not included in the pension fund accounts in accordance with Regulation 4(2)(c) of the Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended).

27. 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.

During the reporting period, the council incurred costs of £522 thousand (2021-22: £503 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 £13.7 million in 2021-22 (2020-21: £13.3 million) to the fund. All monies owing to the fund, except for deferred balances in respect of pension strain costs totalling £39.6 thousand (2020: Nil), were paid during the year.

During the year, the pension fund was able to borrow funds from the council to support its working cash flow requirements; interest would be 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 2021-2 was £8.5 million (2020-21: £8.0 million). The balance due to the council at 31 March 2022 is Nil (2021: £5.5 million),
Interest of £5.14 thousand (2020-21: £56.2 thousand) was paid on the borrowings in the year.

Year ended 31 March 2021 £000	Repayment profile of borrowings from Isle of Wight Council	Year ended 31 March 2022 £000
-	less than 1 month	-
500	2 - 3 months	-
-	3 - 6 months	-
-	6 - 9 months	-
5,000	9 – 12 months	-
5,500	**Total value of borrowings**	**-**

Governance
There are no members of the Isle of Wight Pension Fund Committee who are in receipt of pension benefits from, or who are active members of the Isle of Wight Council Pension Fund.

Each member of the Isle of Wight Pension Fund Committee is required to declare their interests at each meeting.

Council members named in note 29 formed the Isle of Wight Pension Fund Committee as trustees at 31 March 2022.

27A. KEY MANAGEMENT PERSONNEL

The key management personnel of the fund are members of the Isle of Wight Pension Fund Committee, the Director of Finance and S151 Officer and the Pension Fund Manager.

Total remuneration payable to key management personnel is set out below:

Year ended 31 March 2021 £000		Year ended 31 March 2022 £000
59	Short-term benefits	60
13	Post-employment benefits	13
-	Other long-term benefits	-
-	Termination benefits	-
-	Share-based payments	-
72		**73**

28. CONTINGENT ASSETS, LIABILITIES AND CAPITAL COMMITMENTS

At 31 March 2022 there was a contingent liability relating to Contribution Equivalent Premiums (CEPs) amounting to £4 thousand (2021: £4 thousand) payable by the Pension Fund. These sums do not form part of the net assets of the fund.

In October 2018 a decision was made to join a Class Action against BHP Billiton which seeks to recover some of the loss in share value suffered because of BHP Billiton's alleged failure to disclose material information and its alleged misleading and deceptive conduct. It is estimated that there is a possible benefit to the Pension Fund of £6 thousand (2021: £5 thousand). This case is currently ongoing. The sums do not form part of the net assets of the fund.

One admitted body employer in the Isle of Wight Pension Fund holds a guarantee bond to guard against the possibility of being unable to meet their pension obligations. This bond is drawn in favour of the pension fund and payment will only be triggered in the event of an employer default. No such default has occurred during 2021-22 (2020-21 Nil).

During the financial year the Pension Fund has committed to investing into a Private Debt and an Infrastructure Fund. Each of these funds are calling the capital in instalments, the value of which depend on the investments the funds are making at the time. The balance that has been committed but not paid as at the 31 March 2022 is as per the table below:

	31 March 2022			
	Private Debt		Infrastructure	
	$'000	£'000	€'000	£'000
Total amount Committed	39,300	29,890	41,000	34,532
Total Invested	30,065	22,866	9,225	7,770
Balance committed but not yet paid	9,236	7,024	31,775	26,762

The committed balances do not form part of the net assets of the fund.

29. TRUSTEES REPORT 2020-21

The trustees of the Isle of Wight Council Pension Fund are the members for the time being of the Isle of Wight Pension Fund Committee, who at 31 March 2022 were Cllrs Andre, Brading, Churchman, Critchison (vice chair), Jarman (chair), Oliver and Quigley.
In addition, a non-voting representative of the scheme members (selected by UNISON) attends the committee. Throughout the year, the position of non-voting representative of the scheme employers (selected by the fund's external employers) was vacant.

Throughout the year the committee has been advised by the Director of Finance and Section 151 Officer, the Pension Fund Manager, and Hymans Robertson LLP (the fund's actuaries, investment consultants and governance consultants).

Investment Performance

The net assets of the fund at 31 March 2022 were £723.6 million, an increase of 3.9% on the 31 March 2021 valuation of £695.4 million. The fund's total investments under-performed compared to the agreed benchmarks by 0.4% during the year.

With the exception of a small over-performance by the fund's diversified growth investment, all other portfolios under-performed against their respective benchmarks in the year to 31 March 2022, most notably the UK Equity portfolio, which underperformed by 6.0%.

Over the longer term, the fund outperformed annualised benchmark returns for three years (0.6% relative overperformance).

Funding Level

The Fund's last triennial actuarial valuation was undertaken at 31 March 2019, showing a funding level of 95%, compared to 92% at the previous valuation at 31 March 2016. The results of this latest valuation, in terms of revised contribution rates, were implemented with effect from April 2020.

The next formal valuation is being undertaken on 31 March 2022, from which revised employer contribution rates will be implemented from 1 April 2023. As a result, the actuary is not providing an interim funding projection for 31 March 2022, to avoid confusion.

The most recent interim funding projection report was produced at 31 December 2021, which showed that the notional funding level had risen to 102.6% since the last triennial valuation at 31 March 2019, with a resulting surplus of £19 million at 31 December 2021 compared to the deficit of £32 million at the valuation date of 31 March 2019

Governance – pension fund committee

There were five scheduled pension fund committee meetings during the year 2021-22. The first scheduled meeting, the last of the previous administration, was held virtually, using MS Teams. Following the local elections in May 2021, all meetings were held in person at County Hall, Newport, Isle of Wight.

During the year the committee considered the following key items of business:

- An introduction meeting for the new committee members.
- Approval of 2020-21 annual report and accounts.
- Adoption of the fund's governance decision making matrix.
- Updated the fund's risk management policy and agreed the process for the creation of the risk register.
- Implementation of the agreed rebalancing of the fund's equity allocation to include passive management.
- Procurement and contract management activities.
- Knowledge and understanding requirements and activities.
- Regular updates on the ACCESS pool.

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 investment consultants, Hymans Robertson LLP

Development sessions were held outside the schedule of regular committee meetings, covering an introduction to investment asset classes, decision making, risk management, the ACCESS pool Environmental, Social and Governance (ESG) risk considerations and Responsible Investment (RI) requirements, and the triennial valuation.

As part of the development of the fund's responsible investment activities, the fund received a presentation from the Local Authority Pension Fund Forum (LAPFF) and agreed to join the forum.
The committee also convened an ESG working sub-group, comprising members of the pension fund committee, the pension board and other councillors, which met twice during the year

A summary of committee members' attendance for the year 2021-22 is detailed in table 1 below. Membership of the committee changed throughout the year, but the total number of members remained the same.

Table 1: committee attendance

	Chairman	Vice chairman	Elected member 1	Elected member 2	Elected member 3	Elected member 4	Elected member 5	Scheme member rep	Employer rep	
28-Apr-21	n/a	√	√	√	aps	√	√	√		86%
		Change of membership following local elections								
02-Jun-21	aps	√	√	√	√	aps	n/a	aps		57%
28-Jul-21	√	√	√	√	aps	√	√	√		88%
24-Nov-21	√	√	aps	√	√	√	√	aps		75%
16-Feb-22	√	√	√	√	√	√	aps	√		88%
	75%	100%	75%	100%	75%	75%	66%	50%		**77%**

Please note the percentage attendance at each meeting (final column) is based on a total committee membership of eight (including the scheme member representative but excluding the on-going employer representative vacancy), except where a member had not been appointed for that meeting (shown as "n/a") when membership is counted as seven.
Also, total attendance by member (final row) is based on post-local election membership, so four meetings.

Governance – local pension board

During the year ended 31 March 2022, the composition of the membership of the local pension board changed.

At the start of the year, membership comprised two scheme member representatives and two employer representatives.
Following the expiry of the term of office for one of the scheme member representatives, and one of the employer representatives in September 2021, the opportunity was taken to amend the membership composition as follows:

- Three scheme member representatives: one of whom is nominated by recognised trade unions and the other two appointed following expressions of interest sought from all active, deferred and pensioner members of the fund.
- Three employer representatives: one an elected councillor of the Isle of Wight Council; one a senior officer of the Council, nominated by the corporate management team; the other appointed from nominations sought from the external employers in the fund.
- An independent chairperson appointed following external advertisement.

Recruitment activity was completed between October 2021 and April 2022. At 31 March 2022, the appointment of all scheme member representatives, the independent chairperson and two of the three employer representatives was completed. The final employer representative was appointed with effect from 1 June 2022.

As a result of the membership issues, only two board meetings were held in 2021-22, with three other meetings cancelled.
The pension fund reported itself to the Pension Regulator in October 2021, for non-compliance with the LGPS regulations in respect of the minimum membership of the local pension board. The Pension Regulator confirmed that it would take no further action on this matter.
The first full meeting of the newly constituted pension board was held on 6 April 2022.

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 organisation's 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 funding plans 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 composition 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. 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 to actively decide to leave the scheme.

Authorised Unit trusts
A unit trust which is approved by the Financial Conduct Authority (FCA) 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.

ESG
Environmental, social and governance.

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 Conduct Authority (FCA)
The lead regulator. An agency which is not a government department.

Fund managers
Firms of investment professionals appointed by an investment 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 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 securities on which the interest and eventual repayment of the loan are based on movements in inflation.

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.

IRR
Internal Rate of Return. Performance measure most suitable for closed-ended investment funds.

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

Responsible investment (RI)
Investment where environmental social or governance 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.

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.

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 FCA 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.

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Purpose: For Decision

Committee report

Committee	**ISLE OF WIGHT PENSION FUND COMMITTEE**
Date	**8 FEBRUARY 2023**
Title	**TRIENNIAL VALUATION UPDATE**
Report of	**PENSION FUND MANAGER**

EXECUTIVE SUMMARY

1. This report presents the final report from the fund's actuaries, Hymans Robertson LLP, in respect of the triennial valuation at 31 March 2022, including the minimum employer contribution rates required for the period from 1 April 2023 to 31 March 2026.

2. This report also sets out the process to ensure the valuation will be completed by 31 March 2023.

RECOMMENDATION

3. That the committee notes the presentation from Hymans Robertson.

4. That the committee approves the draft valuation report at appendix 1 and the employer contribution rates as set out in the rates and adjustments certificate on page 31 of appendix 1.

5. That the committee notes the requirement for the completion of the valuation process by 31 March 2023, and delegates authority to the Pension Fund Manager, in consultation with the Director of Finance and the chairman of the Pension Fund Committee, to make minor amendments to the appendices prior to publication on or before 31 March 2023.

BACKGROUND

6. At the Pension Fund Committee meeting on 23 November 2022, Hymans Robertson presented the progress made to that date in the valuation, including the initial whole fund results, and the process for setting contribution rates for the next three-year period for each of the employers within the fund.

7. Members were advised that initial draft employer results, including draft contribution rates had been discussed with officers on the day before the committee meeting, and that a number of employers had held meetings with the actuaries and staff to discuss their draft results.

8. The draft results and proposed contribution rates were sent to employers on 22 December 2022. Employers were asked to confirm their acceptance of the proposed contribution rate by 27 January 2023.

9. As at the date of writing (30 January 2023) the following confirmation of employer rates have been received. Where necessary further updates will be provided at the committee meeting.

Table 1: Employer agreement to contribution rates

Employer group	Number in group	Number (%) confirmed		Comments
Isle of Wight Council	1	1	(100%)	No change to previous rate
Town, parish and community councils	10	10	(100%)	Employers pay same rate as Council – notified; deemed acceptance
Academies	7	5	(71%)	Given option to pay Council rate or own rate
College	1	1	(100%)	
Community Admission Bodies	2	2	(100%)	Yarmouth Harbour last active member left 25 Jan 23
Transferee Admission Bodies	10	9	(90%)	Some employers have fixed rate for duration of contract
	31	28	(90%)	

10. One of the academies who have not yet confirmed their contribution rate is expected to respond following a committee meeting to be held on 10 February 2023. The fund is in correspondence with the other academy, regarding clarification of the treatment of transferring assets and liabilities.

11. The draft valuation report is attached to this report as Appendix 1. This will form the basis of the presentation by Hymans Robertson at the meeting.

12. The proposed Rates and Adjustment certificate, setting out the agreed minimum employer contribution rates for the next three years is presented on page 31 of the valuation report at appendix 1.

FINALISATION OF THE VALUATION

13. The statutory deadline for the completion of the 31 March 2022 valuation is 31 March 2023, with the new employer contribution rates being effective from 1 April 2023.

14. Following this meeting, the Pension Fund Manager will work with Hymans Robertson to finalise the valuation report and close any outstanding matters, in consultation with the Director of Finance and the chairman of the Pension Fund Committee.

15. On completion, the valuation report, incorporating the Rates and Adjustments certificate, will be published on the fund's website. The committee will be notified when this is done.

CORPORATE PRIORITIES AND STRATEGIC CONTEXT

Corporate Aims

16. There is nothing contained in this report which directly contributes to the priorities contained in the Corporate Plan 2021 - 2025. Publication of this report supports the Corporate Plan key value of "being fair and transparent".

Pension Fund Strategic Aims

17. 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.

18. The fund has also agreed the following objective, which is supported by information in this report:

    (a) Ensure compliance with the LGPS Regulations, other relevant legislation and the Pensions Regulator's Codes of Practice.

CONSULTATION

19. On 11 November 2022, the fund's actuaries delivered a virtual briefing session to employers covering the valuation process and what they should expect to see on the results schedules. All employers were invited to attend this briefing; representatives from eight of the fund's 32 employers actually attended.

20. Following the completion of the draft employer results, meetings were offered to all employers to discuss their individual results with the fund's actuaries. Five employers took up this offer, with one other requesting a meeting with the Pension Fund Manager to discuss their results.

21. Individual employer results schedules were circulated to all employers on 22 December 2022, requesting their acceptance of the proposed contribution rate by 27 January 2023**.** The outcome of this exercise is detailed in Table 1 above.

FINANCIAL / BUDGET IMPLICATIONS

22. The cost of the triennial valuation will be borne directly by the pension fund and will have no impact on the council's budget. The cost is consistent with the value included in the pricing considerations when the actuarial services contract was procured in 2018.

23. The triennial valuation is a planning exercise for the fund, to assess the monies needed to meet the benefits owed to its members as they fall due. It estimates the cost of future liabilities for the members of the fund and allows the fund to determine

the appropriate investment strategy and employer contributions required to ensure that there are sufficient assets to meet those liabilities as they fall due.

24. The setting and agreement for affordable and sustainable employer contribution rates is part of this exercise.

LEGAL IMPLICATIONS

25. Regulation 62 of the Local Government Pension Scheme Regulations 2013 requires that each administering authority must obtain an actuarial valuation of the assets and liabilities of each of its pension funds as at 31 March 2016 and on 31 March in every third year afterwards.

EQUALITY AND DIVERSITY

26. The council, as a public body, is required to meet its statutory obligations under the Equality Act 2010 to have due regard to eliminate unlawful discrimination, promote equal opportunities between people from different groups and to foster good relations between people who share a protected characteristic and people who do not share it. The protected characteristics are: age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation.

27. The completion of the triennial valuation of the fund, and the agreement of employer contribution rates, has no impact on any of the protected characteristics.

OPTIONS

28. In respect of the valuation report and the employer contribution rates, the committee has three options:

    (a) To approve the draft valuation report at appendix 1 and the employer contribution rates as set out in the rates and adjustments certificate on page 31 of appendix 1.

    (b) To not approve the valuation report, and request changes to be made before it is agreed.

    (c) To not approve the employer contribution rates.

29. In respect of the completion of the valuation process by 31 March 2023, the committee has two options:

    (a) To delegate authority to the Pension Fund Manager, in consultation with the Director of Finance and the chairman of the Pension Fund Committee, to make minor amendments to the appendices prior to publication on or before 31 March 2023.

    (b) Not to delegate authority, and to convene an additional pension fund committee meeting before 31 March 2023 to formally close the valuation.

RISK MANAGEMENT

30. The triennial valuation is a key risk management exercise for the fund, forming part of a continual ‘health check’ on the fund’s solvency; setting employer contribution rates; analysing actual experience against previous assumptions; and ensuring compliance with legislation.

31. As noted above, the triennial valuation is a planning exercise for the fund, to assess the monies needed to meet the benefits owed to its members as they fall due. Detailed consideration of a number of risks is included within this exercise, which are detailed in the final valuation report (presented herein) and the funding strategy statement (presented elsewhere at this meeting).

EVALUATION

32. The triennial valuation is completed by the fund’s actuaries, following required actuarial standards and in line with Hymans Robertson’s professional guidelines.

33. The process was explained to committee and board members in a development session held in February 2022, and progress has been reported at committee meetings in July 2022 and November 2022.

34. The valuation report has been prepared following the completion of the valuation exercise, in accordance with legislative and professional requirements. Representatives from Hymans Robertson will be presenting the report at the committee meeting, and members will be invited to seek further clarification of any points.

35. Should any changes be required, depending on the significance and materiality if such changes, authority to make those changes could be delegated to the Pension Fund Manager, as set out in the recommendation at paragraph 5, being the option in paragraph 28a); or an additional committee meeting could be convened, being the option in paragraph 28b).

36. The employer contribution rates have been calculated in line with actuarial standards, as previously explained to the committee and board, based on each individual employer’s membership and experience data. The recommended rates have been communicated to employers, and have been agreed by those employers, as set out in table 1 above.

37. Based on paragraphs 33 to 35 above, option 27a) is recommended.

38. The valuation exercise has to be completed by 31 March 2023, which includes the finalisation and publication of the valuation report, including the rates and adjustment certificate setting out the minimum employer contributions required for the next three years.

39. Given the attendance of representatives from Hymans Robertson at the committee meeting to present the draft report and contribution rates, and to highlight the nature of any final updates to be included, committee members will have sufficient opportunity to understand the nature of any likely amendments and agree them in principle at the meeting.

40. Finding time in committee members' calendars to convene an additional pension fund committee meeting is likely to be challenging, particularly given the workload at the current time of year, in respect of the agreement of the council's budget.

41. Based on paragraphs 37 to 39 above, option 28a) is recommended.

APPENDICES ATTACHED

42. Appendix 1: Hymans Robertson draft report on the actuarial valuation at 31 March 2022.

BACKGROUND PAPERS

43. Isle of Wight Pension Fund Committee 23 November 2022 – Triennial Valuation update
https://iow.moderngov.co.uk/documents/s9714/ITEM%2018%20triennial%20valuation%20update.pdf

44. Hymans Robertson's LGPS 2022 valuation toolkit
https://www.hymans.co.uk/media/uploads/LGPS_2022_Valuation_Toolkit.pdf

Contact Point: Joanna Thistlewood, Pension Fund Manager, ☎ 821000
e-mail *jo.thistlewood@iow.gov.uk*

CHRIS WARD
Director of Finance
and Section 151 Officer

COUNCILLOR CHRIS JARMAN
Chairman of the Isle of Wight
Pension Fund Committee

HYMANS ROBERTSON

Isle of Wight Pension Fund

[DRAFT] Report on the actuarial valuation at 31 March 2022

Craig Alexander FFA
Paula Picken

30 January 2023
For and on behalf of Hymans Robertson LLP

Use the menu bar above to navigate to each section.

Contents

In this report:

Executive Summary

We have been commissioned by Isle of Wight Council (the Administering Authority) to carry out a valuation of the Isle of Wight Pension Fund (the Fund) as at 31 March 2022. This fulfils Regulation 62 of the Local Government Pension Scheme Regulations 2013. This report is a summary of the valuation.

Contribution rates

The contribution rates for individual employers set at this valuation can be found in the Rates & Adjustments certificate. Table 1 shows the combined individual employer rates set at this valuation and the last valuation (31 March 2019).

Table 1: Whole fund contribution rates compared with the previous valuation

	This valuation 31 March 2022		Last valuation 31 March 2019	
Primary Rate		23.1% of pay		22.0% of pay
Secondary Rate	2023/2024	£505,000	2020/2021	£1,304,000
	2024/2025	£517,000	2021/2022	£1,328,000
	2025/2026	£529,000	2022/2023	£1,353,000

The primary rate includes an allowance of 1.6% of pensionable pay for the Fund's expenses.

Employees pay a contribution to the Fund in addition to these rates. These rates are set by the LGPS Regulations. The average employee contribution rate at 31 March 2022 is 6.3% of pay (6.3% at 31 March 2019).

Funding position

The funding position has improved from the last valuation as a result of strong investment returns over the 3 year period and higher expected future returns. However, the increase in short term inflation expectations has offset some of these positive impacts.

Table 2: Single reported funding position at 31 March 2022 compared with 31 March 2019

Valuation Date	31 March 2022	31 March 2019
Past Service Liabilities	**(£m)**	**(£m)**
Employees	221	179
Deferred Pensioners	157	139
Pensioners	336	310
Total Liabilities	**714**	**628**
Assets	**728**	**596**
Surplus/(Deficit)	**15**	**(32)**
Funding Level	**102%**	**95%**

HYMANS ROBERTSON

Approach to valuation

Valuation Purpose

The triennial actuarial valuation is an important part of the Fund's risk management framework. Its main purpose is to ensure the Fund continues to have a contribution plan and investment strategy that will achieve the objectives set out in the Funding Strategy Statement.

We have been commissioned by Isle of Wight Council (the Administering Authority) to carry out a valuation of the Isle of Wight Pension Fund (the Fund) as at 31 March 2022. This fulfils Regulation 62 of the Local Government Pension Scheme Regulations 2013. This report marks the culmination of the valuation process and contains its two key outcomes:

1

Employer contribution rates for the period 1 April 2023 to 31 March 2026.

2

The funding level of the Fund at 31 March 2022.

Further information on the valuation process, methodology and strategy is set out in the publicly available Funding Strategy Statement, Investment Strategy Statement and published papers and minutes of the Fund's Pensions Committee. Additional material is also contained in Hymans Robertson's LGPS 2022 valuation toolkit[1].

[1] www.hymans.co.uk/media/uploads/LGPS_2022_Valuation_Toolkit.pdf

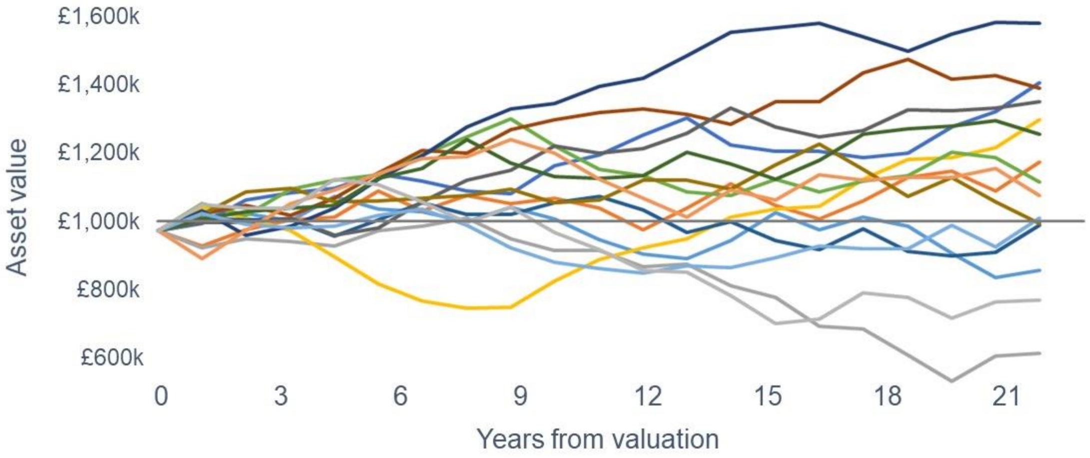
Setting employer contribution rates

Employer contributions need to be set at a level which ensures the Fund has a reasonable chance of having enough money to pay members' benefits. Identifying the amount of benefits that may be paid is complex as those earned today might only start being paid in 50 years' time. Over that time period, there is significant uncertainty over factors which affect the cost of benefits, eg inflation, investment returns. These uncertainties are allowed for by taking a risk-based approach to setting employer contribution rates. This approach is built around asset-liability modelling and three key funding decisions set by the Fund.

Asset-liability modelling

Asset-liability model is used to project each employer's assets and benefit payments into the future using 5,000 different economic scenarios. The economic scenarios are generated using Hymans Robertson's Economic Scenario Service (ESS) (further information in Appendix 2).

Picture 1: sample progression of employer asset values



Key funding decisions

For each employer, the Fund determines the most appropriate choice for the following three funding decisions. Further detail is set out in the Funding Strategy Statement.

What is the funding target for each employer?
Will the employer remain in the Fund for the long-term or exit at some point

What is the funding time horizon?
How long will the employer participate in the Fund

What is the required likelihood?
How much funding risk can the employer's covenant support

Measuring the funding level

The past service funding level is measured at the valuation. Whilst it is limited in providing insight to a funding plan, it is a useful high-level summary statistic. To measure the funding position, a market-related approach is taken to calculating both the assets and the liabilities (so they are consistent with each other).

- The market value of the Fund's assets at the valuation date have been used.
- The liabilities have been valued using assumptions based on market indicators at the valuation date (these assumptions are detailed in Appendix 2).

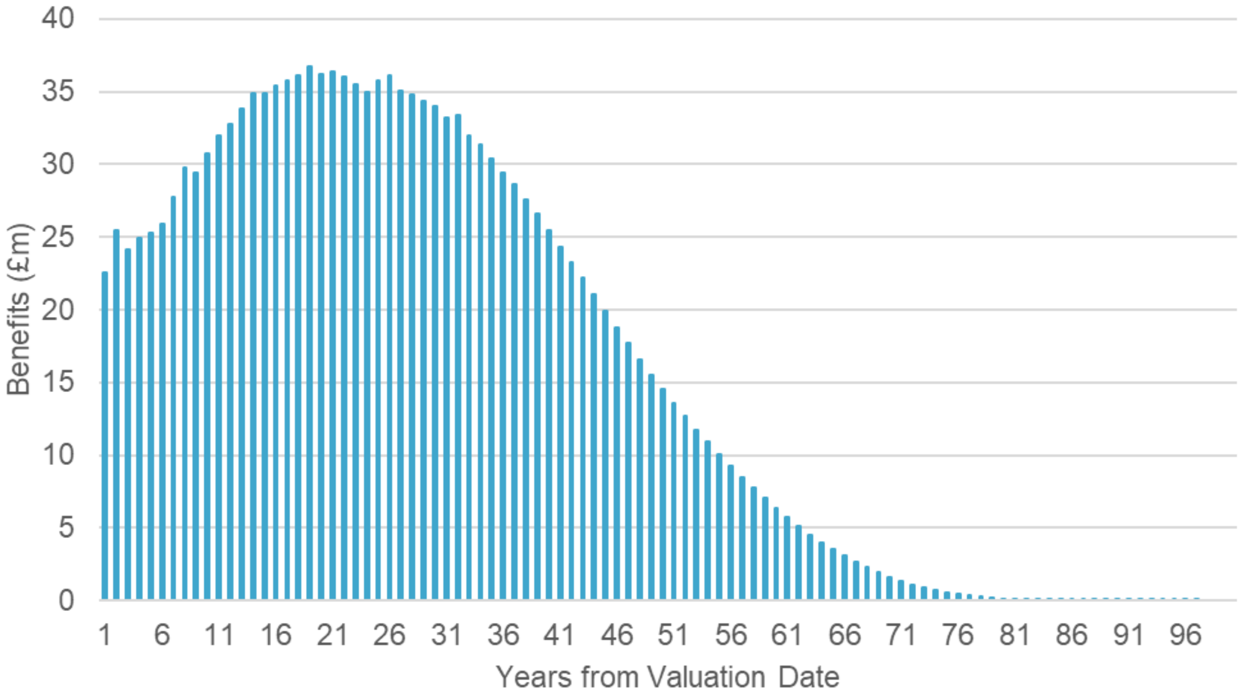
Further detail on the liabilities

The liabilities are the value of all future payments to members based on all benefits earned up to the valuation date, expressed in today's money.

Chart 1 shows the projected payments for all members in the Fund at the valuation date. The projections are based on the membership data provided for the valuation (Appendix 1), the assumptions (Appendix 2) and our understanding of the LGPS benefit structure as at 31 March 2022 (details at www.lgpsregs.org).

To express the future payments in today's money, the projections are discounted with an assumed future investment return on the Fund's assets (the discount rate).

Chart 1: projected benefit payments for all service earned up to 31 March 2022



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Valuation results

Employer contribution rates

The primary objective of the Fund is to set employer contribution rates that will adequately cover the cost of benefits which will accrue in the future and any costs related to benefits already earned. A secondary objective is to ensure the rates are as stable as possible. The risk-based approach detailed earlier is used to meet both these objectives.

The employer contribution rate is made up of two components.

1. A primary rate: the level sufficient to cover all new benefits.
2. A secondary rate: the costs associated with sufficiently funding benefits accrued up to the valuation date.

Each employer has a contribution rate which is appropriate to their circumstances and these can be found in the Rates & Adjustments Certificate. Broadly speaking:

- Primary rates have increased since the last valuation due to rising inflation.
- Secondary rates have decreased due to strong investment performance since the previous valuation.

However all employers will be different and the contribution rate will reflect the membership and experiences of each employer.

Table 3 shows the total of all employer contribution rates to be paid into the Fund over the period 1 April 2023 to 31 March 2026.

Table 3: Whole-fund contribution rate, compared with the previous valuation

	This valuation 31 March 2022		Last valuation 31 March 2019	
Primary Rate		23.1% of pay		22.0% of pay
Secondary Rate	2023/2024	£505,000	2020/2021	£1,304,000
	2024/2025	£517,000	2021/2022	£1,328,000
	2025/2026	£529,000	2022/2023	£1,353,000

The primary rate includes an allowance of 1.6% of pensionable pay for the Fund's expenses.

Employees pay a contribution to the Fund in addition to these rates. These rates are set by the LGPS Regulations. The average employee contribution rate at 31 March 2022 is 6.3% of pay (6.3% at 31 March 2019).

Funding level

The funding level is the ratio of assets to liabilities. The market value of the assets at the valuation date are known. The value of the liabilities is uncertain given that the level of future investment returns are unknown.

