

Extracts from  
**ANNUAL REPORT  
AND  
ACCOUNTS**

**ISLE OF WIGHT COUNCIL  
PENSION FUND  
2022-23**

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

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## Financial Summary

### Analytical review

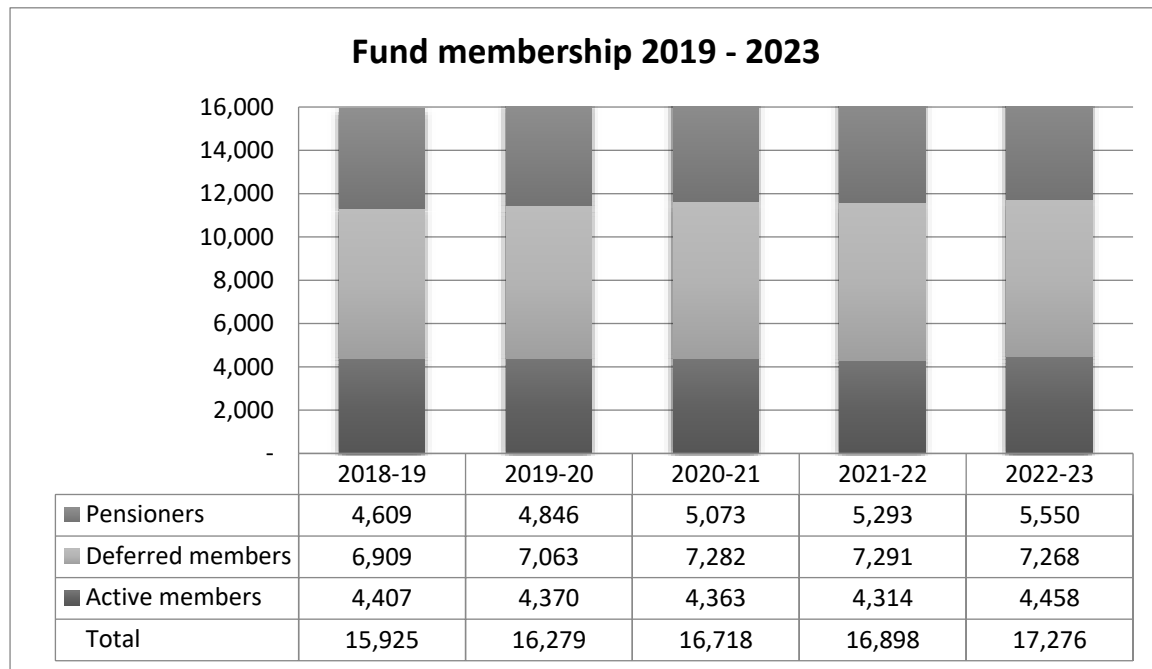
| <b>Fund account</b>                        | <b>2022-23<br/>£000</b> | <b>2022-23<br/>£000</b> | <b>Notes</b>  |
|--|-------------------------|-------------------------|---|
| Net withdrawals from dealings with members | <b>(2,835)</b>          | (2,979)                 | Increase in basic contributions; increase in transfers in; inflationary increases in benefits paid & increase in number of pensioners; increased payments to leavers and on death |
| Management expenses                        | <b>(6,021)</b>          | (5,674)                 | Initial contract charge re new Admin software contract ; Additional Actuaries Charges re 2022 valuation   |
| Net return on investments                  | <b>(28,341)</b>         | <b>46,276</b>           | Decrease in value of holdings especially Equities and Bonds   |
| Net decrease in net assets                 | <b>(37,197)</b>         | 37,623                  |   |

| <b>Net Assets Statement</b>      | <b>2022-23<br/>£000</b> | <b>2021-22<br/>£000</b> | <b>Notes</b>   |
|----------------------------------|-------------------------|-------------------------|--|
| Pooled Investment Vehicles       | <b>598,628</b>          | 633,779                 | Reduction in value of holdings due to change in market valuations                  |
| Property                         | <b>37,133</b>           | 44,453                  |  |
| Private Debt                     | <b>26,111</b>           | 23,605                  | Increased direct Investment into fund during year                                  |
| Infrastructure                   | <b>14,277</b>           | 7,949                   | Increased direct Investment into fund during year                                  |
| Cash deposits                    | <b>9,187</b>            | 14,003                  | Cash holdings reduced due to investment into Private Debt and Infrastructure funds |
| Other net assets / (liabilities) | <b>5,787</b>            | 4,531                   | Increase in operating cash balances  |
| Total net assets                 | <b>691,123</b>          | 728,320                 |  |

Further detail can be found in the financial statements and notes on pages 223 to 254.

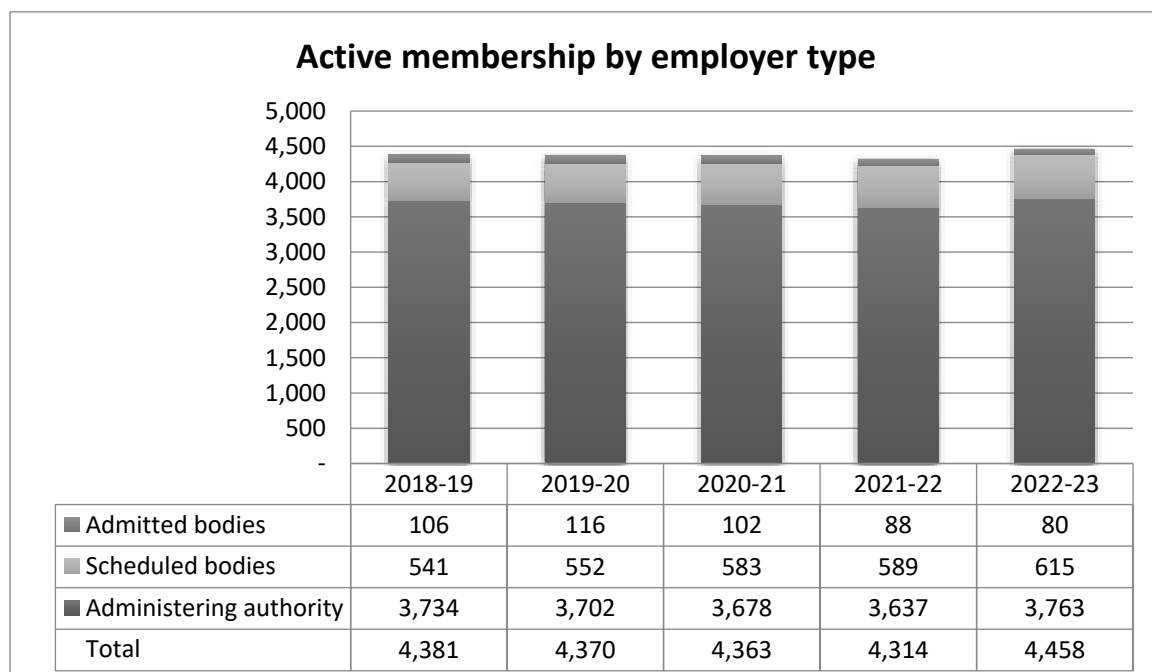
## Membership data

Total membership of the fund continues to increase year on year. The profile of membership numbers from 2019 to 2023 is shown below:



Details of the changes in the composition of the employers in the fund can be found below the contributions analysis on pages 225-226.

The Isle of Wight Council remains the largest employer in the fund, and its share of the active members has taken an upturn in real numbers during 2022/23. The proportion of the active members in the Isle of Wight Council has increased from 85.2% in 2018/19 to 84.4% in 2022/23. 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.

|   | Active members at 31-Mar- | Employee basic conts £000 | Employer basic conts £000 | Instances payment late | Instances return late |
|---|---------------------------|---------------------------|---------------------------|------------------------|-----------------------|
| <b>Administering Authority</b>              |                           |                           |                           |                        |                       |
| Isle of Wight Council <sup>6</sup>          | 3,763                     | 4,078                     | 15,250                    | -                      | 1                     |
|   | <b>3,763</b>              | <b>4,078</b>              | <b>15,250</b>             | <b>-</b>               | <b>1</b>              |
| <b>Scheduled Bodies</b>                     |                           |                           |                           |                        |                       |
| Isle of Wight College                       | 261                       | 220                       | 861                       | -                      | -                     |
| Ryde Academy                                | 70                        | 57                        | 226                       | -                      | -                     |
| Cowes Enterprise College                    | 59                        | 68                        | 262                       | -                      | 2                     |
| Lanesend Academy                            | 55                        | 41                        | 156                       | -                      | -                     |
| Northwood Primary                           | 38                        | 19                        | 74                        | -                      | -                     |
| St Francis Primary                          | 38                        | 17                        | 70                        | -                      | 1                     |
| Island Free School                          | 36                        | 42                        | 138                       | -                      | -                     |
| St Blasius Academy                          | 20                        | 15                        | 59                        | -                      | 1                     |
| Ryde Town Council                           | 17                        | 24                        | 91                        | -                      | -                     |
| Newport and Carisbrooke Community Council   | 7                         | 11                        | 39                        | -                      | -                     |
| Shanklin Town Council                       | 3                         | 5                         | 18                        | -                      | -                     |
| Cowes Town Council                          | 2                         | 2                         | 10                        | -                      | -                     |
| Sandown Town Council                        | 2                         | 2                         | 9                         | -                      | -                     |
| Bembridge Parish Council                    | 2                         | 1                         | 3                         | -                      | -                     |
| Wootton Parish Council                      | 2                         | 1                         | 5                         | -                      | -                     |
| Gurnard Parish Council                      | 1                         | 1                         | 3                         | -                      | -                     |
| Northwood Parish Council                    | 1                         | 1                         | 2                         | -                      | -                     |
| Fishbourne Parish Council                   | 1                         | -                         | -                         | -                      | -                     |
|   | <b>615</b>                | <b>527</b>                | <b>2,026</b>              | <b>0</b>               | <b>4</b>              |
| <b>Admitted Bodies</b>                      |                           |                           |                           |                        |                       |
| Sovereign Housing                           | 22                        | 64                        | 264                       | -                      | -                     |
| Island Roads                                | 19                        | 45                        | -                         | -                      | -                     |
| Key Group <sup>1</sup>                      | 9                         | 14                        | 55                        | -                      | 1                     |
| Barnardo's                                  | 6                         | 8                         | 31                        | -                      | -                     |
| Southern Vectis                             | 6                         | 4                         | 8                         | -                      | -                     |
| CleanTEC                                    | 6                         | 3                         | 14                        | -                      | -                     |
| St Catherine's School <sup>2</sup>          | 5                         | 13                        | 51                        | 5                      | 8                     |
| Southern Housing                            | 3                         | 8                         | 37                        | 1                      | -                     |
| Cowes Harbour Commissioners                 | 1                         | 2                         | 8                         | -                      | -                     |
| Ventnor Botanic Gardens                     | 1                         | 2                         | -                         | -                      | -                     |
| Caterlink Limited                           | 1                         | 1                         | 4                         | -                      | -                     |
| Top Mops                                    | 1                         | -                         | 2                         | 3                      | 4                     |
| Yarmouth Harbour Commissioners <sup>3</sup> | -                         | 3                         | 12                        | -                      | -                     |
| RM Limited <sup>4</sup>                     | -                         | 1                         | 2                         | -                      | -                     |
| Solutions 4 Health <sup>5</sup>             | -                         | -                         | 2                         | -                      | -                     |
|   | <b>80</b>                 | <b>168</b>                | <b>490</b>                | <b>9</b>               | <b>13</b>             |
| <b>TOTAL</b>                                | <b>4,458</b>              | <b>4,773</b>              | <b>17,766</b>             | <b>9</b>               | <b>18</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 232.

- 1 Accomplish Group and Key Group merged in June 22.
- 2 St Catherine's School have rejoined the fund with effect from 1 April 2022.
- 3 Yarmouth Harbour Commissioners left the fund in February 2023.
- 4 RM Limited left the fund in July 2022.
- 5 Solutions 4 Health left the fund in July 2022.
- 6 The instance of a late return was due to the school's information processed by Capita being received late.

