

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

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## **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

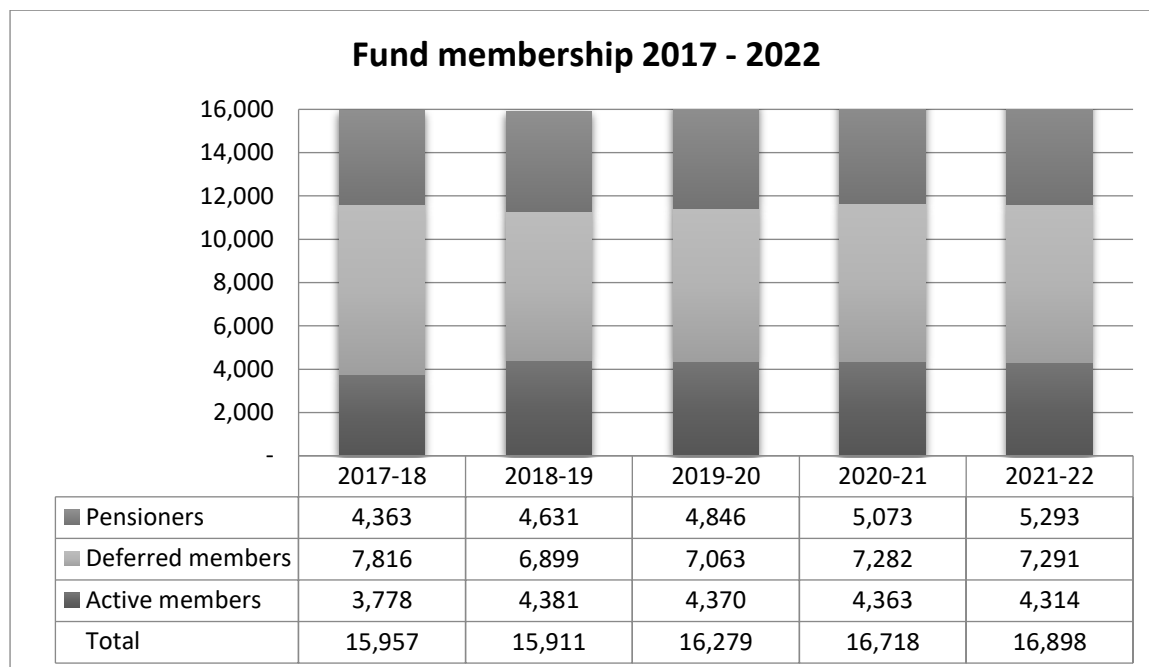
Fund account	2021-22 £000	2020-21 £000	Notes
Net withdrawals from dealings with members	<b>(2,979)</b>	(2,104)	Increase in basic contributions; increase in transfers in; inflationary increases in benefits paid & increase in number of pensioners; increased payments to leavers and on death
Management expenses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