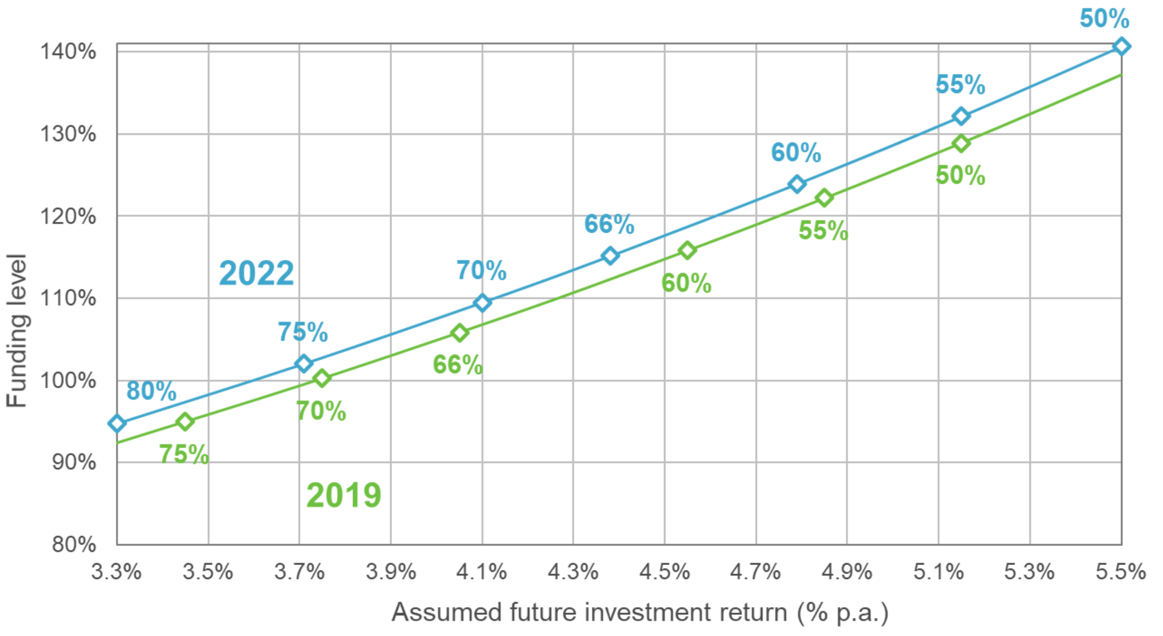
Therefore, the liabilities and funding level have been calculated across a range of different investment returns (the discount rate).

To help better understand funding risk, the likelihood of the Fund's investment strategy (detailed in Appendix 1) achieving certain levels of return has also been calculated.

Chart 2 shows how the funding level varies with future investment return assumptions at 31 March 2022 (blue line). The green line shows the same analysis at 31 March 2019.

- **The funding position at 2022 is stronger than 2019.**
- **The funding level is 100% if future investment returns are c3.6% pa (the likelihood of the Fund's assets yielding at least this return is around 76%). The comparator at 2019 was a return of c3.7% pa which had a likelihood of 70%.**
- **There is a 50% likelihood of an investment return of 5.5% pa. So the best-estimate funding level is 141% at 31 March 2022 (127% at 2019).**

Chart 2: funding level across a range of future investment returns



Figures on each line show the likelihood of the Fund's assets exceeding that return at the valuation date

Single funding level as at 31 March 2022

Whilst the chart on the previous page provides a better understanding of the past service funding position, there is still a requirement to report a single funding level at 31 March 2022.

To report a single funding level and funding surplus/deficit for the 2022 valuation, a discount rate of 3.7% pa has been used. There is a 75% likelihood associated with a future investment return of 3.7% pa.

Table 4 details the liabilities, split by member status and the market value of assets at the valuation date. The results at the 2019 formal valuation are shown for comparison.

The funding level and surplus/deficit figures provide a high-level snapshot of the funding position of the Fund as at 31 March 2022, however there are limitations:

- The liabilities are calculated using a single set of assumptions about the future and so are very sensitive to the choice of assumptions.
- The market value of assets held by the Fund will change on a daily basis.

The future progression of the funding position is uncertain. If the financial and demographic assumptions made at this valuation actually occur, employers pay contributions in line with the R&A certificate and there are no other changes in the financial or demographic environment, we project that the funding level at the next valuation (31 March 2025) will be approximately 100%.

Table 4: single reported funding level

Valuation Date	31 March 2022	31 March 2019
Past Service Liabilities	**(£m)**	**(£m)**
Employees	221	179
Deferred Pensioners	157	139
Pensioners	336	310
Total Liabilities	**714**	**628**
Assets	**728**	**596**
Surplus/(Deficit)	**15**	**(32)**
Funding Level	**102%**	**95%**

Important: *the reported funding level does not directly drive the contribution rates for employers. The contribution rates consider how assets and liabilities will evolve over time in different economic scenarios and also reflect each employer's funding profile and covenant.*

Changes since the last valuation

Events between 2019 and 2022

The most significant external event to occur since the last valuation has been the Covid-19 pandemic. The experience analysis below shows that there has sadly been a higher than expected number of deaths over the period. However, the impact on the funding position has been small. This is likely due to the age profile of the excess deaths and the level of pension.

Other significant factors occurring which affect the funding strategy of the Fund have been the better than expected investment returns. This has had a material positive impact on the funding position and employers' secondary contribution rates.

Financial

Table 5: analysis of financial experience between 2019 and 2022 valuations

	Expected	Actual	Difference	Impact on funding position
3 year period	10.6%	21.3%	10.7%	+£80m
Annual	3.4% pa	6.6% pa	3.2% pa	

Membership

Table 6: analysis of membership experience between 2019 and 2022 valuations

	Expected	Actual	Difference	Impact on funding position
Early leavers	1,384	1,863	479	+£2m
Ill-health retirements	21	19	-2	+£0m
Salary increases	3.8% pa	6.1% pa	2.3% pa	-£8m
Benefit increases	2.3% pa	1.8% pa	-0.6% pa	+£9m
Pension ceasing	£1.5m	£1.6m	£0.1m	+£2m

Changes since the last valuation

Future outlook

Expectations about the future, which inform the assumptions used to value the liabilities, have changed since the last valuation. The most significant changes are:

- Future inflation: this is expected to be on average higher than at 2019 due to the current level of high inflation.
- Investment returns: due to changes in the Fund's investment strategy and financial markets, future investment returns are now expected to be higher than at the last valuation.

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Table 7: summary of change in future outlook

Factor	What does it affect?	What's changed?	Impact on liabilities
Future investment returns	The rate at which future benefit payments are discounted back, ie the discount rate assumption	Future investment returns slightly higher at 2022 than at 2019. The required return is now 3.7% pa vs. 3.4% pa at 2019.	Decrease of £35m
Inflation	The rate at which pensions in payment and deferment and CARE pots increase	Significant increase in short-term future inflation expectations.	Increase of £51m
Salary increases	The rate at which future salaries increase. This affects benefits that are still linked to final salary, ie accrued before 1 April 2014	No material change since last valuation given competing factors e.g. tighter budgetary conditions vs. strong job market and pressure from National Living Wage increases.	Increase of £1m
Current life expectancy	How long we expect people to live for based on today's current observed mortality rates.	Slight reduction in life expectancy based on current observed data (not allowing for Covid-related excess deaths)	Decrease of £1m
Future improvements in life expectancy	How we expect life expectancies to change (increase) in the future.	Uncertainty about effectiveness of mitigations against life expectancy increases in the LGPS i.e. State Pension Age increases and Cost Cap. Need to better reflect wider pension and insurance industry long-term expectations.	Increase of £5m

Reconciling the overall change in funding position

The tables below provide insight into the funding position change between 31 March 2019 and 31 March 2022. Firstly, the changes we expect to happen (Table 8), which relate mostly to items on the asset side. Then the impact of actual experience (Table 9), which mainly affects the liabilities.

Expected development

Table 8: expected development of funding position between 2019 and 2022 valuations

Change in the surplus/deficit position	Assets	Liabilities	Surplus / Deficit
	£m	£m	£m
Last valuation at 31 March 2019	**596**	**628**	**(32)**
Cashflows			
Employer contributions paid in	47	0	47
Employee contributions paid in	12	0	12
Benefits paid out	(69)	(69)	0
Net transfers into / out of the Fund	1	*	1
Other cashflows (e.g. Fund expenses)	(3)	0	(3)
Expected changes			
Expected investment returns	63	0	63
Interest on benefits already accrued	0	66	(66)
Accrual of new benefits	0	68	(68)
Expected position at 31 March 2022	**647**	**693**	**(46)**

* We have insufficient data to value the impact on the liabilities as a result of transfers in/out

Impact of actual events

Table 9: impact of actual events on the funding position at 31 March 2022

Change in the surplus/deficit position	Assets	Liabilities	Surplus / Deficit
	£m	£m	£m
Expected position at 31 March 2022	**647**	**693**	**(46)**
Events between 2019 and 2022			
Salary increases greater than expected	0	8	(8)
Benefit increases greater than expected	0	(9)	9
Early retirement strain (and contributions)	2	0	2
Ill health retirement strain	0	0	0
Early leavers less than expected	0	(2)	2
Commutation less than expected	0	0	0
McCloud remedy	0	1	(1)
Other membership experience	0	4	(4)
Higher than expected investment returns	80	0	80
Changes in future expectations			
Investment returns	0	(35)	35
Inflation	0	51	(51)
Salary increases	0	1	(1)
Longevity	0	4	(4)
Other demographic assumptions	0	(2)	2
Actual position at 31 March 2022	**728**	**714**	**15**

Numbers may not sum due to rounding

Sensitivity & risk analysis

Sensitivity and risk analysis: assumptions

There is risk and uncertainty inherent with funding benefit payments that will be paid out many years in the future. The Fund is aware of these and has in place a risk register which is regularly reviewed. Additionally, as part of the valuation, the Fund reviews sources of risk that may impact its funding position and the contribution rates payable by employers.

This section discusses some of the most significant sources of funding risk (assumptions, regulatory, administration and governance and climate change). Further information of the Fund's approach to funding risk management, including monitoring, mitigation and management, is set out in the Funding Strategy Statement.

Assumptions

The valuation results depend on the actuarial assumptions made about the future. By their nature, these assumptions are uncertain which means its important to understand their sensitivity and risk levels.

Contribution rates

The risk-based approach to setting employer contribution rates mitigates the limitation of relying on one set of assumptions. Therefore, there is no need to carry out additional analysis of the sensitivity of contribution rates to changes in financial assumptions. The contribution rates are sensitive to changes in demographic assumptions. The results in this section in relation to the funding position can be broadly applied to the contribution rates.

Funding level

Financial assumptions

On page 10, we have already set out how the results vary with the assumed future investment return. The table below considers inflation.

Table 10: sensitivity of funding position to inflation assumption

CPI Assumption	Surplus/ (Deficit)	Funding Level
% pa	(£m)	%
2.5%	37	105%
2.7%	15	102%
2.9%	(9)	99%

Demographic assumptions

The main area of demographic risk is if people live longer than expected. The table below shows the impact of longer term longevity rates improving at a faster rate (1.75% pa vs 1.5% pa used in the results)

Table 11: sensitivity of funding position to longevity assumption

Long term rate of improvement	Surplus/ (Deficit)	Funding Level
% pa	(£m)	%
1.5%	15	102%
1.75%	8	101%

Sensitivity and risk analysis: other risks & climate change

Regulatory, Administration and Governance risks

Potential risks in this area include change in central government legislation which changes the future cost of the LGPS and failures in administration processes leading to incorrect data and inaccuracies in actuarial calculations. At this valuation, specific risks include:

- **McCloud:** the remedy to resolve the McCloud case is yet to be formalised in regulations. However, an allowance has been included for this expected benefit change at the 2022 valuation as directed by the Department of Levelling Up, Housing and Communities in their letter dated March 2022[1].
- **Cost Cap:** a legal challenge is still ongoing in relation to the results of the 2016 cost cap valuation and no information is known about the outcome of the 2020 cost cap valuation. At this valuation, no allowance has been made for any changes to the benefit structure that may occur as a result of a cost cap valuation.
- **GMP indexation:** it is assumed that all increases on GMPs for members reaching State Pension Age after 6 April 2016 will be paid for by LGPS employers. This is the same approach that was taken for the 2019 valuation.

Climate change

Background

Climate change is a major source of uncertainty which could affect future investment returns, inflation and life expectancies. Therefore, the Fund has explicitly explored the resilience of its funding and investment strategy to future potential climate change outcomes.

It is impossible to confidently quantify the effect of climate risk given the significant uncertainty over the impact of different possible climate outcomes. Instead, three different climate change scenarios have been considered as a stress-test (instead of trying to predict how climate change affects the funding level in the future).

All the scenarios assume that there will be a period of disruption linked either to the response to climate risk (transition risks) or the effect of it (physical risks). This disruption will lead to high volatility in financial markets, and the later the disruption, the more pronounced it will be.

Further detail on the scenarios is shown on the next page and in our guide 10 of Hymans Robertson's LGPS 2022 valuation toolkit[2]..

1 www.lgpslibrary.org/assets/bulletins/2022/222AppA.pdf

2 www.hymans.co.uk/media/uploads/LGPS_2022_Valuation_Toolkit.pdf

Sensitivity and risk analysis: climate change & post valuation events

Climate change

Outcome of analysis

The Fund has set its funding and investment strategy using asset-liability modelling and considering two main risk metrics:

- Likelihood of success – the chance of being fully funded in 20 years' time
- Downside risk – the average worst 5% of funding levels in 20 years' time

When exploring the potential impact of climate change, the Fund has compared how these risk metrics change under each climate change scenario (against the '*Core'* model used when setting the funding and investment strategy). The stress test results for the Fund are shown in Table 12 below.

Table 12: sensitivity of funding position to longevity assumption

Scenario	Likelihood of success	Downside risk
Core	73%	39%
Green Revolution	73%	40%
Delayed Transition	69%	36%
Head in the Sand	68%	36%

The results are worse in the climate scenarios. This is to be expected given that they are purposefully stress-tests and all the scenarios are bad outcomes. Whilst the risk metrics are weaker, they are not materially so and not enough to suggest that the funding and investment strategy are unduly exposed to climate change risk. The Fund will continue to monitor this risk as more information emerges and climate change modelling techniques evolve.

Post valuation events

Since 31 March 2022, there has been significant volatility in the financial markets, short-term inflation expectations and rises in interest rates by central banks. These events affect the value of the Fund's assets and liabilities. For example, the Fund's investment return since 31 March 2022 is estimated to be somewhere between -5% and 5%.

As an open scheme, with a strong covenant, the Fund takes a long-term view when considering the funding impact of such events. For employers who have a very short time horizon, recent volatility may be more immediately impactful, and the Fund has engaged with these employers as appropriate.

No explicit allowance has been made for this volatility in the valuation results or contribution rates detailed in the Rates & Adjustments Certificate. The Fund will continue to monitor changes in the financial and demographic environment as part of its ongoing risk management approach.

HYMANS ROBERTSON

Final comments

Final comments

The Fund's valuation operates within a broader framework, and this document should be considered alongside the following:

- The Funding Strategy Statement, which in particular highlights how different types of employer in different circumstances have their contributions calculated
- The Investment Strategy Statement, which sets out the investment strategy for the Fund
- The general governance of the Fund, such as meetings of the Pensions Committee and Local Pensions Board, decisions delegated to officers, the Fund's business plan, etc
- The Fund's risk register

Intervaluation employer events

New employers joining the Fund

Any new employers or admission bodies joining the Fund should be referred to the Fund Actuary to assess the required level of contribution. Depending on the number of transferring members the ceding employer's rate may also need to be reviewed.

Cessations and bulk transfers

Any employer who ceases to participate in the Fund should be referred to the Fund Actuary in accordance with Regulation 64 of the LGPS regulations.

Any bulk movement of scheme members:

- involving 10 or more scheme members being transferred from or to another LGPS fund
- involving 2 or more scheme members being transferred from or to a non-LGPS pension arrangement

should be referred to the Fund Actuary to consider the impact on the Fund.

Valuation frequency

Under the LGPS regulations, the next formal valuation of the Fund is due to be carried out as at 31 March 2025 where contribution rates payable from 1 April 2026 will be set.

Appendices

APPENDIX 1

Data

Membership data

A summary of the membership data provided by the Fund for the 2022 valuation is set out in Table 13. The corresponding membership data from the previous valuation is also shown for reference.

The results of the valuation are dependent on the quality of the data used. We have carried out a series of validation checks on the data supplied to us by the Administering Authority to ensure that it is fit for purpose.

Asset data

To check the membership data and derive employer asset values, we have used asset and accounting data and employer level cashflow data provided by the Fund.

Table 13: Whole fund membership data as at 31 March 2022 and 31 March 2019

Whole Fund Membership Data	This Valuation 31 March 2022	This Valuation 31 March 2019
Employee members		
Number	4,305	4,139
Total actual pay (£000)	67,966	58,544
Total accrued pension (£000)	11,634	9,614
Average age (liability weighted)	51.8	51.0
Future working lifetime (years)	8.4	8.5
Deferred pensioners (including undecideds)		
Number	7,291	7,035
Total accrued pension	7,668	7,015
Average age (liability weighted)	51.5	51.1
Pensioners and dependants		
Number	5,294	4,623
Total pensions in payment	20,911	19,086
Average age (liability weighted)	69.6	68.5

APPENDIX 1

Data

Investment strategy

A summary of the investment strategy allocation used for the calculation of employer contribution rates and to derive the future assumed investment return is set out in Table 14.

Further details are set out in the Fund's Investment Strategy Statement.

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Table 14: Investment strategy used for the 2022 valuation

% allocation	Core Strategy
UK equities	12.5%
Global equities	37.5%
Private lending	5.0%
Diversified growth	10.0%
Property	8.0%
Infrastructure	5.0%
UK corporate bonds	22.0%
Total	**100.0%**

APPENDIX 2

Assumptions

To set and agree assumptions for the valuation, the Fund carried out in-depth analysis and review in May 2022 with the final set agreed by the Pensions Committee on 25 May 2022.

Financial assumptions

Setting employer contribution rates

An asset-liability model is used to set employer contributions at the 2022 valuation. This model relies on Hymans Robertson's proprietary economic model, the Economic Scenario Service (ESS). The ESS reflects the uncertainty associated with future levels of inflation and asset returns and the interactions and correlations between different asset classes and wider economic variables. In the short term (first few years), the models are fitted with current financial market expectations. Over the longer term, models are built around views of fundamental economic parameters, for example equity risk premium, credit spreads and long term inflation. The table below shows the calibration of the ESS at 31 March 2022. Further information on the assumptions used for contribution rate setting is included in the Funding Strategy Statement.

Table 15: ESS individual asset class return distributions at 31 March 2022

		Annualised total returns									
		Cash	UK Equity	Developed World ex UK Equity	Private Equity	Property	UK Infrastructure Debt	Diversified Growth Fund (low equity beta)	Multi Asset Credit (sub inv grade)	CorpMedium A	Inflation (CPI)
5 years	16th %'ile	0.7%	-2.7%	-3.2%	-5.0%	-2.5%	-1.7%	0.6%	0.3%	-1.5%	2.3%
	50th %'ile	1.5%	5.5%	5.3%	9.5%	4.0%	2.0%	2.9%	3.1%	1.5%	3.9%
	84th %'ile	2.3%	13.9%	14.0%	24.1%	11.0%	5.6%	5.2%	5.7%	4.2%	5.5%
10 years	16th %'ile	0.8%	-0.4%	-0.7%	-1.2%	-0.6%	-0.3%	1.4%	1.7%	-0.1%	1.6%
	50th %'ile	1.8%	5.7%	5.6%	9.4%	4.4%	2.2%	3.2%	3.5%	1.6%	3.3%
	84th %'ile	2.9%	11.6%	11.7%	20.1%	9.5%	4.3%	5.1%	5.2%	3.2%	4.9%
20 years	16th %'ile	1.0%	1.7%	1.5%	2.4%	1.4%	1.2%	2.1%	2.8%	1.1%	1.2%
	50th %'ile	2.4%	6.2%	6.1%	10.0%	5.0%	2.7%	3.8%	4.4%	2.1%	2.7%
	84th %'ile	4.0%	10.6%	10.8%	17.6%	8.9%	4.2%	5.7%	6.0%	3.2%	4.3%
	Volatility (Disp) (1 yr)	0%	20%	20%	31%	15%	9%	5%	7%	8%	1%

APPENDIX 2

Assumptions

Financial assumptions

Calculating the funding level

The table below summarises the assumptions used to calculate the funding level at 31 March 2022, along with a comparison at the last valuation.

Table 16: Summary of assumptions used for measuring the funding level, compared to last valuation on 31 March 2019

Assumption	31 March 2022	Required for	31 March 2019
Discount rate	3.7% pa	To place a present value on all the benefits promised to scheme members at the valuation date. The Fund's assets are estimated to have a 75% likelihood of returning above the discount rate.	3.4% pa
Benefit increases/CARE revaluation	2.7% pa	To determine the size of future benefit payments.	2.3% pa
Salary increases	3.7% pa	To determine the size of future final-salary linked benefit payments.	3.1% pa

APPENDIX 2

Assumptions

Demographic assumptions

The same demographic assumptions are used in setting contribution rates and assessing the current funding level.

Longevity

Table 17: Summary of longevity assumptions

	This valuation 31 March 2022	Last valuation 31 March 2019
Baseline assumption	VitaCurves based on Fund-level lifestyle factors	VitaCurves based on Fund-level lifestyle factors
Future improvements	**CMI 2021 model** Initial addition = **0.25% (both Female and Male)** Smoothing factor = **7.0** **1.5% pa** long-term rate of improvement	**CMI 2018 model** Initial addition = **0.25% (Female), 0.5% (Male)** Smoothing factor = **7.0** **1.25% pa** long-term rate of improvement

Further information on these assumptions can be provided upon request. Sample rates are included on the next page.

Other demographic assumptions

Table 18: Summary of other demographic assumptions

Death in service	See sample rates in Appendix 2
Retirements in ill health	See sample rates in Appendix 2
Withdrawals	See sample rates in Appendix 2
Promotional salary increases	See sample rates in Appendix 2
Commutation	50% of future retirements elect to exchange pension for additional tax free cash up to HMRC limits
50:50 option	0.5% of members (uniformly distributed across the age, service and salary range) will choose the 50:50 option
Retirement age	The earliest age at which a member can retire with their benefits unreduced
Family details	A varying proportion of members are assumed to have a dependant at retirement or on earlier death. For example, at age 60 this is assumed to be 90% for males and 85% for females. The dependant of a male member is assumed to be 3 years younger than him and the dependent of a female member is assumed to be 3 years older than her.

APPENDIX 2

Assumptions

Sample rates for demographic assumptions

Males

Table 19: Sample rates of male demographic assumptions

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Age	Salary Scale	Death Before Retirement	Withdrawals		Ill Health Tier 1		Ill Health Tier 2	
		FT & PT	FT	PT	FT	PT	FT	PT
20	105	0.17	444.74	975.61	0	0	0	0
25	117	0.17	293.77	644.43	0	0	0	0
30	131	0.2	208.44	457.17	0	0	0	0
35	144	0.24	162.85	357.15	0.1	0.07	0.02	0.01
40	150	0.41	131.12	287.46	0.16	0.12	0.03	0.02
45	157	0.68	123.16	269.95	0.35	0.27	0.07	0.05
50	162	1.09	101.52	222.27	0.9	0.68	0.23	0.17
55	162	1.7	79.95	175.12	3.54	2.65	0.51	0.38
60	162	3.06	71.25	156.02	6.23	4.67	0.44	0.33
65	162	5.1	0	0	11.83	8.87	0	0

Figures are incidence rates per 1,000 members except salary scale

Females

Table 20: Sample rates of female demographic assumptions

Age	Salary Scale	Death Before Retirement	Withdrawals		Ill Health Tier 1		Ill Health Tier 2	
		FT & PT	FT	PT	FT	PT	FT	PT
20	105	0.1	422.91	560.85	0	0	0	0
25	117	0.1	284.56	377.33	0.1	0.07	0.02	0.01
30	131	0.14	238.54	316.25	0.13	0.1	0.03	0.02
35	144	0.24	205.88	272.86	0.26	0.19	0.05	0.04
40	150	0.38	171.35	227.01	0.39	0.29	0.08	0.06
45	157	0.62	159.9	211.81	0.52	0.39	0.1	0.08
50	162	0.9	134.81	178.38	0.97	0.73	0.24	0.18
55	162	1.19	100.59	133.24	3.59	2.69	0.52	0.39
60	162	1.52	81.07	107.24	5.71	4.28	0.54	0.4
65	162	1.95	0	0	10.26	7.69	0	0

APPENDIX 3

Reliances and limitations

We have been commissioned by Isle of Wight Council (“the Administering Authority”) to carry out a full actuarial valuation of the Isle of Wight Pension Fund (“the Fund”) as at 31 March 2022 as required under Regulation 62 of the Local Government Pension Scheme Regulations 2013 (“the Regulations”).

This report is addressed to the Administering Authority. It has been prepared by us as actuaries to the Fund and is solely for the purpose of summarising the main outcomes of the 2022 actuarial valuation. It has not been prepared for any other third party or for any other purpose. We make no representation or warranties to any third party as to the accuracy or completeness of this report, no reliance should be placed on this report by any third party and we accept no responsibility or liability to any third party in respect of it.

Hymans Robertson LLP is the owner of all intellectual property rights in this report. All such rights are reserved.

This summary report is the culmination of other communications in relation to the valuation, in particular:

- Our 2022 valuation toolkit which sets out the methodology used when reviewing funding plans
- Our paper to the Fund dated June 2022 which discusses the funding strategy for the Fund’s council
- Our paper to the Fund’s Pension Committee dated May 2022 which discusses the valuation assumptions
- Our initial results report dated November 2022 which outlines the whole fund results and inter-valuation experience
- Our data report which summarises the data used for the valuation, the approach to ensuring it is fit for purpose and any adjustments made to it during the course of the valuation
- The Funding Strategy Statement which details the approach taken to adequately fund the current and future benefits due to members

The totality of our advice complies with the Regulations as they relate to actuarial valuations.

The following Technical Actuarial Standards apply to this advice, and have been complied with where material and to a proportionate degree. They are:

- TAS100 – Principles for technical actuarial work
- TAS300 - Pensions

APPENDIX 4

Glossary

Term	Explanation
50:50 option	An option for LGPS members to pay half contributions and earn half the retirement benefit (pre-retirement protection benefits are unreduced).
Baseline longevity	The rates of death (by age and sex) in a given group of people based on current observed data.
Club Vita	A firm of longevity experts we partner with for longevity analysis. They combine data from thousands of pension schemes and use it to create detailed baseline longevity assumptions at member-level, as well as insight on general longevity trends and future improvements.
Commutation	The option for members to exchange part of their annual pension for a one-off lump sum at retirement. In the LGPS, every £1 of pension exchanged gives the member £12 of lump sum. The amounts that members commute is heavily influenced by tax rules which set an upper limit on how much lump sum can be taken tax-free.
CPI inflation	The annual rate of change of the Consumer Prices Index (CPI). The CPI is the UK government's preferred measure of inflation and is the measure used to increase LGPS (and all other public sector pension scheme) benefits each year.
Demographic assumptions	Assumptions concerned with member and employer choices rather than macroeconomic or financial factors. For example, retirement age or promotional salary scales. Demographic assumptions typically determine the timing of benefit payments.
Discount rate	A number used to place a single value on a stream of future payments, allowing for expected future investment returns.
ESS	Economic Scenario Service - Hymans Robertson's proprietary economic scenario generator used to create thousands of simulations of future inflation, asset class returns and interest rates.

APPENDIX 4

Glossary

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Term	Explanation
Funding position	The extent to which the assets held by the fund at 31 March 2022 cover the accrued benefits ie the liabilities. The two measures of the funding position are: • the funding level - the ratio of assets to liabilities; and • the funding surplus/deficit - the difference between the asset and liabilities values.
Inflation	Prices tend to increase over time, which is called inflation. Inflation is measured in different ways, using a different ‘basket’ of goods and mathematical formulas.
Liabilities	An employer’s liability value is the single value at a given point in time of all the benefit payments expected to be made in future to all members. Benefit payments are projected using demographic and financial assumptions and the liability is calculated using a discount rate.
Longevity improvements	An assumption about how rates of death will change in future. Typically we assume that death rates will fall and life expectancies will improve over time, continuing the long-running trend.
Prudence	To be prudent means to err on the side of caution in the overall set of assumptions. We build prudence into the choice of discount rate by choosing an assumption with a prudence Level of more than 50%. All other assumptions aim to be best estimate.
Prudence Level	A percentage indicating the likelihood that a discount rate assumption will be achieved in practice, based on the ESS model. The higher the prudence level, the more prudent the discount rate is.
Withdrawal	Refers to members leaving the scheme before retirement. These members retain an entitlement to an LGPS pension when they retire, but are no longer earning new benefits.

Rates & adjustments certificate

Rates and Adjustments Certificate

In accordance with Regulation 62 of the LGPS regulations, we have assessed the contributions that should be paid into the Isle of Wight Pension Fund (the Fund) by participating employers for the period 1 April 2023 to 31 March 2026 in order to maintain the solvency of the Fund.

The method and assumptions used to calculate the contributions set out in this Rates and Adjustments certificate are detailed in the Funding Strategy Statement dated March 2023 and in Appendix 2 of the report on the actuarial valuation dated 31 March 2023. These assumptions underpin our estimate of the number of members who will become entitled to a payment of pensions under the provisions of the LGPS and the amount of liabilities arising in respect of such members.

The table below summarises the whole fund primary and secondary contribution rates for the period 1 April 2023 to 31 March 2026. The primary rate is the payroll weighted average of the underlying individual employer primary rates and the secondary rate is the total of the underlying individual employer secondary rates, calculated in accordance with the LPGS regulations and CIPFA guidance. The secondary rate has been shown both as a monetary amount and an equivalent percentage of the projected pensionable pay.

	This valuation 31 March 2022		
Primary rate		23.1% of pay	
Secondary rate		Monetary amount	Equivalent to % of payroll
	2023/24	£505,000	0.7%
	2024/25	£517,000	0.7%
	2025/26	£529,000	0.7%

The required minimum contribution rates for each employer in the Fund are set out in the remained of this certificate.