## Isle of Wight Council Pension Fund 2022/23 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    | Empowering Islanders | Chair                         |               |                 |
| Councillor D Andre     | Alliance             |                               |               |                 |
| Councillor P Brading   | Conservative         |                               |               |                 |
| Councillor V Churchman | Conservative         | Vice-chair (from 17 May 2023) |               |                 |
| Councillor A Garratt   | Liberal Democratic   | Vice-chair (from 18 May 2022) |               | 17 May 2023     |
| Councillor K Lucioni   | Alliance             |                               | 17 May 2023   |                 |
| Councillor M Oliver    | Conservative         |                               |               | 7 July 2022     |
| Councillor R Quigley   | Labour               |                               |               | 18 May 2022     |
| Councillor I Ward      | Conservative         |                               | 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 (to  
February 2023)  
2 Savoy Court  
London WC2R 0EZ

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

BlackRock (from February 2023)  
12 Throgmorton Avenue  
London EC2N 2DL

#### 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

UBS Asset Management  
5 Broadgate  
London EC2M 2QS

#### Actuarial Services

Hymans Robertson LLP  
20 Waterloo Street  
Glasgow G2 6DB

#### Investment Consultants

Hymans Robertson LLP  
20 Waterloo Street  
Glasgow G2 6DB

#### AVC Provider

Prudential  
AVC Customer Services  
Stirling FK9 4UE

#### Custodian

Northern Trust  
50 Bank Street  
London E14 5NT

#### Bankers

Lloyds Bank  
3 Town Quay  
Southampton  
SO14 2AQ

#### Auditors

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

#### Scheme Administrator

Isle of Wight Council  
County Hall  
Newport  
Isle of Wight PO30 1UD  
[pensions@iow.gov.uk](mailto:pensions@iow.gov.uk)  
<http://www.isleofwightpensionfund.org/>  
Direct Tel No 01983 823626

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



# Investment Policy and Performance Report

## Report and Accounts for the period ending 31 March 2023

### Introduction

The Fund's investments have been managed during the year under review by Liontrust Asset Management (transitioned to an ACCESS Sub Fund managed by Blackrock Asset Management in Q1 2023), Newton Investment Management, UBS, Baillie Gifford, Goldman Sachs Merchant Banking Division, Partners Group and Schroders. The Liontrust/Blackrock, Newton and Baillie Gifford funds are accessed through the ACCESS pool.

The strategic benchmark allocation as at 31 March 2023 was:

| Manager                        | Mandate            | Allocation    | Control ranges  | Benchmark   |
|--------------------------------|--------------------|---------------|-----------------|---|
| Liontrust / Blackrock (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<br>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

The Committee previously agreed to several strategic changes in order to achieve its long-term target of being fully funded within the next 20 years which have been implemented over the last 3 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 and as at 31 March 2023 represented 3.8% of the Fund's assets. A commitment was also made to Partners Direct Infrastructure Fund which continues to draw down funds with 2.0% of the Fund's assets invested in the mandate as at 31 March 2023. 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 Climate 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 (now Blackrock) and Newton mandates were reduced from 17.5% to 12.5% and 32.5% to 18.75%, respectively.

At the 24 May 2023 Pensions Committee meeting the Committee concluded a further review of the Pension Fund's strategy and approved an increase in the target allocations to private market investments. The strategic target benchmarks for Private Debt and Infrastructure were consequently adjusted from 5% to 10% each. Correspondingly, a selection exercise started in September 2023 is expected to identify suitable opportunities to meet the new target allocations, with commitments expected to be made through a reduction of the allocation to Diversified Growth by 10%.

Reflecting the opportunities presented by asset pooling and the direction from Government indicated by the new Investment consultation, the Committee approved moving the UK bond fund to an equivalent solution available under the ACCESS pool. This transition is expected to be finalised in Q4 2023, with Royal London replacing Schroders as the Fund's fixed income manager.

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 / Blackrock – UK Equity (ACCESS)</b>    | 99,534                  | <b>98,341</b>       | 13.7              | <b>14.3</b>     | 12.5                     |
| <b>Newton – Global Equity (ACCESS)</b>               | 149,384                 | <b>147,398</b>      | 20.6              | <b>21.5</b>     | 18.75                    |
| <b>Baillie Gifford – Diversified Growth (ACCESS)</b> | 113,532                 | <b>103,858</b>      | 15.7              | <b>15.1</b>     | 10.0                     |
| <b>UBS – Global Equity</b>                           | 139,377                 | <b>138,205</b>      | 19.3              | <b>20.2</b>     | 18.75                    |
| <b>Partners - Infrastructure</b>                     | 7,975                   | <b>16,082</b>       | 1.1               | <b>2.0</b>      | 5.0                      |
| <b>Schroders – UK Bonds</b>                          | 131,508                 | <b>111,222</b>      | 18.2              | <b>16.2</b>     | 22.0                     |
| <b>Schroders – UK Property</b>                       | 45,100                  | <b>37,819</b>       | 6.2               | <b>5.5</b>      | 8.0                      |
| <b>Goldman Sachs – Private Debt</b>                  | 23,571                  | <b>25,970</b>       | 3.3               | <b>3.8</b>      | 5.0                      |
| <b>Cash</b>  | 14,000                  | <b>9,185</b>        | 1.9               | <b>1.3</b>      | -                        |
| <b>Total</b>   | <b>723,982</b>          | <b>686,285</b>      | <b>100.0</b>      | <b>100.0</b>    | <b>100.0</b>             |

Note: 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 UK Bonds, Property and Private Debt. The existing Infrastructure and Private Debt allocations continue to draw down capital, with new mandates due to further close the allocation gap over the course of the next few years.

Most portfolios were within their target ranges as at 31 March 2023, except for the Global Equity and Diversified Growth mandates which marginally exceeded targets and the UK Bonds allocation, which was slightly underweight.

### Market Background

#### Investment Markets

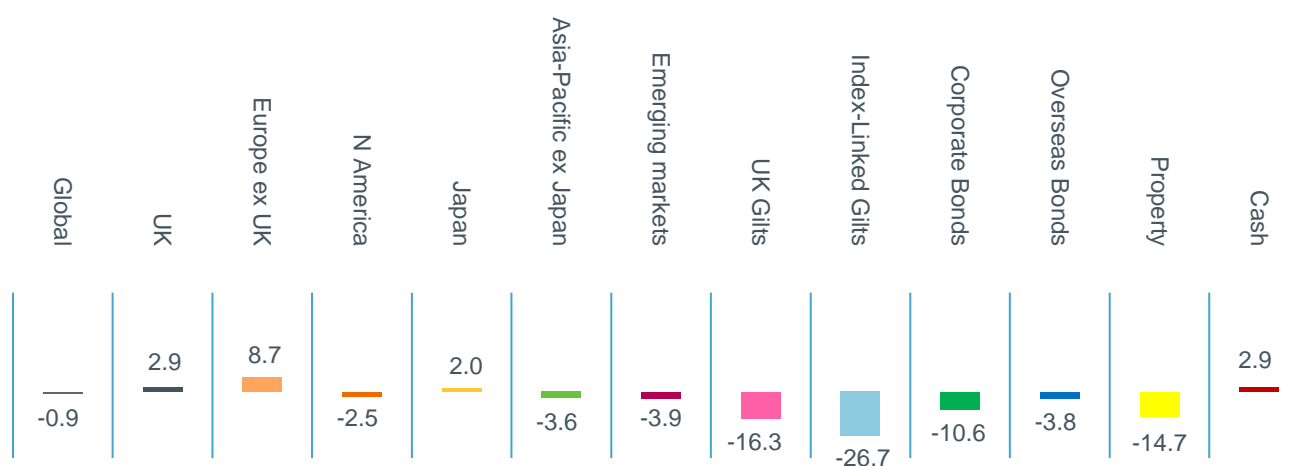
Global growth slowed over 2022 amid soaring interest rates and inflation but falling energy prices, strong labour markets, and firm consumption have led to an unexpected resilience in recent economic data. As a result, 2023 GDP forecasts for the major advanced economies have seen upwards revisions in recent months. However, the

quarterly pace of global growth is expected to ease from here as the lagged impact of interest rate increases weighs on activity and the boost from China’s re-opening fades.

Year-on-year headline CPI inflation peaked at 11.1%, 10.6% and 9.1% in the UK, eurozone and US, respectively in the second half of 2022. Despite an easing in inflation, largely owing to falling energy prices, headline CPI remains elevated in March 2023, at 10.1%, 6.9% and 5.0% in the UK, eurozone and US, respectively. Core inflation measures, which exclude volatile energy and food components, also remain well in excess of central bank targets: year-on-year core CPI in the UK, eurozone and US stood at 6.2%, 5.7%, and 5.6% in March 2023.

In response, the major central banks have embarked on one of the most aggressive rate hiking cycles on record amidst concerns that core inflation might become ingrained. Interest rates were raised from historically low levels; reaching 5.0% p.a., 4.25% p.a., and 3.0% p.a., in the US, UK, and eurozone, respectively.

### 12 Month performance to 31 March 2023



### Equities

Despite rallying strongly since its low in October 2022, the FTSE All World Index Total Return Index fell 5.0% over the period. Energy was the best performing sector, boosted by surging oil and gas prices. Consumer discretionary and technology were among the worst performing sectors over the year amidst cost-of-living pressures and rising rates, while recent banking stresses resulted in a significant hit to financial stocks.

The improvement in consumer and business sentiment in Europe, on the back of falling gas prices, led European equities to outperform. UK equities also experienced an outperformance due to above average exposure to the energy sector and sterling weakness for the most part of 2022, particularly against the dollar, which flattered the large proportion of overseas earnings in the index.

### Bonds

High inflation and interest rate rises saw yields and volatility rise sharply in government bond markets. In the wake of the UK’s mini-budget in September selling of gilts by leveraged investors threatened to get out of control, with yields only falling back from their September peak following intervention by the Bank of England. UK 10-year yields increased from 1.6% p.a. to 3.5% p.a. while equivalent US yields rose 1.2% p.a., to 3.5% p.a., and German yields increased 1.7% p.a., to 2.3% p.a.

### Property

The MSCI UK Monthly Property Total Return Index declined 14.7% year-on-year primarily due to a 18.8% fall in capital values. Values fell across the three main commercial sectors and were most pronounced in the industrial sector.

### Investment Performance

The Fund marginally underperformed its strategic benchmark over 12 months by 1.4%. The main contributor to this negative deviation from the 12-month performance benchmark was Baillie Gifford. The manager considerably underperformed its cash plus benchmark in an environment which negatively impacted equity, property and fixed income investments. The rising yields and expectations of further increases in interest rates also impacted the Schroders Bond and Property funds, which delivered significantly negative returns over the year.

The Fund is slightly ahead of its benchmark over 3 years returning 7.9% p.a. against a 7.2% p.a. aggregate target, with most managers delivering returns closely aligned to their individual benchmarks.

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 2023.

| Manager/Asset Class                           | Last Year   |               | Last 3 Years  |                    |
|---|-------------|---------------|---------------|--------------------|
|   | Fund (%)    | Benchmark (%) | Fund (% p.a.) | Benchmark (% p.a.) |
| Liontrust / Blackrock – UK Equity (ACCESS)    | 1.1         | -0.1          | 12.6          | 12.7               |
| Newton – Global Equity (ACCESS)               | 0.4         | -1.4          | 15.1          | 15.5               |
| Baillie Gifford – Diversified Growth (ACCESS) | -8.2        | 5.9           | 4.1           | 4.4                |
| UBS <sup>1</sup>                              | -0.9        | 0.5           | -0.4          | -0.2               |
| Schroders – UK Bonds                          | -15.3       | -13.7         | -5.9          | -6.3               |
| Schroders – UK Property                       | -10.8       | -9.5          | 1.1           | 2.2                |
| <b>Total</b>                                  | <b>-4.8</b> | <b>-3.4</b>   | <b>7.9</b>    | <b>7.2</b>         |

<sup>1</sup>UBS "Last 3 Years" 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 2023, the Committee have made allocations to investment solutions for both Private Debt and Infrastructure which have been drawing down funds since 2021.