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

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

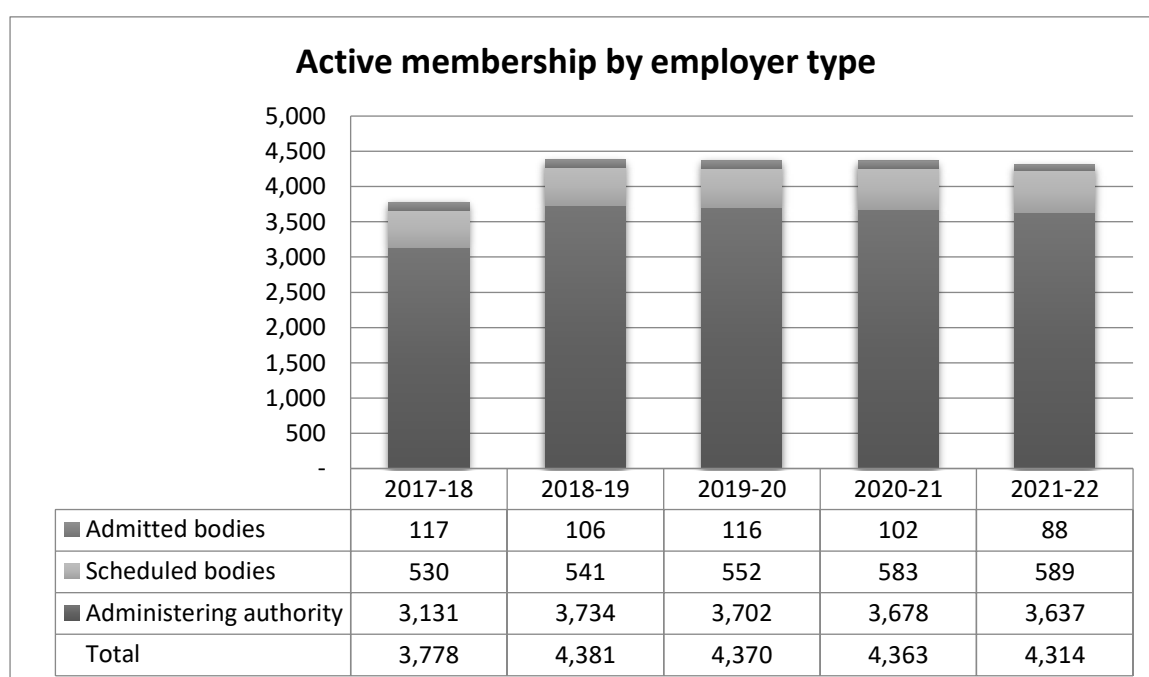
## Membership data

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:



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:



## **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 19<sup>th</sup> of the following month.

No interest was charged on any of the instances of late payment.

	<b>Active members at 31 March 2022</b>	<b>Employee basic conts. £000</b>	<b>Employer basic conts. £000</b>	<b>Instances Payment Late</b>	<b>Instances Return Late</b>
<b>Administering Authority</b>					
Isle of Wight Council	3,637	3,627	13,609	-	-
	<b>3,637</b>	<b>3,627</b>	<b>13,609</b>	<b>-</b>	<b>-</b>
<b>Scheduled Bodies</b>					
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	-	-
	<b>589</b>	<b>473</b>	<b>1,849</b>	<b>2</b>	<b>4</b>
<b>Admitted Bodies</b>					
Southern Housing	26	8	36	-	-
Island Roads	22	52	-	-	-
Accomplish <sup>1</sup>	10	19	77	-	-
Barnardo's <sup>2</sup>	7	10	40	-	-
CleanTEC <sup>3</sup>	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 <sup>4</sup>	-	2	7	-	-
Trustees of Carisbrooke Castle Museum <sup>5</sup>	-	3	8	-	-
St Catherine's School <sup>6</sup>	-	-	-	-	-
	<b>88</b>	<b>179</b>	<b>500</b>	<b>2</b>	<b>2</b>



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:

			<b>Joined</b>	<b>Resigned</b>
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  
  
14<sup>th</sup> Floor  
110 Bishopsgate  
London EC2N 4AY

Schroder Investment Management Limited  
31 Gresham Street  
London EC2V 7QA

Actuarial Services

Hymans Robertson LLP  
20 Waterloo Street  
Glasgow G2 6DB

AVC Provider

Prudential  
AVC Customer Services  
Stirling FK9 4UE

Bankers

Lloyds Bank  
3 Town Quay  
Southampton  
SO14 2AQ

Scheme Administrator

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County Hall  
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[pensions@iow.gov.uk](mailto:pensions@iow.gov.uk)  
<http://www.isleofwightpensionfund.org/>  
Direct Tel No 01983 823626

UBS Asset Management  
5 Broadgate  
London EC2M 2QS

Investment Consultants

Hymans Robertson LLP  
20 Waterloo Street  
Glasgow G2 6DB

Custodian

Northern Trust  
50 Bank Street  
London E14 5NT

Auditors

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

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
<b>Total</b>		<b>100.0%</b>	-	