Employer code	Employer name	Primary rate (% of pay)	Secondary rate (% of pay plus monetary amount)			Total contributions (primary rate plus secondary rate)			Notes
			2023/24	2024/25	2025/26	2023/24	2024/25	2025/26	
	Isle of Wight Council Pool	22.7%	0.8%	0.8%	0.8%	23.5%	23.5%	23.5%	
	Southern Housing Group	32.8%	£150,000	£150,000	£150,000	32.8% plus £150,000	32.8% plus £150,000	32.8% plus £150,000	
	Sovereign Housing Group	31.7%	£18,000	£18,000	£18,000	31.7% plus £18,000	31.7% plus £18,000	31.7% plus £18,000	
	Academies Enterprise Trust	22.7%	0.8%	0.8%	0.8%	23.5%	23.5%	23.5%	
	Diocese of Chichester Academies Trust	22.7%	0.8%	0.8%	0.8%	23.5%	23.5%	23.5%	
6	Cowes Harbour Commissioners	32.8%	£20,000	£20,000	£20,000	32.8% plus £20,000	32.8% plus £20,000	32.8% plus £20,000	
7	St Catherine's School	25.4%	0.0%	0.0%	0.0%	25.4%	25.4%	25.4%	
18	Isle of Wight College	27.2%	-5.1%	-5.1%	-5.1%	22.1%	22.1%	22.1%	
39	Wightbus / SVOC	37.4%	-37.4%	-37.4%	-37.4%	0.0%	0.0%	0.0%	
43	Ventnor Botanic Gdns	33.1%	-33.1%	-33.1%	-33.1%	0.0%	0.0%	0.0%	
47	Island Roads	28.8%	-28.8%	-28.8%	-28.8%	0.0%	0.0%	0.0%	
48	Northwood Primary	22.7%	0.8%	0.8%	0.8%	23.5%	23.5%	23.5%	
53	Lanesend Academy	22.7%	-1.6%	-1.6%	-1.6%	21.1%	21.1%	21.1%	
54	Island Free School	21.6%	-2.8%	-2.8%	-2.8%	18.8%	18.8%	18.8%	
55	Cowes Enterprise College	22.7%	0.8%	0.8%	0.8%	23.5%	23.5%	23.5%	
60	Top Mops	22.7%	-1.2%	-1.2%	-1.2%	21.5%	21.5%	21.5%	
61	Caterlink Limited	22.7%	0.8%	0.8%	0.8%	23.5%	23.5%	23.5%	
65	RM	22.7%	0.8%	0.8%	0.8%	23.5%	23.5%	23.5%	
67	Accomplish	22.7%	0.8%	0.8%	0.8%	23.5%	23.5%	23.5%	
68	Solutions 4 Health	22.7%	0.8%	0.8%	0.8%	23.5%	23.5%	23.5%	
69	Barnardos	22.7%	0.8%	0.8%	0.8%	23.5%	23.5%	23.5%	
70	CleanTEC	22.7%	0.8%	0.8%	0.8%	23.5%	23.5%	23.5%	

Further comments to the Rates and Adjustments Certificate

- Contributions expressed as a percentage of payroll should be paid into the Fund at a frequency in accordance with the requirements of the Regulations
- Further sums should be paid to the Fund to meet the costs of any early retirements and/or augmentations using methods and factors issued by us from time to time or as otherwise agreed.
- Payments may be required to be made to the Fund by employers to meet the capital costs of any ill-health retirements that exceed those allowed for within our assumptions.
- The certified contribution rates represent the minimum level of contributions to be paid. Employing authorities may pay further amounts at any time and future periodic contributions may be adjusted on a basis approved by the Fund Actuary.
- The monetary contributions set out in the certificate above can be repaid in advance with appropriate adjustments for interest as and when agreed with the Administering Authority. Under these circumstances a revised Rates and Adjustments certificate may be issued reflecting any advance payments.

Craig Alexander FFA

30 January 2023
For and on behalf of Hymans Robertson LLP

HYMANS ROBERTSON

Section 13 Dashboard

Section 13 dashboard

To be completed once GAD confirm required information

Purpose: For Decision

Committee Report

Committee	**ISLE OF WIGHT PENSION FUND COMMITTEE**
Date	**8 FEBRUARY 2023**
Title	**FUNDING STRATEGY STATEMENT 2023**
Report of	**PENSION FUND MANAGER**

EXECUTIVE SUMMARY

1. This report presents the Funding Strategy Statement for the Isle of Wight Council Pension Fund updated to reflect the 31 March 2022 formal valuation of the fund.

RECOMMENDATION

2. That the committee note the process that has been followed for the review and update of the Funding Strategy Statement, including consultation with interested parties.

3. That the committee adopts the Funding Strategy Statement, including the newly created contribution review policy and cessation policy.

4. That the committee approve the publication of the Funding Strategy Statement 2023 on the fund's website.

BACKGROUND

5. The main purpose of the formal valuation of the Isle of Wight Council Pension Fund (the fund) is to review funding plans to ensure they are fit for purpose and set contribution rates payable by participating employers within the fund. The valuation is a statutory requirement and is a health check of the fund and its funding plan.

6. As part of the valuation process, the fund is required to prepare a Funding Strategy Statement (FSS). It is a regulatory requirement for the fund to have a FSS and it is reviewed every three years in collaboration with the Fund's actuary Hymans Robertson LLP during the valuation process. Following review, it is then consulted on with the Fund's employers. The FSS must be agreed and approved by 31 March 2023.

7. The 2020 funding strategy statement, linked in the background papers to this report, is a cumbersome document, containing all the required information, but is not very user friendly, or intuitive.

8. The fund has commissioned the actuaries to review and update the FSS, which has resulted in a more concise document, supported by separate policies dealing with some of the more specific aspects of the funding strategy.

UPDATED FUNDING STRATEGY STATEMENT

9. The Funding Strategy Statement for 2023 is attached to this report as Appendix 1.

10. The core document has been re-structured to make it easier for users to navigate and find exactly what they need, along with a full review of wording to make it as easy to understand as possible.

11. This core document includes details specific to the Isle of Wight Council Pension Fund on:

- The approach to calculating and certifying contributions for each employer type (e.g. academies, Transferee Admission Bodies) in section 2, including specifying when additional contributions may be payable in section 3.
- The contribution stability mechanism approach for the Council in section 2.2.
- The approach to allocating assets between employers in section 4.
- The 2022 valuation approach and assumptions including brief details of the key financial and demographic assumptions, in Appendix D.
- The method of setting contribution rates for different types of new employers, in section 5.
- The fund's considerations in respect of bulk transfers of members either into or out of an employer, in section 6.
- What happens when an employer leaves the fund in section 7, including the fund's approach to exit credits and the flexibilities offered for the payment of cessation debts, expanded further in Appendix F.
- How the uncertainty relating to McCloud is allowed for.

12. The core document is supported by a number of appendices:

(a) Appendices A to D are consistent with those used in previous versions of the FSS. These respectively cover the regulatory framework, roles and responsibilities, risks and controls, and actuarial assumptions.

(b) Appendices E and F introduce new policies for the fund, covering recently introduced flexibilities for the fund in respect of the ability to review employer contribution rates between valuations, and the treatment of employers at cessation.

13. There are a number of highlighted/shaded references in the FSS document as presented, which indicate that further information is available from the fund on request. These areas will be the subject of additional policies in due course.

14. It is proposed that these are created over the next 12-18 months, so they are fully operational before the next valuation.

15. The specific areas to be covered by these policies include:
    (a) The prepayment of employer contributions.
    (b) Academy participation.
    (c) Pass-through arrangements for transferee admission bodies.
    (d) Employer admission to the fund.
    (e) Bulk transfers.
    (f) Exit credits.
    (g) Flexibility on exit.

16. Items (b) to (d) expand on section 5 in the revised FSS; item (e) expands on section 6; and items (f) and (g) expand on the new Appendix F.

17. Each of these new policies will be brought to the local pension board for review and onward recommendation to the pension fund committee for adoption in due course.

18. The final text of the FSS will be updated to remove the blue highlighting before publication.

CORPORATE PRIORITIES AND STRATEGIC CONTEXT

Corporate Aims

19. There is nothing contained in this report which directly contributes to the priorities contained in the Corporate Plan 2021 - 2025. Publication of this report supports the Corporate Plan key value of "being fair and transparent".

Pension Fund Strategic Aims

20. 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.

21. The funding strategy objectives, supporting the primary objective above, are to:

    (a) take a prudent long-term view to secure the regulatory requirement for long-term solvency, with sufficient funds to pay benefits to members and their dependants.

    (b) use a balanced investment strategy to minimise long-term cash contributions from employers and meet the regulatory requirement for long-term cost efficiency.

    (c) where appropriate, ensure stable employer contribution rates.

    (d) reflect different employers' characteristics to set their contribution rates, using a transparent funding strategy.

    (e) use reasonable measures to reduce the risk of an employer defaulting on its pension obligations.

CONSULTATION

22. The Local Government Pension Scheme Regulations 2013 require that the administering authority must consult on the Funding Strategy Statement before publication with such persons as it sees fit.

23. The draft FSS was circulated to all employers of the fund on 22 December 2022, opening a consultation period ending on 27 January 2023. The suggested period for consultation is 30 days, but this has been extended to allow for the Christmas and New Year break.

24. At the date of writing this report, only one employer had responded to the consultation, asking a question about section 7.3, specifically the circumstances in which the administering authority might exercise its discretion to not repay a surplus on cessation. The Pension Fund Manager responded to the question, and the employer confirmed their appreciation of the clarification.

25. A verbal update will be provided at the committee meeting should any further consultation responses be received from employers.

LOCAL PENSION BOARD VIEW

26. The draft Funding Strategy Statement was presented to the Local Pension Board at its meeting on 17 January 2023, and members were asked to feed back any comments by Friday 27 January 2023, the same deadline as given to employers.

27. Comments were received from the chairman of the board, which have been considered by the Pension Fund Manager. None have resulted in changes to the current draft of the FSS; the comments will be taken into consideration in future reviews of the proposed new policies.

28. A verbal update will be provided at the committee meeting should any further comments be received from board members.

FINANCIAL / BUDGET IMPLICATIONS

29. The cost for the preparation of the core funding strategy statement, and the costs for drafting future policies, are as agreed in the contract procured in 2017. These costs are borne by the pension fund.

30. The employer contribution rates arising from the valuation, determined using the processes outlined in the funding strategy statement, linked into the investment strategy for the fund, ensure the pension fund will have sufficient assets to pay its current and future benefit obligations.

LEGAL IMPLICATIONS

31. The Isle of Wight Council is the administering authority for the Isle of Wight Council Pension Fund. An administering authority is defined in the Local Government Pension Scheme Regulations 2013 as “a [local authority] required to maintain a pension fund under the local government pension scheme regulations”.

32. The Pension Fund Committee is a committee under section 101 of the Local Government Act 1972, with delegated authority to discharge the council's statutory duties in respect of the LGPS.

33. Regulation 58 of the Local Government Pension Scheme Regulations 2013 requires each administering authority to prepare, maintain and publish a written statement setting out its funding strategy. The regulations specify that the statement should be published after consultation with such persons as the administering authority considers appropriate.

34. The regulations also state that the administering authority must have regard to the Chartered Institute of Public Finance and Accountancy (CIPFA) document "Preparing and Maintaining and Funding Strategy Statement in the LGPS" 2016 edition.

EQUALITY AND DIVERSITY

35. The council, as a public body, is required to meet its statutory obligations under the Equality Act 2010 to have due regard to eliminate unlawful discrimination, promote equal opportunities between people from different groups and to foster good relations between people who share a protected characteristic and people who do not share it. The protected characteristics are: age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation.

36. The adoption of the funding strategy statement has no implications for any of the protected characteristics.

OPTIONS

37. In respect of the consultation process followed for the Funding Strategy Statement, there are two options:

    (a) That the committee note the process that has been followed for the review and update of the Funding Strategy Statement, including consultation with interested parties.

    (b) That the committee requests further consultation to be undertaken with alternative bodies.

38. The following options are available in respect of the adoption of the FSS:

    (a) That the committee adopts the Funding Strategy Statement, including the newly created contribution review policy and cessation policy.

    (b) That the committee requires amendments to one or more of the constituent parts of the Funding Strategy Statement and defers adoption until such time as the amendments have been made.

RISK MANAGEMENT

39. Risk management is central to the Local Government Pension Scheme (LGPS). LGPS pension funds are in themselves risk management tools, managing the risk that future employer income streams will be able to meet future pensions liabilities by creating a reserve from which future liabilities will be met.

40. The FSS contains detailed information about the risks associated with the funding of the fund, covering financial, demographic, regulatory and governance risks.

41. Details of these risks and the control mechanisms in place to mitigate those risks are set out in Appendix C to the FSS, as well as within the fund's own detailed risk register.

EVALUATION

42. The Local Government Pension Scheme Regulations 2013 state that the administering authority must consult "with such persons as it considers appropriate" when making amendments to the Funding Strategy Statement.

43. As detailed in paragraphs 23 and 26 above, the fund has consulted with scheme employers and members of the Local Pension Board. It is considered that these are "appropriate persons".

44. Scheme employers are directly impacted by the FSS as it is the basis on which their contributions rates are set and specifies out how the fund will treat each type of employer when interacting with them in terms of their admission to, engagement with, and departure from, the fund.

45. The Local Pension Board has been established under the Public Service Pensions Act 2013 to assist the scheme manager (the committee) in securing compliance with the scheme regulations and other legislation relating to the governance and administration of the scheme. Their review will give assurance to the committee that the FSS is compliant with regulations.

46. Based on the above, the option at paragraph 37a) is recommended.

47. The FSS has been prepared by the fund's actuaries, Hymans Robertson LLP, taking into account the requirements of the guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) in their 2016 publication "Preparing and maintaining a funding strategy statement in the LGPS".

48. The two new policies embedded within the FSS, the Contribution review policy and Cessation policy, both clarify the fund's existing practices in a policy, required to fulfil the minimum requirements of the CIPFA guidance.

49. Given that the FSS and the two new policies have been prepared by the fund's actuaries, and are in line with CIPFA guidance, the option at paragraph 38a) is recommended.

APPENDICES ATTACHED

50. Appendix 1: Isle of Wight Council Pension Fund: DRAFT Funding Strategy Statement 2023**.**

BACKGROUND PAPERS

51. Isle of Wight Council Pension Fund: Funding Strategy Statement 2020. https://www.isleofwightpensionfund.org/resources/funding-strategy-statement-2020/

Contact Point: Joanna Thistlewood, Pension Fund Manager, ☎ 821000
e-mail *jo.thistlewood@iow.gov.uk*

CHRIS WARD
Director of Finance
and Section 151 Officer

COUNCILLOR CHRIS JARMAN
Chairman of the Isle of Wight
Pension Fund Committee

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Isle of Wight Pension Fund
Funding Strategy Statement
November 2022

Document Information

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External Advisor:	Hymans Robertson LLP (actuaries)
Author:	Jo Thistlewood, Pension Fund Manager Financial Management jo.thistlewood@iow.gov.uk ☎ (01983) 821000 ext. 6371
Sponsor:	Chris Ward, Director of Finance and Section 151 Officer Financial Management chris.ward@portsmouthcc.gov.uk ☎ (01983) 821000
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Version History		
Version	Date	Description
1.0	11 November 2022	Hymans Robertson first draft
2.0	09 December 2022 22 December 2022	Hymans updated for additional appendices Sent to employers, committee, board for consultation

Contents

1 Welcome to Isle of Wight Pension Fund's funding strategy statement

This document sets out the funding strategy statement (FSS) for Isle of Wight Pension Fund.

The Isle of Wight Pension Fund is administered by Isle of Wight Council, known as the administering authority. Isle of Wight council worked with the fund's actuary, Hymans Robertson, to prepare this FSS which is effective from 1 April 2023.

There's a regulatory requirement for Isle of Wight Council to prepare an FSS. You can find out more about the regulatory framework in Appendix A. If you have any queries about the FSS, contact jo.thistlewood@iow.gov.uk

1.1 What is the Isle of Wight pension fund?

The Isle of Wight pension fund is part of the Local Government Pension Scheme (LGPS). You can find more information about the LGPS at www.lgpsmember.org. The administering authority runs the fund on behalf of participating employers, their employees and current and future pensioners. You can find out more about roles and responsibilities in Appendix B.

1.2 What are the funding strategy objectives?

The funding strategy objectives are to:

- take a prudent long-term view to secure the regulatory requirement for long-term solvency, with sufficient funds to pay benefits to members and their dependants
- use a balanced investment strategy to minimise long-term cash contributions from employers and meet the regulatory requirement for long-term cost efficiency
- where appropriate, ensure stable employer contribution rates
- reflect different employers' characteristics to set their contribution rates, using a transparent funding strategy
- use reasonable measures to reduce the risk of an employer defaulting on its pension obligations.

1.3 Who is the FSS for?

The FSS is mainly for employers participating in the fund, because it sets out how money will be collected from them to meet the fund's obligations to pay members' benefits.

Different types of employers participate in the fund:

Scheduled bodies

Employers who are specified in a schedule to the LGPS regulations, including councils and employers like academies and further education establishments. Scheduled bodies must give employees access to the LGPS if they can't accrue benefits in another pension scheme, such as another public service pension scheme.

Designating employers

Employers like town and parish councils can join the LGPS through a resolution. If a resolution is passed, the fund can't refuse entry. The employer then decides which employees can join the scheme.

Admission bodies

Other employers can join through an admission agreement. The fund can set participation criteria for them and can refuse entry if the requirements aren't met. This type of employer includes contractors providing outsourced services like cleaning or catering to a scheduled body.

Some existing employers may be referred to as **community admission bodies** (CABs). CABs are employers with a community of interest with another scheme employer. Others may be called **transferee admission bodies** (TABs), that provide services for scheme employers. These terms aren't defined under current regulations but remain in common use from previous regulations.

1.4 How does the funding strategy link to the investment strategy?

The funding strategy sets out how money will be collected from employers to meet the fund's obligations. Contributions, assets and other income are then invested according to an investment strategy set by the administering authority. You can find the investment strategy at Investment Strategy Statement 2021 | Isle of Wight Pension Fund.

The funding and investment strategies are closely linked. The fund must be able to pay benefits when they are due – those payments are met from a combination of contributions (through the funding strategy) and asset returns and income (through the investment strategy). If investment returns or income fall short the fund won't be able to pay benefits, so higher contributions would be required from employers.

1.5 Does the funding strategy reflect the investment strategy?

The funding policy is consistent with the investment strategy. Future investment return expectations are set with reference to the investment strategy, including a margin for prudence which is consistent with the regulatory requirement that funds take a 'prudent longer-term view' of funding liabilities (see Appendix A)

1.6 How is the funding strategy specific to the Isle of Wight pension fund?

The funding strategy reflects the specific characteristics of the fund employers and its own investment strategy.

2 How does the fund calculate employer contributions?

2.1 Calculating contribution rates

Employee contribution rates are set by the LGPS regulations.

Employer contributions are made up of three elements:

- **the primary contribution rate** – contributions payable towards future benefits
- **the secondary contribution rate** – the difference between the primary rate and the total employer contribution

The primary rate also includes an allowance for the fund's expenses.

The fund actuary uses a model to project each employer's asset share over a range of future economic scenarios. The contribution rate takes each employer's assets into account as well as the projected benefits due to their members. The value of the projected benefits is worked out using employer membership data and the assumptions in Appendix D.

The total contribution rate for each employer is then based on:

- **the funding target** – how much money the fund aims to hold for each employer
- **the time horizon** – the time over which the employer aims to achieve the funding target
- **the likelihood of success** – the proportion of modelled scenarios where the funding target is met.

This approach takes into account the maturing profile of the membership when setting employer contribution rates.

Table 1: contribution rate calculation for individual or pooled employers

Type of employer	Scheduled bodies			CABs and designating employers		TABs
Sub-type	Local Authority	Academies	Other scheduled bodies	Open to new entrants	Closed to new entrants	Without pass-through agreements*
Funding target*	Ongoing	Ongoing	Ongoing	Ongoing, but may move to low-risk exit basis		Ongoing
Minimum likelihood of success	75%	75%	75%	75%	75%	75%
Maximum time horizon	20 years	20 years	15 years	15 years	15 years or future working lifetime, if less	15 years or contract length, if less
Primary rate approach	The contributions must be sufficient to meet the cost of benefits earned in the future with the required likelihood of success at the end of the time horizon					
Secondary rate	% of payroll	% of payroll	% of payroll	% of payroll	Monetary amount	% of payroll

Type of employer	Scheduled bodies			CABs and designating employers		TABs
Sub-type	Local Authority	Academies	Other scheduled bodies	Open to new entrants	Closed to new entrants	Without pass-through agreements*
Stabilised contribution rate?	Yes	No	No	No	No	No
Treatment of surplus (assessed at valuation date)	Total contribution rate must be set at least at the primary rate. However, reductions may be permitted by the administering authority subject to additional consideration of any funding surplus			Total contribution rate must be set at least at the primary rate. However, reductions may be permitted by the administering authority subject to additional consideration of the low-risk exit basis position		Total contribution rate must be set at least at the primary rate. However, reductions may be permitted by the administering authority subject to additional consideration of any funding surplus
Phasing of contribution changes	Covered by stabilisation arrangement	Up to 3 years	Up to 3 years	Up to 3 years	Up to 3 years	None

*Employers participating in the Fund under a pass-through agreement will pay a contribution rate as agreed between the contractor and letting employer, subject to Administering Authority approval. For pass-through arrangements let by Isle of Wight Council, the contribution rate is set equal to the Isle of Wight Council contribution rate.

***** See Appendix D for further information on funding targets.***

2.2 Making contribution rates stable

Making employer contribution rates reasonably stable is an important funding objective. Where appropriate, contributions are set with this objective in mind. The fund may adopt a stabilised approach to setting contributions for individual employers, which keeps contribution variations within a pre-determined range from year-to-year. Stabilisation criteria and limits are reviewed during each triennial valuation process.

The administering authority believes a stabilised approach is a prudent long-term strategy and the robustness of this approach was once again tested by extensive asset liability modelling (ALM) carried out by the Fund actuary at the 31 March 2022 funding valuation.

Table 1: current stabilisation approach

Type of employer	Council
Maximum contribution increase per year	+1% of pay
Maximum contribution decrease per year	-1% of pay

2.3 Reviewing contributions between valuations

The fund may amend contribution rates between formal valuations, in line with its policy on contribution reviews. The fund's policy is in Appendix E. The purpose of any review is to establish the most appropriate contributions. A review may lead to an increase or decrease in contributions.

2.4 What is pooling?

The administering authority may operate contribution rate pools for similar types of employers. Contribution rates can be volatile for smaller employers that are more sensitive to individual membership changes – pooling across a group of employers minimises this. In a contribution rate pool, contributions are set to target full funding for the pool as a whole, rather than for individual employers.

Employers in a pool maintain their individual funding positions, tracked by the fund actuary. That means some employers may be better funded or more poorly funded than the pool average. If pooled employers used stand-alone funding rather than pooling, their contribution rates could be higher or lower than the pool rate. Setting contributions in this way means that while the fund receives the contributions required, the risk that employers develop a surplus or deficit increases.

Pooled employers are identified in the rates and adjustments certificate and only have their pooled contributions certified. Individual contribution rates aren't disclosed to pooled employers, unless agreed by the administering authority.

2.5 What are the current contribution pools?

- Council – the council pool includes various employers associated with the council including maintained schools. Academies are also permitted to elect to pay the council contribution rate.
- Multi Academy Trusts – academies in the Fund who operate under the same multi academy trust are permitted to pay a MAT contribution rate.

2.6 Administering authority discretion

Individual employers may be affected by circumstances not easily managed within the FSS rules and policies. If this happens, the administering authority may adopt alternative funding approaches on a case-by-case basis.

Additionally, the administering authority may allow greater flexibility to the employer's contributions if added security is provided. Flexibility could include things like a reduced contribution rate, extended time horizon, or permission to join a pool. Added security may include a suitable bond, a legally binding guarantee from an appropriate third party, or security over an asset.

The fund may permit the prepayment of employer contributions in specific circumstances. Further details are available on request.

3 What additional contributions may be payable?

3.1 Pension costs – awarding additional pension and early retirement on non ill-health grounds

If an employer awards additional pension as an annual benefit amount, they pay an additional contribution to the fund as a single lump sum. The amount is set by guidance issued by the Government Actuary's Department and updated from time to time.

If an employee retires before their normal retirement age on unreduced benefits, employers will be asked to pay additional contributions called strain payments.

Employers typically make strain payments as a single lump sum, though strain payments may be spread over an appropriate period if the administering authority agrees.

3.2 Pension costs – early retirement on ill-health grounds

If a member retires early because of ill-health, their employer must pay a funding strain, which may be a large sum.

To mitigate this, employers may choose to use external insurance.

4 How does the fund calculate assets and liabilities?

4.1 How are employer asset shares calculated?

The fund adopts a cashflow approach to track individual employer assets.

Each fund employer has a notional share of the fund's assets, which is assessed yearly by the actuary. The actuary starts with assets from the previous year-end, adding cashflows paid in/out and investment returns to give a new year-end asset value. The fund actuary makes a simplifying assumption, that all cashflow and investment returns have been paid uniformly over the year. This assumption means that the sum of all employers' asset values is slightly different from the whole fund asset total over time. This minimal difference is split between employers in proportion to their asset shares at each valuation.

If an employee moves one from one employer to another within the fund, assets equal to the cash equivalent transfer value (CETV) will move from the original employer to the receiving employer's asset share.

Alternatively, if employees move when a new academy is formed or an outsourced contract begins, the fund actuary will calculate assets linked to the value of the liabilities transferring (see section 4).

4.2 How are employer liabilities calculated?

The fund holds membership data for all active, deferred and pensioner members. Based on this data and the assumptions in Appendix D, the fund actuary projects the expected benefits for all members into the future. This is expressed as a single value – the liabilities – by allowing for expected future investment returns.

Each employer's liabilities reflect the experience of their own employees and ex-employees.

4.3 What is a funding level?

An employer's funding level is the ratio of the market value of asset share against liabilities. If this is less than 100%, the employer has a shortfall: the employer's deficit. If it is more than 100%, the employer is in surplus. The amount of deficit or surplus is the difference between the asset value and the liabilities value.

Funding levels and deficit/surplus values measure a particular point in time, based on a particular set of future assumptions. While this measure is of interest, for most employers the main issue is the level of contributions payable. The funding level does not directly drive contribution rates. See section 2 for further information on rates.

5 What happens when an employer joins the fund?

5.1 When can an employer join the fund

Employers can join the fund if they are a new scheduled body or a new admission body. New designated employers may also join the fund if they pass a designation to do so.

On joining, the fund will determine the assets and liabilities for that employer within the Fund. The calculation will depend on the type of employer and the circumstances of joining.

A contribution rate will also be set. This will be set in accordance with the calculation set out in Section 2, unless alternative arrangements apply (for example, the employer has agreed a pass-through arrangement). More details on this are in Section 5.4 below.

5.2 New academies

New academies (including free schools) join the fund as separate scheduled employers. Only active members of former council schools transfer to new academies. Free schools do not transfer active members from a converting school but must allow new active members to transfer in any eligible service.

Liabilities for transferring active members will be calculated (on the ongoing basis) by the fund actuary on the day before conversion to an academy. Liabilities relating to the converting school's former employees (ie members with deferred or pensioner status) remain with the ceding council.

New academies will be allocated an asset share based on the estimated funding level of the ceding council's active members, having first allocated the council's assets to fully fund their deferred and pensioner members. This funding level will then be applied to the transferring liabilities to calculate the academy's initial asset share, capped at a maximum of 100%.

The council's estimated funding level will be based on market conditions on the day before conversion. The fund treats new academies as separate employers in their own right, who are responsible for their allocated assets and liabilities.

For contribution rate purposes there are three options:

- The new academies' individual contribution rate will be calculated based on the current funding strategy (set out in section 2) and the transferring membership.
- If they are part of a MAT, the new academy can be combined with the other academies in the same MAT to set a combined MAT contribution rate.
- The new academy may elect to pay the council contribution rate.

If an academy leaves one MAT and joins another, all active, deferred and pensioner members transfer to the new MAT.

The fund's policies on academies may change based on updates to guidance from the Department for Levelling Up, Housing and Communities or the Department for Education. Any changes will be communicated and reflected in future funding strategy statements.

The Fund's full policy on academy participation is detailed in Appendix X.

5.3 New admission bodies as a results of outsourcing services

New admission bodies usually join the fund because an existing employer (usually a scheduled body like a council or academy) outsources a service to another organisation (a contractor). This involves TUPE transfers of staff from the letting employer to the contractor. The contractor becomes a new participating fund employer for the duration of the contract and transferring employees remain eligible for LGPS membership. At the end of the contract, employees typically revert to the letting employer or a replacement contractor.

Liabilities for transferring active members will be calculated by the fund actuary on the day before the outsourcing occurs.

New contractors will be allocated an asset share equal to the value of the transferring liabilities. The admission agreement may set a different initial asset allocation, depending on contract-specific circumstances.

There is flexibility for outsourcing employers when it comes to pension risk potentially taken on by the contractor. You can find more details on outsourcing options from the administering authority or in the contract admission agreement.

The Fund's policy is to require all new admission bodies to be set up with a pass-through arrangement. The Fund's policy on pass through is detailed in Appendix X.

5.4 Other new employers

There may be other circumstances that lead to a new admission body entering the fund, eg set up of a wholly owned subsidiary company by a Local Authority. Calculation of assets and liabilities on joining and a contribution rate will be carried out allowing for the circumstances of the new employer.

New designated employers may also join the fund. These are usually town and parish councils. Contribution rates will be set using the same approach as other designated employers in the fund.

5.5 Risk assessment for new admission bodies

Under the LGPS regulations, a new admission body must assess the risks it poses to the fund if the admission agreement ends early, for example if the admission body becomes insolvent or goes out of business. In practice, the fund actuary assesses this because the assessment must be carried out to the administering authority's satisfaction.

After considering the assessment, the administering authority may decide the admission body must provide security, such as a guarantee from the letting employer, an indemnity or a bond.

This must cover some or all of the:

- strain costs of any early retirements, if employees are made redundant when a contract ends prematurely
- allowance for the risk of assets performing less well than expected
- allowance for the risk of liabilities being greater than expected
- allowance for the possible non-payment of employer and member contributions
- admission body's existing deficit.

The Fund's admissions policy is detailed in Appendix X.

6 What happens if an employer has a bulk transfer of staff?

Bulk transfer cases will be looked at individually, but generally:

- the fund won't pay bulk transfers greater in value than either the asset share of the transferring employer in the fund, or the value of the liabilities of the transferring members, whichever is lower
- the fund won't grant added benefits to members bringing in entitlements from another fund, unless the asset transfer is enough to meet the added liabilities
- the fund may permit shortfalls on bulk transfers if the employer has a suitable covenant and commits to meeting the shortfall in an appropriate period, which may require increased contributions between valuations.

The bulk transfer policy is [available from the administering authority] OR [link] OR [in Appendix X].

7 What happens when an employer leaves the fund?

7.1 What is a cessation event?

Triggers for considering cessation from the fund are:

- the last active member stops participation in the fund. The administering authority, at their discretion, can defer acting for up to three years by issuing a suspension notice. That means cessation won't be triggered if the employer takes on one or more active members during the agreed time
- insolvency, winding up or liquidation of the admission body
- a breach of the agreement obligations that isn't remedied to the fund's satisfaction
- failure to pay any sums due within the period required
- failure to renew or adjust the level of a bond or indemnity, or to confirm an appropriate alternative guarantor
- termination of a deferred debt arrangement (DDA).

If no DDA exists, the administering authority will instruct the fund actuary to carry out a cessation valuation to calculate if there is a surplus or a deficit when the fund leaves the scheme.

7.2 What happens on cessation?

The administering authority must protect the interests of the remaining fund employers when an employer leaves the scheme. The actuary aims to protect remaining employers from the risk of future loss. The funding target adopted for the cessation calculation is below. These are defined in Appendix D.

(a) Where there is no guarantor, cessation liabilities and a final surplus/deficit will usually be calculated using a low-risk basis, which is more prudent than the ongoing participation basis. The low-risk exit basis is defined in Appendix D.

(b) Where there is a guarantor, the guarantee will be considered before the cessation valuation. Where the guarantor is a guarantor of last resort, this will have no effect on the cessation valuation. If this isn't the case, cessation may be calculated using the same basis that was used to calculate liabilities (and the corresponding asset share) on joining the fund.

(c) Depending on the guarantee, it may be possible to transfer the employer's liabilities and assets to the guarantor without crystallising deficits or surplus. This may happen if an employer can't pay the contributions due and the approach is within guarantee terms.