In September 2023 the Committee approved a manager selection exercise to identify suitable Private Debt and Infrastructure opportunities to enable the Scheme to reach its newly adopted 10% strategic allocation to each of the asset classes. Commitments are expected to be finalised in Q4 2023, with drawdowns expected to commence in Q1 2024.

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           |
|--------------------------|---------------------|
| Blackrock (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 previously committed to 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 expected LGPS regulations, the Fund is working 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><br/>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><br/><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><br/>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><br/><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><br/><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</b></p>                            |

|  |  |
|--|--|
|  | <b>affordability of contributions and the strengths of their covenants.</b>  |
| <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 of their own effectiveness as a decision-making body and report on this to scheme members.</li> </ul>  | <p><b>Partially Compliant</b></p> <p><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. The Committee is developing formal processes to measure its own effectiveness.</b></p>  |
| <p><b>Principle 5 Responsible Ownership:</b></p> <p>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></p> <p><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></p> <p><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></p> <p>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></p> <p><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:

David Walker, Partner

Chris King, Investment Consultant

Stefan Chilom, Investment Analyst

For and on behalf of Hymans Robertson LLP

## Isle of Wight Pension Fund (the Fund)

### Actuarial Statement for 2022/23

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). In summary, the key funding principles are to:

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

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 a 75% 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 2022. This valuation revealed that the Fund's assets, which at 31 March 2022 were valued at £728 million, were sufficient to meet 102% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting surplus at the 2022 valuation was £15 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving their funding target within a time horizon and likelihood measure as per the FSS. Individual employers' contributions for the period 1 April 2023 to 31 March 2026 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 2022 valuation report and FSS.

#### 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 2022 valuation were as follows:

| Financial assumptions             | 31 March 2022 |
|-----------------------------------|---------------|
| Discount rate                     | 3.7% pa       |
| Salary increase assumption        | 3.7% pa       |
| Benefit increase assumption (CPI) | 2.7% pa       |

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 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 1.50% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

|                    | Males      | Females    |
|--------------------|------------|------------|
| Current Pensioners | 21.9 years | 24.5 years |
| Future Pensioners* | 22.5 years | 25.9 years |

\*Aged 45 at the 2022 Valuation.

Copies of the 2022 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund and on the Fund's website.

### Experience over the period since 31 March 2022

Markets continued to be disrupted by the ongoing war in Ukraine and inflationary pressures, impacting on investment returns achieved by the Fund's assets. High levels of inflation in the UK (compared to recent experience), have resulted in a higher than expected LGPS benefit increase of 10.1% in April 2023. Despite this, the funding level of the Fund is likely to be higher than reported at the 31 March 2022 funding valuation due to the significant rise in interest rates which reduces the value placed on the Fund's liabilities.

The next actuarial valuation will be carried out as at 31 March 2025. The Funding Strategy Statement will also be reviewed at that time.



Craig Alexander FFA

18 May 2023

For and on behalf of Hymans Robertson LLP

### Breakdown of New Pensioners in 2022/23

The new pensioners that arose during 2022/23 can be broken down as follows:

|                             |            |
|-----------------------------|------------|
| Redundancy                  | 4          |
| Ill-Health                  | 5          |
| Early Retirement            | 212        |
| Flexible Retirees           | 6          |
| Normal Retirement           | 3          |
| <b>Total New Pensioners</b> | <b>230</b> |

### Net operating expenses of Pension Administration

The majority of the costs of operating the pensions administration team are initially incurred by the Isle of Wight Council, as the administering authority, and are then recharged to the Pension Fund. There are also costs that are incurred directly by the pension fund.

The actual costs incurred are:

|                               | Year ended 31/03/2023 |                      |            | Year ended 31/03/2022 |                      |            |
|-------------------------------|-----------------------|----------------------|------------|-----------------------|----------------------|------------|
|                               | Recharged<br>by IWC   | Incurred<br>Directly | Total      | Recharged<br>by IWC   | Incurred<br>Directly | Total      |
|                               | £'000                 | £'000                | £'000      | £'000                 | £'000                | £'000      |
| Staff Costs                   | 265                   | -                    | 265        | 241                   | -                    | 241        |
| IT expenses                   | 32                    | 476                  | 508        | 29                    | 219                  | 248        |
| Professional<br>Subscriptions | 5                     | 23                   | 28         | 10                    | 7                    | 17         |
| Professional Fees             | -                     | -                    | -          | -                     | -                    | -          |
| Premises<br>Expenses          | 49                    | -                    | 49         | 47                    | -                    | 47         |
| Sundry Office<br>Expenses     | -                     | 1                    | 1          | 1                     | 1                    | 2          |
|                               |                       |                      |            |                       |                      |            |
| <b>Total</b>                  | <b>351</b>            | <b>500</b>           | <b>851</b> | <b>328</b>            | <b>227</b>           | <b>555</b> |

# IOW COUNCIL LOCAL GOVERNMENT PENSION SCHEME

Aggregate membership statistics @ 28 February 2023

| MEMBERSHIP NUMBERS BY STATUS    | Apr-22        | May-22        | Jun-22        | Jul-22        | Aug-22        | Sep-22        | Oct-22        | Nov-22        | Dec-22        | Jan-23        | Feb-23        |
|---------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Actives                         | 4,321         | 4,474         | 4,477         | 4,433         | 4,365         | 4,266         | 4,419         | 4,463         | 4,481         | 4,494         | 4,478         |
| Frozen Refund                   | 952           | 977           | 989           | 1,005         | 1,006         | 1,021         | 1,037         | 1,042         | 1,084         | 922           | 873           |
| Deferreds (including undecided) | 6,310         | 6,369         | 6,343         | 6,337         | 6,416         | 6,477         | 6,495         | 6,447         | 6,369         | 6,455         | 6,480         |
| Pensioners                      | 5,311         | 5,324         | 5,338         | 5,356         | 5,370         | 5,402         | 5,431         | 5,454         | 5,463         | 5,495         | 5,518         |
| <b>TOTALS</b>                   | <b>16,894</b> | <b>17,144</b> | <b>17,147</b> | <b>17,131</b> | <b>17,157</b> | <b>17,166</b> | <b>17,382</b> | <b>17,406</b> | <b>17,397</b> | <b>17,366</b> | <b>17,349</b> |

| % MEMBERSHIP BY STATUS          | Apr-22      | May-22      | Jun-22      | Jul-22      | Aug-22      | Sep-22      | Oct-22      | Nov-22      | Dec-22      | Jan-23      | Feb-23      |
|---------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Actives                         | 26%         | 26%         | 26%         | 26%         | 25%         | 25%         | 25%         | 26%         | 26%         | 26%         | 26%         |
| Frozen Refund                   | 6%          | 6%          | 6%          | 6%          | 6%          | 6%          | 6%          | 6%          | 6%          | 5%          | 5%          |
| Deferreds (including undecided) | 37%         | 37%         | 37%         | 37%         | 37%         | 38%         | 37%         | 37%         | 37%         | 37%         | 37%         |
| Pensioners                      | 31%         | 31%         | 31%         | 31%         | 31%         | 31%         | 31%         | 31%         | 31%         | 32%         | 32%         |
| <b>TOTALS</b>                   | <b>100%</b> | <b>100%</b> | <b>100%</b> | <b>100%</b> | <b>100%</b> | <b>100%</b> | <b>100%</b> | <b>100%</b> | <b>100%</b> | <b>100%</b> | <b>100%</b> |

| HISTORIC MEMBERSHIP NUMBERS BY STATUS | 2015-16       | 2016-17       | 2017-18       | 2018-19       | 2019-20       | 2020-21       | 2021-22       |
|---------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Active members                        | 3,807         | 3,753         | 3,778         | 4,381         | 4,370         | 4,364         | 4,314         |
| Deferred members                      | 6,777         | 7,176         | 7,816         | 6,899         | 7,063         | 7,238         | 7,291         |
| Pensioners                            | 4,036         | 4,192         | 4,363         | 4,631         | 4,846         | 4,967         | 5,293         |
| <b>TOTALS</b>                         | <b>14,620</b> | <b>15,121</b> | <b>15,957</b> | <b>15,911</b> | <b>16,279</b> | <b>16,569</b> | <b>16,898</b> |
| Change in membership numbers          |               | 501           | 836           | -46           | 368           | 290           | 329           |
| % change in membership numbers        |               | 3.4%          | 5.5%          | -0.3%         | 2.3%          | 1.8%          | 2.0%          |

| % HISTORIC MEMBERSHIP BY STATUS | 2015-16     | 2016-17     | 2017-18     | 2018-19     | 2019-20     | 2020-21     | 2021-22     |
|---------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Active members                  | 26%         | 25%         | 24%         | 28%         | 27%         | 26%         | 26%         |
| Deferred members                | 46%         | 47%         | 49%         | 43%         | 43%         | 44%         | 43%         |
| Pensioners                      | 28%         | 28%         | 27%         | 29%         | 30%         | 30%         | 31%         |
| <b>TOTALS</b>                   | <b>100%</b> | <b>100%</b> | <b>100%</b> | <b>100%</b> | <b>100%</b> | <b>100%</b> | <b>100%</b> |

Historic membership data extracted from *Pension Fund Annual Report*

# IOW COUNCIL LOCAL GOVERNMENT PENSION SCHEME

## Pensioner payroll statistics @ 28 February 2023

| Category                          | Apr-22 | May-22 | Jun-22 | Jul-22 | Aug-22 | Sep-22 | Oct-22 | Nov-22 | Dec-22 | Jan-23 | Feb-23 |
|-----------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Closing LIVE Count Previous Month | 5,944  | 5,973  | 5,985  | 5,993  | 6,004  | 6,013  | 6,035  | 6,068  | 6,088  | 6,090  | 6,116  |
| Starters                          | 34     | 34     | 27     | 29     | 28     | 31     | 53     | 43     | 18     | 41     | 43     |
| Leavers                           | 5      | 22     | 19     | 18     | 19     | 9      | 20     | 23     | 16     | 15     | 16     |
| Sub-total (LIVE Count)            | 5,973  | 5,985  | 5,993  | 6,004  | 6,013  | 6,035  | 6,068  | 6,088  | 6,090  | 6,116  | 6,143  |
| Suspended                         | 102    | 95     | 79     | 81     | 80     | 84     | 85     | 84     | 80     | 82     | 78     |
| Total number of pensioners paid   | 5,871  | 5,890  | 5,914  | 5,923  | 5,933  | 5,951  | 5,983  | 6,004  | 6,010  | 6,034  | 6,065  |
| <b>Suspended Reason</b>           |        |        |        |        |        |        |        |        |        |        |        |
| Account Closed                    | 14     | 12     | 13     | 9      | 8      | 10     | 9      | 9      | 9      | 9      | 10     |
| Deaths                            | 61     | 58     | 43     | 50     | 50     | 54     | 57     | 58     | 59     | 60     | 55     |
| Gone Away                         | 27     | 25     | 23     | 21     | 21     | 19     | 18     | 16     | 11     | 10     | 10     |
| Children's pension over 18        | 0      | 0      | 0      | 1      | 1      | 1      | 1      | 1      | 1      | 3      | 3      |
| Total                             | 102    | 95     | 79     | 81     | 80     | 84     | 85     | 84     | 80     | 82     | 78     |
| Unresolved after 12 months        | 54     | 54     | 47     | 41     | 40     | 41     | 39     | 38     | 32     | 31     | 29     |