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

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**

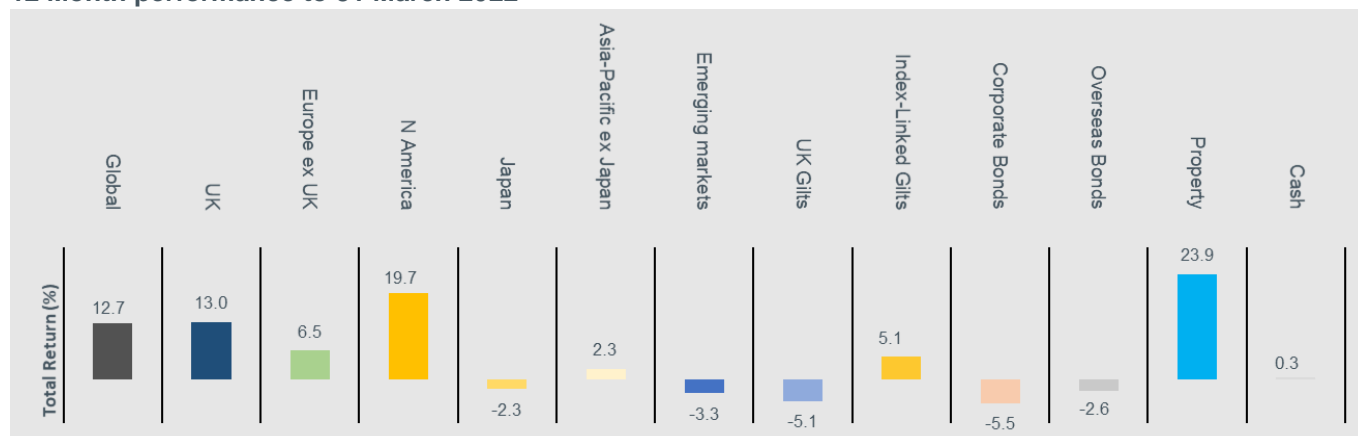
Global GDP has risen rapidly as major economies moved towards a more permanent easing of pandemic restrictions; however, momentum has started to ease in recent months. Physical disruptions and sanctions caused by the Russia-Ukraine conflict have triggered broad commodity price rises which, alongside 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 <sup>1</sup>	-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
<b>Total</b>	<b>6.9</b>	<b>7.3</b>	<b>7.6</b>	<b>7.0</b>

<sup>1</sup>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
<p><b>Principle 1 Effective Decision Making:</b> Administering authorities should ensure:</p> <ul style="list-style-type: none"> <li>• 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</li> <li>• That those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.</li> </ul>	<p><b>Compliant</b> <b>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.</b></p>
<p><b>Principle 2 Clear objectives:</b> 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.</p>	<p><b>Compliant</b> <b>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.</b></p>
<p><b>Principle 3 Risk and liabilities:</b></p> <ul style="list-style-type: none"> <li>• In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.</li> <li>• These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.</li> </ul>	<p><b>Compliant</b> <b>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.</b></p>
<p><b>Principle 4 Performance assessment:</b></p> <ul style="list-style-type: none"> <li>• Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers.</li> <li>• Administering authorities should also periodically make a formal assessment</li> </ul>	<p><b>Partially Compliant</b> <b>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.</b></p>

<p>of their own effectiveness as a decision-making body and report on this to scheme members.</p>	<p><b>The Committee is developing formal processes to measure its own effectiveness.</b></p>
<p><b>Principle 5 Responsible Ownership:</b> Administering authorities should</p> <ul style="list-style-type: none"> <li>• Adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee (ISC) Statement of Principles on the responsibilities of shareholders and agents.</li> <li>• Include a statement of their policy on responsible ownership in the Statement of Investment Principles or Investment Strategy Statement.</li> <li>• Report periodically to scheme members on the discharge of such responsibilities.</li> </ul>	<p><b>Partially Compliant</b> <b>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.</b> <b>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.</b></p>
<p><b>Principle 6 Transparency and Reporting:</b> Administering authorities should</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• Should provide regular communication to scheme members in the form they consider most appropriate.</li> </ul>	<p><b>Compliant</b> <b>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.</b></p>

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%	<b>73%</b>	
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
	<b>Dealings with members, employers and others directly involved in the fund</b>		
20,357	Contributions	7	21,015
585	Transfers in from other pension funds	8	953
10	Other income	9	15
<b>20,952</b>			<b>21,983</b>
(22,369)	Benefits	10	(24,067)
(687)	Payments to and on account of leavers	11	(895)
<b>(23,056)</b>			<b>(24,962)</b>
<b>(2,104)</b>			<b>(2,979)</b>
<b>(7,166)</b>	Management expenses	12	<b>(5,750)</b>
	<b>Returns on investments</b>		
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)
<b>138,262</b>	Net returns on investments		<b>46,166</b>
<b>128,992</b>	<b>Net increase/(decrease) in the net assets available for benefits during the year</b>		<b>37,437</b>
561,705	Opening Net Assets of the Scheme		690,697
<b>690,697</b>	Closing Net Assets of the Scheme		<b>728,134</b>

## 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
<b>695,385</b>			<b>723,602</b>
-	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)
<b>690,697</b>	<b>Net assets of the fund available to fund benefits at the period end</b>		<b>728,134</b>

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	Solutions 4 Health
Barnados	Southern Housing Limited
Caterlink	Southern Vectis
CleanTEC (new)	Sovereign Housing Limited
Cowes Harbour Commissioners	Top Mops Ltd
Island Roads Limited	Ventnor Botanic Gardens
RM Ltd	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
	<b>14,771</b>	<b>1,698</b>	<b>429</b>	<b>16,898</b>

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
	<b>14,650</b>	<b>1,630</b>	<b>438</b>	<b>16,718</b>

<sup>1</sup> 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.