If the fund can't recover the required payment in full, unpaid amounts will be paid by the related letting authority (in the case of a ceased admission body) or shared between the other fund employers. This may require an immediate revision to the rates and adjustments certificate or be reflected in the contribution rates set at the next formal valuation.

The fund actuary charges a fee for cessation valuations and there may be other cessation expenses. Fees and expenses are at the employer's expense and are deducted from the cessation surplus or added to the cessation deficit. This improves efficiency by reducing transactions between employer and fund.

The cessation policy is in Appendix F.

7.3 What happens if there is a surplus?

If the cessation valuation shows the exiting employer has more assets than liabilities – an exit credit – the administering authority can decide how much will be paid back to the employer based on:

- the surplus amount
- the proportion of the surplus due to the employer's contributions
- any representations (like risk sharing agreements or guarantees) made by the exiting employer and any employer providing a guarantee or some other form of employer assistance/support
- any other relevant factors.

The exit credit policy is [available from the administering authority] OR [link] OR [in Appendix X].

7.4 How do employers repay cessation debts?

If there is a deficit, full payment will usually be expected in a single lump sum or:

- spread over an agreed period, if the employer enters into a deferred spreading agreement
- if an exiting employer enters into a deferred debt agreement, it stays in the fund and pays contributions until the cessation debt is repaid. Payments are reassessed at each formal valuation.

The employer flexibility on exit policy is [available from the administering authority] OR [link] OR [in Appendix X].

7.5 What if an employer has no active members?

When employers leave the fund because their last active member has left, they may pay a cessation debt, receive an exit credit or enter a DDA/DSA. Beyond this they have no further obligation to the fund and either:

a) their asset share runs out before all ex-employees' benefits have been paid. The other fund employers will be required to contribute to the remaining benefits. The fund actuary will portion the liabilities on a pro-rata basis at each formal valuation

b) the last ex-employee or dependant dies before the employer's asset share is fully run down. The fund actuary will apportion the remaining assets to the other fund employers.

8 What are the statutory reporting requirements?

8.1 Reporting regulations

The Public Service Pensions Act 2013 requires the Government Actuary's Department to report on LGPS funds in England and Wales after every three-year valuation, in what's usually called a section 13 report. The report should include confirmation that employer contributions are set at the right level to ensure the fund's solvency and long-term cost efficiency.

8.2 Solvency

Employer contributions are set at an appropriate solvency level if the rate of contribution targets a funding level of 100% over an appropriate time, using appropriate assumptions compared to other funds. Either:

(a) employers collectively can increase their contributions, or the fund can realise contingencies to target a 100% funding level

or

(b) there is an appropriate plan in place if there is, or is expected to be, a reduction in employers' ability to increase contributions as needed.

8.3 Long-term cost efficiency

Employer contributions are set at an appropriate long-term cost efficiency level if the contribution rate makes provision for the cost of current benefit accrual, with an appropriate adjustment for any surplus or deficit.

To assess this, the administering authority may consider absolute and relative factors.

Relative factors include:

1. comparing LGPS funds with each other
2. the implied deficit recovery period
3. the investment return required to achieve full funding after 20 years.

Absolute factors include:

1. comparing funds with an objective benchmark
2. the extent to which contributions will cover the cost of current benefit accrual and interest on any deficit
3. how the required investment return under relative considerations compares to the estimated future return targeted by the investment strategy
4. the extent to which contributions paid are in line with expected contributions, based on the rates and adjustment certificate
5. how any new deficit recovery plan reconciles with, and can be a continuation of, any previous deficit recovery plan, allowing for fund experience.

These metrics may be assessed by GAD on a standardised market-related basis where the fund's actuarial bases don't offer straightforward comparisons.

Appendices

Appendix A – The regulatory framework

A1 Why do funds need a funding strategy statement?

The Local Government Pension Scheme (LGPS) regulations require funds to maintain and publish a funding strategy statement (FSS). According to the Department for Levelling Up, Housing and Communities (DLUHC) the purpose of the FSS is to document the processes the administering authority uses to:

- *establish a **clear and transparent fund-specific strategy** identifying how employers' pension liabilities are best met going forward*
- *support the regulatory framework to maintain **as nearly constant employer contribution rates as possible***
- *ensure the fund meets its **solvency and long-term cost efficiency** objectives*
- *take a **prudent longer-term view** of funding those liabilities.*

To prepare this FSS, the administering authority has used guidance by the Chartered Institute of Public Finance and Accountancy (CIPFA).

A2 Consultation

Both the LGPS regulations and most recent CIPFA guidance state the FSS should be prepared in consultation with "*persons the authority considers appropriate*". This should include '*meaningful dialogue… with council tax raising authorities and representatives of other participating employers*'.

The consultation process included issuing a draft version to participating employers and inviting comments.

A3 How is the FSS published?

The FSS is made available through the following routes:

- publishing on the fund's website at www.isleofwightpensionfund.org
- emailing copies to each employer
- including the full statement in the annual report and accounts
- making copies freely 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 valuation. Amendments may be made before then if there are regulatory or operational changes. Any amendments will be consulted on, agreed by the Pensions Committee and included in the Committee meeting minutes.

A5 How does the FSS fit into the overall fund documentation?

The FSS is a summary of the fund's approach to funding liabilities. It isn't exhaustive – the fund publishes other statements like the statement of investment principles, investment strategy statement, governance strategy and communications strategy. The fund's annual report and accounts also includes up-to-date fund information.

You can see all fund documentation at www.isleofwightpensionfund.org.

Appendix B – Roles and responsibilities

B1 The administering authority:

1 operates the fund and follows all Local Government Pension Scheme (LGPS) regulations

2 manages any conflicts of interest from its dual role as administering authority and a fund employer

3 collects employer and employee contributions, investment income and other amounts due

4 ensures cash is available to meet benefit payments when due

5 pays all benefits and entitlements

6 invests surplus money like contributions and income which isn't needed to pay immediate benefits, in line with regulation and the investment strategy

7 communicates with employers so they understand their obligations

8 safeguards the fund against employer default

9 works with the fund actuary to manage the valuation process

10 provides information to the Government Actuary's Department so they can carry out their statutory obligations

11 consults on, prepares and maintains the funding and investment strategy statements

12 tells the actuary about changes which could affect funding

13 monitors the fund's performance and funding, amending the strategy statements as necessary

14 enables the local pension board to review the valuation process.

B2 Individual employers:

1 deduct the correct contributions from employees' pay

2 pay all contributions by the due date

3 have appropriate policies in place to work within the regulatory framework

4 make additional contributions as agreed, for example to augment scheme benefits or early retirement strain

5 tell the administering authority promptly about any changes to circumstances, prospects or membership which could affect future funding.

6 make any required exit payments when leaving the fund.

B3 The fund actuary:

1 prepares valuations, including setting employers' contribution rates, agreeing assumptions, working within FSS and LGPS regulations and appropriately targeting fund solvency and long-term cost efficiency

2 provides information to the Government Actuary Department so they can carry out their statutory obligations

3 advises on fund employers, including giving advice about and monitoring bonds or other security

4 prepares advice and calculations around bulk transfers and individual benefits

5 assists the administering authority to consider changes to employer contributions between formal valuations

6 advises on terminating employers' participation in the fund

7 fully reflects actuarial professional guidance and requirements in all advice.

B4 Other parties:

1 internal and external investment advisers ensure the investment strategy statement (ISS) is consistent with the funding strategy statement

2 investment managers, custodians and bankers play their part in the effective investment and dis-investment of fund assets in line with the ISS

3 auditors comply with standards, ensure fund compliance with requirements, monitor and advise on fraud detection, and sign-off annual reports and financial statements

4 governance advisers may be asked to advise the administering authority on processes and working methods

5 internal and external legal advisers ensure the fund complies with all regulations and broader local government requirements, including the administering authority's own procedures

6 the Department for Levelling Up, Housing and Communities, assisted by the Government Actuary's Department and the Scheme Advisory Board, work with LGPS funds to meet Section 13 requirements.

Appendix C – Risks and controls

C1 Managing risks

The administering authority has a risk management programme to identify and control financial, demographic, regulatory and governance risks.

The role of the local pension board is set out in the Isle of Wight Council constitution which can be found at:
https://www.iow.gov.uk/Council/how-it-works/Democratic-Services/Constitution1

Details of the key fund-specific risks and controls are below OR set out in the risk register at {{link}}.

C2 Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities and contribution rates over the long-term.	Only anticipate long-term returns 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.	Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes. Chosen option considered to provide the best balance.
Active investment manager under-performance relative to benchmark.	Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.
Pay and price inflation significantly more than anticipated.	The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Inter-valuation monitoring, as above, gives early warning. Some investment in bonds also 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.

Risk	Summary of Control Mechanisms
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.
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.

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. If deemed to be worthwhile, the possibilities of mortality hedging may be investigated.
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 contribution increases. For other employers, review of contributions is permitted in general between valuations 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 outcome of the McCloud court case has been built into the liabilities at the 2022 valuation. The government's long term preferred solution to GMP indexation and equalisation - conversion of GMPs to scheme benefits - was built into the 2022 valuation.
Time, cost and/or reputational risks associated with any MHCLG intervention triggered by the Section 13 analysis.	Take advice from Fund Actuary on position of Fund as at prior valuation, and consideration of proposed valuation approach relative to anticipated Section 13 analysis.
Changes by Government to particular employer participation in LGPS Funds, leading to impacts on funding and/or investment strategies.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate. The ongoing funding of FE/HE bodies is being considered as part of the 2022 valuation.

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 Actuary may revise the rates and Adjustments certificate to increase an employer's contributions 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.

Risk	Summary of Control Mechanisms
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 (Transferee Admission Bodies) to inform it of forthcoming changes. Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.
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. 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. Requiring new Community Admission Bodies to have a guarantor. Reviewing bond or guarantor arrangements at regular intervals. Reviewing contributions well ahead of cessation if thought appropriate.
An employer ceasing to exist resulting in an exit credit being payable	The Administering Authority regularly monitors admission bodies coming up to cessation The Administering Authority invests in liquid assets to ensure that exit credits can be paid when required.

C6 Employer covenant assessment and monitoring

Many of the employers participating in the fund, such as admitted bodies (including TABs and CABs), have no local tax-raising powers. The fund assesses and monitors the long-term financial health of these employers to assess an appropriate level of risk for each employer's funding strategy.

C7 Climate risk and TCFD reporting

The fund has considered climate-related risks when setting the funding strategy. To consider the resilience of the strategy the fund has the fund included climate scenario stress testing in the contribution modelling exercise at the 2022 valuation. The modelling results under the stress tests were slightly worse than the core results but were still within risk tolerance levels, particularly given the severity of the stresses applied. The results provide assurance that the modelling approach does not significantly underestimate the potential impact of climate change and that the funding strategy is resilient to climate risks. The results of these stress tests may be used in future to assist with disclosures prepared in line with Task Force on Climate-Related Financial Disclosures (TCFD) principles.

Appendix D – Actuarial assumptions

The fund's actuary uses a set of assumptions to determine the strategy, and so assumptions are a fundamental part of the funding strategy statement.

D1 What are assumptions?

Assumptions are used to estimate the benefits due to be paid to members. Financial assumptions determine the amount of benefit to be paid to each member, and the expected investment return on the assets held to meet those benefits. Demographic assumptions are used to work out when benefit payments are made and for how long.

The funding target is the money the fund aims to hold to meet the benefits earned to date.

Any change in the assumptions will affect the funding target and contribution rate, but different assumptions don't affect the actual benefits the fund will pay in future.

D2 What assumptions are used to set the contribution rate?

The fund doesn't rely on a single set of assumptions when setting contribution rates, instead using Hymans Robertson's Economic Scenario Service (ESS) to project each employer's assets, benefits and cashflows to the end of the funding time horizon.

ESS projects future benefit payments, contributions and investment returns under 5,000 possible economic scenarios, using variables for future inflation and investment returns for each asset class, rather than a single fixed value.

For any projection, the fund actuary can assess if the funding target is satisfied at the end of the time horizon.

Table: Summary of assumptions underlying the ESS, 31 March 2022

		Annualised total returns														
		Fixed Interest Gilts (medium)	UK Equity	Property	UK Infrastructure Debt	Diversified Growth Fund (medium equity beta)	All World Equity GBP Hedged	Asset Backed Securities (A rated) GBP	Direct Lending (private debt) GBP Hedged	CorpMedium A Medium	Inflation (RPI)	17 year real yield (RPI)	Inflation (CPI)	17 year real yield (CPI)	17 year yield
5 years	16th %'ile	-1.4%	-2.7%	-2.5%	-1.7%	0.1%	-2.8%	0.9%	0.8%	-0.6%	3.4%	-2.3%	2.3%	-2.2%	1.1%
	50th %'ile	1.1%	5.5%	4.0%	2.0%	4.0%	5.7%	2.3%	5.8%	2.5%	4.9%	-1.4%	3.9%	-1.3%	2.1%
	84th %'ile	3.6%	13.9%	11.0%	5.6%	7.8%	14.1%	3.5%	10.7%	5.3%	6.5%	-0.5%	5.5%	-0.4%	3.3%
10 years	16th %'ile	-0.3%	-0.4%	-0.6%	-0.3%	1.4%	-0.3%	1.2%	2.7%	0.5%	2.4%	-1.7%	1.6%	-1.7%	1.1%
	50th %'ile	1.1%	5.7%	4.4%	2.2%	4.3%	5.9%	2.6%	6.0%	2.3%	4.1%	-0.5%	3.3%	-0.5%	2.5%
	84th %'ile	2.4%	11.6%	9.5%	4.3%	7.1%	11.9%	4.0%	9.2%	4.0%	5.7%	0.7%	4.9%	0.7%	4.3%
20 years	16th %'ile	0.7%	1.7%	1.4%	1.2%	2.5%	1.9%	1.7%	4.3%	1.7%	1.6%	-0.7%	1.2%	-0.7%	1.3%
	50th %'ile	1.5%	6.2%	5.0%	2.7%	4.9%	6.4%	3.3%	6.8%	2.7%	3.1%	1.0%	2.7%	1.1%	3.2%
	84th %'ile	2.2%	10.6%	8.9%	4.2%	7.4%	11.0%	5.1%	9.2%	3.8%	4.7%	2.7%	4.3%	2.7%	5.7%
	Volatility (Disp) (1 yr)	7%	20%	15%	9%	9%	20%	3%	12%	9%	1%		1%		

D3 What financial assumptions were used?

Future investment returns and discount rate

The fund uses a risk-based approach to generate assumptions about future investment returns over the funding time horizon, based on the investment strategy.

The discount rate is the annual rate of future investment return assumed to be earned on assets after the end of the funding time horizon. The discount rate assumption is set as a margin above the risk-free rate.

Assumptions for future investment returns depend on the funding objective.

	Employer type	Margin above risk-free rate
Ongoing basis	All employers except transferee admission bodies and closed community admission bodies	1.8%
Low-risk exit basis	Community admission bodies closed to new entrants	0%

Discount rate (for funding level calculation as at 31 March 2022 only)

For the purpose of calculating a funding level at the 2022 valuation, a discount rate of 3.7% applies. This is based on a prudent estimate of investment returns, specifically, that there is an 75% likelihood that the fund's assets will future investment returns of 3.7% over the 20 years following the 2022 valuation date.

Pension increases and CARE revaluation

Deferment and payment increases to pensions and revaluation of CARE benefits are in line with the Consumer Price Index (CPI) and determined by the regulations.

The CPI assumption is based on Hymans Robertson's ESS model. The median value of CPI inflation from the ESS was 2.7% pa on 31 March 2022.

Salary growth

The salary increase assumption at the latest valuation has been set to 1.0% above CPI pa plus a promotional salary scale.

D4 What demographic assumptions were used?

Demographic assumptions are best estimates of future experience. The fund uses advice from Club Vita to set demographic assumptions, as well as analysis and judgement based on the fund's experience.

Demographic assumptions vary by type of member, so each employer's own membership profile is reflected in their results.

Life expectancy

The longevity assumptions are a fund average set of VitaCurves produced by detailed analysis and tailored to fit the fund's membership profile.

Allowance has been made for future improvements to mortality, in line with the 2021 version of the continuous mortality investigation (CMI) published by the actuarial profession. The starting point has been adjusted by +0.25% to reflect the difference between the population-wide data used in the CMI and LGPS membership. A long-term rate of mortality improvements of 1.5% pa applies.

The smoothing parameter used in the CMI model is 7.0. There is little evidence currently available on the long-term effect of Covid-19 on life expectancies. To avoid an undue impact from recently mortality experience on long-term assumptions, no weighting has been placed on data from 2020 and 2021 in the CMI.

Other demographic assumptions

Retirement in normal health	Members are assumed to retire at the earliest age possible with no pension reduction.
Promotional salary increases	Sample increases below
Death in service	Sample rates below
Withdrawals	Sample rates below
Retirement in ill health	Sample rates below
Family details	A varying proportion of members are assumed to have a dependant partner at retirement or on earlier death. For example, at age 60 this is assumed to be 90% for males and 85% for females. Beyond retirement the proportion is adjusted for assumed dependant mortality. Males are assumed to be 3 years older than females, and partner dependants are assumed to be opposite sex to members.
Commutation	50% of maximum tax-free cash
50:50 option	0.5% of members will choose the 50:50 option.

Males

Incidence per 1000 active members per year									
Age	Salary scale	Death before retirement	Withdrawals		Ill-health tier 1		Ill-health tier 2	
		FT &PT	FT	PT	FT	PT	FT	PT
20	105	0.17	444.74	975.61	0	0	0	0
25	117	0.17	293.77	644.43	0	0	0	0
30	131	0.2	208.44	457.17	0	0	0	0
35	144	0.24	162.85	357.15	0.1	0.07	0.02	0.01
40	150	0.41	131.12	287.46	0.16	0.12	0.03	0.02
45	157	0.68	123.16	269.95	0.35	0.27	0.07	0.05
50	162	1.09	101.52	222.27	0.9	0.68	0.23	0.17
55	162	1.7	79.95	175.12	3.54	2.65	0.51	0.38
60	162	3.06	71.25	156.02	6.23	4.67	0.44	0.33

Females

Incidence per 1000 active members per year									
Age	Salary scale	Death before retirement	Withdrawals		Ill-health tier 1		Ill-health tier 2	
		FT &PT	FT	PT	FT	PT	FT	PT
20	105	0.1	422.91	560.85	0	0	0	0
25	117	0.1	284.56	377.33	0.1	0.07	0.02	0.01
30	131	0.14	238.54	316.25	0.13	0.1	0.03	0.02
35	144	0.24	205.88	272.86	0.26	0.19	0.05	0.04

40	150	0.38	171.35	227.01	0.39	0.29	0.08	0.06
45	157	0.62	159.9	211.81	0.52	0.39	0.1	0.08
50	162	0.9	134.81	178.38	0.97	0.73	0.24	0.18
55	162	1.19	100.59	133.24	3.59	2.69	0.52	0.39
60	162	1.52	81.07	107.24	5.71	4.28	0.54	0.4

D5 What assumptions apply in a cessation valuation following an employer's exit from the fund?

Low-risk exit basis

Where there is no guarantor, the low-risk exit basis will apply.

The financial and demographic assumptions underlying the low-risk exit basis are explained below:

1. The discount rate is set equal to the annualised yield on long dated government bonds at the cessation date, with a 0% margin. This was 1.7% pa on 31 March 2022.
2. The CPI assumption is based on Hymans Robertson's ESS model. The median value of CPI inflation from the ESS was 2.7% pa on 31 March 2022.
3. Life expectancy assumptions are the same as the ongoing basis.

Appendix E – Contribution review policy

Aims and objectives

The Fund's aims and objectives related to this policy are as follows:

- To provide employers with clarity around the circumstances where contribution rates may be reviewed between valuations.
- To outline specific circumstances where contribution rates will not be reviewed.

Background

The Fund may amend contribution rates between valuations for a 'significant change' to the liabilities or covenant of an employer.

Such reviews may be instigated by the fund or at the request of a participating employer.

Any review may lead to a change in the required contributions from the employer.

Guidance and regulatory framework

Regulation 64 of the Local Government Pension Scheme Regulations 2013 (as amended) sets out the way in which LGPS funds should determine employer contributions, including the following:

- Regulation 64 (4) – allows the Fund to review the contribution rate if it becomes likely that an employer will cease participation in the Fund, with a view to ensuring that the employer is fully funded at the expected exit date.
- Regulation 64A - sets out specific circumstances where the Fund may revise contributions between valuations (including where a review is requested by one or more employers).

This policy also reflects statutory guidance from the Department for Levelling Up, Housing and Communities on preparing and maintaining policies relating to the review of employer contributions. Interested parties may want to refer to an accompanying guide that has been produced by the Scheme Advisory Board.

Statement of principles

This statement of principles covers review of contributions between valuations. Each case will be treated on its own merits, but in general:

- The Fund reserves the right to review contributions in line with the provisions set out in the LGPS Regulations.
- The decision to make a change to contribution rates rests with the Fund, subject to consultation with employers during the review period.
- Full justification for any change in contribution rates will be provided to affected employers.
- Advice will be taken from the Fund Actuary in respect of any review of contribution rates.
- Any revision to contribution rates will be reflected in the Rates & Adjustment certificate.

Circumstances for review

The Fund would consider one or more of the following circumstances as a potential trigger for review:

- in the opinion of the Fund there are circumstances which make it likely that an employer (including an admission body) will become an exiting employer sooner than anticipated at the last valuation;
- an employer is approaching exit from the Fund within the next two years and before completion of the next triennial valuation;
- there are changes to the benefit structure set out in the LGPS Regulations which have not been allowed for at the last valuation;
- it appears likely to the Fund that the amount of the liabilities arising or likely to arise for an employer or employers has changed significantly since the last valuation;
- it appears likely to the Fund that there has been a significant change in the ability of an employer or employers to meet their obligations (e.g. a material change in employer covenant, or provision of additional security);
- it appears to the Fund that the membership of the employer has changed materially such as bulk transfers, significant reductions to payroll or large-scale restructuring; or
- where an employer has failed to pay contributions or has not arranged appropriate security as required by the Fund.

Employer requests

The Fund will also consider a request from any employer to review contributions where the employer has undertaken to meet the costs of that review and sets out the reasoning for the review (which would be expected to fall into one of the above categories, such as a belief that their covenant has changed materially, or they are going through a significant restructuring impacting their membership).

The Fund will require additional information to support a contribution review made at the employer's request. The specific requirements will be confirmed following any request and this is likely to include the following:

- a copy of the latest accounts;
- details of any additional security being offered (which may include insurance certificates);
- budget forecasts; and/or
- information relating to sources of funding.

The costs incurred by the Fund in carrying out a contribution review (at the employer's request) will be met by the employer. These will be confirmed upfront to the employer prior to the review taking place.

Other employers

When undertaking any review of contributions, the Fund will also consider the impact of a change to contribution rates on other Fund employers. This will include the following factors:

- The existence of a guarantor.

- The amount of any other security held.
- The size of the employer's liabilities relative to the whole Fund.

The Fund will consult with other Fund employers as necessary.

Effect of market volatility

Except in circumstances such as an employer nearing cessation, the Fund will not consider market volatility or changes to asset values as a basis for a change in contributions outside a formal triennial valuation.

Documentation

Where revisions to contribution rates are necessary, the Fund will provide the employer with a note of the information used to determine these, including:

- Explanation of the key factors leading to the need for a review of the contribution rates, including, if appropriate, the updated funding position.
- A note of the new contribution rates and effective date of these.
- Date of next review.
- Details of any processes in place to monitor any change in the employer's circumstances (if appropriate), including information required by the Fund to carry out this monitoring.

The Rates & Adjustments certificate will be updated to reflect the revised contribution rates

Appendix F – Cessation policy

On cessation, the Administering Authority will instruct the Fund Actuary to carry out a cessation valuation to determine whether there is any surplus or deficit.

F1 – Where there is a surplus on exit

Exit Credits

Where there is a surplus, the administering authority will determine the amount of exit credit to be paid in accordance with the Regulations.

The administering authority's entitlement to determine whether exit credits are payable shall apply to all employers ceasing their participation in the fund after 14 May 2018. This provision therefore is retrospectively effective to the same extent as provisions of the Local Government Pension Scheme (Amendment) Regulations 2020.

The administering authority may determine the amount of exit credit payable to be zero, however, in making a determination, the Administering Authority will take into account the following factors.

a) the extent to which there is an excess of assets in the fund relating to the employer over and above the liabilities specified.

b) the proportion of the excess of assets which has arisen because of the value of the employer's contributions.

c) any representations to the Administering Authority made by the exiting employer, guarantor, ceding Scheme Employer (usually the Letting Authority) or by a body which owns, funds or controls the exiting employer; or in some cases, the Secretary of State.

d) any other relevant factors

F2 – Where there is a deficit on exit

Where there is a deficit, payment of this amount in full would normally be sought from the exiting employer. The Fund's normal policy is that this cessation debt is paid in full as a single lump sum.

Deferred spreading arrangement (DSA)

However, the fund will consider written requests from exiting employers to spread an exit payment over an agreed period, in the exceptional circumstance where payment of the debt in a single immediate lump sum could be shown by the employer to be materially detrimental to the employer's financial situation.

In this exceptional case, the fund's policy is:

- The agreed spread period is no more than three years, but the fund could use its discretion to extend this period in extreme circumstances.
- The fund may consider factors such as the size of the exit payment and the financial covenant of the exiting employer in determining an appropriate spreading period.

- The exiting employer may be asked to provide the administering authority with relevant financial information such as a copy of its latest accounts, sources of funding, budget forecasts, credit rating (if any) etc. to help in this determination.
- Payments due under the DSA may be subject to an interest charge.
- The fund will only consider written requests within six months of the employer exiting the fund. The exiting employer would be required to provide the fund with detailed financial information to support its request.
- The Fund would take into account the amount of any security offered and seek actuarial, covenant and legal advice in all cases.
- The Fund proposes a legal document, setting out the terms of the exit payment agreement, would be prepared by the fund and signed by all relevant parties prior to the payment agreement commencing.
- The terms of the legal document should include reference to the spreading period, the annual payments due, interest rates applicable, other costs payable and the responsibilities of the exiting employer during the exit spreading period.
- Any breach of the agreed payment plan would require payment of the outstanding cessation amount immediately.

Deferred Debt Agreement (DDA)

The fund's preferred policy is for the spreading of payments, as detailed above, to be followed in the exceptional circumstances where an exiting employer is unable to pay the required cessation payment as a lump sum in full. However, in the event that spreading of payments will create a high risk of bankruptcy for the exiting employer, the fund may exercise its discretion to set up a deferred debt agreement as described in Regulation 64 (7A)).

The employer must meet all requirements on Scheme employers and pay the secondary rate of contributions as determined by the Fund actuary until the termination of the DDA.

The Administering Authority may consider a DDA in the following circumstances:

- The employer requests the Fund consider a DDA.
- The employer is expected to have a deficit if a cessation valuation was carried out.
- The employer is expected to be a going concern.
- The covenant of the employer is considered sufficient by the administering authority.

The Administering Authority will normally require:

- A legal document to be prepared, setting out the terms of the DDA and signed by all relevant parties prior to the arrangement commencing.(including details of the time period of the DDA, the annual payments due, the frequency of review and the responsibilities of the employer during the period).
- Relevant financial information for the employer such as a copy of its latest accounts, sources of funding, budget forecasts, credit rating (if any) to support its covenant assessment.
- Security be put in place covering the employer's deficit on their cessation basis and the Fund will seek actuarial, covenant and legal advice in all cases.
- Regular monitoring of the contribution requirements and security requirements

- All costs of the arrangement are met by the employer, such as the cost of advice to the fund, ongoing monitoring or the arrangement and correspondence on any ongoing contribution and security requirements.

A DDA will normally terminate on the first date on which one of the following events occurs:

- The employer enrols new active fund members.
- The period specified, or as varied, under the DDA elapses.
- The take-over, amalgamation, insolvency, winding up or liquidation of the employer.
- The administering authority serves a notice on the employer that the Administering Authority is reasonably satisfied that the employer's ability to meet the contributions payable under the DDA has weakened materially or is likely to weaken materially in the next 12 months.
- The Fund actuary assesses that the employer has paid sufficient secondary contributions to cover all (or almost all) of the exit payment due if the employer becomes an exiting employer on the calculation date (i.e. employer is now largely fully funded on their low risk basis).
- The Fund actuary assesses that the employer's value of liabilities has fallen below an agreed *de minimis* level and the employer becomes an exiting employer on the calculation date.
- The employer requests early termination of the agreement and settles the exit payment in full as calculated by the fund actuary on the calculation date (i.e. the employer pays their outstanding cessation debt on their cessation basis).

On the termination of a DDA, the employer will become an exiting employer and a cessation valuation will be completed in line with this policy.

HYMANS ROBERTSON

2022 LGPS National Knowledge Assessment

Isle of Wight Pension Fund

Contents

Overview

The LGPS National Knowledge Assessment (NKA) provides LGPS funds with a direct insight into the knowledge and skills of their key decision makers and oversight body.

In addition, funds get a 'sense check' of this knowledge position against other participating funds via the benchmarking reports provided.

16 LGPS funds and over 200 members have participated in this National Knowledge Assessment of Pension Committee ('Committee') and Pension Board ('Board') members.

The findings from this assessment provide a quantitative report of the current knowledge levels of the individuals responsible for running the Fund, aiding the development of more appropriately targeted and tailored training plans for both groups.

This report is also a key document in evidencing your Fund commitment to training – a key cornerstone to the good governance of your Fund.

Background

The Isle of Wight Pension Fund ("the Fund") agreed to participate in the NKA using our online assessment.

This report provides an overview of the participants' results broken down into 8 key areas.

The online assessment opened at the end of September and closed in November, and there were weekly progress updates provided to the Fund confirming participation levels.

Each participant received their individual results report following completion of the assessment.

The questions posed in the assessment are split into 3 categories.

- Technical questions
- Roles and responsibilities
- Decision making

Technical questions, made up around two thirds of the questions. The remaining questions were split between the categories of Roles and Responsibilities as well as Decision Making. This helps to provide more in-depth analysis of the results and provides further context to the proposed training plans.

The National Knowledge Assessment is a challenging multiple-choice assessment of participants' knowledge and understanding of key pension areas. There was no expectation that participants would score 100% on each subject area tested. Rather, the goal was to gain a true insight into members' knowledge in the areas covered by the CIPFA Knowledge and Skills Framework and the Pensions Regulator's (TPR) Code of Practice.

Why Does this Matter?

While fund officers may deal with the day-to-day running of the funds, members of the Committee play a vital role in the scheme as decision makers.

To execute their roles effectively, Committee members must be able to address all relevant topics such as investment matters, issues concerning pension funding, pension administration and governance.

All topics which require a level of knowledge and understanding from the Committee. Similarly, the Pension Board members must have a sound knowledge of these topics in order to be able to offer critical challenge in the oversight of Committee decisions.

The Assessment

The members of the Isle of Wight Pension Fund Committee and Board were invited to complete an online knowledge assessment. In total there were 7 respondents from the Committee and 6 respondents from the Board.