# IOW COUNCIL LOCAL GOVERNMENT PENSION SCHEME

KPI statistics @ 28 February 2023

| Category                                     | TASK     | Detail  | Days to complete | 2022/23 achieved      | Target | Current average   | Apr-22 | May-22 | Jun-22 | Jul-22 | Aug-22  | Sep-22 | Oct-22 | Nov-22 | Dec-22 | Jan-23 | Feb-23 |
|--|----------|---|------------------|-----------------------|--------|-------------------|--------|--------|--------|--------|---------|--------|--------|--------|--------|--------|--------|
| Payment of Benefits                          | SETUPPAY | Set up of new pension and lump sum within 10 working days of receipt of all documents         | 20               |                       | 100%   | 100.00%           | 100%   | 100%   | 100%   | 100%   | 100%    | 100%   | 100%   | 100%   | 100%   | 100%   | 100%   |
|  |          |   |                  |                       |        | Processed         | 22     | 21     | 18     | 31     | 24      | 39     | 38     | 29     | 27     | 32     | 46     |
|  |          |   |                  |                       |        | Within target     | 22     | 21     | 18     | 31     | 24      | 39     | 38     | 29     | 27     | 32     | 46     |
| Benefits Estimates Members                   | MEMQUOTE | Estimates of benefits to Members within 20 working days                                       | 20               |                       | 100%   | 100.00%           | 100%   | 100%   | 100%   | 100%   | 100%    | 100%   | 100%   | 100%   | 100%   | 100%   | 100%   |
|  |          |   |                  |                       |        | Processed         | 20     | 20     | 24     | 26     | 15      | 10     | 25     | 12     | 4      | 17     | 30     |
|  |          |   |                  |                       |        | Within target     | 20     | 20     | 24     | 26     | 15      | 10     | 25     | 12     | 4      | 17     | 30     |
| Benefits Estimates Employers                 | ERSQUOTE | Estimate of benefits to Employers within 5 working days                                       | 10               |                       | 100%   | 100.00%           | 100%   | 100%   | 100%   | 100%   | 100%    | 100%   | 100%   | 100%   | 100%   | 100%   | 100%   |
|  |          |   |                  |                       |        | Processed         | 3      | 2      | 3      | 8      | 1       | 8      | 9      | 5      | 4      | 8      | 10     |
|  |          |   |                  |                       |        | Within target     | 3      | 2      | 3      | 8      | 1       | 8      | 9      | 5      | 4      | 8      | 10     |
| Annual Benefit Statements - active members   | ACTABS   | Produce the required standard to statutory timescale by 31 <sup>st</sup> August each year     |                  | Published 18 Aug 2022 | 100%   | 100.00%           |        |        |        |        | 100.00% |        |        |        |        |        |        |
|  |          |   |                  |                       |        | Members Processed |        |        |        |        | 4015    |        |        |        |        |        |        |
|  |          |   |                  |                       |        | Within target     |        |        |        |        | 4015    |        |        |        |        |        |        |
| Annual Benefit Statements - deferred members | DEFABS   | Produce the required standard to statutory timescale by 31 <sup>st</sup> August each year     |                  | Published 05 Aug 2022 | 100%   | 100.00%           |        |        |        |        | 100.00% |        |        |        |        |        |        |
|  |          |   |                  |                       |        | Members Processed |        |        |        |        | 6277    |        |        |        |        |        |        |
|  |          |   |                  |                       |        | Within target     |        |        |        |        | 6277    |        |        |        |        |        |        |
| Transfers In Payments                        | TVIN     | Payment made within 5 working days of receipt of all documentation                            | 20               |                       | 100%   | 100.00%           | 100%   | 100%   | 100%   | 100%   | 100%    | 100%   | 100%   | 100%   | 100%   | 100%   | 100%   |
|  |          |   |                  |                       |        | Processed         | 9      | 6      | 1      | 8      | 3       | 3      | 12     | 8      | 6      | 13     | 6      |
|  |          |   |                  |                       |        | Within target     | 9      | 6      | 1      | 8      | 3       | 3      | 12     | 8      | 6      | 13     | 6      |
| Transfers in Quotes                          | TRANINQ  | Issued within 20 working days of notification and all information required to produce a quote | 20               |                       | 100%   | 100.00%           | 100%   | 100%   | 100%   | 100%   | 100%    | 100%   | 100%   | 100%   | 100%   | 100%   | 100%   |
|  |          |   |                  |                       |        | Processed         | 1      | 8      | 16     | 21     | 7       | 14     | 16     | 14     | 16     | 16     | 10     |
|  |          |   |                  |                       |        | Within target     | 1      | 8      | 16     | 21     | 7       | 14     | 16     | 14     | 16     | 16     | 10     |
| Transfers Out Payments                       | TVOUT    | Payment made within 5 working days of receipt of all documentation                            | 20               |                       | 100%   | 100.00%           | 100%   | 100%   | 100%   | 100%   | 100%    | 100%   | 100%   | 100%   | 100%   | 100%   | 100%   |
|  |          |   |                  |                       |        | Processed         | 8      | 3      | 2      | 6      | 6       | 1      | 5      | 10     | 8      | 5      | 4      |
|  |          |   |                  |                       |        | Within target     | 8      | 3      | 2      | 6      | 6       | 1      | 5      | 10     | 8      | 5      | 4      |
| Transfers Out Quotes                         | TRANOUTQ | Issued within 20 working days of notification and all information required                    | 20               |                       | 100%   | 100.00%           | 100%   | 100%   | 100%   | 100%   | 100%    | 100%   | 100%   | 100%   | 100%   | 100%   | 100%   |

# IOW COUNCIL LOCAL GOVERNMENT PENSION SCHEME

KPI statistics @ 28 February 2023

| Category          | TASK   | Detail   | Days to complete | 2022/23 achieved | Target | Current average | Apr-22        | May-22              | Jun-22     | Jul-22                     | Aug-22        | Sep-22     | Oct-22     | Nov-22     | Dec-22     | Jan-23     | Feb-23     |  |
|-------------------|--------|--|------------------|------------------|--------|-----------------|---------------|---------------------|------------|----------------------------|---------------|------------|------------|------------|------------|------------|------------|--|
|                   |        | Information required to produce a quote                                |                  |                  |        | Processed       | 8             | 8                   | 16         | 14                         | 10            | 16         | 25         | 20         | 10         | 26         | 20         |  |
|                   |        |  |                  |                  |        | Within target   | 8             | 8                   | 16         | 14                         | 10            | 16         | 25         | 20         | 10         | 26         | 20         |  |
| Deaths            | DEATHS | Payment of Death Grant and set up Widow pension within 10 working days | 10               |                  | 100%   | 100.00%         | 100%          | 100%                | 100%       | 100%                       | 100%          | 100%       | 100%       | 100%       | 100%       | 100%       | 100%       |  |
|                   |        |  |                  |                  |        | Processed       | 18            | 22                  | 17         | 15                         | 18            | 13         | 21         | 24         | 21         | 24         | 25         |  |
|                   |        |  |                  |                  |        | Within target   | 18            | 22                  | 17         | 15                         | 18            | 13         | 21         | 24         | 21         | 24         | 25         |  |
| Pensioner Payroll |        | Payment of pension benefits to member by last working day of month     |                  |                  | 100%   | 100.00%         | 100%          | 100%                | 100%       | 100%                       | 100%          | 100%       | 100%       | 100%       | 100%       | 100%       | 100%       |  |
|                   |        |  |                  |                  |        | Date completed  | 21/04/2022    | 23/05/2022          | 23/06/2022 | 20/07/2022                 | 24/08/2022    | 22/09/2022 | 24/10/2022 | 23/11/2022 | 14/12/2022 | 23/01/2023 | 20/02/2023 |  |
|                   |        |  |                  |                  |        | Processed       | 5,869         | 5,888               | 5,911      | 5,920                      | 5,931         | 5,949      | 5,981      | 6,002      | 6,011      | 6,032      | 6,063      |  |
|                   |        |  |                  |                  |        | Starters        | 34            | 34                  | 27         | 29                         | 28            | 31         | 53         | 43         | 18         | 41         | 43         |  |
|                   |        |  |                  |                  |        | Variations      | 0             | 0                   | 0          | 0                          | 0             | 0          | 0          | 0          | 0          | 0          | 0          |  |
| Statutory Reports |        | Statutory reports, finance reports etc.                                |                  |                  | 95%    | Report          | -             | Club Vita Valuation | -          | Hymans Triennial Valuation | -             | -          | -          | -          | -          | -          | -          |  |
|                   |        |  |                  |                  |        | Method          | Data uploaded |                     |            |                            | Data uploaded |            |            |            |            |            |            |  |
|                   |        |  |                  |                  |        | Date completed  | 04/05/2022    |                     |            |                            | 20/07/2022    |            |            |            |            |            |            |  |

# Annual Report of Isle of Wight LGPS Pension Board for 2022/2023

## Introduction from the Independent Chair of the Local Pension Board

Welcome to the Annual Report of the Local Pension Board (“the Board”) of the Isle of Wight Pension Fund. This report covers the period from 1 April 2022 to 31 March 2023 during which the Board held four meetings.

The focus of the Board has been on ensuring compliance with the Public Service Pensions Act, all of the relevant LGPS regulations, LGPS best practice guidance issued by the Scheme Advisory Board and the Chartered Institute of Public Finance and Accountancy (CIPFA) and the requirements of the Pensions Regulator (TPR). Section 2 “Functions and Operation of the Board” in this report gives more detail on our aims and responsibilities.

As Board Chair, I formally present to each Pension Committee an Executive Summary from each Board meeting indicating any specific recommendations made by the Board and any other matters considered to be relevant to the Committee.

I am pleased to say that, with the support of the Pension Fund Manager, Pensions Manager and the Chair of the Pension Committee, the Board made good progress in fulfilling its terms of reference during the 2022-23 financial year and the Board is able to provide assurance that the Isle of Wight Council (the Administering Authority and Scheme Manager as defined in s.4 of the Public Service Pensions Act 2013) is complying with its statutory duties.

During 2022-23 the Board undertook a wide range of work, as set out in the “Detailed Work of the Board” section of this Annual Report – including:

- In October 2022 a self-assessment of the Fund’s compliance with TPR Code of Practice 14. This review confirmed that whilst most of the areas reviewed were found to be adequately controlled and the risks well managed, in a small number of areas, compliance levels have fallen, reflecting the fact that new board members had not yet completed all required learning and development modules and that the fund had not reviewed its policies for recording and reporting breaches of the law, complaints and disputes. An action plan has been developed to address these areas of non-compliance.
- The Board has concerns that there is a significant key person dependency risk (the risk that losing key persons, due to resignation, disability, retirement, etc., will have substantial detrimental impact on the operation of the Fund). The Board, in October 2022, received a presentation from Barnett Waddingham on their review of the fund’s operational structure in light of current and future work requirements. This will be monitored by the Board during 2023-24.
- Also, cyber risk has been a priority for the Board and for the first time, data security assurances, including adherence to national data security standards have been obtained from our main IT partners. The Board will continue to work with fund officers to develop its understanding of the Fund’s cyber resilience.