<sup>2</sup> 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
<b>Pension</b>	Each year worked is worth 1/80 x final pensionable salary	Each year worked is worth 1/60 x final pensionable salary
<b>Lump Sum</b>	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](http://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 than 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:

<b>Item</b>	<b>Uncertainties</b>	<b>Effect if actual results differ from assumptions</b>
<b>Actuarial present value of promised retirement benefits</b> (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

<b>Pooled Property Funds</b> (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.
<b>Private Debt</b> (Note 18)	These investments are valued at fair value in accordance with <i>International Private Equity and Venture Capital Valuation Guidelines</i> (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.
<b>Infrastructure</b> (Note 18)	These investments are valued at fair value in accordance with <i>International Private Equity and Venture Capital Valuation Guidelines</i> (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
<b>4,157</b>		<b>4,282</b>
15,406	Employers' normal contributions	15,951
170	Employers' deficit recovery contributions	158
624	Employers' augmentation contributions	624
<b>16,200</b>		<b>16,733</b>
<b>20,357</b>		<b>21,015</b>

**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
<b>20,357</b>		<b>21,015</b>

**8. TRANSFERS IN FROM OTHER PENSION FUNDS**

2020-21 £000		2021-22 £000
-	Group transfers	-
585	Individual transfers	953
<b>585</b>		<b>953</b>

**9. OTHER INCOME**

2020-21 £000		2021-22 £000
10	Miscellaneous income	15
<b>10</b>		<b>15</b>

**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
<b>22,369</b>		<b>24,067</b>

**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
<b>22,369</b>		<b>24,067</b>

**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
<b>687</b>		<b>895</b>

## 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
<b>7,166</b>		<b>5,750</b>

### 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
	<b>4,613</b>	<b>3,530</b>	<b>104</b>	<b>979</b>
Custody Fees	25			
<b>Total</b>	<b>4,638</b>			

\* 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
	<b>6,176</b>	<b>2,219</b>	<b>40</b>	<b>3,917</b>
Custody Fees	18			
<b>Total</b>	<b>6,194</b>			

**13. INVESTMENT INCOME**

<b>2020-21 £000</b>		<b>2021-22 £000</b>
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)
<b>19,112</b>		<b>14,433</b>

**14. TAXATION**

<b>2020-21 £000</b>		<b>2021-22 £000</b>
14	Withholding tax - equities	-
<b>14</b>		<b>-</b>

**15. EXTERNAL AUDIT COSTS**

<b>2020-21 £000</b>		<b>2021-22 £000</b>
23	Payable in respect of external audit	62
<b>23</b>		<b>62</b>

**16. INTEREST PAYABLE**

<b>2020-21 £000</b>		<b>2021-22 £000</b>
56	Interest on short term borrowing	68
<b>56</b>		<b>68</b>

## 17. INVESTMENTS

Market value 31 March 2021 £000		Market value 31 March 2022 £000
	<b>Investment assets</b>	
	- <b>Equities</b>	-
	- <b>Unit Trust</b>	-
	<b>Pooled Investment Vehicles</b>	
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
<b>648,719</b>		<b>633,779</b>
	<b>Other Investments</b>	
37,459	Pooled Property Investments	44,453
9,186	Private Debt	23,605
	- Infrastructure	7,762
<b>46,645</b>		<b>75,820</b>
	- Cash deposits	14,003
	- Investment income due	-
	- Amounts receivable for sales	-
21	Recoverable withholding tax	-
<b>21</b>		<b>14,003</b>
<b>695,385</b>	<b>Total investment assets</b>	<b>723,602</b>
	<b>Investment liabilities</b>	
	- Amounts payable for purchases	-
	- <b>Total investment liabilities</b>	-
<b>695,385</b>	<b>Net investment assets</b>	<b>723,602</b>



## 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	<b>648,719</b>	150,376	(190,468)	25,152	<b>633,779</b>
Pooled Property Investments	<b>37,459</b>	1,240	(105)	5,859	<b>44,453</b>
Private Debt	<b>9,186</b>	14,078	(535)	876	<b>23,605</b>
Infrastructure	-	9,188	(848)	(578)	<b>7,762</b>
	<b>695,364</b>	<b>174,882</b>	<b>(191,956)</b>	<b>31,309</b>	<b>709,599</b>
Cash deposits	-			492	<b>14,003</b>
Amounts receivable for sales of investments	-			-	-
Investment income due	-			-	-
Recoverable withholding tax	<b>21</b>			-	-
Amounts payable for purchases of investments	-			-	-
<b>Net investment assets</b>	<b>695,385</b>			<b>31,801</b>	<b>723,602</b>