Each respondent was given the same set of 48 questions on the 8 areas below:

Section	Section Names
Section 1	Committee Role and Pensions Legislation
Section 2	Pensions Governance
Section 3	Pensions Administration
Section 4	Pensions Accounting and Audit Standards
Section 5	Procurement and Relationship Management
Section 6	Investment Performance and Risk Management
Section 7	Financial Markets and Product Knowledge
Section 8	Actuarial Methods, Standards and Practices

Under each subject heading, there were 6 multiple choice questions to answer. Each question had 4 possible answers, of which one answer was correct.

Participants were also given the option of selecting "I have no knowledge of this area", where they were unsure.

This allows us to build a picture of the knowledge levels of each individual member in each of the topics, but crucially to help inform you of the overall levels of knowledge in each area.

Results

The responses for all members who participated have been collated and analysed. For each section we have shown:

- The Fund's overall ranking against other participating LGPS funds.
- The average score for each of the 8 subject areas, for both the Committee and Board.
- Results split by the categories of "**technical**", "**roles and responsibilities**" and "**decision making**".
- Each average score benchmarked for both groups against the other NKA participant funds' Committee and Board for each of the 8 subject areas.
- Each score compared with the results of the previous assessment in 2020, to show growth or regression in each area.
- Engagement levels for both the Committee and Board and how these levels rank against other LGPS funds.
- The most requested topics for training.

Based on the results and the responses received from participants, we have also completed a proposed training plan for the Fund over the next 18 months, as well as some other "next steps" to consider.

Overall Results

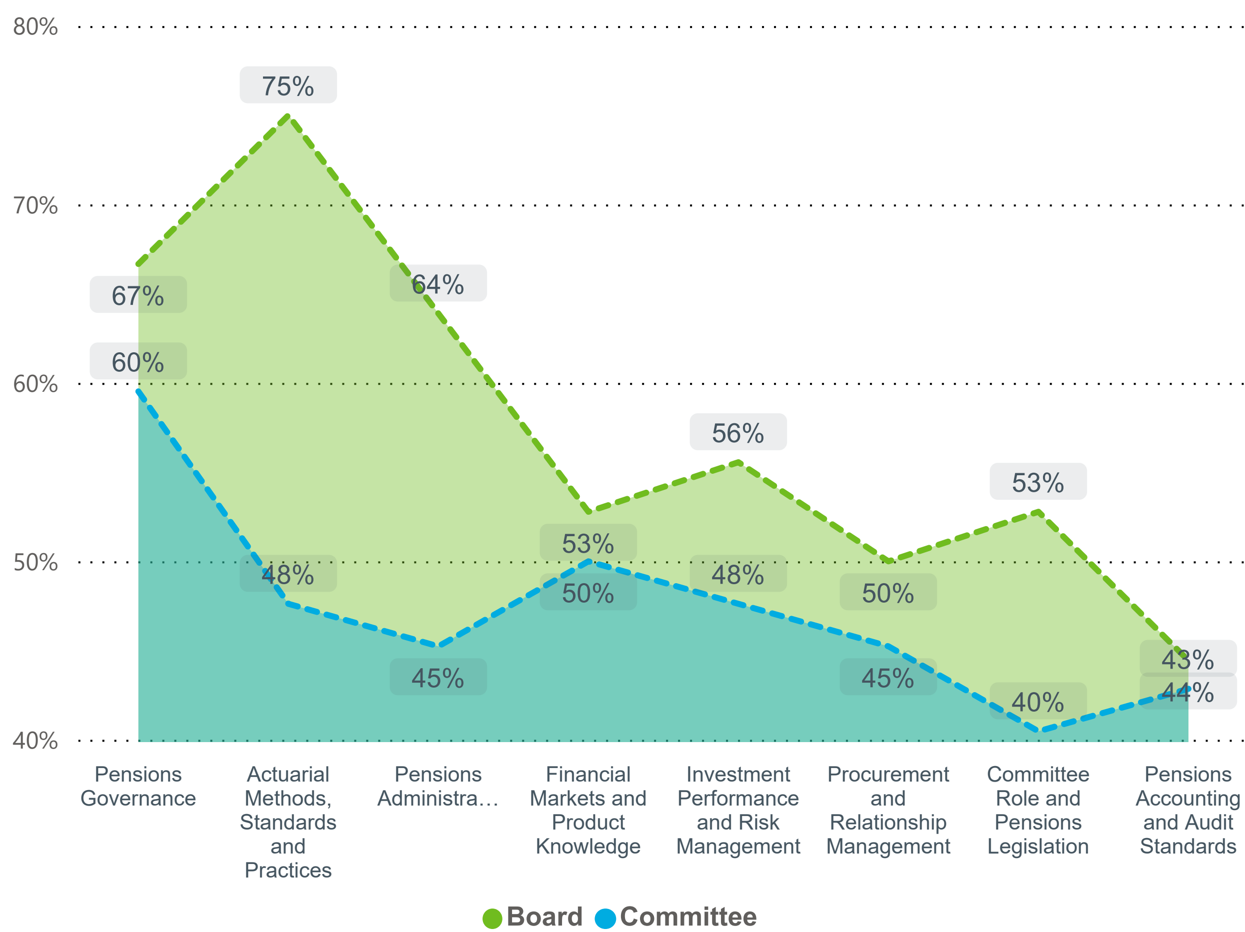
The chart on the right shows how the overall average score for your Fund compares with that of all other funds who took part in the Assessment. The “score” shown is the average score of all participating Committee and Board members from each Fund.

The Isle of Wight Pension Fund is in 13th out of 16 Funds.

For each of the assessment’s 8 areas we have shown the results of both the Committee and Board.

There is also a summary showing the average scores across all sections for the Committee and Board.

Average Score for Board & Committee



For each of the assessment's 8 areas we have shown the results of both the Committee and Board.

These have been shown in the order in which the sections appeared in the survey.

There is also a summary showing the average scores across all sections for the Committee and Board.

- The performance of the Board (average overall score of 58 %) was stronger than that of the Committee (average overall score of 47 %).
- The performance for the Commitee and Board diverged the most in the Actuarial Methods, Standards and Practices section, when Board results were 27 % higher than the Committee.
- The Committee performed most strongly in the area of Pensions Governance and Financial Markets and Product Knowledge.
- The board's areas of strongest Knowledge were Actuarial Methods, Standards and Practices and Pensions Governance.
- Overall, for both groups, the area with least knowledge was Pensions Accounting and Audit Standards.

Benchmarking

As this assessment is being conducted at a national level across numerous LGPS funds, we are able to provide details of how your Fund's results compare to those across the average of all funds who have taken part to date.

We've provided a comparison of the results for both your Fund's Committee and Board, versus the average scores nationally for each group. This gives an idea of the knowledge levels across these groups, relative to the national average.

The intention is that training plans and/or timetables can be tailored to focus on the areas of least knowledge, whilst ensuring the Committee and Board maintain the high level of knowledge in the stronger areas.

- It's pleasing to see that the areas of Pensions Governance and Financial Markets and Product Knowledge scored well for the Committee.

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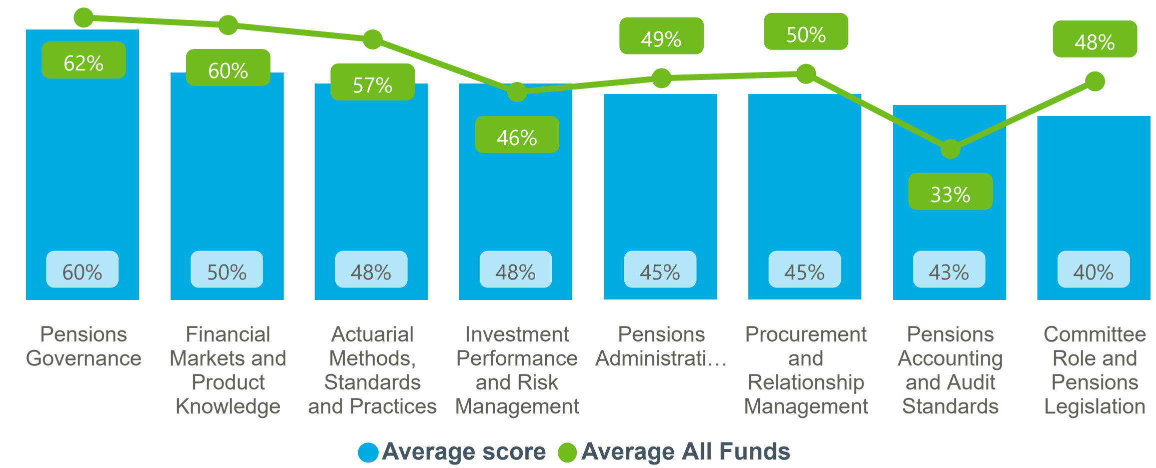
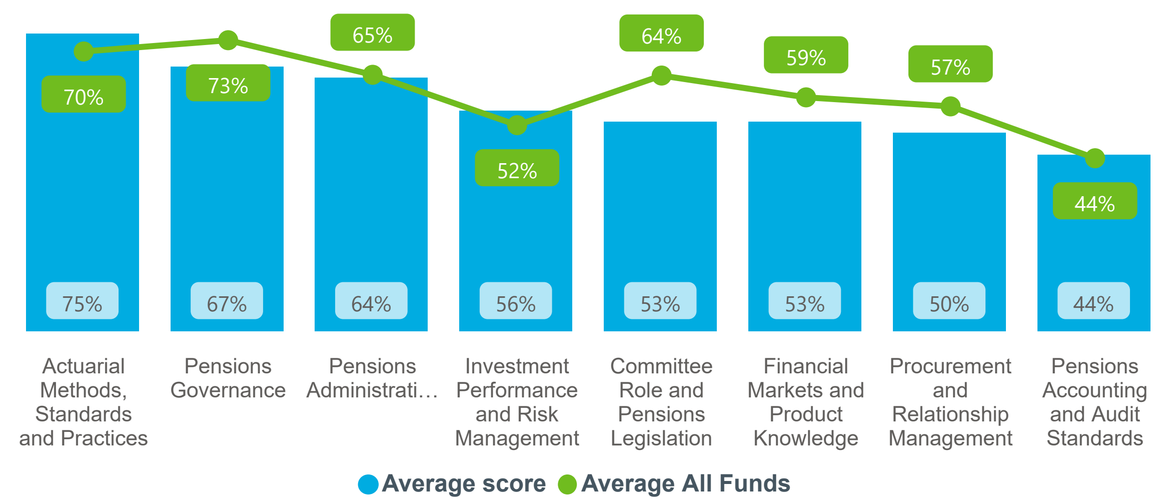
It's clear that there are some areas where knowledge levels are lower than hoped for, and these areas of Pensions Accounting and Audit Standards and Committee Role and Pensions Legislation would be a sensible focus of training for the Committee.

- Similarly, from the Board chart it can be seen that the highest scoring areas were Actuarial Methods, Standards and Practices and Pensions Governance.
- The Scores between Isle of Wight Pension Fund and all other Funds diverged the most in the Committee Role and Pensions Legislation, when the Average All Funds was 12 % higher than Average score.
- Across all sections, Isle of Wight Pension Fund Board score ranged from 44 % to 75 % and the average for all other funds ranged from 44 % and 73 %.

Pension Commitee Average vs. Average All Funds



Pension Board Average vs. Average All Funds



Commentary on results

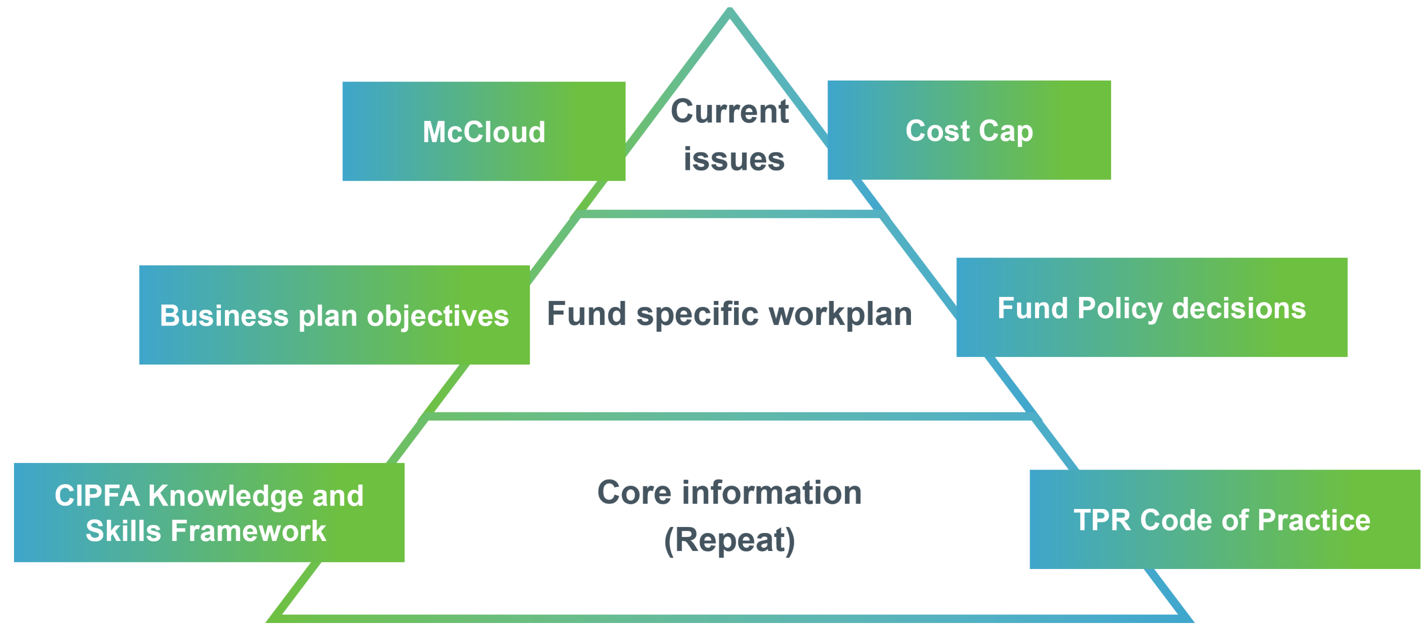
It's encouraging that 13 participants from your Fund took part in the assessment. Overall, the results were positive and it's clear that there are areas of greater knowledge levels as well as areas in which knowledge should be developed over time.

We would fully expect there to be gaps in the knowledge of all members, no matter their role on the Committee/Board, their tenure or indeed their background in terms of pensions experience.

The most important thing to emphasise is that not everybody needs to be an expert in all areas, rather there should be a spread of knowledge across your Committee and Board which is supported by advice from officers and professional advisors.

Just as important as gaining the relevant knowledge and understanding expected of a Pension Committee or Board, is the application of that knowledge and understanding, including the utilisation of an individual's own background and perspective.

Many funds have implemented training plans that follow the pyramid diagram of LGPS training areas. Fundamentally, a plan based on this example pyramid would provide a LGPS fund with a robust training program for its Committee and Board.



Commitee

The results show that Pensions Governance and Financial Markets and Product Knowledge have the highest levels of knowledge. But the areas to focus any specific training on might be Committee Role and Pensions Legislation for the Committee. Across all funds, the lowest scoring area was Committee Role and Pensions Legislation.

In general, the Committee's performance relative to all other committees was weak.

When looking at the benchmarking results against the other participating funds, the Committee ranked 12 out of 16 Funds' Committee results.

Local Pension Board

The results show that Actuarial Methods, Standards and Practices and Pensions Governance have the highest levels of knowledge, but the areas to focus any specific training on might be Pensions Accounting and Audit Standards for the Board.

Across all funds, the lowest scoring area was Pensions Accounting and Audit Standards. The Board's performance relative to all other committees was weak. In terms of benchmarking results against the other participating funds, the Board ranked 11 out of 16 Funds' Board results.

The next step would be to try and develop the knowledge of the lower scoring areas. You might already have a training plan in place, in which case you could use these results to tailor the specific training and with the knowledge of these results, ensuring it aligns with your priorities.

Further Analysis

In order to gain further insight into the knowledge and understanding, the questions posed covered 3 distinct areas. These were:

- **Technical** – 66% of questions
- **Decision Making** – 17% of questions
- **Roles and responsibilities** – 17% of questions

The purpose of this was to drill deeper into the collective understanding of these categories, and to provide further analysis on which areas to target when creating training plans. The following chart shows the average score for each of these sections, for the Committee and Board combined.

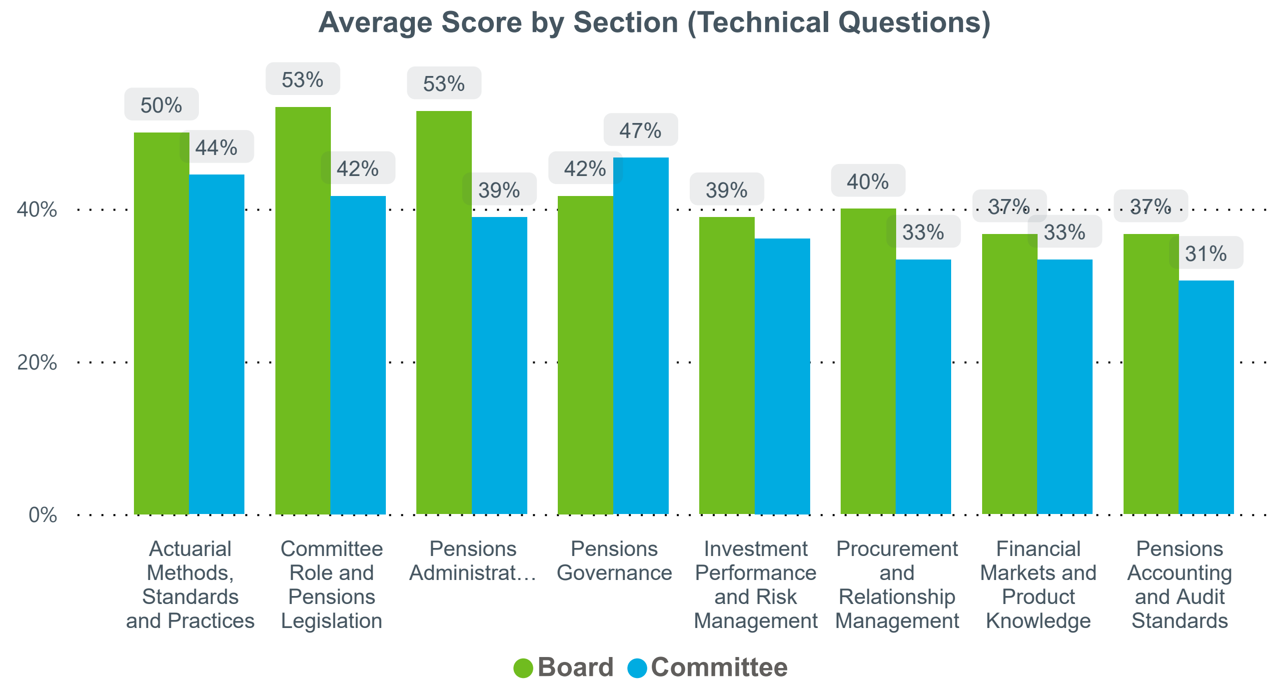
From this chart, the lowest scoring area was Roles and Responsibilities. Bearing this in mind, a particular focus could be put on this over the coming months.

Some next steps to consider are:

Decision making – A review of the Fund's decision-making procedures, and updating/creating a decision-making matrix, and sharing this with the Committee and Board to ensure visibility of the role of each group in across a broad spectrum of potential decisions.

Roles and responsibility – A specific training session covering the roles and responsibilities of different parties covering different points in the annual cycle of the Fund. This could include preparation of annual report, annual benefit statements, business planning and investment performance reviews for example. It would also be good to cover more niche topics such as the IDRP process, review of suppliers and cyber risk.

Technical – below, we have also included more detail on the technical questions, as these made up the majority of questions in the assessment.



Pensions Accounting and Audit Standards was the lowest scoring section when looking at just the technical questions. This may be an area which is prioritised in terms of more technical training over the coming months.

Comparison with 2020 Results

The Isle of Wight Pension Fund also took part in the 2020 National Knowledge Assessment. The results for each of the 8 topics can be compared to measure progress in each area.

This is shown in the following charts.

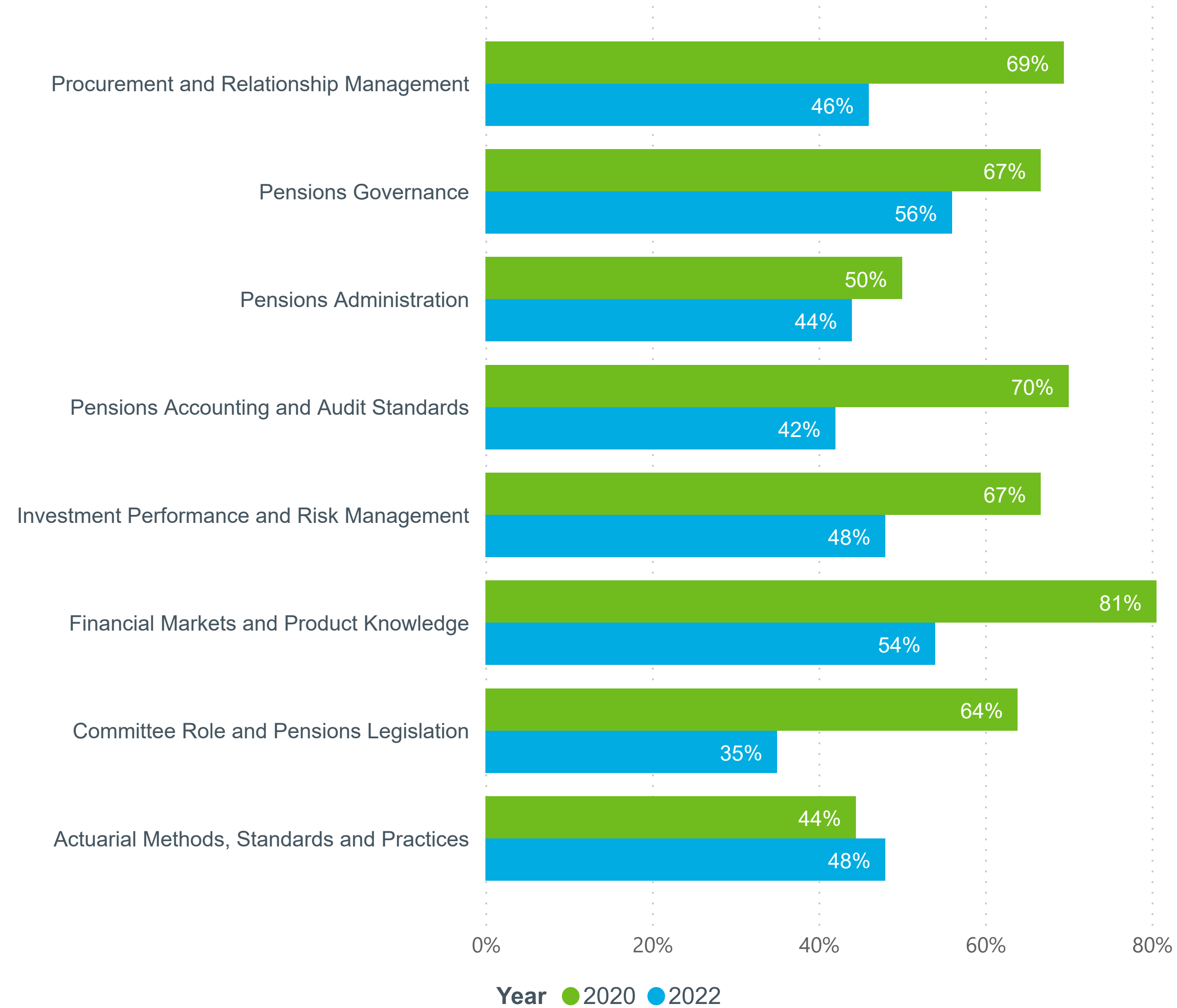
The average score for each topic this year is compared with that from the 2020 assessment. This has been broken down to show the results for the Committee and Board separately.

It's worth noting that while there will be differences in the members who actually participated in each assessment, it's the collective knowledge of each group which is important.

The area which knowledge appears to have developed most for the Committee concerns Actuarial Methods, Standards and Practices which is encouraging.

On the other hand, knowledge levels seem to have regressed in Committee Role and Pensions Legislation.

Committee Results

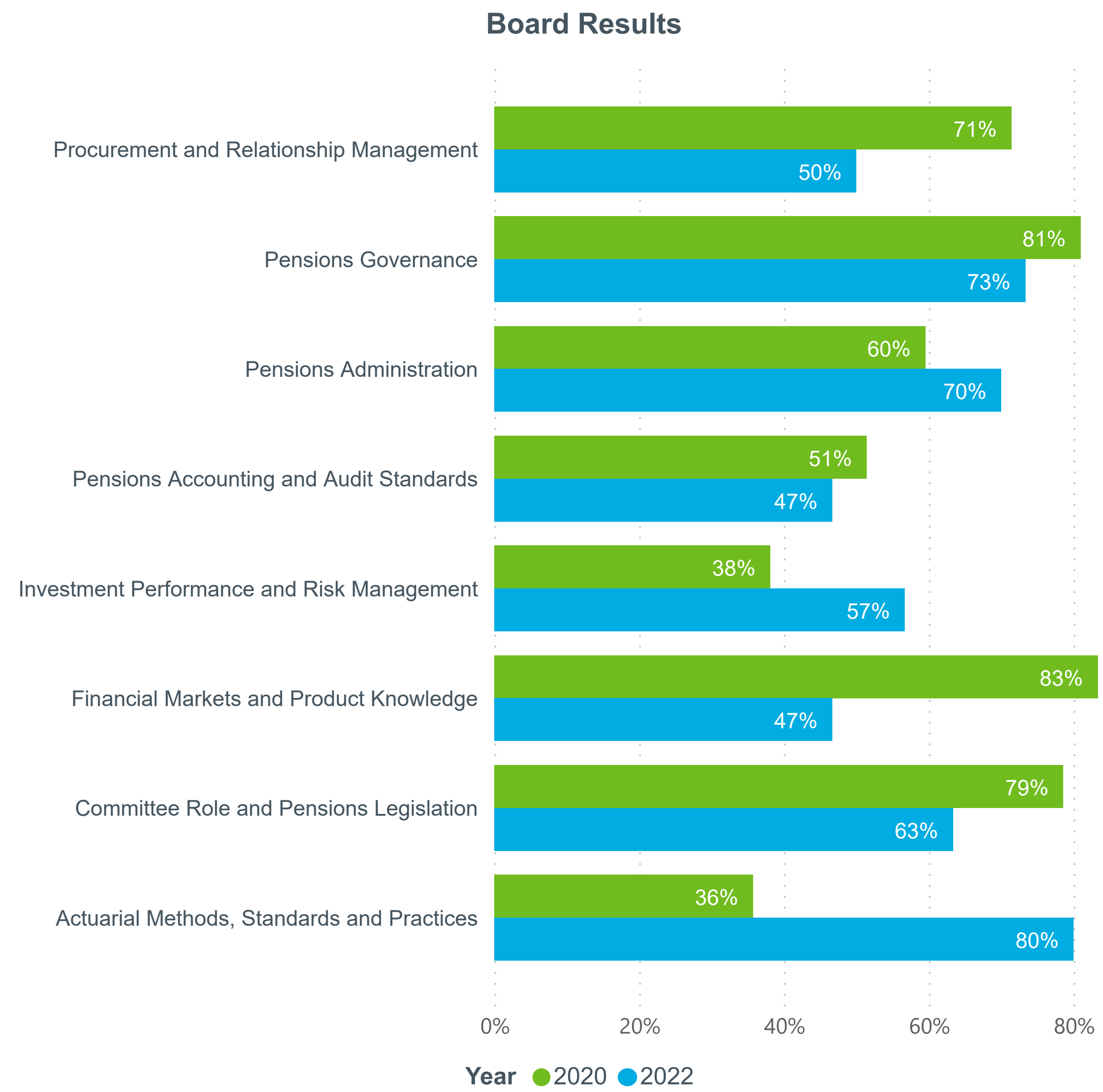


The same comparison can be made for the Board. The chart on the right shows these results.

The area which knowledge appears to have developed most for the Board concerns Actuarial Methods, Standards and Practices which is encouraging. On the other hand, knowledge levels seem to have regressed in Financial Markets and Product Knowledge .

It’s worth noting that the underlying questions have changed between both assessments, and for the 2022 assessment there was an additional option given to answer “I have no knowledge of this area”, whereas in 2020 that option was not there.

This might account for some small differences in the results.



Engagement

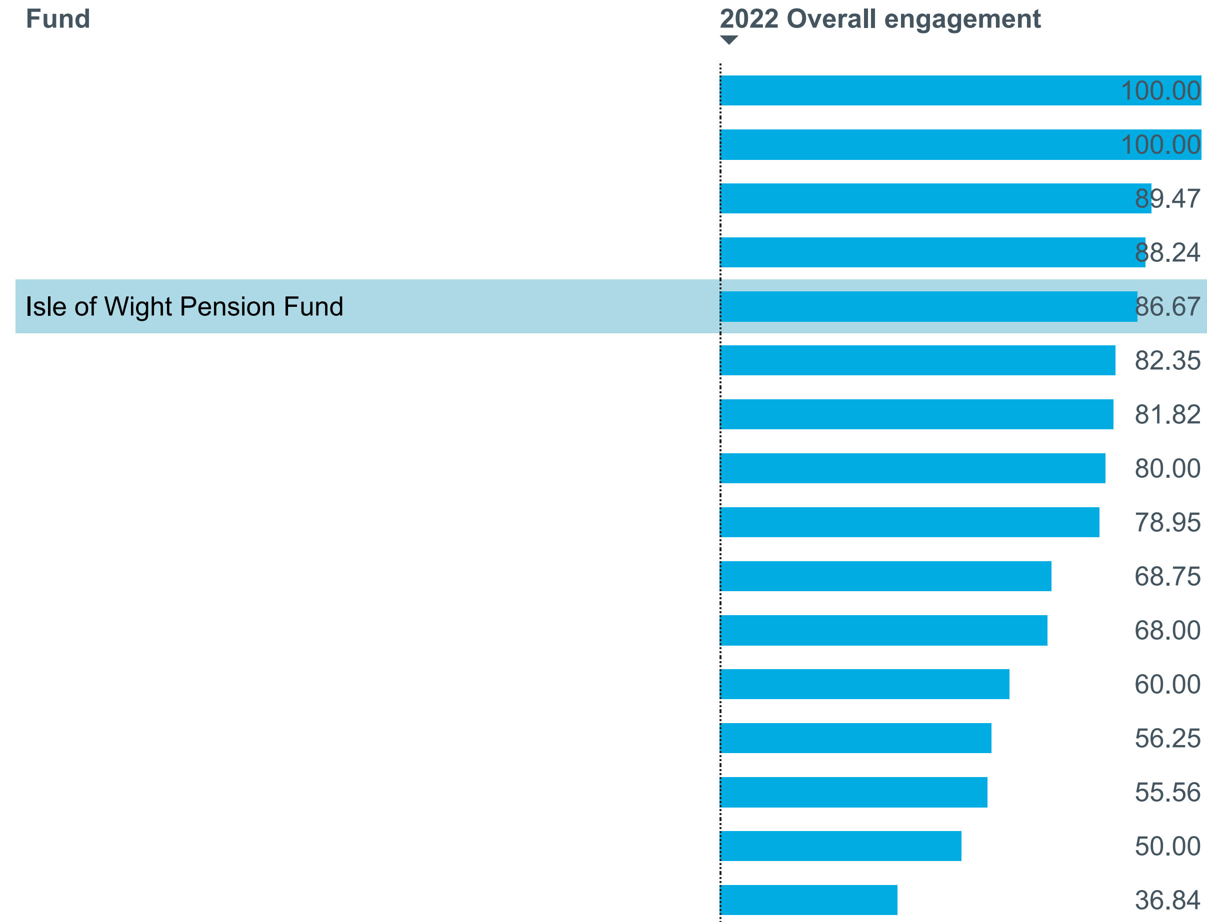
One of the key areas that we recommend funds focus on is Committee and Board training engagement.