Martin Doyle - Independent Chair of the Isle of Wight Local Pension Board.  
6 April 2023

## 1 Constitution, Representation and Attendance

- 1.1. The Local Pension Board of the Isle of Wight Council (the Administering Authority and Scheme Manager as defined in s.4 of the Public Service Pensions Act 2013) is established under s.5 of that Act and regulation 106 of the Local Government Pension Scheme Regulations 2013 (as amended).
- 1.2. The Board is established in the interests of the Fund, by the Administering Authority and operates independently of the Pension Fund Committee. The Board is accountable to the Scheme Manager and the Pensions Regulator
- 1.3. The Board is not a committee constituted under s.101 of the Local Government Act 1972 and therefore no general duties, responsibilities or powers assigned to such committees or to any sub-committees or officers under the Constitution, standing orders or scheme of delegation of the Administering Authority apply to the Board unless expressly provided.
- 1.4. Pension board meetings are not required to be open to members of the public.
- 1.5. The board held its first meeting on 14 August 2015.
- 1.6. The terms of reference allow the Board to consist of a minimum of four and a maximum of eight members, as well as an independent chairman.
- 1.7. Board membership during 2022-23 comprised three representatives of the Scheme employers, and three representatives of the Scheme members, all of whom are voting members. In addition, a non-voting independent chairman has been appointed.

| <b>Name</b>    | <b>Category</b>         | <b>date of appointment</b> | <b>end of term</b> |
|----------------|-------------------------|----------------------------|--------------------|
| Martin Doyle   | Independent<br>Chairman | 07-Mar-22                  | 06-Mar-26          |
| Michael Lilley | Employer rep            | 21-Jul-21                  | 05-May-25          |
| Ashley Curzon  | Employer rep            | 19-Jan-22                  | 18-Jan-26          |
| Liz Kingston   | Employer rep            | 01-Jun-22                  | 31-May-26          |
| Trevor Ould    | Scheme member rep       | 17-Nov-21                  | 16-Nov-25          |
| Neil Cain      | Scheme member rep       | 01-Apr-22                  | 31-Mar-26          |
| Barbara Milton | Scheme member rep       | 01-Apr-22                  | 31-Mar-26          |

- 1.8. The Board was scheduled to meet on four occasions during the year. All meetings took place in person at County Hall, Newport, Isle of Wight. The board's terms of reference allow members to attend these meetings virtually if required.
- 1.9. Agendas and minutes can be found at the following web link:  
<https://iow.moderngov.co.uk/ieListMeetings.aspx?CId=168&Year=0>



1.10. Members' attendance at each of the meetings is detailed on the following table.

|           | Indep. Chair | Employer rep 1 | Employer rep 2 | Employer rep 3 | Scheme member rep 1 | Scheme member rep 2 | Scheme member rep 3 |            |
|-----------|--------------|----------------|----------------|----------------|---------------------|---------------------|---------------------|------------|
| 06-Apr-22 | √            | aps            | √              |                | √                   | √                   | √                   | 83%        |
| 15-Jun-22 | √            | √              | √              | √              | √                   | √                   | aps                 | 86%        |
| 26-Oct-22 | √            | √              | √              | √              | aps                 | √                   | √                   | 86%        |
| 17-Jan-23 | √            | √              | √              | √              | √                   | √                   | √                   | 100%       |
|           | 100%         | 75%            | 100%           | 100%           | 75%                 | 100%                | 75%                 | <b>89%</b> |

1.11. To facilitate the operation of the Board, all the board members are invited as observers to meetings of the Isle of Wight Pension Fund Committee (“the Committee”).

## 2 Functions and Operation of the Board

- 2.1 The primary functions of a Local Pension Board (LPB) (as defined by the Public Services Pension Act 2013) are to assist the Administering Authority to:
- ensure effective and efficient governance and administration of the LGPS;
  - ensure compliance with relevant laws and regulations.
  - ensure compliance with requirements imposed in relation to the scheme and any connected scheme by the Pension Regulator.
  - such other matters as the scheme regulations may specify.
- 2.2 It therefore has a monitor/assist/review/scrutinise purpose, rather than being a decision-making body. It could be seen as being a critical but supportive friend.
- 2.3 It sets its own agenda and can be selective and probe particular topics in more depth than the Committee with its wider range of statutory responsibilities.
- 2.4 As such, the general approach of the Board is to seek assurances with evidence from the Fund and external bodies that it is meeting its objectives, producing its required statements, managing its risks, etc. so as to achieve the overall objectives as set out in paragraph 2.1 above.
- 2.5 It can commission its own reports, and where appropriate, makes recommendations to the Committee and to officers.
- 2.6 In so doing, the Board is helping manage the reputational risk of both the Fund and the Administering Authority. This is more critical now that the LGPS in England and Wales has both the Department for Levelling Up, Housing & Communities (DLUHC) and the Pensions Regulator (TPR) as its regulators. The Administering Authority, and in extreme circumstances Board members, can be fined by TPR, who also has other powers available.
- 2.7 The Board is supported by the Pension Fund Manager and Democratic Services and operates under Terms of Reference which were initially agreed by Isle of Wight Council in January 2015.

- 2.8 The current Terms of Reference are included in the Council's constitution version 9.1  
<https://iow.moderngov.co.uk/ieListDocuments.aspx?CId=219&MId=1529&Ver=4&Info=1> .
- 2.9 In 2022-23 the direct costs of operating the Board, covering training and development expenses relating to Board members amounted to £2,500 (2021-22: £145).
- 2.10 These costs do not include any indirect costs relating to officer time nor any apportioned costs for the use of the Council's premises, systems or services recharged to the Fund by the Council.
- 2.11 The budget for 2023-24 is set at £3,500 (2022-23 budget was also set at £3,500), and actual spend will be monitored against this. The budget is set at a level to show the Boards' commitment to technical updating and training.
- 2.12 Mindful of delivering value for money, the Board endeavours to work in a cost-effective manner, as its costs are reflected in employer contribution rates.

### **3 Detailed Work of the Board**

#### **3.1 Overview**

- 3.1.1 Since their inception, Local Pension Boards have become increasingly visible, as have the expectations of Boards by both TPR and the Scheme Advisory Board (SAB).
- 3.1.2 In 2022-23, the work of the Board included:
- Monitoring of KPI's for review at each Board Meeting
  - Review of the Fund Risk Management Policy – April 2022 meeting
  - Review of the new Pension Fund Risk Register – June 2022 meeting and then risk register considered at each subsequent meeting
  - Structure Review Update – October 2022 meeting
  - Review of the Governance Compliance Statement 2021-22 (compliance with pensions legislation) – October 2022 meeting
  - Review of the Climate Change/ ESG Activities – October 2022 meeting
  - Communications Strategy Review (new Communications Policy) – June 2022 meeting
  - Review of the Triennial Valuation process – October 2022 meeting
  - Review of cyber risk resilience – October 2022 meeting
  - Review of Funding Strategy Statement as part of the consultation process for the assumptions used for the Triennial Valuation – January 2023 meeting
  - Priorities for policies updates/reviews
  - LGA and legislation update
- 3.1.3 The main elements of the work programme of the Board are governance and oversight of the pension administration function, which is run by an in-house team.
- 3.1.4 Paragraph 4 sets out further examples of how the Board is endeavouring to help manage the reputational risk of the Fund. Such a focus seeks assurances that the Fund is complying with its responsibilities and obligations. Where appropriate, these reviews are extended to ensure that all scheme employers are similarly complying,

as their efficient, accurate and timely supply of information and data is critical to the Fund avoiding poor key performance indicators, but more fundamentally, avoiding breaches of the law, inaccurate data, inaccurate contribution rates and inappropriate investment decisions.

### 3.2 Risk management

3.2.1 The fund's Risk Management Policy was adopted by the pension fund committee at its meeting on 24 November 2021. At that meeting it was agreed that the risk register would be created and presented in due course for adoption.

3.2.2 At the pension fund committee meeting on 25 May 2022, the committee adopted the Isle of Wight Pension Fund risk register and agreed that the Local Pension Board be asked to maintain oversight of the risk management framework and risk register, to be reported to the committee at each future meeting.

3.2.3 Risk scoring uses the previously agreed risk scoring matrix, set out in the June 2022 board report.

### 3.3 The Pensions Regulator (TPR)

3.3.1 The Pensions Regulator examines the Fund's administration and governance on an ongoing basis and the Fund reports on its performance in these areas each year.

3.3.2 A key achievement of the Board has been to commence, with the Pension Fund Manager, a continuous review of the Fund against the standards and expectations as reflected in TPR's Code of Practice 14.

3.3.3 The assessment identifies areas in which the Fund needs to make improvements.

3.3.4 The Board monitors TPR's annual review of its priorities and reflects these in agenda setting.

### 3.4 Reporting and Recording Breaches

3.4.1 The Board, and all associated with the Fund, other than individual scheme members, have a responsibility to report significant breaches of law to TPR. The Board reviews any breaches of the law as a standing item on its agenda.

3.4.2 During 2022-23, none of the recorded breaches were deemed to be of material significance to the TPR, hence no breaches were formally reported via the Administering Authority.

3.4.3 The Board has received training to improve skills and knowledge on their Board member responsibilities along with the Hymans Robertson LGPS Online Learning Academy training with regard to the identification of a breach and there will be further training to be undertaken to improve knowledge in this area over the coming year.

### 3.5 Scheme Advisory Board (SAB)

3.5.1 The Board monitors the focus and priorities of the SAB, takes them into account in setting its Work Programme, and also receives minutes of SAB meetings.

3.5.2 The SAB commissions periodic surveys of local pension boards, although there was no survey during 2022-23.

### 3.6 Review of Investment Issues

3.6.1 Whilst the vast majority of the Board's work programme focuses on administration and governance issues, investment issues are not ignored.

3.6.2 As expected under the relevant Investment Regulations, the Board continues to monitor the on-going consideration and development of an appropriate strategy for responsible investment, as reflected in the Fund's Investment Strategy Statement.

3.6.3 The Board continued to receive updates on progress by the ACCESS Pool on pooling of assets. In addition, following a decision by the ACCESS Pool Joint Committee to invite representation from local pension boards, two members from the Isle of Wight Board attended their December meeting.

3.6.4 The Board keeps a watchful eye on on-going compliance with MiFID II, particularly should there be any changes of key staff with investment expertise.

### 3.7 Scheme documents

3.7.1 The Board examines the range of scheme documents expected to be in place. It has reported where it found gaps or a need to update.

3.7.2 The Board pays particular regard to those standard documents which are sent to scheme members and has made recommendations regarding their content.

## 4 **Ensuring Compliance with Regulatory Deadlines.**

4.1 An increasing component of the Board's agenda is ensuring compliance with regulatory deadlines, some of which represent an annual requirement, whilst others relate to the effective dates of new legislation and regulations.

4.2 In all cases progress reports are received, with the Board considering whether any recommendations are appropriate to help meet the deadlines.

4.3 Annual requirements include producing Annual Benefit Statements for active members, Pension Savings Statements and the submission of the Scheme Annual Return to the TPR. The Fund complied with these deadlines.

4.4 On-going compliance of legislation, such as GDPR and MiFID II forms part of the work of the board.

## 5 **Training**

5.1 Each Board member must be conversant with the details of the Scheme, which translates as having a good working knowledge.

5.2 CIPFA's Knowledge & Skills Framework identified six areas of knowledge and skills as the core technical requirements for those working in public sector pensions - these are:

- Pensions legislative and governance context
- Pensions accounting and auditing standards
- Financial services procurement and relationship management
- Investment performance and risk management
- Financial markets and products knowledge
- Actuarial methods, standards and practices.

5.3 The Fund has procured the Hymans LGPS Online Learning Academy for all Board members which covers the training for these core areas along with the TPR Toolkit.

5.4 In addition, Board members are informed of external training opportunities such as CIPFA Pensions Network events and the annual LGA/LGPS Trustees Conference. (Board members attended various events in year, including the LGA Governance Conference, and various webinars).

5.5 Board members are encouraged to attend LGPS-focussed seminars/conferences each year. Training is often targeted to specific events, e.g. the Triennial Valuation 2022.

5.6 Board Members also attend in-house training, provided by the Isle of Wight Council to both Board and Committee members, as well as viewing relevant webinars.

## **6 Workplan**

6.1 A work plan has been implemented for both Board and Committee members. Specifically, it incorporates the following areas of activity for 2023-24 for Board Members:

- Pension Fund Annual Report and Accounts.
- Triennial valuation: completion confirmation.
- Administration, including Key Performance Indicators, the Data Improvement Plan and the launch of the Pensions Administration Strategy.
- Audit and risk management, including the Risk Register, cyber risk and climate change.
- Governance; including conflicts of interest, recording and if appropriate reporting breaches, and compliance with the expected TPR's General Code of practice, and the regulations implementing the Good Governance Project.
- Investments, including developments with the ACCESS Pool: implications for Administering Authorities.
- Training.
- Member communications.
- Communications between the Board and Committee.
- Policy updates: Reporting breaches, conflicts of interest, complaints/disputes.

6.2 There is flexibility to allow for any additional reviews and developments.

## **7 Public accountability**

7.1 The agendas, minutes and the Board's Terms of Reference are available on the pension fund's website at the following address: [Local Pension Board | Isle of Wight Pension Fund](#)

## **8 Acknowledgment**

- 8.1 I am grateful to the Pension Fund Manager, the Pensions Manager and the Chair of the Pension Committee and other fund officers for their support of the Board.
- 8.2 Finally, the Pension Board can only function effectively with the input of all Board members and I would like to thank my fellow Board members for their support and commitment to their roles on the Local Pension Board during the last financial year.