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

## 17B. INVESTMENTS ANALYSED BY FUND MANAGER

Market value 31 March 2021			Market value 31 March 2022	
£000	%		£000	%
<b>Investments Managed by ACCESS pool:</b>				
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%
<b>507,808</b>	<b>73.0%</b>		<b>501,827</b>	<b>70.7%</b>
<b>Investments Managed outside ACCESS pool:</b>				
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%
<b>187,556</b>	<b>27.0%</b>		<b>207,772</b>	<b>29.3%</b>
<b>695,364</b>	<b>100.0%</b>		<b>709,599</b>	<b>100.0%</b>
21	0.0%	Recoverable withholding tax	-	0.0%
<b>695,385</b>	<b>100.0%</b>		<b>709,599</b>	<b>100.0%</b>

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
<b>Market quoted investments</b>	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not Required
<b>Exchange traded pooled investments</b>	Level 1	Closing bid value on published exchanges	Not required	Not Required
<b>Pooled investments – overseas unit trusts and property funds</b>	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
<b>Private Debt</b>	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.
<b>Infrastructure</b>	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		
<b>Total</b>		<b>31,367</b>	<b>-</b>	<b>-</b>

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	Using Observable Inputs	With Significant Unobservable Inputs			Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
Level 1	Level 2	Level 3	Total		Level 1	Level 2	Level 3	Total
£000	£000	£000	£000		£000	£000	£000	£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	-	-	-	-
<b>648,719</b>	<b>37,459</b>	<b>9,186</b>	<b>695,364</b>	<b>Net investment assets</b>	<b>633,779</b>	<b>44,453</b>	<b>31,367</b>	<b>709,599</b>

### 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
<b>Value at 31 March 2022</b>	<b>23,605</b>	<b>7,762</b>	<b>31,367</b>

	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)
<b>Value at 31 March 2021</b>	<b>9,186</b>	<b>-</b>	<b>9,186</b>

\* 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 commenced 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
			<b>Financial assets</b>			
-	-	-	- 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	-
<b>695,364</b>	<b>799</b>	-		<b>709,599</b>	<b>18,298</b>	-
			<b>Financial liabilities</b>			
-	-	-	- Other investment balances	-	-	-
-	-	(268)	- Creditors	-	-	(378)
-	-	-	- Bank Balance	-	-	-
-	-	(5,500)	- Borrowings	-	-	-
-	-	<b>(5,768)</b>		-	-	<b>(378)</b>
<b>695,364</b>	<b>799</b>	<b>(5,768)</b>		<b>709,599</b>	<b>18,298</b>	<b>(378)</b>

## 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 £000	Volatility of return %	Value on increase £000	Value on decrease £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 purchases	-	-	-	-
<b>Total</b>	<b>723,602</b>		<b>751,439</b>	<b>695,771</b>

	Value as at 31 March 2022 £000	Volatility of return %	Value on increase £000	Value on decrease £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 <sup>1</sup>	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 purchases	-	-	-	-
<b>Total</b>	<b>695,385</b>		<b>721,715</b>	<b>669,056</b>

<sup>1</sup> 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	-
	<b>33,955</b>	<b>9,186</b>

### 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 £000	Value on increase +7.09% £000	Value on decrease -7.09% £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
	<b>33,955</b>	<b>36,362</b>	<b>31,548</b>
	Value as at 31 March 2021 £000	Value on increase +3.28% £000	Value on decrease -3.28% £000
Private Debt	9,186	9,487	8,885
Infrastructure	-	-	-
Investment income due	-	-	-
	<b>9,186</b>	<b>9,487</b>	<b>8,885</b>

#### 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:

<b>Financial Assumptions</b>	<b>31 March 2019 % p.a. Nominal</b>
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:

	<b>Males</b>	<b>Females</b>
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](http://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
<b>Net Liability</b>	<b>920</b>	<b>957</b>

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
<b>155</b>		<b>183</b>

### 24. CURRENT ASSETS

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

### 25. CURRENT LIABILITIES

31 March 2021 £000		31 March 2022 £000
	Creditors	
213	Taxation	208
167	Accruals	359
101	Sundry creditors	19
<b>481</b>		<b>586</b>

## 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	-
<b>5,500</b>	<b>Total value of borrowings</b>	-

### 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	-
<b>72</b>		<b>73</b>

## 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%		<b>77%</b>

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 outgoing, 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.