With the ever-increasing pace of change in the pensions and investments world, member engagement is critical to maintaining strong collective knowledge. There is an expectation that they need not only be willing, but keen to develop their knowledge and understanding across the raft of topics upon which they will need to make, or ratify, decisions.

One measure of the engagement of members is their willingness to participate in training. As such, we have used the participation level of this survey to measure the engagement of your Committee and Board members.

The chart below shows the breakdown of the total number of participants from the Isle of Wight Pension Fund, as a proportion of those who could have responded.

Role	Participants	Total Number	2022 Participation Rate	2020 Participation Rate
Board	6	7	86%	100%
Committee	7	8	88%	75%



Engagement

That 13 participants from your Fund took part in the assessment is highly encouraging. With the number of changes to the LGPS in recent years, it is vital that Committee and Board members remain abreast of the latest developments and feel confident that they have the knowledge required to make the decisions required of them.

Their level of engagement is a key driver of this. Overall engagement seems to be at a good level; however, it is important to maintain this, particularly in the current climate where face-to-face meetings and delivery of training sessions might be in Hybrid format for some time to come.

One of the biggest challenges in this area is how to improve engagement. The move to online learning and tackling topics in bitesize chunks can help.

The way in which information is shared with the Committee and Board can also promote engagement.

There have been moves by some funds to issuing short timely bulletins and newsletters to increase training knowledge and engagement, which we very much encourage.

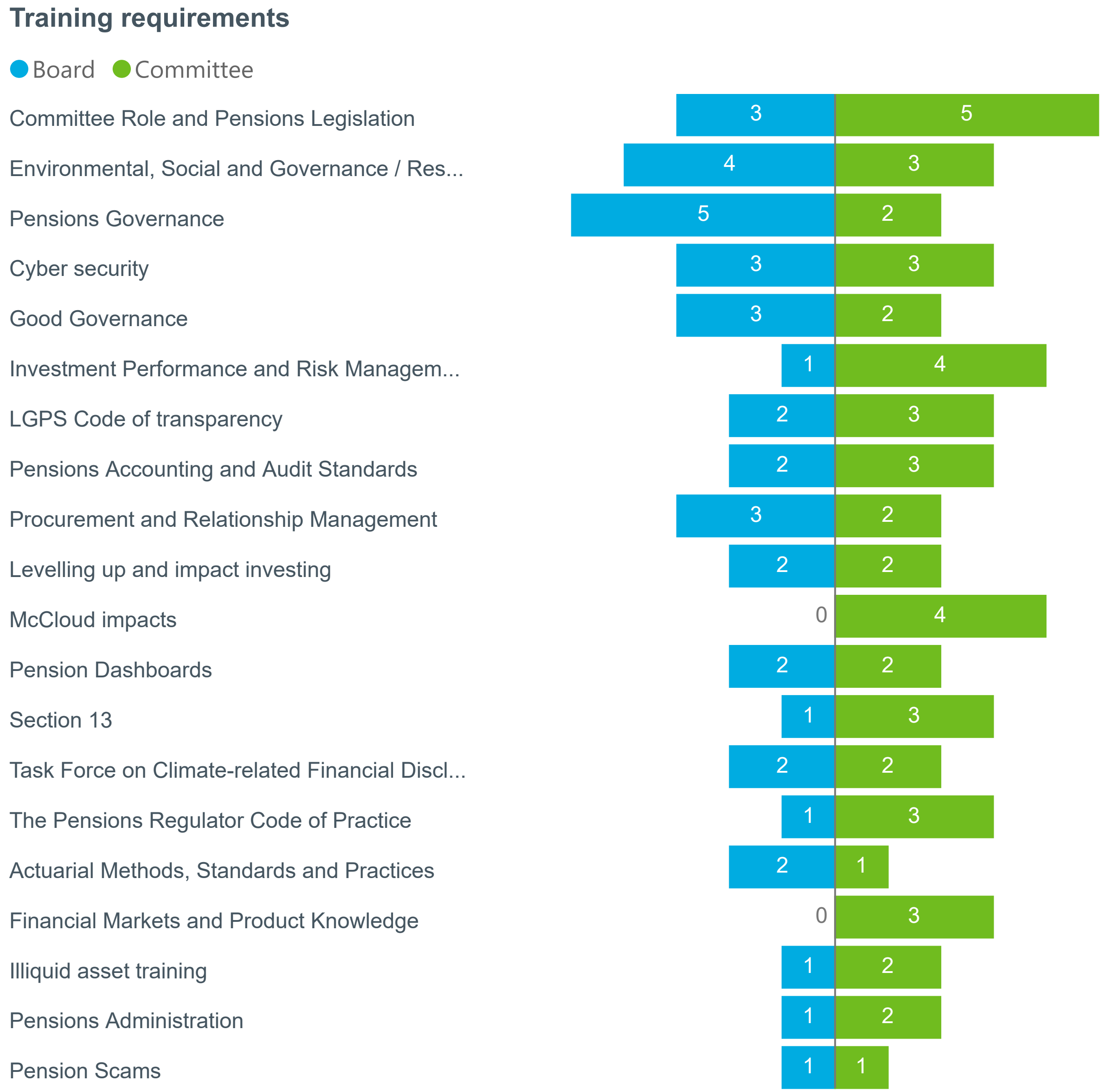
Training Feedback from Participants

One of the final sections of the survey asked participants to indicate which topics they would like to receive training on.

There was a list of options available, covering a broad spectrum of the topics we believe are most relevant to allowing Committee and Board members to effectively perform their roles. Members were also given the option to indicate any other areas in which they would benefit from further training.

The table on the right summarises the areas in which members indicated training would be beneficial.

A suggested training plan is shown on the next page.



Training plan

Based on the results from this assessment, we have prepared the adjacent draft 'core' training plan which you may wish to adopt.

This has been prepared based on the overall scores of the Board and Committee combined.

The intention is to make the planning and delivery of these sessions more efficient for the Fund.

You may want to create separate plans for the Board and Committee - further *tailoring* the training plan to their distinct priorities.

We would be happy to discuss the options for delivery of any of these training sessions. Hymans can support in the preparation of this suite of sessions.

As detailed on the page '**Commentary on results'**, we recommend that training plans include elements on:

- Core information
- Fund specific workplan
- Current issues / Hot topics

The key output for your Fund is to have a clear training plan and the delivery dates (or delivery vehicle i.e. training paper) set aside for these sessions.

Feedback from participants

We also asked the participants to provide comments on the areas they would most appreciate training in. Based on these comments, the most requested areas for training were Committee Role and Pension Legislation and Responsible Investment.

More detail is shown in the chart on the previous page.

Training Plan - Isle of Wight Pension Fund - January 2023 to June 2024

Q1 2023
Core topic: Accounting & Audit Standards

Providing a general understanding of the Accounts and Audit Regulations and the role of internal and external audit

Hot Topic: TCFD, 2023 Valuation conclusion and Fund business plan session

Q2 2023
Core topic: Procurement & Relationship Management

Providing a general understanding of the public procurement requirement as they apply to the LGPS, and how performance of suppliers can bemonitored

Hot Topic: Good Governance (expected in this quarter) and McCloud remedy

Q3 2023
Core topic: Committee Role and Legislation

Providing overview of committee's role and a general understanding of the legislative framework as it applies to the LGPS, in line with CIPFA Knowledge & Skills Framework

Hot Topic: Pension Dashboard, Cyber security and Levelling update agenda

Q4 2023
Core topic: Financial Markets and Product

Providing a general understanding of the risk and return characteristics of the main asset classes, the workings of the financial markets and available investment vehichles and the importance of the Fund's ISS and investment strategy decisions

Hot Topic: Pension scams

Q1 2024
Core topic: Investment Performance

Providing a general understanding of the relationship between assets and liabilities, the Myners principles and the structure, operation and purpose of investment pooling arrangements

Hot Topic: Cost transparency

Q2 2024
Core topic: Adminstration

Providing a general understanding of best practice in pensions administration, together with Fund policies, resource and discretionary powers

Hot Topic: Good Governance (update)

Next Steps

Based on the results, we would suggest that there should be consideration to the following next steps:

- This report should be **reviewed** by the Fund's officers and results shared with the Committee and Board.
- Set up a **structured training plan** or adjust the existing training plan for the next 18 months covering the main areas highlighted in this report.
- Plan for the **delivery** of training over the immediate 6-month period following these results and communicate that intention with the Committee and Board.
- Consider the most **pressing** training requirements in the coming months. Importantly, look at the **frequency** of training engagement with your Committee and Board.
- **Assess** the tools available to the Fund to assist with training, and whether any new methods should be deployed.
- Consider ways of **maintaining** and **increasing** the engagement of both the Board and Committee. This could include providing them with more information, training materials, briefing notes etc.
- Ensure that the Fund's training strategy is up to date and **appropriate** for purpose.

We will be producing a national LGPS report on the results of these assessment, which will aid Scheme Advisory Board LGPS training discussions.

A copy of this will be made available to the Fund when that report is complete.

If you wish to discuss the contents of this report further, please get in touch.

Prepared by Hymans Robertson LLP.

Andrew McKerns

Senior LGPS Governance, Administration and Projects (GAP) Consultant

Alan Johnson

LGPS Governance, Administration and Projects (GAP) Consultant

Reliances and Limitations

This report has been prepared for the Isle of Wight Pension Fund.

This report must not be released or otherwise disclosed to any third party except with our prior written consent, in which case it should be released in its entirety.

Hymans Robertson LLP do not accept any liability to any party unless we have expressly accepted such liability in writing.

This report has been prepared by Hymans Robertson LLP, based upon its understanding of legislation and events as of November 2022.

Isle of Wight Pension Fund - Overview Quarter to 31 December 2022

Manager	Asset class	Asset Allocation Proportion of Total Fund %	Market Value Previous Quarter 30/09/2022	Market Value Latest Quarter 31/12/2022	Current Proportion of Total Fund %
ACCESS	UK Equities	12.5	86,075,555	94,570,812	14.2
ACCESS	Global Equities	18.8	137,004,086	140,008,748	21.1
ACCESS	Diversified Growth Fund	10.0	100,147,660	101,661,281	15.3
Total ACCESS holdings		**41.3**	**323,227,301**	**336,240,840**	**50.6**
Schroder	Bonds	22.0	104,795,701	108,457,912	16.3
UBS	Climate Aware Passive	18.8	128,958,313	131,590,273	19.8
Total Liquid Assets		**82.0**	**556,981,314**	**576,289,025**	**86.7**
Schroder	Property	8.0	44,245,514	37,885,737	5.7
Goldman Sachs	Private Debt	5.0	25,420,073	28,062,712	4.2
Partners	Infrastructure	5.0	8,635,417	9,263,339	1.4
Total Alternative Funds		**18.0**	**78,301,005**	**75,211,787**	**11.3**
Direct Cash Holding		**0.0**	**12,984,500**	**12,984,500**	2.0
	TOTAL FUND	**100.0**	**648,266,819**	**664,485,313**	**100.0**
	Of which the following are equities:				
	UK Equities	12.5	86,075,555	94,570,812	14.2
	Global Equities	37.5	265,962,399	271,599,020	40.9
	Total Equities	50.0	352,037,954	366,169,832	55.1
	Proportion of total fund		54.30%	55.11%	

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Isle of Wight Council Pension Fund

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Q4 2022 Investment Monitoring Report

David Walker – Partner
Emma Garrett – Senior Investment Consultant
Stefan Chilom – Investment Analyst

HYMANS ROBERTSON

Agenda Item 12b

Q4 growth outturns surprised to the upside as US labour and consumer demand remains resilient while the economic impact of potential European gas shortages abated more recently. Despite more recent upwards revisions for some economies, global growth forecasts for 2023 fell over the quarter, as high inflation and tighter monetary policy weigh on the outlook.

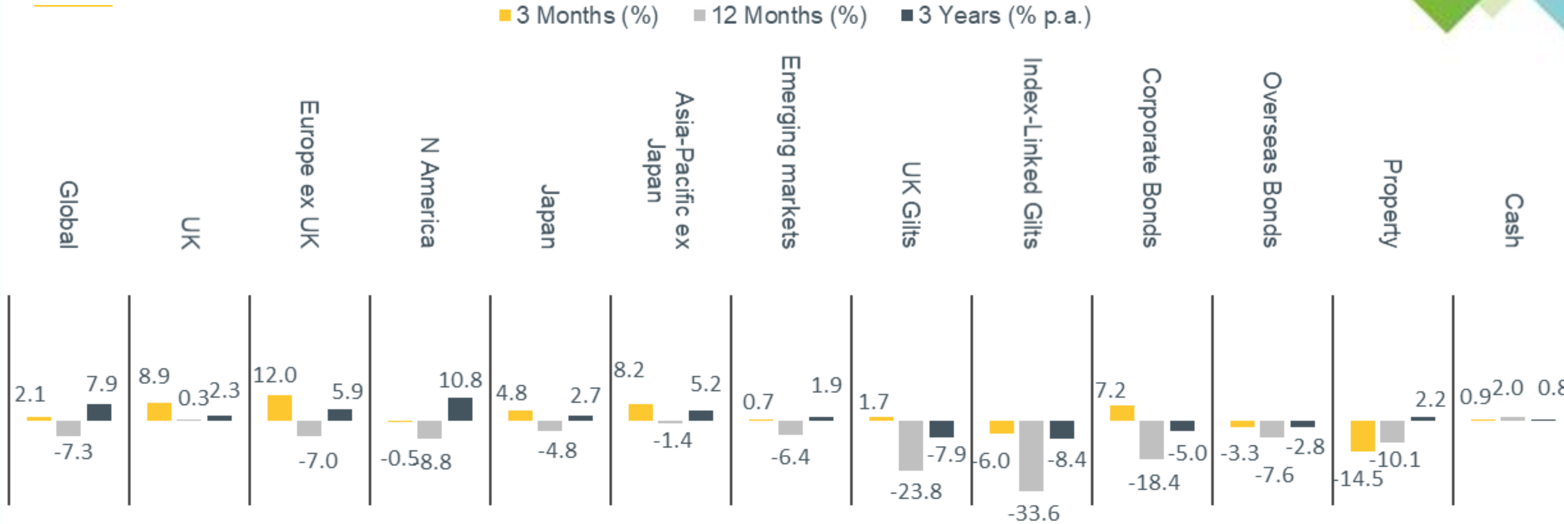
Downside CPI surprises, support the idea that inflation peaked in Europe and the US. Year-on-year headline CPI inflation fell to 7.1%, 10.7%, and 10.1% in the US, UK, and Eurozone, respectively, in November.

After a round of 0.75% p.a. interest rate rises, major central banks shifted down to smaller 0.5% p.a. increases in December. The 1.25% p.a. of rate rises delivered by each of the major central banks in Q4 takes policy rates in the US, UK, and Eurozone to 4.5% p.a., 3.5% p.a., and 2.0% p.a., respectively.

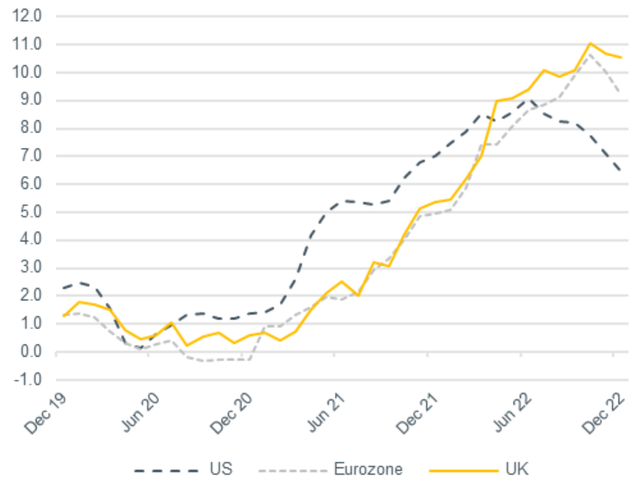
UK 10-year yields ended the period at 3.7% p.a., 0.5% p.a. below end-September levels. Equivalent US yields rose 0.1% p.a., to 3.9% p.a., and German yields rose 0.5% p.a., to 2.6% p.a., respectively. Japanese yields rose 0.2% p.a., to 0.4% p.a., as the Bank of Japan loosened the target range for 10-year yields under its yield curve control policy.

UK 10-year implied inflation, as measured by the difference between conventional and inflation-linked bonds of the same maturity, fell 0.6% p.a. to 3.4% p.a. Equivalent US implied inflation rose 0.1% p.a., to 2.3% p.a.

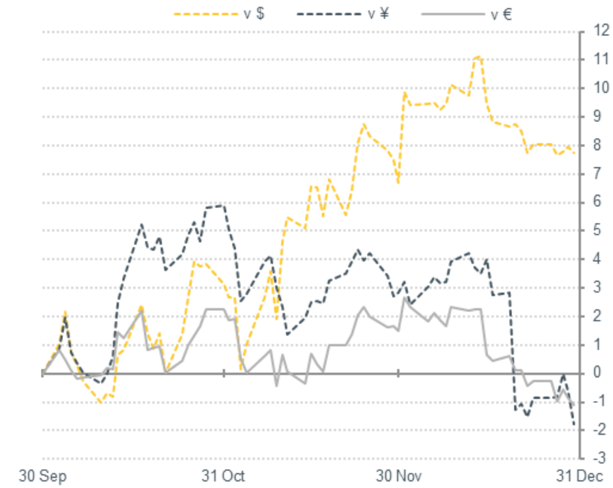
Historic returns for world markets [1]



Annual CPI Inflation (% p.a.)



Sterling trend chart (% change)



Source: DataStream. [1] Returns shown in Sterling terms. Indices shown (from left to right) are: FTSE All World, FTSE All Share, FTSE AW Developed Europe ex-UK, FTSE North America, FTSE Japan, FTSE AW Developed Asia Pacific ex-Japan, FTSE Emerging, FTSE Fixed Gilts All Stocks, FTSE Index-Linked Gilts All Maturities, iBoxx Corporates All Investment Grade All Maturities, ICE BofA Global Government Index, MSCI UK Monthly Property; UK Interbank 7 Day

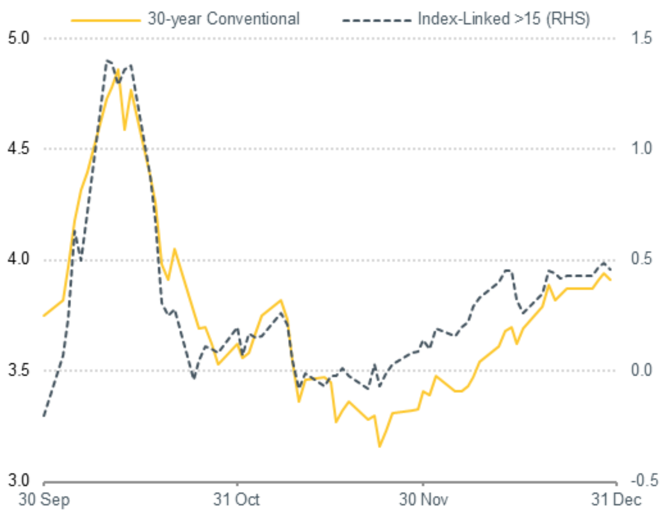
Global investment grade credit spreads fell 0.3% p.a., to 1.5% p.a., while speculative-grade spreads fell 1.0% p.a., to 5.1% p.a. Speculative-grade default rates have risen a little since the start of 2022 but remain below long-term average levels.

The FTSE All World Total Return Index rose 7.6% (local currency) .The energy sector outperformed amid record earnings reports, as did Industrials and basic materials. Consumer discretionary and technology stocks underperformed as the cost-of-living squeeze intensified. Europe ex-UK outperformed the most while Japan notably underperformed on the back of yen strength and doubts over ongoing monetary support from the Bank of Japan.

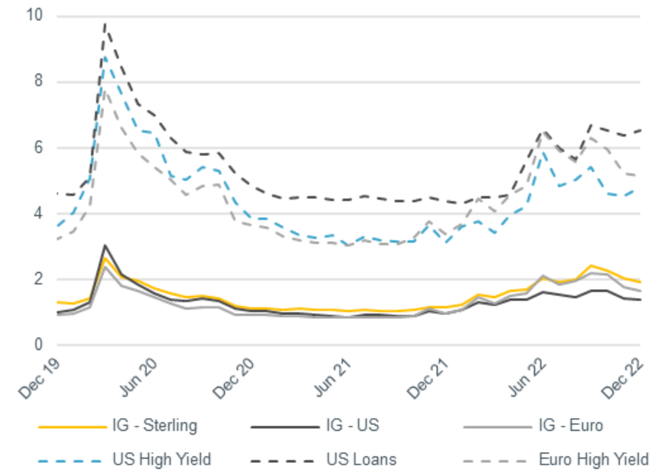
Easing inflation in the US saw the US dollar fall 4.8% in trade-weighted terms, reducing its year-to-date gains to 6.3%. Equivalent sterling, euro, and yen measures rose 1.9%, 4.4%, and 5.2%, respectively.

MSCI UK Monthly Property Index declines slowed from falling 0.5% in November to falling 0.03% in December. The extent of recent declines in capital values, which are now 20% below their June peak, has been the primary driver. Capital values have fallen across the 3 main commercial sectors but have been most notable in the industrial sector, where they have fallen 27% since the end of June.

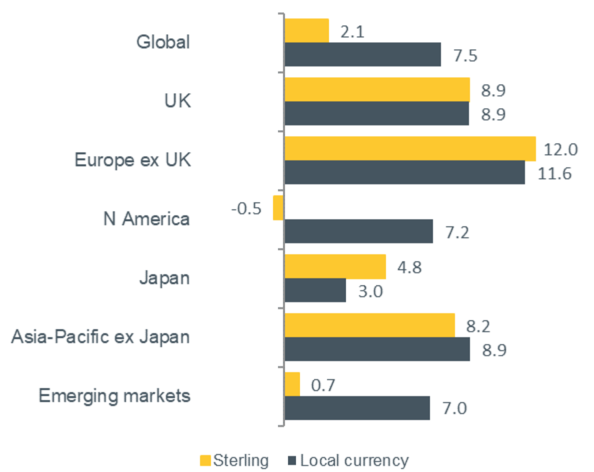
Gilt yields chart (% p.a.)



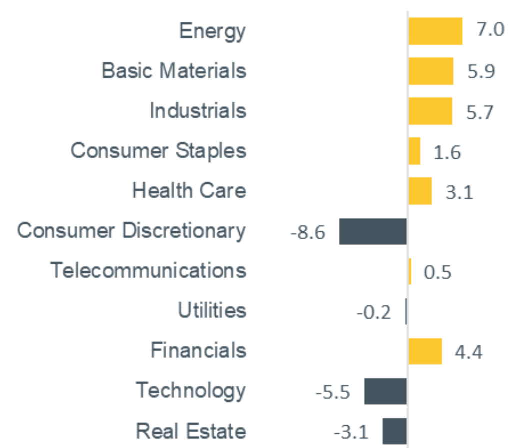
Investment and speculative grade credit spreads (% p.a.)



Regional equity returns [1]



Global equity sector returns (%) [2]



Source: DataStream, Barings, ICE [1] FTSE All World Indices. Commentary compares regional equity returns in local currency. [2] Returns shown in Sterling terms and relative to FTSE All World.

HYMANS ROBERTSON

The page summarises our broad views on the outlook for various markets. The ratings used are Positive, Attractive, Neutral, Cautious and Negative.

The ratings are intended to give a guide to our views on the prospects for markets over a period of around three years; although they are updated quarterly, they are not intended as tactical calls. The ratings reflect our expectations of absolute returns and assume no constraints on investment discretion. In practice, they need to be interpreted in the context of the strategic framework within which individual schemes are managed.

Summary of Medium-term Capital Market Views

	September 2022	December 2022	Comment
Index-linked gilts	Neutral	Neutral	Even adjusting for the additional inflation protection (typically around 1.0% p.a. over the longer-term) afforded to index-linked gilts until RPI is aligned with CPIH in 2030, and high near-term inflation, long-dated implied inflation still looks a little expensive. The front end of the curve looks to offer better value.
Conventional gilts	Neutral to Cautious	Neutral	High inflation remains a fundamental challenge for nominal gilts while BoE asset sales and increased issuance pose a technical headwind. However, yields are attractive relative to longer term fair value and base effects and weak economic activity should ease the pressure on the BoE to continue raising rates in 2023. Quantitative tightening and low forward yields make us more cautious on both real and nominal longer-dated yields.
Sterling non-government bonds	Neutral	Neutral	Corporate balance sheets remain in reasonable shape and spreads are above long-term median levels but higher yields and slowing earnings growth are likely to weigh on debt affordability going forward. Attractive yields, peaking inflation, and anticipation of the end rate hiking cycles improves the overall assessment for investment grade. However, asset sales by the major central banks (quantitative tightening) pose a technical headwind to underlying rates markets.
Private Debt	Neutral to Cautious	Neutral to Cautious	While defaults remain low, we expect these to rise with concerns on labour, input, and energy costs squeezing EBITDA margins. Overall, we are more cautious on private loan markets versus high yield as valuations, remain unattractive despite some retrenchment in the secondary loan market.
Equities	Neutral to Cautious	Neutral to Cautious	Consensus global corporate earnings growth expectations for 2023 continue to see downward revisions and now sit at a very modest 2.5%. Although there are tentative signs that these earnings revisions are bottoming out, the backdrop for earnings growth looks challenging and downside risks remain. Although equity prices fell significantly in 2022, valuation multiples, which are broadly in-line with historical averages, could fall further as activity contracts, weighing on the earnings outlook.
Cash Strategies	Neutral	Neutral	Higher base rates means investors can now generate positive (although below inflation) returns through cash holdings. The deteriorating economic outlook could provide opportunities further down the line.

Source: DataStream

Asset allocation

As at 31 December 2022, the Fund's assets totalled £664.6m, increasing by £12.9m over the quarter.

Key themes from the first three quarters of the year, namely high inflation, global growth concerns and rising interest rates persisted over Q4, however equity markets showed signs of improvement, delivering a positive return.

Market sentiment improved in October on expectation of interest rates cuts in 2023 based on evidence of decelerating price growth in the US ISM (Institute of Supply Management) Manufacturing report indicating a potential peak in inflation was reached. A lower-than-expected US CPI report in November fuelled the existing market expectations further.

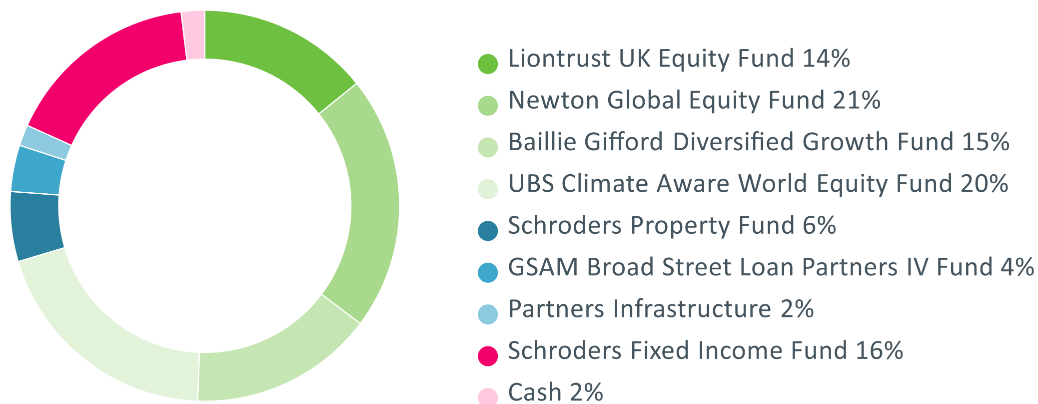
However, despite these encouraging developments, central bankers steadfastly maintained a hawkish tone, both in terms of their rhetoric and their actions, indicating that further rate hikes are likely expected.

The Fund remains overweight to equities and underweight to income as the new income allocations continue to drawdown capital.

Asset Allocation

Manager	Valuation (£m) Q3 2022	Valuation (£m) Q4 2022	Actual Proportion	Benchmark	Relative
Liontrust UK Equity Fund	86.1	94.6	14.2%	12.5%	1.7%
Newton Global Equity Fund	137.0	140.0	21.1%	18.75%	2.3%
Baillie Gifford Diversified Growth Fund	100.1	101.7	15.3%	10.0%	5.3%
UBS Climate Aware World Equity Fund	129.0	131.6	19.8%	18.75%	1.0%
Total Growth	**452.2**	**467.8**	**70.4%**	**60.0%**	**10.4%**
Schroders Property Fund	44.8	38.4	5.8%	8.0%	-2.2%
GSAM Broad Street Loan Partners IV Fund	28.4	25.5	3.8%	5.0%	-1.2%
Partners Infrastructure	9.3	11.5	1.7%	5.0%	-3.3%
Total Income	**82.4**	**75.5**	**11.4%**	**18.0%**	**-6.6%**
Schroders Fixed Income Fund	104.1	108.3	16.3%	22.0%	-5.7%
Total Protection	**104.1**	**108.3**	**16.3%**	**22.0%**	**-5.7%**
Cash	13.0	13.0	2.0%	0.0%	2.0%
Total Scheme	**651.7**	**664.6**	**100.0%**	**100.0%**	

Asset class exposures



Source: Investment Managers. GSAM provided estimated valuation for Q4 2022. GSAM Q3 valuation has now been updated to reflect the final valuation statement.

Over the fourth quarter of 2022, the Fund returned 1.7% against its benchmark of 1.8%, a relative underperformance of 0.1%.

Over the longer term, the Fund fell short of its respective benchmarks over the 12-month and 3-year periods. Absolute performance remains positive over the 3-year, returning 2.1% p.a., whilst 12-month performance is now negative.

The increased AUM of the fund over Q4 was an effect of all mandates returning positive absolute returns over the last 3 months of 2022.

Due to the steep UK recovery post the September GILT crisis the Liontrust fund heavily benefitted from its domestic exposure, delivering the highest return of the four growth mandates employed by the fund.