Martin Doyle  
Chair, Isle of Wight Council LGPS Local Pension Board  
6 April 2023

**ISLE OF WIGHT COUNCIL PENSION FUND**  
**DRAFT – SUBJECT TO AUDIT (01 AUGUST 2023)**

| 2021-22<br>£000 | FUND ACCOUNT  | Notes | 2022-23<br>£000 |
|-----------------|---|-------|-----------------|
|                 | <b>Dealings with members, employers and others directly involved in the fund</b>        |       |                 |
| 21,015          | Contributions   | 7     | 23,271          |
| 953             | Transfers in from other pension funds   | 8     | 2,143           |
| 15              | Other income  | 9     | 28              |
| <b>21,983</b>   |   |       | <b>25,442</b>   |
|                 |   |       |                 |
| (24,067)        | Benefits  | 10    | (25,324)        |
| (895)           | Payments to and on account of leavers   | 11    | (2,953)         |
| <b>(24,962)</b> |   |       | <b>(28,277)</b> |
| <b>(2,979)</b>  |   |       | <b>(2,835)</b>  |
|                 |   |       |                 |
| <b>(5,674)</b>  | Management expenses   | 12    | <b>(6,021)</b>  |
|                 |   |       |                 |
|                 | <b>Returns on investments</b>   |       |                 |
| 14,156          | Investment income   | 13    | 16,055          |
| -               | - Taxes on income   | 14    | 23              |
| 32,125          | Profit and losses on disposal of investments and changes in the value of investments    | 17A   | (44,419)        |
| (5)             | Interest payable  | 16    | -               |
| <b>46,276</b>   | Net returns on investments  |       | <b>(28,341)</b> |
|                 |   |       |                 |
| <b>37,623</b>   | <b>Net increase/(decrease) in the net assets available for benefits during the year</b> |       | <b>(37,197)</b> |
| 690,697         | Opening Net Assets of the Scheme  |       | 728,320         |
| <b>728,320</b>  | Closing Net Assets of the Scheme  |       | <b>691,123</b>  |

## ISLE OF WIGHT COUNCIL PENSION FUND

| 2022<br>£000   | NET ASSETS STATEMENT AS AT 31 MARCH  | Notes | 2023<br>£000   |
|----------------|--|-------|----------------|
|                |  |       |                |
| 709,786        | Investment assets  | 17    | 676,161        |
| 14,003         | Cash deposits  | 17    | 9,187          |
| <b>723,789</b> |  |       | <b>685,348</b> |
|                |  |       |                |
|                | - Investment liabilities   | 17    | -              |
|                | - Short-term borrowings  | 19A   | -              |
| 183            | Long-term assets   | 23    | 134            |
| 4,935          | Current assets   | 24    | 6,171          |
| (587)          | Current liabilities  | 25    | (530)          |
|                |  |       |                |
| <b>728,320</b> | <b>Net assets of the fund available to fund benefits at the period end</b> |       | <b>691,123</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 2022-23 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 2023 are:

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

The admitted bodies of the fund with active members at 31 March 2023 are:

|  |                           |
|--|---------------------------|
| Barnados                                   | Southern Housing Limited  |
| Caterlink                                  | Southern Vectis           |
| CleanTEC (new)                             | Sovereign Housing Limited |
| Cowes Harbour Commissioners                | Top Mops Ltd              |
| Island Roads Limited                       | Ventnor Botanic Gardens   |
| Keys Group (Formerly Accomplish Group Ltd) |                           |

The membership of the scheme is shown below:

Year ended 31 March 2023

|   | Administering Authority | Scheduled Bodies | Admitted Bodies | Total         |
|---|-------------------------|------------------|-----------------|---------------|
| Number of employers with active members           | 1                       | 18               | 11              | 30            |
| Number of contributors (Active members)           | 3,763                   | 615              | 80              | 4,458         |
| Number of frozen refunds 1                        | 736                     | 96               | 4               | 836           |
| Number of deferred pensioners 2                   | 5,639                   | 665              | 128             | 6,432         |
| Number of pensioners/ widows/dependant pensioners | 4,937                   | 399              | 214             | 5,550         |
|   | <b>15,075</b>           | <b>1,775</b>     | <b>426</b>      | <b>17,276</b> |

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> |

<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 2023 are detailed below.

| Range (Actual pensionable pay)        | Contribution rate |
|---------------------------------------|-------------------|
| Up to £15,000                         | 5.50%             |
| More than £15,001 and up to £23,600   | 5.80%             |
| More than £23,601 and up to £38,300   | 6.50%             |
| More than £38,301 and up to £48,500   | 6.80%             |
| More than £48,501 and up to £67,900   | 8.50%             |
| More than £67,901 and up to £96,200   | 9.90%             |
| More than £96,201 and up to £113,400  | 10.50%            |
| More than £113,401 and up to £170,100 | 11.40%            |
| More than £170,101                    | 12.50%            |

Employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2022. 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 2022-23 financial year and its position at 31 March 2023. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2022-23* 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 2022, showed it to be 102% funded – an increase from the position 3 years prior of 95%. Investment markets continued to be affected by the Russian invasion of Ukraine which commenced in February 2022 and was still ongoing throughout the year. The increase in inflation and interest rates have also had an impact on the investment returns.

The vast majority of employers in the pension scheme (98% 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, 88.8% 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 2022-23 no fees are based on such estimates (2021-22: 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 2023 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><br>(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:<br>A 0.1% decrease in the discount rate assumption would result in a increase in the pension fund deficit of £11m.<br>A 0.1% increase in assumed earnings inflation would increase the deficit by approximately £1m.<br>A 0.1% increase in assumed price inflation/pension increases would increase the deficit by approximately £11m.<br>A one-year increase in assumed life expectancy would increase the deficit by approximately £26m. |

|   |   |   |
|---|---|---|
| <b>Pooled Property Funds</b><br>(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><br>(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.<br>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 £26.1m in the financial statements. There is a risk that this investment may be over or understated in the accounts.                                   |
| <b>Infrastructure</b><br>(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.<br>Investments are not publicly listed and as such there is a degree of estimation involved in the valuation.       | Infrastructure investments are valued at £14.3m in the financial statements. There is a risk that this investment may be over or understated in the accounts.                                 |

## 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:

| 2021-22<br>£000 |   | 2022-23<br>£000 |
|-----------------|---|-----------------|
| 4,277           | Employees' normal contributions           | 4,774           |
| 5               | Employees' additional contributions       | 6               |
| <b>4,282</b>    |   | <b>4,780</b>    |
| 15,951          | Employers' normal contributions           | 17,766          |
| 158             | Employers' deficit recovery contributions | 159             |
| 624             | Employers' augmentation contributions     | 566             |
| <b>16,733</b>   |   | <b>18,491</b>   |
| <b>21,015</b>   |   | <b>23,271</b>   |



**By type of employer:**

| 2021-22<br>£000 |                         | 2022-23<br>£000 |
|-----------------|-------------------------|-----------------|
| 17,364          | Administering authority | 19,391          |
| 2,322           | Scheduled bodies        | 2,546           |
| 1,329           | Admitted bodies         | 1,334           |
| <b>21,015</b>   |                         | <b>23,271</b>   |

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

| 2021-22<br>£000 |                      | 2022-23<br>£000 |
|-----------------|----------------------|-----------------|
| -               | Group transfers      | -               |
| 953             | Individual transfers | 2,143           |
| <b>953</b>      |                      | <b>2,143</b>    |

**9. OTHER INCOME**

| 2021-22<br>£000 |                                  | 2022-23<br>£000 |
|-----------------|----------------------------------|-----------------|
| 15              | Miscellaneous income             | 24              |
| -               | Contribution Equivalent Premiums | 4               |
| <b>15</b>       |                                  | <b>28</b>       |

**10. BENEFITS PAYABLE****By category:**

| 2021-22<br>£000 |  | 2022-23<br>£000 |
|-----------------|--|-----------------|
| 20,110          | Pensions                                     | 21,096          |
| 3,207           | Commutation and lump sum retirement benefits | 3,470           |
| 750             | Lump sum death benefits                      | 758             |
| <b>24,067</b>   |  | <b>25,324</b>   |

**By type of employer:**

| 2021-22<br>£000 |                         | 2022-23<br>£000 |
|-----------------|-------------------------|-----------------|
| 20,824          | Administering authority | 22,002          |
| 1,422           | Scheduled bodies        | 1,619           |
| 1,821           | Admitted bodies         | 1,703           |
| <b>24,067</b>   |                         | <b>25,324</b>   |

**11. PAYMENTS TO AND ON ACCOUNT OF LEAVERS**

| 2021-22<br>£000 |                                   | 2022-23<br>£000 |
|-----------------|-----------------------------------|-----------------|
| 80              | Refund to members leaving service | 159             |
| -               | Group transfers                   | -               |
| 815             | Individual transfers              | 2,794           |
| <b>895</b>      |                                   | <b>2,953</b>    |

## 12. MANAGEMENT EXPENSES

| 2021-22<br>£000 |                                | 2022-23<br>£000 |
|-----------------|--------------------------------|-----------------|
| 557             | Administrative costs           | 861             |
| 4,562           | Investment management expenses | 4,556           |
| 555             | Oversight and governance costs | 604             |
| <b>5,674</b>    |                                | <b>6,021</b>    |

### 12A. INVESTMENT MANAGEMENT EXPENSES

| 2022-23                     | Total<br>£'000 | Management Fees<br>£'000 | Performance<br>Related Fees<br>£'000 | Transaction Fees<br>£'000 |
|-----------------------------|----------------|--------------------------|--------------------------------------|---------------------------|
| Bonds                       | 434            | 179                      | -                                    | 255                       |
| Pooled Investments *        | 2,570          | 1,383                    | -                                    | 1,187                     |
| Pooled Property Investments | 588            | 489                      | -                                    | 99                        |
| Private Debt                | 463            | 246                      | 173                                  | 44                        |
| Infrastructure              | 484            | 557                      | -                                    | (73)                      |
|                             | <b>4,539</b>   | <b>2,854</b>             | <b>173</b>                           | <b>1,512</b>              |
| Custody Fees                | 17             |                          |                                      |                           |
| <b>Total</b>                | <b>4,556</b>   |                          |                                      |                           |

\* Included £2.5m charged to the pension fund by ACCESS regional asset pool (£2.6m in 2021-22)

| 2021-22                     | Total<br>£'000 | Management Fees<br>£'000 | Performance<br>Related Fees<br>£'000 | Transaction Fees<br>£'000 |
|-----------------------------|----------------|--------------------------|--------------------------------------|---------------------------|
| Bonds                       | 366            | 278                      | -                                    | 88                        |
| Pooled Investments *        | 2,623          | 1,903                    | -                                    | 720                       |
| Pooled Property Investments | 554            | 449                      | -                                    | 105                       |
| Private Debt                | 242            | 105                      | 104                                  | 33                        |
| Infrastructure              | 752            | 718                      | -                                    | 34                        |
|                             | <b>4,537</b>   | <b>3,453</b>             | <b>104</b>                           | <b>980</b>                |
| Custody Fees                | 25             |                          |                                      |                           |
| <b>Total</b>                | <b>4,562</b>   |                          |                                      |                           |

## 13. INVESTMENT INCOME

| 2021-22<br>£000 |   | 2022-23<br>£000 |
|-----------------|---|-----------------|
|                 | Income from pooled investment vehicles: |                 |
| 2,801           | - ACCESS Global Equity                  | 2,048           |
| 2,273           | - ACCESS UK Equity                      | 2,152           |
| 1,597           | - ACCESS Diversified Growth             | 2,128           |
| 3,779           | - Property                              | 3,685           |
| 1,398           | - Bonds                                 | 1,686           |
| 1,059           | - Private Debt                          | 2,120           |
| 1,252           | - Infrastructure                        | 1,874           |
| 3               | - Interest on cash deposits             | 362             |
| (6)             | - Other                                 | -               |
| <b>14,156</b>   |   | <b>16,055</b>   |