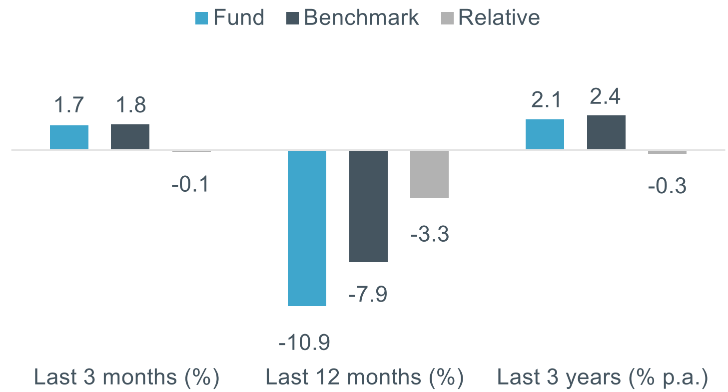
Q4 was a period of relative yield stability compared to earlier in the year. This allowed the Schroders Fixed Income fund to also contribute positively to the portfolio return.

The Fund's property mandate was a laggard in terms of return, despite delivering results only marginally below its benchmark. This is a result of the core UK property market capital values falling sharply over the fourth quarter.

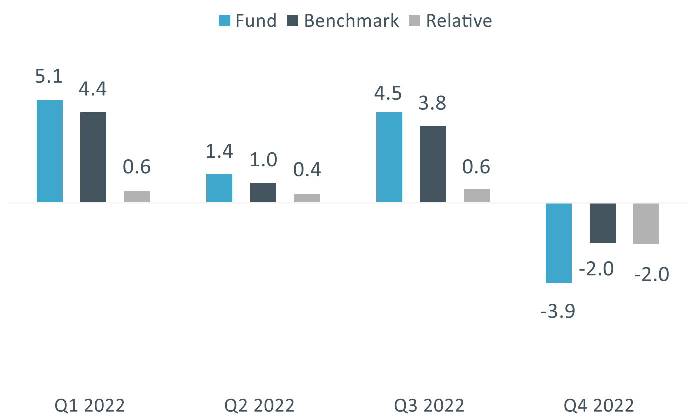
Manager performance (gross of fees)

	Last 3 months (%)			Last 12 months (%)			Last 3 years (% p.a.)		
	Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative
Growth									
Liontrust UK Equity Fund	10.0	8.9	**1.0**	-9.3	0.3	**-9.6**	0.4	2.3	**-1.8**
Newton Global Equity Fund	2.3	1.9	**0.4**	-9.3	-8.1	**-1.4**	8.0	7.4	**0.6**
Baillie Gifford Diversified Growth Fund	1.6	1.6	**0.0**	-15.6	5.1	**-19.7**	-1.7	4.1	**-5.6**
UBS Climate Aware World Equity Fund	2.0	2.3	**-0.2**	-8.1	-7.4	**-0.7**	-	-	**-**
Income									
Schroders Property Fund	-14.4	-14.1	**-0.4**	-10.8	-9.5	**-1.4**	1.1	2.2	**-1.1**
Protection									
Schroders Fixed Income Fund	4.1	4.0	**0.1**	-23.5	-21.4	**-2.6**	-6.5	-6.5	**-0.0**
Total	1.7	1.8	**-0.1**	-10.9	-7.9	**-3.3**	2.1	2.4	**-0.3**

Fund performance vs benchmark/target



Historical quarterly performance summary



Source: Fund performance and valuation data provided by Investment Managers and is gross of fees. Benchmark performance provided by Investment Managers and DataStream. Performance excludes the impact of any cash held.

HYMANS ROBERTSON

This page includes details of the current investment manager ratings together with any relevant manager business updates.

This page also shows RI ratings for the current investment managers.

Both of these ratings are further explained in the Appendix on page 13.

Manager ratings

Mandate	Hymans Rating	RI
Newton Global Equity Fund	Suitable	Good
Liontrust UK Equity Fund	Suitable	Adequate
Schroders Fixed Income Fund	Positive	Good
Schroders Property Fund	Positive	Good
Baillie Gifford Diversified Growth Fund	Positive - On Watch	Good
GSAM Broad Street Loan Partners IV Fund	Positive	Adequate
Partners Infrastructure	Preferred	Good
UBS Climate Aware World Equity Fund	Preferred	Good

Rating Updates

Baillie Gifford Diversified Growth Fund – Downgraded from ‘Preferred’ to ‘Positive – On Watch’ as of 18th November 2022. The rationale behind the downgrade revolves around the recent declines in AUM and consistency with ratings for other products managed by the same team. Poor risk-adjusted performance over the last 5 years and poor risk management, particularly around drawdowns on an absolute and relative basis (particularly driven by implementation within equities, listed alternatives and absolute return) also contributed to the decision to revise the rating.

GSAM Broad Street Loan Partners IV Fund – Downgraded from ‘Preferred’ to ‘Positive’ as of 16th January 2023. This move in rating reflects the concern with the cov-lite trend in the market today, especially in the upper mid-market, which is where GS positions itself. A number of these deals are highly levered (c.8x) with no covenants which we believe represents a higher risk compared to other managers who are originating deals with covenants. Our view is that while larger companies represent better risk than smaller companies (in the lower mid-market for example), covenants are still key particularly at the end of a credit cycle.

Source: Investment Managers

Liontrust UK Equity

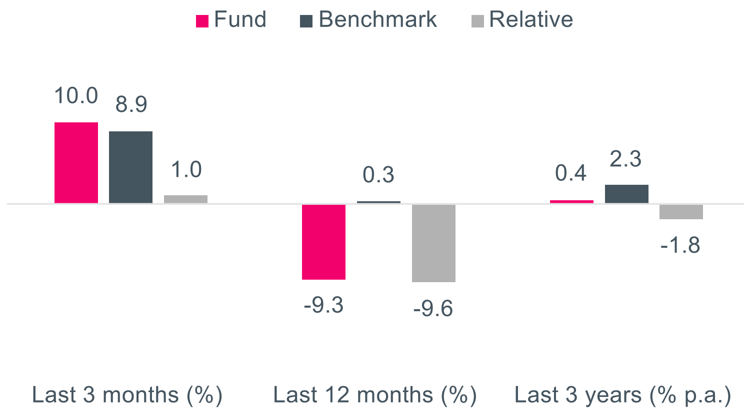
Over Q4 2022, the Liontrust UK Equity fund returned 10%, beating its FTSE All Share benchmark of 8.9%. The fund still lags its long-term benchmarks, returning -9.3% over the 12-month period and 0.4% p.a. over the 3-year period.

UK equities rose over the quarter, with sterling recovering from the nadirs reached after the disastrous September 2022 mini-budget. The new chancellor Jeremy Hunt used the Autumn Statement in November to promise the country would tighten its belt in the future and, the markets received this message well.

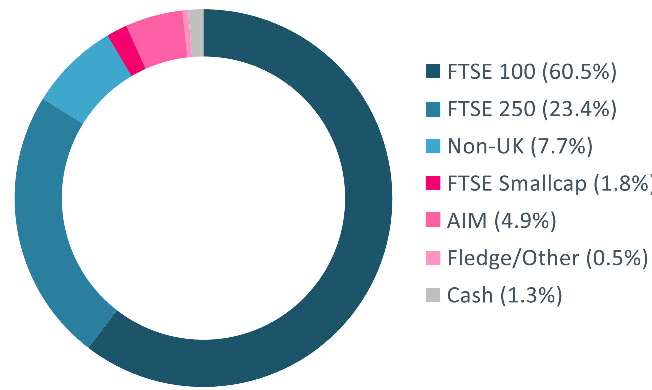
The fund has an active share of c65%, which implies the slight outperformance over the quarter can mostly be attributed to active management employed by Liontrust.

Positive performance was obtained through a significant large-cap tilt, with FTSE 100 stocks representing over half of the holdings (i.e 60.5% as at end of December 2022). 1.8% of the fund's assets are part of the FTSE Small Cap Index, which is 1.7% more than the FTSE All-Share Index benchmark.

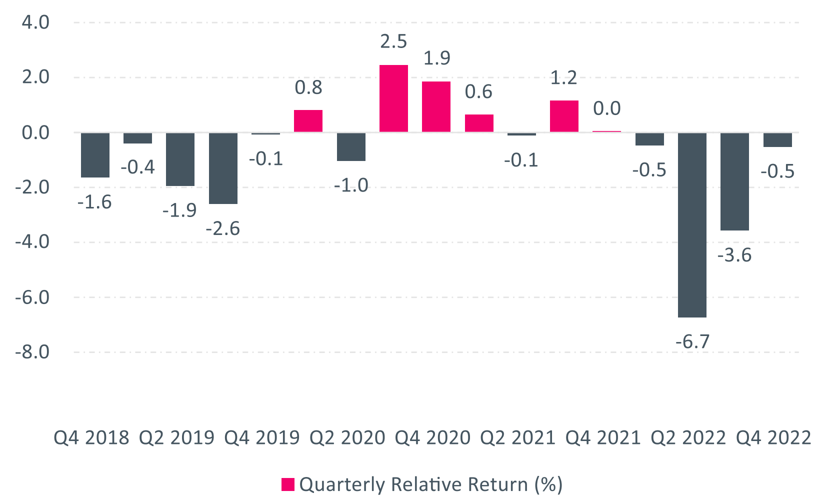
Performance summary



Asset allocation



Quarterly relative performance



Source: Data and fund performance provided by Liontrust and Link Group and is gross of fees.

Newton Global Equity

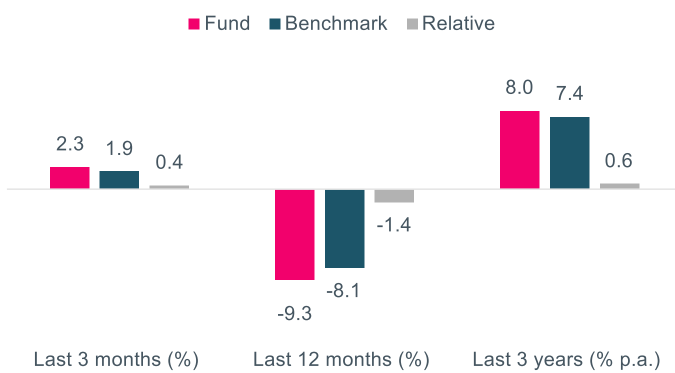
The Newton Global Equity Fund marginally beat its MSCI ACWI benchmark over Q4 2022, returning 2.3% in absolute terms. The fund continues to fall short of its 12-month benchmark, returning --9.3% and continues to outperform over the 3-year period by 0.6% p.a.

Global equities delivered a positive return in the final three months of the year, yet still registered a decline for the year as a whole. The outlook for inflation and the trajectory of monetary policy continues to dominate the narrative within financial markets.

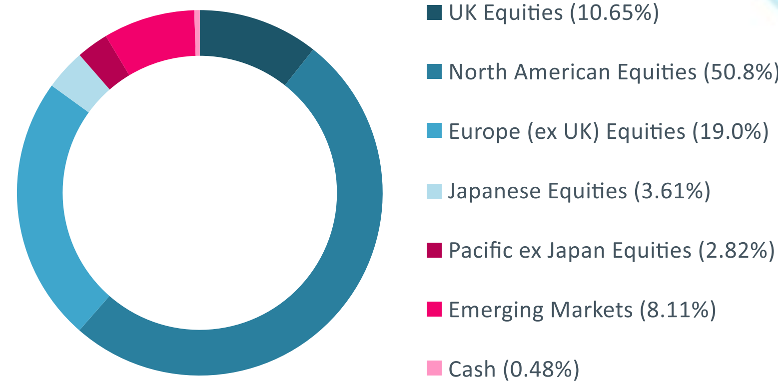
Underperformance was primarily driven by some disappointing stock selection in materials and consume r staples. Stock selection in health care also weighed, as did an underweight in energy, with the prospect of a wider Chinese reopening providing support to commodity-related areas.

Positive stock-selection effects materialised in financials and information technology. Currency forwards had a detrimental impact following US-dollar weakness, although the strategy remained underweight dollars overall. The portion of the portfolio held in cash also acted as a drag on relative performance.

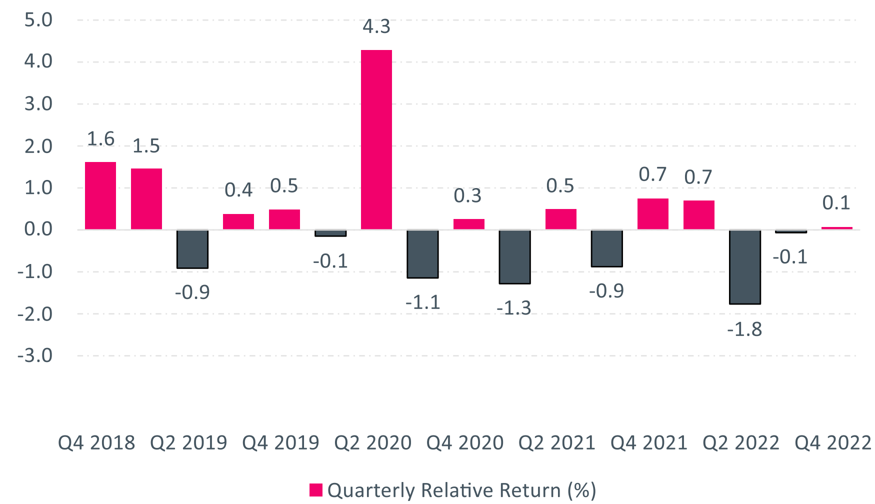
Performance summary



Asset allocation



Quarterly relative performance



Source: Data and fund performance provided by Newton and Link Group and is gross of fees.

UBS Climate Aware World Equity Fund

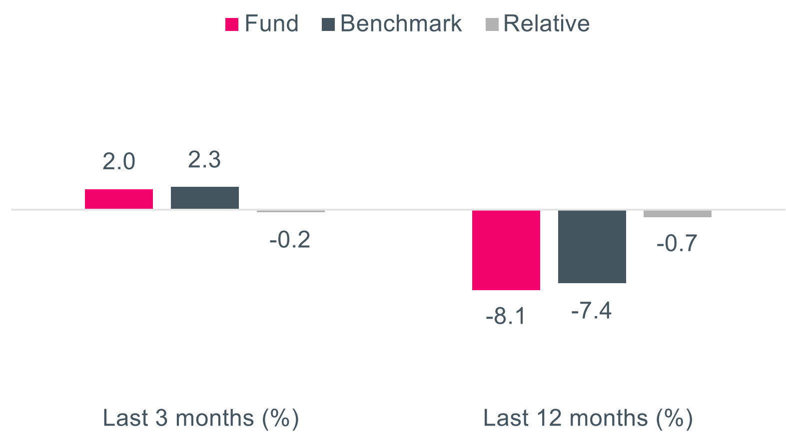
Following the equity review in November 2020, the Committee agreed to introduce a passively managed global mandate to provide a more balanced equity investment approach. In December 2021, the new allocation of £145m was invested in the UBS Global Aware mandate.

The aim of the mandate is to perform broadly in line with the FTSE AW Developed Index, delivering similar performance to standard global equity indices but with less carbon intensive investments.

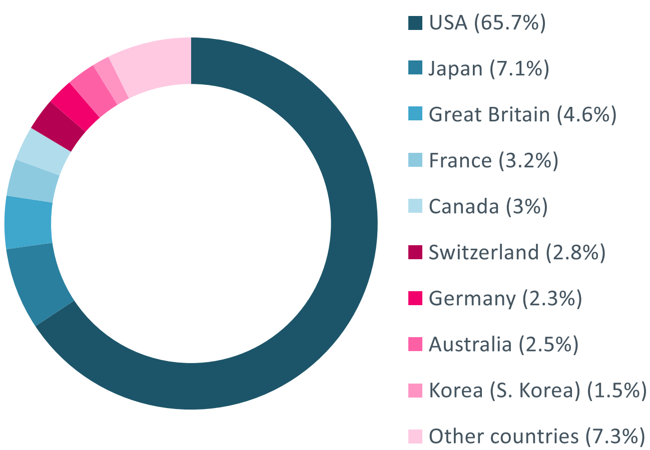
The global equity market rally that started in October ran out of the steam in the last month of the year, amid renewed anxiety over the pace of central bank tightening and the deteriorating growth outlook.

The fund is performing broadly in line with the FTSE AW Developed Index over the longer term, some tracking error of +/- 0.5% is expected from this mandate.

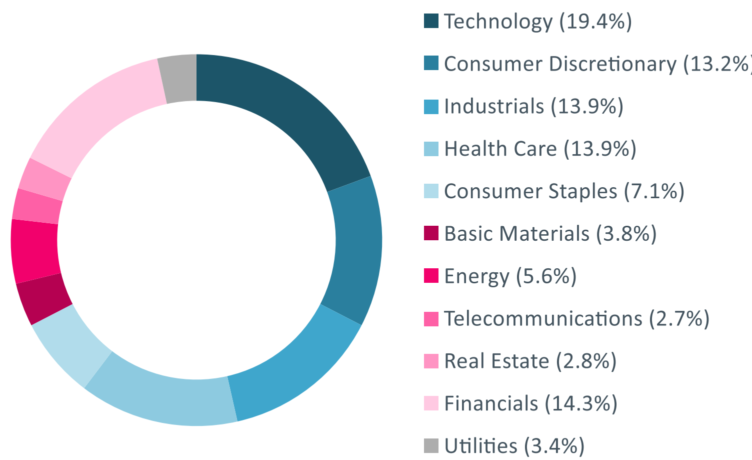
Performance summary



Geographical allocation



Sector allocation



Source: Data and fund performance data provided by UBS and is gross of fees.

Baillie Gifford Diversified Growth

Over Q4 2022, the Diversified Growth Fund returned 1.6%, on par with it benchmark. The fund fell short of its benchmarks across all time periods considered and the 12-month performance remains the greatest lag against its benchmark by 19.7%.

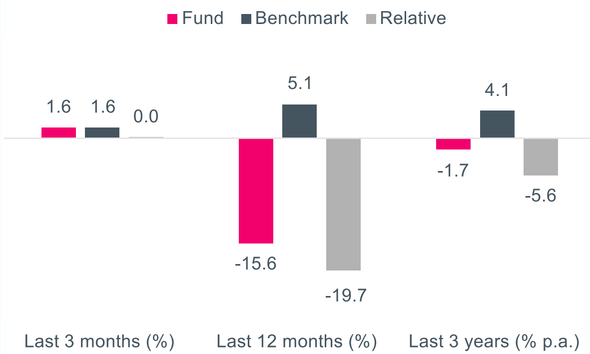
A late sell-off of government bonds weighed on the returns of most asset classes in the fund, however unlike earlier in the year, diversification assets helped secure a positive return over the quarter.

The largest detractors were holdings in equity (16.5% allocation), absolute return funds (5.1% allocation) and active currency mandates (0.1% allocation).

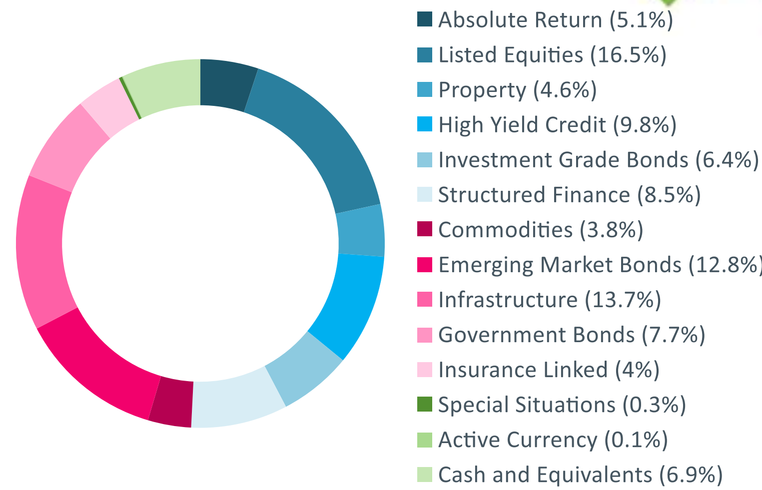
High yield credit, infrastructure and IG bonds (total allocation of c30%) were the top contributors to Q4 performance. A relaxation of strict Covid rules in China particularly benefitted the portfolio's investments in Asian high yield corporate bonds.

In the current environment, BG deem fixed income opportunities in structured finance, emerging market debt and corporate credit particularly attractive. They aim to also gain exposure to decarbonisation opportunities (e.g. aluminium and rare earths) and property (in particular logistics assets).

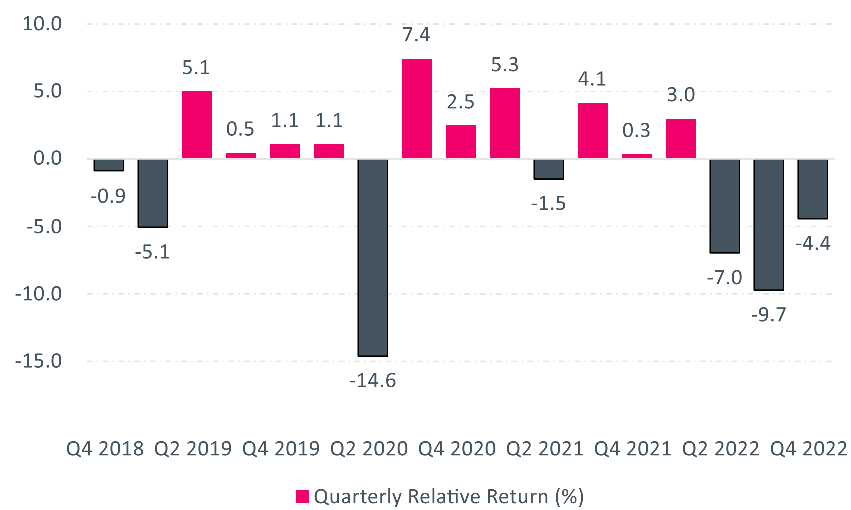
Performance summary



Asset allocation



Quarterly relative performance



Source: Data and fund performance provided by Baillie Gifford and Link Group and is gross of fees.

HYMANS ROBERTSON

Schroder Property

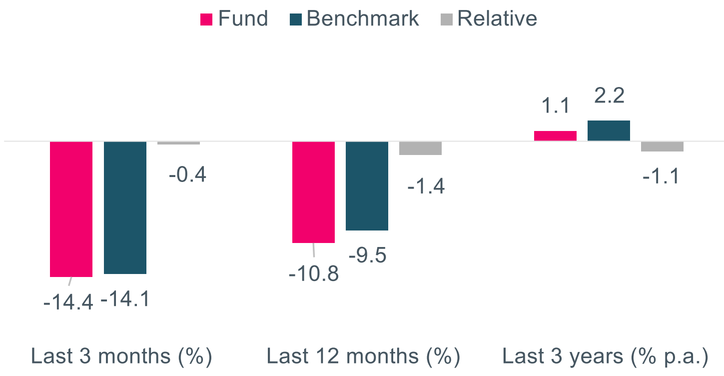
The Schroder's property mandate returned -14.4% over Q4 2022 versus its benchmark of -14.1%, an underperformance of 0.3%.

SCREF's performance during the quarter was derived principally from capital value decline of £423.2 million in NAV across the portfolio. This represents a 16.0% decline in NAV from Q3 2022 to Q4 2022. This decline was driven by rapid outward yield movement across sectors, reflecting the recent increase in UK bond yields and higher cost of debt. The property sector showed signs of slowing down across the quarter as returns entered negative territory, mostly owing to low market liquidity.

The most significant decline was seen in the industrial sector, which saw a capital value decline of 18.0% over the quarter. A number of SCREF's prime, lower yielding offices also saw valuation decline in the quarter. SCREF's office portfolio saw a total capital value movement of 12.7% over Q4 2022.

There were 42 new lettings, lease renewals and rent reviews over the quarter as a result of the active management initiatives, creating £1.86m rent income per annum. As a result, the income return of the fund reached 0.9%, 0.3% more than the benchmark. Rent collection for Q4 stands above average, at 95% as at two weeks from YE.

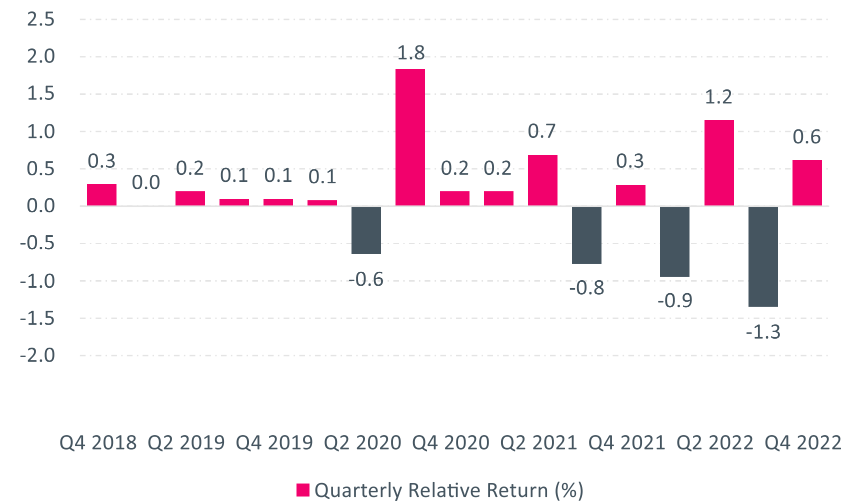
Performance summary



Key statistics

Fund size (gross)	£2,351.1m
Number of holdings	53
Number of tenants	665
Debt (% of NAV)	7.3%
Top 10 holdings as % of portfolio	50.2

Quarterly relative performance



Source: Data and fund performance provided by Schroders and is gross of fees.

HYMANS # ROBERTSON

Schroders Fixed Income

The Schroders Fixed Income fund returned 4.1% over Q4 20222, marginally beating its benchmark of 4%.

Over the past 12 months the fund underperformed mainly due to the high yields over the first three quarters of the year and falls short of its benchmark by 2.6%.

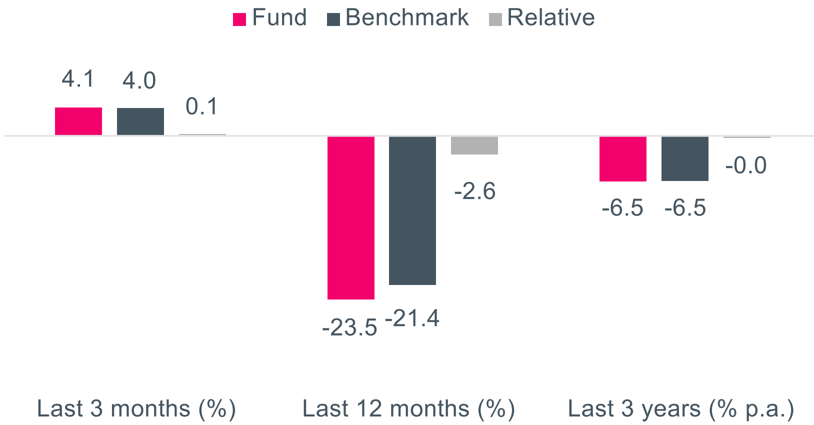
Performance over the 3-year period was also negative albeit in line with the fund's benchmark.

The fund's positive return over the quarter can be attributed to its aim of exploring relative value opportunities. While keeping close to the benchmark performance, the fund's relative credit allocation shows a slight tilt towards higher yielding bond investments (mostly favouring double and triple B against AA ratings).

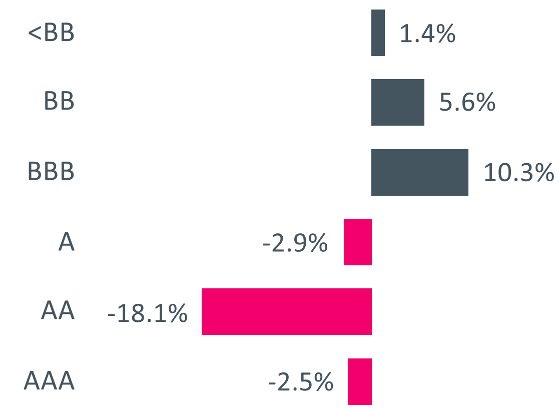
Ongoing inflation risk determined a focus on cross-market opportunities. As a result, on a backdrop of stability following the GILT crisis, UK-based opportunities were overweight against a short position in European bonds.

In terms of asset allocation, Schroders maintained a preference for US IG credit over European IG or HY credit.

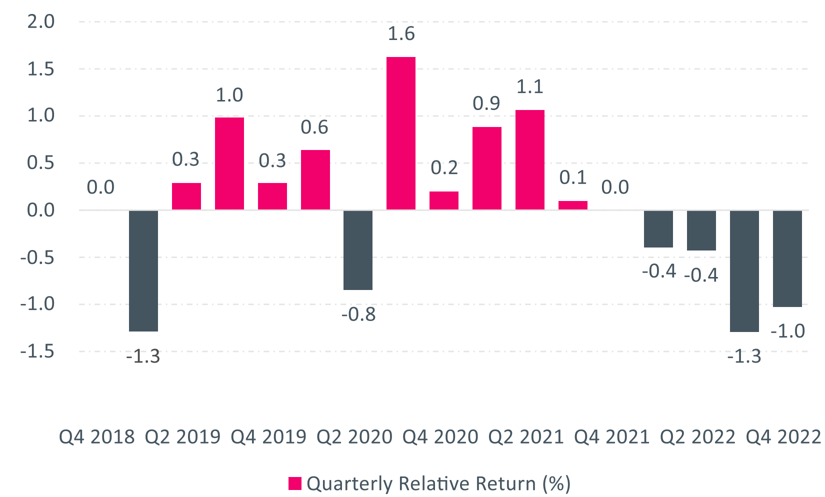
Performance summary



Relative credit allocation



Quarterly relative performance



Source: Data and fund performance provided by Schroders and is gross of fees.

GSAM Broad Street Loan Partners IV Fund

In July 2020, a new 5% allocation to private debt was agreed by the Committee which will be drawn down over time.

The table to the right reflects the key statistics since inception based on the estimated end of December figures from GSAM.

The estimated capital balance by GSAM as at 30 December 2022 was c.£25.5m and capital contributions were c.£28.7m (out of which £4.6m were distributed back).

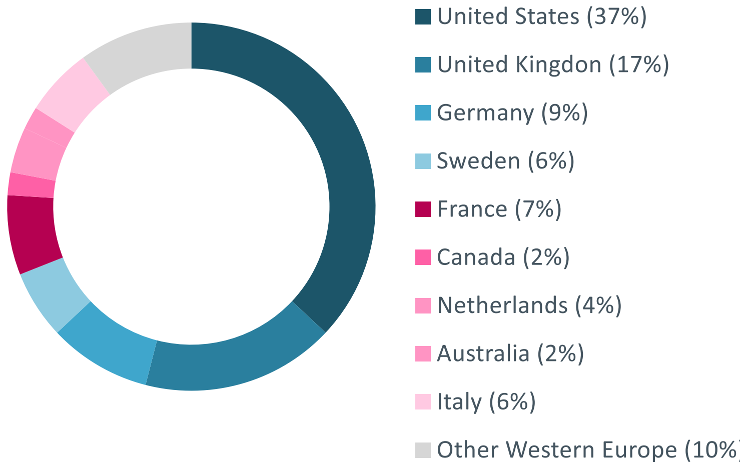
First Lien term loans continue to hold the majority weighting, in line with the Fund’s target investment profile.

It is too early in the funds lifecycle for performance data however as the Fund’s commitment of £30m continues to drawdown, and as the size of the investment increases, performance reporting will develop.

The charts to the right reflect end of September position as the Q4 report Is still to be released.

*Net income allows for impact of currency movements, over Q4 the dollar depreciated against the pound, negatively impacting returns

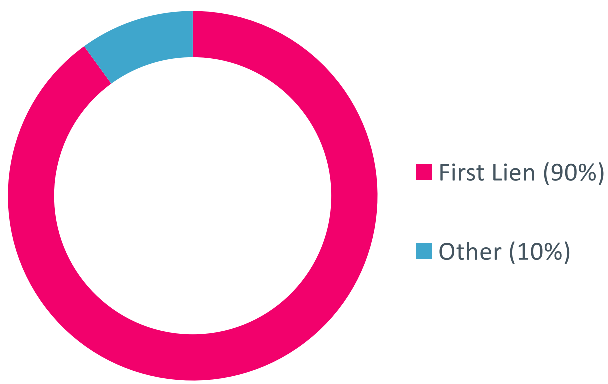
Geography split as at 30 Sept 2022



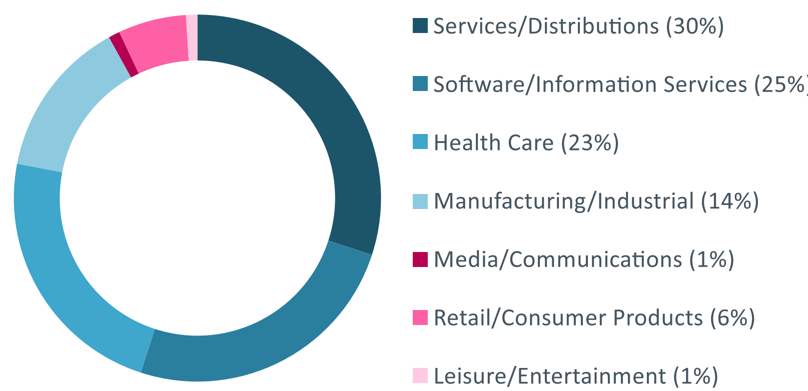
Key statistics since inception (£m)

Commitment	30.0
Capital contributed	28.7
Distributions	4.6
Estimated Capital balance	25.5
Estimated Net Income/Loss*	1.4

Security/Loan type as at 30 Sept 2022



Industry split as at 30 Sept 2022



Source: Fund data provided by GSAM and is gross of fees.

Partners Direct Infrastructure

In July 2020, a new 5% allocation to infrastructure was agreed by the Committee which will be drawn down over time. The first allocation to Partners Direct Infrastructure Fund was drawn on 10 July 2021.

The net asset value for the fund as at 30 December 2022 was c.£11.4m (vs. c.£8.6m as at 30 Sept 2022.

A capital call was issued in December, bringing the net contributions to the fund up to £10.7m (vs c£8.5m in Sept 2022)

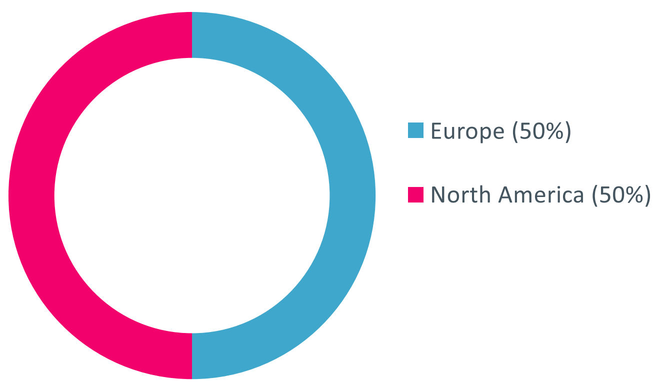
It should be noted that given this is a EUR fund, FX movements will impact the returns. During Q4 2022 GBP depreciated 2% against the EUR, hence mildly improving returns.

Reporting for the fund will evolve over time as the fund establishes.

Key statistics (£m)

Commitment	35
Capital contributions	10.7
Distributions	0
Net contributions	10.7
Net asset value	11.4
Net multiple (%)	1.1%

Regional allocation



Source: Fund data provided by Partners.

Risk Warning

Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investment in developing or emerging markets may be more volatile and less marketable than in mature markets. Exchange rates may also affect the value of an investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.

In some cases, we have commercial business arrangements/agreements with clients within the financial sector where we provide services. These services are entirely separate from any advice that we may provide in recommending products to our advisory clients. Our recommendations are provided as a result of clients' needs and based upon our independent research. Where there is a perceived or potential conflict, alternative recommendations can be made available.

Geometric v Arithmetic Performance

Hymans Robertson are among the investment professionals who calculate relative performance geometrically as follows:

$$\frac{(1 + Fund\ Performance)}{(1 + Benchmark\ Performance)} - 1$$

Some industry practitioners use the simpler arithmetic method as follows:

$$Fund\ Performance - Benchmark\ Performance$$

The geometric return is a better measure of investment performance when compared to the arithmetic return, to account for potential volatility of returns.

The difference between the arithmetic mean return and the geometric mean return increases as the volatility increases.

This page sets out the benchmark, performance targets, and fees of each mandate.

It also provides descriptions of our ratings and the rationale behind our Hymans research and Responsible Investment ratings.

Benchmarks, Targets & Fees

Mandate	Date Appointed	Benchmark Description	Performance Target (% p.a.)
Newton Global Equity Fund	25/08/2009	MSCI AC World	+2% p.a. over rolling 5 years
Liontrust UK Equity Fund	31/08/2009	FTSE All Share	+2% p.a. over rolling 5 years
Schroders Fixed Income Fund	31/08/2009	50% iBoxx Gilts and 50% iBoxx Non-Gilts Indices	Outperform benchmark by 1% p.a. (net of fees) over a market cycle before fees
Schroders Property Fund	31/08/2009	AREF/MSCI UK Quarterly Property Fund Index All Balanced Funds Median	Outperform benchmark by 0.5% p.a. (net of fees) over 3 year rolling period
Baillie Gifford Diversified Growth Fund	30/10/2013	UK Base Rate +3.5% p.a.	UK Base Rate +3.5% p.a. (net of fees) over 5 year rolling period
GSAM Broad Street Loan Partners IV Fund	25/01/2021	-	8% gross IRR
Partners Infrastructure	10/07/2021	-	8-12% p.a. net of fees
UBS Climate Aware World Equity Fund	08/12/2021	FTSE AW Developed Index	-

Source: Investment Managers

Hymans Ratings

Preferred	Our highest rated managers in each asset class. These should be the strategies we are willing to put forward for new searches.
Positive	We believe there is a strong chance that the strategy will achieve its objectives, but there is some element that holds us back from providing the product with the highest rating.
Suitable	We believe the strategy is suitable for pension scheme investors. We have done sufficient due diligence to assess its compliance with the requirements of pension scheme investors but do not have a strong view on the investment capability. The strategy would not be put forward for new searches based on investment merits alone.
Negative	The strategy is not suitable for continued or future investment and alternatives should be explored.
Not Rated	Insufficient knowledge or due diligence to be able to form an opinion.

Responsible Investment

Strong	Strong evidence of good RI practices across all criteria and practices are consistently applied.
Good	Reasonable evidence of good RI practices across all criteria and practices are consistently applied.
Adequate	Some evidence of good RI practices but practices may not be evident across all criteria or applied inconsistently.
Weak	Little to no evidence of good RI practices.
Not Rated	Insufficient knowledge to be able to form an opinion on.

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Items circulated to Committee members since the papers were published for last committee meeting (15 November 2022), for information:

1) Sent 15-Nov-22: November issue of the Edit, Hymans Robertson.
2) Sent 15-Nov-22: summary of pension fund committee papers 23 November 2022.
3) Sent 16-Nov-22: invitation to A Virtual Fireside Chat: Talking all things pension dashboard, Heywood Pension Technologies 9 November 2022.
4) Sent 25-Nov-22: invitation Link Investor day 3 February 2023.
5) Sent 25-Nov-22: ACCESS: exposure to forced labour - repression of Uyghur Muslims in China
6) Sent 30-Nov-22: LGPC Bulletin 231.
7) Sent 30-Nov-22: ACCESS joint committee meeting agenda pack 5 December 2022.
8) Sent 06-Dec-22: pension fund investments exposure to Qatar.
9) Sent 07-Dec-22: December issue of the Edit, Hymans Robertson.
10) Sent 13-Dec-22: Hymans Robertson Festive round up.
11) Sent 07-Jan-23: Hymans Robertson: Key priorities for the LGPS in 2023.

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Purpose: For Decision

ISLE of WIGHT COUNCIL

Committee report

Committee	**PENSION FUND COMMITTEE**
Date	**8 FEBRUARY 2023**
Title	**ACCESS POOLING UPDATE**
Report of	**PENSION FUND MANAGER**

EXECUTIVE SUMMARY

1. This report provides the committee with information about the ACCESS Joint Committee meeting held on 5 December 2022.

RECOMMENDATION

2. That the committee note the update from the Joint Committee meeting.

3. That the committee approve the 2023/24 Business Plan as recommended by the Joint Committee.

CONFIDENTIAL / EXEMPT ITEMS

4. This main body of this report and its appendices are assessed as open to publication, but appendix 4 is deemed to be exempt from disclosure by virtue of paragraph 3 of part 1 of schedule 12A of the Local Government Act 1972 (as amended) as it “relates to financial or business affairs of any particular person”, (including the authority holding that information). The public interest in maintaining confidentiality outweighs the public interest in disclosing it. Disclosing the information could place the council at risk of legal challenge from individuals or other bodies identified in the report.

5. For clarity, these matters are considered exempt from disclosure by the ACCESS Joint Committee.

BACKGROUND

6. Since December 2016 the Isle of Wight Pension Fund has been working with ten other ‘like-minded’ Administering Authorities to form and discharge the activities of ACCESS (A Collaboration of Central, Eastern and Southern Shires) Pool. The other participating ACCESS Funds are Cambridge, East Sussex, Essex, Hampshire, Hertfordshire, Kent, Norfolk, Suffolk, West Northamptonshire and West Sussex.

Governance and cost sharing arrangements are set out in an Inter-Authority Agreement (IAA) signed by all eleven authorities, to establish the ACCESS Pool and define governance and cost sharing.

7. The ACCESS Pool is governed by a Joint Committee (JC) made up of one elected Councillor from each authority's Pensions Committee. The Isle of Wight Pension Fund is normally represented by Councillor Churchman, as determined by Full Council.

8. Officer support is principally provided by an ACCESS Support Unit (5 FTE) hosted by Essex County Council.

9. Pool assets are assets of the eleven Councils which are managed by an Operator – presently Link Funding Solutions. On 31 December 2022 there was £23.1 billion invested in the Authorised Contractual Scheme (ACS). Assets are also managed for some authorities under pool governance on a passive basis by UBS (£9.4 billion on 31 December 2022). Appendix 1 shows the assets under management in the ACS by strategy / sub fund and by Fund Manager.

JOINT COMMITTEE MEETING 5 DECEMBER 2022

10. The ACCESS Joint Committee last formally met in December 2022 with Councillor Churchman attending, supported by the Pension Fund Manager.

11. Observers from three of the Local Pension Board (Hampshire, Hertfordshire, and Isle of Wight) were invited to attend. The independent chairman and one of the scheme member representatives were in attendance and reported back to the board meeting on 17 January 2023.

12. The agenda for this meeting is attached as appendix 2 to this report. The following matters are highlighted:

    (a) It was agreed that the proposed 2023/24 Business Plan should be recommended to the ACCESS Authorities.

    (b) The Joint Committee accepted the recommended 2023/24 budget to support the business plan from Section 151 Officers (totalling £1.559 million).

    (c) An update on the Financial Conduct Authority (FCA) investigations into the conduct of Link in relation to the Woodford investment fund and Link's potential sale was provided and the Joint Committee approved activity being undertaken to facilitate an accelerated procurement for ACS Operator, if required. This matter is covered under a separate item on the pension committee agenda.

    (d) The Joint Committee agreed that work to appoint managers / allocators for private debt funds should complete Q3 2023, private debt and private equity allocators should complete in Q1 2024 and infrastructure funds and an allocator Q4 2024.

    (e) The Joint Committee approved Essex County Council as Procurement Lead Authority for a Governance Consultant and Hampshire County Council as Procurement Lead Authority for a Communications Partner and for a consultant to define Environmental, Social and Governance (ESG) reporting requirements.

(f) The Joint Committee were advised that nine sub-funds were with Link to establish, two sub-fund changes were made by Link and approved by the FCA during the quarter and two sub-fund changes were in progress by Link.

2022/23 (CURRENT YEAR) BUSINESS PLAN

13. The Business Plan for 2022/23 was agreed by the Joint Committee in December 2021 and adopted by the Isle of Wight Pension Fund Committee at their meeting in February 2022. The table below provides an update:

Business Plan Item	**Status**
Launch nine further sub-funds in the ACS (Tranches 5b, 5c, 6 and 7)	There are now 27 sub-funds launched with a further eight in development. This is the maximum number of sub-funds which were agreed to be launched by Link within their contract price. The ACCESS Support Unit have now negotiated a tiered fee with Link (2.73bps in year one, 1.93bps in subsequent years). The Joint Committee will consider a recommendation about how these costs will be met when they meet in March 2023.
Implement the recommendations from the Joint Committee meeting in September 2021 in relation to the continuation of the Operator Agreement with Link and the procurement activity to align with the contract end date of March 2025.	This is covered in a separate report to this meeting.
Establish arrangements for Councils to invest in non-listed asset classes (property, private debt, private equity and infrastructure)	MJ Hudson have been appointed to provide advice in relation to the set-up of vehicles for non-listed assets. Their initial work relates to property investment with a recommendation due to be considered in March 2023. Work to appoint managers / advisers for private debt funds should complete Q3 2023, private debt and private equity allocators should complete in Q1 2024 and infrastructure funds and an allocator Q4 2024. Isle of Wight have in interest in the appointment of allocators for private debt and the offer in relation to infrastructure funds. After the Joint Committee meeting it was reported that accounting issues had been identified as part of MJ Hudson's ongoing audit, including those related to reporting historical trading for 2022. The full impact of these discoveries is unclear, and this situation is being kept under review.
Engagement with UBS to provide effective monitoring of the passive investments	On 31 December 2022, £9.4 billion was invested on a passive basis by ACCESS Councils through a joint arrangement with UBS. Isle of Wight is invested in the UBS Climate Aware Fund.

Business Plan Item	Status
Implement the revised Governance Manual and review of the ACCESS Support Unit (ASU) and the ACCESS governance arrangements.	Essex County Council have been appointed as the Procurement Lead Authority for a Governance Consultant to review the effectiveness of the ACCESS pool against its original objectives, audit of governance processes / procedures and review how the existing and planned workstreams within the ACCESS Business Plan and the wider pooling arrangements are delivered with the ACCESS resource including the ACCESS Support Unit and Authority officers. It is expected that the appointment of a Governance Consultant will be made in early February 2023 with a presentation of the outcome of the review to the Joint Committee in June.
Liaise with the Scheme Advisory Board and DLUHC as appropriate and actively participate in relevant consultations.	A response was sent from by the Director of ACCESS Support Unit to the Department for Levelling Up, Housing and Communities (DLUHC) on the Local Government Pension Scheme (LGPS) (England and Wales): Governance and reporting of climate change risks consultation.

2023/24 BUSINESS PLAN

14. The 2023/24 Business Plan has been appended for the Pension Committee's consideration as Appendix 3.

15. The Joint Committee recommended this business plan for adoption by the 11 investing authorities.

CORPORATE PRIORITIES AND STRATEGIC CONTEXT

Corporate Aims

16. There is nothing contained in this report which directly contributes to the priorities contained in the Corporate Plan 2021 - 2025.

Pension Fund Strategic Aims

17. 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.

18. Providing information to the committee on the work of the ACCESS pool and ensuring that the committee is informed of key strategic and operational decisions considered by the Joint Committee fulfils the fund's Investment Governance belief that "the Committee aim to have a good working relationship with the ACCESS pool."

FINANCIAL / BUDGET IMPLICATIONS

19. The Isle of Wight Council Pension Fund pays an equal (1/11th) share of the ACCESS central governance budget.

20. A budget of £1.366 million (approximately £124,000 per Council) was determined by the Joint Committee to support the 2022/23 Business Plan. On 30 September 2022, the ACCESS Support Unit were estimating an underspend of £101,000 overall (approximately £9,000 per Council).

21. A budget of £1.559 million (approximately £142,000 per Council) was determined by the Joint Committee to support the 2023/24 Business Plan. The Joint Committee accepted the recommendation of the ACCESS section 151 officers to adopt this budget.

22. Costs associated with the investment sub funds, including investment manager and Link fees, are allocated between the investing authorities based on the value of the assets invested in the sub-fund.

LEGAL IMPLICATIONS

23. The Isle of Wight Council is the administering authority for the Isle of Wight Council Pension Fund. An administering authority is defined in the Local Government Pension Scheme Regulations 2013 as “a [local authority] required to maintain a pension fund under the local government pension scheme regulations”.

24. The Pension Fund Committee is a committee under section 101 of the Local Government Act 1972, with delegated authority to discharge the council’s statutory duties in respect of the LGPS.

25. Throughout the ACCESS project, the 11 participating funds have been advised by Squire Patton Boggs, to ensure that appropriate legislative requirements are followed.

26. The council’s monitoring officer and section 151 officer have also been engaged in the project as required.

EQUALITY AND DIVERSITY

27. The council, as a public body, is required to meet its statutory obligations under the Equality Act 2010 to have due regard to eliminate unlawful discrimination, promote equal opportunities between people from different groups and to foster good relations between people who share a protected characteristic and people who do not share it. The protected characteristics are: age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation.

28. There are no implications for any of the protected characteristics arising from items covered in the report.

RISK MANAGEMENT

29. This detailed risk register for ACCESS is attached to this report at Appendix 4. Risks relevant to the Isle of Wight fund will be incorporated into the fund's risk register.

APPENDICES ATTACHED

30. Appendix 1: ACCESS Investments on 31 December 2022.

31. Appendix 2: ACCESS Joint Committee agenda 5 December 2022.

32. Appendix 3: ACCESS business plan 2023-24.

33. Appendix 4 (EXEMPT): ACCESS risk register (December 2022).

BACKGROUND PAPERS

34. ACCESS Joint Committee 5 December 2022 agenda pack
Agenda for ACCESS Joint Committee on Monday, 5th December, 2022, 11.00 am (kent.gov.uk)

Contact Point: Joanna Thistlewood, Pension Fund Manager, ☎ 821000
e-mail *jo.thistlewood@iow.gov.uk*

CHRIS WARD
Director of Finance and Section 151 Officer

COUNCILLOR CHRIS JARMAN
Chairman of the Isle of Wight Pension Fund Committee

Sub Fund	Fund Value £'000	Cambs.	East Sussex	Essex	Herts	Hants	Isle of Wight	Kent	Norfolk	W. Northants	Suffolk	West Sussex	Insurance coverage based on £105m cover	Manager
Global Active Value	400,426	-	-	-	-	-	-	400,426	-	-	-	-	26%	Schroders
Global Equity	386,109	-	-	-	-	-	-	-	386,109	-	-	-	27%	Capital Group
Global Equity	294,490	-	-	-	-	-	-	-	294,490	-	-	-	36%	Mondrian
Global Managed Volatility Equity	635,303	-	-	-	-	635,303	-	-	-	-	-	-	17%	Acadian
UK Equity	377,577	-	-	-	-	-	94,572	-	-	283,005	-	-	28%	Liontrust
Long Term Global Growth	1,526,264	-	-	540,695	220,070	597,020	-	-	-	168,480	-	-	7%	Baillie Gifford
Global Equity Core	986,929	-	-	-	-	-	-	986,929	-	-	-	-	11%	Baillie Gifford
Global Equity (Ex UK)	674,194	-	-	-	-	-	-	-	674,194	-	-	-	16%	Fidelity
UK Equity	1,145,700	-	-	-	-	-	-	1,145,700	-	-	-	-	9%	Schroder
Global Stock	1,659,505	563,638	-	-	371,370	724,497	-	-	-	-	-	-	6%	Dodge & Cox
Global Dividend	1,289,194	-	-	772,619	-	-	-	516,576	-	-	-	-	8%	M&G
Global Equity	1,961,438	420,967	533,485	716,214	-	-	-	-	-	290,773	-	-	5%	Longview
UK Equity Core	675,158	-	-	-	395,310	-	-	-	279,848	-	-	-	16%	Baillie Gifford
Alpha Opportunities	1,991,767	199,199	287,949	957,472	-	-	-	-	-	160,804	386,344	-	5%	M&G
Global Equity	927,334	-	-	-	-	-	140,009	-	-	296,527	490,798	-	11%	Newton
Sterling Core Bond	384,016	-	-	-	384,016	-	-	-	-	-	-	-	27%	Royal London
Global Equity	467,152	467,152	-	-	-	-	-	-	-	-	-	-	22%	JO Hambro
Diversifed Growth	300,140	-	-	-	-	-	101,663	-	-	198,477	-	-	35%	Baillie Gifford
Sterling Aggregate Bond	760,612	-	-	-	-	-	-	-	-	-	-	760,612	14%	Baillie Gifford
Global Alpha Paris-Aligned	2,284,955	-	179,013	-	-	545,137	-	-	183,478	-	-	1,377,327	5%	Baillie Gifford
Real Return	343,806	-	343,806	-	-	-	-	-	-	-	-	-	31%	Newton
Absolute Return	679,397	-	485,299	-	-	-	-	194,097	-	-	-	-	15%	Ruffer
Sterling Corporate Bond	120,055	-	120,055	-	-	-	-	-	-	-	-	-	87%	M&G
UK Select	294,643	-	-	-	-	-	-	-	-	-	294,643	-	36%	Blackrock
Global Equity	1,172,680	-	-	-	-	-	-	-	-	-	-	1,172,680	9%	Macquarie
Sterling Investment Grade Credit	707,346	-	-	-	-	-	-	-	-	-	-	707,346	15%	Fidelity
Multi Asset Credit	679,043	-	-	199,198	-	-	-	-	280,646	-	199,198	-	15%	Henderson
Total Assets within ACS	**23,125,231**	**1,650,956**	**1,949,607**	**3,186,197**	**1,370,766**	**2,501,957**	**336,244**	**3,243,727**	**2,098,765**	**1,398,066**	**1,370,983**	**4,017,964**		
Passive	9,415,326	838,948	313,231	2,531,770	1,134,926	2,532,528	131,770	-	113,616	862,456	956,080	-		
Total	**32,540,557**	**2,489,904**	**2,262,838**	**5,717,967**	**2,505,692**	**5,034,485**	**468,014**	**3,243,727**	**2,212,381**	**2,260,522**	**2,327,063**	**4,017,964**		

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Appendix 2

AGENDA

ACCESS JOINT COMMITTEE

Monday, 5th December, 2022, at 11.00 am	Ask for:	**Joel Cook**
Bevin Hall, LGA Building, 18 Smith Square, London, SW1P 3HZ	Telephone	**03000 416892**

Tea/Coffee will be available 15 minutes before the start of the meeting in the meeting room

Membership
Chair: Cllr Mark Kemp-Gee (Hampshire CC), **Vice-Chair: Cllr Susan Barker** (Essex CC), **Cllr Vanessa Churchman** (Isle of Wight), **Cllr Gerard Fox** (East Sussex CC), **Cllr Jeremy Hunt** (West Sussex CC), **Cllr Malcolm Longley** (West Northamptonshire), **Cllr Judy Oliver** (Norfolk CC), **Cllr Charlie Simkins** (Kent CC), **Cllr Karen Soons** (Suffolk CC), **Cllr Alison Whelan** (Cambridgeshire CC) and **Cllr Andrew Williams** (Hertfordshire CC)

UNRESTRICTED ITEMS

(During these items the meeting is likely to be open to the public)

1. Apologies/Substitutes

2. Declaration of interests in items on the agenda

3. Chair's Remarks

4. Minutes of the meeting held on 6 June 2022 (Pages 1 - 6)

5. Business Plan, Budget and Risk Summary (Pages 7 - 32)

Motion to Exclude the Press and Public

That under Section 100A of the Local Government Act 1972 the press and public be excluded from the meeting for the following business on the grounds that it involves the likely disclosure of exempt information as defined in paragraphs 3 & 5 of part 1 of Schedule 12A of the Act.

EXEMPT ITEMS

(During these items the meeting is likely NOT to be open to the public)

Joel Cook
Clerk to the Joint Committee
03000 416892

Friday, 25 November 2022

ACCESS
Effective • Collective • Investment

2023/24

Business Plan

& Budget

Introduction

ACCESS has its origins in 2016 when eleven Local Government Pension Scheme (LGPS) Authorities agreed to begin working collectively to address the requirements of the Government's agenda for pooling LGPS investments.

The following strategic objectives are in place:

- enable the Councils to execute their fiduciary responsibilities to LGPS stakeholders, including scheme members and employers, as economically as possible;
- provide a range of asset types necessary to enable those participating Authorities to execute their locally-determined investment strategies as far as possible;
- enable the Councils to achieve the benefits of pooling investments, preserve the best aspects of what is currently done locally, and create the desired level of local decision making and control.

In order to achieve these objectives, the Councils have established a set of governing principles.

The governing principles are summarised below.

Implicit within the above principles is the democratic accountability and fiduciary duty of the Councils as Administering Authorities.

The Joint Committee recommends an annual strategic business plan to the Councils, following recommendations from Section 151 Officers and following input from the ACCESS Support Unit (ASU).

Context

During 2022/23 further progress took place in pooling active listed assets, and the Business As Usual (BAU) Evaluation continued. With Real Estate, the pool's first approach to illiquid assets was put in place. In partnership with Minerva, the pool's Environmental, Social and Governance / Responsible Investment guidelines were revised and updated.

Enhancements were made to the pool's online presence, and procurements undertaken for continued communications support to be in place and a third-party review of both objectives and the ACCESS Support Unit.

It is anticipated that 2023/24 will see key activities within the following themes:

Actively managed listed assets: *further pooling active listed assets within the Authorised Contractual Scheme (ACS).*

Scheduled BAU evaluation: *preparation for, and the commencement of, the re-procurement of operator services in the penultimate year of the Operator Agreement.*

Alternative / non-listed assets: *work on the procurement of pooled asset solutions for private debt and private equity.*

Passive assets: *ongoing monitoring and engagement with UBS.*

Governance*: the continued application of appropriate forms of governance throughout ACCESS; the commencement of RI reporting support for the pool and the commencement of the second contract for communications support.*

ACCESS Support Unit (ASU): *the implementation of the outcomes of the external review of the ASU.*

Business Plan

The Business Plan is proposed each year to the Councils by the Joint Committee on the basis of recommendations from the s151 Officer Group. The Joint Committee, on advice from the s151 Officer Group, determine a budget in order to deliver the annual Business Plan. Workstreams for the ASU are monitored at the Officer Working Group (OWG) and in turn reported to the s151 Officer Group where key ACCESS business plan activity and deliverables for the fiscal year are considered.

Each theme within the business plan includes milestones planned for the year. The strategic nature of ACCESS's objectives means that a number of the 2023/24 milestones build on work previously undertaken and will in turn provide the foundation for further milestones in subsequent years.

The *Joint Committee* will receive updates on the milestones at each meeting.

Budget

A budget totalling **£1.559m** to support the business plan is included at the end of this paper.

Theme	Milestone	2023/24 activity
Actively managed listed assets	Launch of Tranche 6 Launch of Tranche 7a Launch of Tranche 7b Determine, approval & launch of Tranche 8 (if required)	Anticipated H1 2023 Anticipated 2023/24 Anticipated 2023/24 Anticipated 2023/24
Scheduled BAU evaluation	2023/24 is the penultimate year of the Operator Agreement.	Preparation for, and the commencement of, the re-procurement of operator services.
Alternative / non-listed assets	Initial implementation of approach to pool illiquid assets	Work on the procurement of pooled asset solutions for private debt and private equity.
Passively managed assets	Ongoing monitoring of assets managed on a passive basis	Further engagement and exploration with UBS will continue throughout the year.

Theme	Milestone	2023/24 activity
Governance	Meetings and oversight Operational protocols Engagement with HM Government / Department for Levelling Up, Housing & Communities (DLUHC) Joint Polices & guidelines	Arrangements will be made to support meetings of the Joint Committee. Meetings of s151 Officers will also be held. The implementation of the outcomes of the third-party review of objectives. ACCESS will liaise with the Scheme Advisory Board as appropriate. Periodic reports will be provided to DLUHC as required. The Pool will actively participate with any Cabinet Officer / DLUHC pooling-related consultations. The commencement of RI reporting support for the pool. An annual review will be conducted of the pool's RI Guidelines. The pool's second Communications support contract will commence. Continued activity will take place on implementing the Communications plan.
ACCESS Support Unit (ASU)	ACCESS Support Unit	The outcomes of the third-party review of the ASU will be implemented.

Theme	Milestone	2023/24 activity
		An annual internal audit of the ASU will take place.

A separate risk register measures the risk of the strategic objectives and milestones not being achieved and the resultant impact.

Budget 2023/24

The budget for 2023/24 is set out below.

	Agreed Budget 2022/2023 £	Actual Costs as at 31 Oct plus forecast 2022/2023 £	Proposed Budget 2023/24 £
ASU			
ASU Salaries (incl. on cost)	465,000	463,148	499,833
ASU Operational	23,000	18,043	23,000
ASU Host Authority Recharg	35,000	34,000	35,700
Technical Lead Recharge	45,000	34,064	40,000
ASU Total	**568,000**	**549,255**	**598,533**
Professional Costs			
Internal Professional Costs			
JC Secretariat	22,000	22,495	23,100
Procurement	60,000	77,000	145,000
Internal Professional Costs	82,000	**99,495**	168,100
External Professional Costs			
Strategic & Technical	546,000	445,896	602,000
Legal & Governance	170,000	169,750	190,400
External Professional Costs	716,000	**615,646**	792,400
Professional Costs Total	**798,000**	**715,141**	**960,500**
Total Costs	**1,366,000**	**1,264,396**	**1,559,033**
Cost Per Authority	**124,182**	**114,945**	**141,730**

Key budget assumptions

The full year effect of the ASU comprising of five full time officers.

The continuation of Technical Lead support at November 2022 levels.

Joint Committee Secretariat services remaining with Kent County Council for the duration of 2023/24.

Expenditure for a Procurement Lead Authority to deliver the following:

- procurement support for the provision of private debt and private equity pooled asset solutions; and
- procurement requirements arising from the Scheduled BAU evaluation.

External professional costs cover a range of matters including:

- ongoing advice and project management support in relation to the Scheduled BAU evaluation;
- the required reporting associated with Responsible Investment guidance;
- pool communications; and
- ongoing advice in support of operational pool activity.

External legal advice.

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Appendix 4

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Agenda Item 16b

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Appendix 1

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Agenda Item 17

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Appendix 1

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