#### 14. TAXATION

| 2021-22<br>£000 |                            | 2022-23<br>£000 |
|-----------------|----------------------------|-----------------|
| -               | Withholding tax - equities | (23)            |
| -               |                            | (23)            |

#### 15. EXTERNAL AUDIT COSTS

| 2021-22<br>£000 |                                      | 2022-23<br>£000 |
|-----------------|--------------------------------------|-----------------|
| 62              | Payable in respect of external audit | 27              |
| 62              |                                      | 27              |

#### 16. INTEREST PAYABLE

| 2021-22<br>£000 |                                  | 2022-23<br>£000 |
|-----------------|----------------------------------|-----------------|
| 5               | Interest on short term borrowing | -               |
| 5               |                                  | -               |

#### 17. INVESTMENTS

| Market value<br>31 March 2022<br>£000 |                                   | Market value<br>31 March 2023<br>£000 |
|---------------------------------------|-----------------------------------|---------------------------------------|
|                                       | <b>Investment assets</b>          |                                       |
|                                       | <b>Pooled Investment Vehicles</b> |                                       |
| 99,534                                | Pooled UK Equity                  | 98,342                                |
| 288,761                               | Pooled Global Equity              | 285,604                               |
| 131,952                               | Pooled Fixed Income unit trusts   | 110,824                               |
| 113,532                               | Pooled Diversified Growth Fund    | 103,858                               |
| <b>633,779</b>                        |                                   | <b>598,628</b>                        |
|                                       | <b>Other Investments</b>          |                                       |
| 44,453                                | Pooled Property Investments       | 37,133                                |
| 23,605                                | Private Debt                      | 26,111                                |
| 7,949                                 | Infrastructure                    | 14,277                                |
| <b>76,007</b>                         |                                   | <b>77,521</b>                         |
|                                       |                                   |                                       |
| 14,003                                | Cash deposits                     | 9,187                                 |
| -                                     | - Recoverable withholding tax     | 12                                    |
| <b>14,003</b>                         |                                   | <b>9,199</b>                          |
| <b>723,789</b>                        | <b>Total investment assets</b>    | <b>685,348</b>                        |

## 17A. RECONCILIATION OF MOVEMENTS IN INVESTMENTS

|                              | Market value<br>01/04/22 | Purchases<br>during year | Sales during<br>year | Change in Mkt<br>value | Mkt Value<br>31/03/23 |
|------------------------------|--------------------------|--------------------------|----------------------|------------------------|-----------------------|
|                              | £000                     | £000                     | £000                 | £000                   | £000                  |
| Pooled Investment Vehicles   | 633,779                  | 106,203                  | (103,147)            | (38,207)               | 598,628               |
| Pooled Property Investments  | 44,453                   | 1,466                    | (612)                | (8,174)                | 37,133                |
| Private Debt                 | 23,605                   | 4,709                    | (3,982)              | 1,779                  | 26,111                |
| Infrastructure               | 7,949                    | 7,104                    | (1,181)              | 405                    | 14,277                |
|                              | 709,786                  | 119,482                  | (108,922)            | (44,197)               | 676,149               |
| Cash deposits                | 14,003                   |                          |                      | (222)                  | 9,187                 |
| Recoverable withholding tax  | -                        |                          |                      | -                      | 12                    |
| <b>Net investment assets</b> | <b>723,789</b>           |                          |                      | <b>(44,419)</b>        | <b>685,348</b>        |

|                              | Market value<br>01/04/21 | Purchases<br>during year | Sales during<br>year | Change in Mkt<br>value | Mkt Value<br>31/03/22 |
|------------------------------|--------------------------|--------------------------|----------------------|------------------------|-----------------------|
|                              | £000                     | £000                     | £000                 | £000                   | £000                  |
| Pooled Investment Vehicles   | 648,719                  | 150,376                  | (190,468)            | 25,152                 | 633,779               |
| Pooled Property Investments  | 37,459                   | 1,240                    | (105)                | 5,859                  | 44,453                |
| Private Debt                 | 9,186                    | 15,573                   | (2,031)              | 877                    | 23,605                |
| Infrastructure               | -                        | 11,544                   | (3,340)              | (255)                  | 7,949                 |
|                              | 695,364                  | 178,733                  | (195,944)            | 31,633                 | 709,786               |
| Cash deposits                | -                        |                          |                      | 492                    | 14,003                |
| Recoverable withholding tax  | 21                       |                          |                      | -                      | -                     |
| <b>Net investment assets</b> | <b>695,385</b>           |                          |                      | <b>32,125</b>          | <b>723,789</b>        |

## 17B. INVESTMENTS ANALYSED BY FUND MANAGER

| Market value<br>31 March 2022                   |               |   | Market value<br>31 March 2023 |               |
|---|---------------|---|-------------------------------|---------------|
| £000  | %             |   | £000                          | %             |
| <b>Investments Managed by ACCESS pool:</b>      |               |   |                               |               |
| 149,384   | 21.0%         | ACCESS – Global Equities - Newton             | 147,399                       | 21.8%         |
| 113,532   | 16.0%         | ACCESS - Diversified Growth - Baillie Gifford | 103,858                       | 15.4%         |
| 99,534  | 14.0%         | ACCESS - UK Equities - Liontrust (Majedie)    |                               |               |
|   |               | ACCESS - UK Equities - Liontrust (Blackrock)  | 98,342                        | 14.5%         |
| 139,377   | 19.6%         | UBS Life Climate Aware World Equity Fund      | 138,205                       | 20.4%         |
| <b>501,827</b>                                  | <b>70.7%</b>  |   | <b>487,804</b>                | <b>72.1%</b>  |
| <b>Investments Managed outside ACCESS pool:</b> |               |   |                               |               |
| 131,952   | 18.6%         | Schroder Investment Management – Bonds        | 110,824                       | 16.4%         |
| 44,453  | 6.3%          | Schroder Investment Management – Property     | 37,133                        | 5.5%          |
| 23,605  | 3.3%          | Goldman Sachs - Private Debt                  | 26,111                        | 3.9%          |
| 7,949   | 1.1%          | Partners Investment - Infrastructure          | 14,277                        | 2.1%          |
| <b>207,959</b>                                  | <b>29.3%</b>  |   | <b>188,345</b>                | <b>27.9%</b>  |
| <b>709,786</b>                                  | <b>100.0%</b> |   | <b>676,149</b>                | <b>100.0%</b> |
| -   | 0.0%          | Recoverable withholding tax                   | 12                            | 0.0%          |
| <b>709,786</b>                                  | <b>100.0%</b> |   | <b>676,161</b>                | <b>100.0%</b> |

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

| Market value<br>31 March 2022 |        |  | Market value<br>31 March 2023 |        |
|-------------------------------|--------|--|-------------------------------|--------|
| £000                          | %      |  | £000                          | %      |
| 149,384                       | 20.52% | ACCESS – Overseas Equities - Newton                    | 147,399                       | 21.33% |
| 139,377                       | 19.14% | UBS Life Climate Aware World Equity Fund               | 138,205                       | 20.00% |
| 131,952                       | 18.12% | Schroder Institutional Sterling Broad Market X Account | 110,824                       | 16.04% |
| 113,532                       | 15.59% | ACCESS - Diversified Growth - Baillie Gifford          | 103,858                       | 15.03% |
|                               |        | ACCESS - UK Equities - Blackrock                       | 98,342                        | 14.23% |
| 99,534                        | 13.67% | ACCESS - UK Equities - Liontrust                       |                               |        |
| 44,453                        | 6.11%  | Schroder UK Property Fund                              | 37,133                        | 5.37%  |

**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.

During the year the average value of the fund's share of the quoted equities on loan was £7.8m (2021-22: £9.0m).

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<br>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 audited 31 December 2022 Goldman Sachs report, rolled forward to end of 31 March 2023<br>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.<br>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 2023.

|                | Potential variation in fair value | Value at 31 March 2023<br>£'000 | Potential value on increase<br>£'000 | Potential value on decrease<br>£'000 |
|----------------|-----------------------------------|---------------------------------|--------------------------------------|--------------------------------------|
| Private Debt   | + / - 10%                         | 26,111                          | 28,722                               | 23,500                               |
| Infrastructure | + / - 10%                         | 14,277                          | 15,705                               | 12,849                               |
| <b>Total</b>   |                                   | <b>40,388</b>                   | <b>44,427</b>                        | <b>36,349</b>                        |

### 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 2022       |                         |                                      |                |   | 31 March 2023       |                         |                                      |                |
|---------------------|-------------------------|--------------------------------------|----------------|---|---------------------|-------------------------|--------------------------------------|----------------|
| Quoted Market Price | Using Observable Inputs | With Significant Unobservable Inputs | Total          |   | Quoted Market Price | Using Observable Inputs | With Significant Unobservable Inputs | Total          |
| Level 1             | Level 2                 | Level 3                              | Level 3        |   | Level 1             | Level 2                 | Level 3                              | Level 3        |
| £000                | £000                    | £000                                 | £000           |   | £000                | £000                    | £000                                 | £000           |
| 633,779             | 44,453                  | 31,554                               | 709,786        | Financial assets at fair value through profit and loss      | 598,628             | 37,133                  | 40,388                               | 676,149        |
| -                   | -                       | -                                    | -              | Financial liabilities at fair value through profit and loss | -                   | -                       | -                                    | -              |
| <b>633,779</b>      | <b>44,453</b>           | <b>31,554</b>                        | <b>709,786</b> | <b>Net investment assets</b>                                | <b>598,628</b>      | <b>37,133</b>           | <b>40,388</b>                        | <b>676,149</b> |

## 18A. RECONCILIATION OF FAIR VALUE MEASUREMENTS WITH LEVEL 3

|                               | Private Debt<br>£'000 | Infrastructure<br>£'000 | Total<br>£'000 |
|-------------------------------|-----------------------|-------------------------|----------------|
| Value at 1 April 2022         | 23,605                | 7,949                   | 31,554         |
| Purchases                     | 4,709                 | 7,104                   | 11,813         |
| Sales                         | (3,982)               | (1,181)                 | (5,163)        |
| Unrealised Gains and Losses * | (383)                 | 405                     | 22             |
| Realised Gains and Losses *   | 2,162                 | -                       | 2,162          |
| <b>Value at 31 March 2023</b> | <b>26,111</b>         | <b>14,277</b>           | <b>40,388</b>  |

|                               | Private Debt<br>£'000 | Infrastructure<br>£'000 | Total<br>£'000 |
|-------------------------------|-----------------------|-------------------------|----------------|
| Value at 1 April 2021         | 9,186                 | -                       | 9,186          |
| Purchases                     | 15,573                | 11,544                  | 27,117         |
| Sales                         | (2,031)               | (3,340)                 | (5,371)        |
| Unrealised Gains and Losses * | 824                   | (135)                   | 689            |
| Realised Gains and Losses *   | 53                    | (120)                   | (67)           |
| <b>Value at 31 March 2022</b> | <b>23,605</b>         | <b>7,949</b>            | <b>31,554</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 2022                              |                                   |                                       |                              | 31 March 2023                              |                                   |                                       |
|--|-----------------------------------|---------------------------------------|------------------------------|--|-----------------------------------|---------------------------------------|
| Fair value through profit and loss<br>£000 | Assets at amortised costs<br>£000 | Liabilities at amortised cost<br>£000 |                              | Fair value through profit and loss<br>£000 | Assets at amortised costs<br>£000 | Liabilities at amortised cost<br>£000 |
|  |                                   |                                       | <b>Financial assets</b>      |  |                                   |                                       |
| 678,232                                    | -                                 | -                                     | Pooled investment vehicles   | 635,761                                    | -                                 | -                                     |
| 23,605                                     | -                                 | -                                     | Private Debt                 | 26,111                                     | -                                 | -                                     |
| 7,949                                      | -                                 | -                                     | Infrastructure               | 14,277                                     | -                                 | -                                     |
| -  | 18,290                            | -                                     | Cash                         | -  | 14,619                            | -                                     |
| -  | -                                 | -                                     | Other investment balances    | 12   | -                                 | -                                     |
| -  | 8                                 | -                                     | Debtors                      | -  | 5                                 | -                                     |
| <b>709,786</b>                             | <b>18,298</b>                     | -                                     |                              | <b>676,161</b>                             | <b>14,624</b>                     | -                                     |
|  |                                   |                                       | <b>Financial liabilities</b> |  |                                   |                                       |
| -  | -                                 | (379)                                 | Creditors                    | -  | -                                 | (314)                                 |
| -  | -                                 | -                                     | Borrowings                   | -  | -                                 | -                                     |
| -  | -                                 | (379)                                 |                              | -  | -                                 | (314)                                 |
| <b>709,786</b>                             | <b>18,298</b>                     | <b>(379)</b>                          |                              | <b>676,161</b>                             | <b>14,624</b>                     | <b>(314)</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 2022-23 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<br>31 March<br>2023<br>£000 | Volatility of<br>return<br>% | Value on<br>increase<br>£000 | Value on<br>decrease<br>£000 |
|------------------------------|---|------------------------------|------------------------------|------------------------------|
| Bonds                        | 110,824                                 | 6.90%                        | 118,471                      | 103,177                      |
| Pooled Investment vehicles:  |   |                              |                              |                              |
| UK Equities                  | 98,342                                  | 1.20%                        | 99,522                       | 97,162                       |
| Global Equities              | 147,399                                 | 2.40%                        | 150,937                      | 143,861                      |
| Diversified Growth Fund      | 103,858                                 | 4.10%                        | 108,116                      | 99,600                       |
| UBS Climate Aware            | 138,205                                 | 2.70%                        | 141,937                      | 134,473                      |
| Pooled Property Investments  | 37,133                                  | 11.20%                       | 41,292                       | 32,974                       |
| Private Debt                 | 26,111                                  | 6.00%                        | 27,678                       | 24,544                       |
| Infrastructure               | 14,277                                  | 13.60%                       | 16,219                       | 12,335                       |
| Cash & Cash Equivalents      | 9,187                                   | 0.00%                        | 9,187                        | 9,187                        |
| Amounts Receivable for Sales | -                                       | -                            | -                            | -                            |
| Investment Income due        | -                                       | -                            | -                            | -                            |
| Recoverable withholding tax  | 12                                      | 0.00%                        | 12                           | 12                           |
| <b>Total</b>                 | <b>685,348</b>                          |                              | <b>713,371</b>               | <b>657,325</b>               |

|                             | Value as at<br>31 March<br>2022<br>£000 | Volatility of<br>return<br>% | Value on<br>increase<br>£000 | Value on<br>decrease<br>£000 |
|-----------------------------|---|------------------------------|------------------------------|------------------------------|
| Bonds                       | 131,952                                 | 3.30%                        | 136,307                      | 127,598                      |
| 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 1              | 23,605                                  | 19.90%                       | 28,302                       | 18,907                       |
| Infrastructure              | 7,949                                   | 23.40%                       | 9,809                        | 6,089                        |
| Cash & Cash Equivalents     | 14,003                                  | 0.00%                        | 14,003                       | 14,003                       |
| Recoverable withholding tax | -                                       | 0.00%                        | -                            | -                            |
| <b>Total</b>                | <b>723,789</b>                          |                              | <b>751,654</b>               | <b>695,930</b>               |

## 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 2023, and as at the previous period end:

|                   | Asset value<br>as at 31<br>March 2023<br>£000 | Asset value<br>as at 31<br>March 2022<br>£000 |
|-------------------|---|---|
| Private Debt      | 26,111  | 23,605  |
| Infrastructure    | 14,277  | 7,949   |
| Investment Income | 3,994   | 2,311   |
|                   | <b>44,382</b>                                 | <b>33,865</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 6.62% (2021-22: 7.10%). This analysis assumes that all other variables, in particular interest rates, remain constant.

A 6.67% 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<br>31 March<br>2023<br>£000 | Value on<br>increase<br>+6.62%<br>£000 | Value on<br>decrease<br>-6.62%<br>£000 |
|-----------------------|---|--|--|
| Private Debt          | 26,111                                  | 27,840                                 | 24,382                                 |
| Infrastructure        | 14,277                                  | 15,222                                 | 13,332                                 |
| Investment income due | 3,994                                   | 4,258                                  | 3,730                                  |
|                       | <b>44,382</b>                           | <b>47,320</b>                          | <b>41,444</b>                          |
|                       |   |  |  |
|                       | Value as at<br>31 March<br>2022<br>£000 | Value on<br>increase<br>+7.10%<br>£000 | Value on<br>decrease<br>-7.10%<br>£000 |
| Private Debt          | 23,605                                  | 25,669                                 | 21,540                                 |
| Infrastructure        | 7,949                                   | 8,161                                  | 7,737                                  |
| Investment income due | 2,311                                   | 2,437                                  | 2,185                                  |
|                       | <b>33,865</b>                           | <b>36,267</b>                          | <b>31,462</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 2023 and 31 March 2022 (£458k and £495k 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 2023 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 2022 and the next valuation will take place as at 31 March 2025.

#### **Description of Funding Policy**

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), dated February 2023. In summary, the funding strategy objectives are as follows:

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

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 75% 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 2022. This valuation revealed that the Fund's assets, which at 31 March 2022 were valued at £728 million (2019: £596 million), were sufficient to meet 102% of the liabilities (2019: 95%) (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting surplus at the 2022 valuation was £15 million (2019: deficit £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 2023 to 31 March 2026 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 |                  |                  |
|---|--|------------------|------------------|
|   | 2024<br>% of pay                                   | 2025<br>% of pay | 2026<br>% of pay |
| Isle of Wight Council                           | 23.5   | 23.5             | 23.5             |
| Barnardos                                       | 23.5   | 23.5             | 23.5             |
| Caterlink                                       | 23.5   | 23.5             | 23.5             |
| CleanTEC  | 23.5   | 23.5             | 23.5             |
| Cowes Enterprise College, an Ormiston Academy * | 23.5   | 23.5             | 23.5             |
| Cowes Harbour Commissioners                     | 32.8   | 32.8             | 32.8             |
| The Island Free School                          | 19.6   | 19.6             | 19.6             |
| Island Roads                                    | Nil  | Nil              | Nil              |
| Isle of Wight College (from 1 August)           | 22.1   | 22.1             | 22.1             |
| Keys Group (Formerly Accomplish Ltd)            | 23.5   | 23.5             | 23.5             |
| Lanesend Academy                                | 21.1   | 21.1             | 21.1             |
| Northwood Academy *                             | 23.5   | 23.5             | 23.5             |
| RM Ltd  | 23.5   | 23.5             | 23.5             |
| Ryde Academy, Academies Enterprise Trust *      | 23.5   | 23.5             | 23.5             |
| Solutions 4 Health                              | 23.5   | 23.5             | 23.5             |
| Southern Vectis (Wightbus)                      | Nil  | Nil              | Nil              |
| Southern Housing Group                          | 32.8   | 32.8             | 32.8             |
| Sovereign Housing Group                         | 31.7   | 31.7             | 31.7             |
| St Blasius Academy *                            | 23.5   | 23.5             | 23.5             |
| St Catherine's School Ltd                       | 25.4   | 25.4             | 25.4             |
| St Francis Academy *                            | 23.5   | 23.5             | 23.5             |
| Top Mops  | 21.5   | 21.5             | 21.5             |
| Ventnor Botanical Gardens                       | Nil  | Nil              | Nil              |

in addition, certain employers make a lump sum contribution

| Employer Name               | Ending 31 March          |                          |                          |
|-----------------------------|--------------------------|--------------------------|--------------------------|
|                             | 2024<br>Lump Sum<br>£000 | 2025<br>Lump Sum<br>£000 | 2026<br>Lump Sum<br>£000 |
| Cowes Harbour Commissioners | 20                       | 20                       | 20                       |
| Southern Housing Group      | 150                      | 150                      | 150                      |
| Sovereign Housing Group     | 18                       | 18                       | 18                       |

\* Academies within the fund were asked whether they wished to pool with the administering authority for contribution rate purposes only. Five of the academies in operation at the time of the 2022 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 2025.

### Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2022 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 2022 valuation were as follows:

| Financial Assumptions              | 31 March 2022<br>% p.a.<br>Nominal |
|------------------------------------|------------------------------------|
| Discount rate (Investment returns) | 3.7%                               |
| Salary Increases                   | 3.7%                               |
| Price inflation/Pension Increases  | 2.7%                               |

(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 Continuous Mortality Investigation (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 1.5% p.a.

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

|                     | Males      | Females    |
|---------------------|------------|------------|
| Current Pensioners  | 21.9 years | 24.5 years |
| Future Pensioners * | 22.5 years | 25.9 years |

\* based on members aged 45 at the valuation date.

Copies of the 2022 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 2022

Markets continued to be disrupted by the ongoing war in Ukraine and inflationary pressures, impacting on investment returns achieved by the Fund's assets. High levels of inflation in the UK (compared to recent experience), have resulted in a higher-than-expected LGPS benefit increase of 10.1% in April 2023. Despite this, the funding level of the Fund is likely to be higher than reported at the 31 March 2022 funding valuation due to the significant rise in interest rates which reduces the value placed on the Fund's liabilities.

The next actuarial valuation will be carried out as at 31 March 2025. 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 2023<br>£m | 31 March 2022<br>£m |
|----------------------|---------------------|---------------------|
| Active members       | 207                 | 318                 |
| Deferred members     | 137                 | 223                 |
| Pensioners           | 318                 | 380                 |
| <b>Net Liability</b> | <b>662</b>          | <b>921</b>          |

The promised retirement benefits at 31 March 2023 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2022. 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 2023 and 31 March 2022. The actuary estimates that the impact of the change in financial assumptions to 31 March 2023 is to decrease the actuarial present value by £340m. The actuary estimates that the impact of the change in demographic and longevity assumptions is to decrease the actuarial present value by £6m.

### Financial assumptions

| Year ended                  | 31 March 2023<br>% p.a. | 31 March 2022<br>% p.a. |
|-----------------------------|-------------------------|-------------------------|
| Pension Increase Rate (CPI) | 2.95%                   | 3.20%                   |
| Salary Increase Rate        | 3.95%                   | 4.20%                   |
| Discount Rate               | 4.75%                   | 2.70%                   |

(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 10% 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:

|                     | <b>Males</b> | <b>Females</b> |
|---------------------|--------------|----------------|
| Current Pensioners  | 21.6 years   | 24.3 years     |
| Future Pensioners * | 22.2 years   | 25.7 years     |

\* Future pensioners are assumed to be aged 45 at the most recent formal valuation date, 31 March 2022

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 2023                 | Approximate % increase to promised retirement benefits | Approximate monetary amount (£m) |
|---|--|----------------------------------|
| 0.1% p.a. decrease in the discount rate               | 2%   | 11                               |
| 1-year increase in member life expectancy             | 4%   | 26                               |
| 0.1% p.a. increase in the Salary Increase Rate        | 0%   | 1                                |
| 0.1% p.a. increase in the Pension Increase Rate (CPI) | 2%   | 11                               |

### 23. LONG TERM ASSETS

| 31 March 2022<br>£000 |  | 31 March 2023<br>£000 |
|-----------------------|--|-----------------------|
|                       | Debtors                                |                       |
| 29                    | Contributions due - employers          | 30                    |
| 154                   | Reimbursement of annual tax allowances | 104                   |
| <b>183</b>            |  | <b>134</b>            |

### 24. CURRENT ASSETS

| 31 March 2022<br>£000 |                               | 31 March 2022<br>£000 |
|-----------------------|-------------------------------|-----------------------|
|                       | Debtors                       |                       |
| 99                    | Contributions due - employees | 93                    |
| 396                   | Contributions due - employers | 365                   |
| <b>495</b>            |                               | <b>458</b>            |
| 8                     | Taxation                      | 13                    |
| 8                     | Sundry debtors                | 5                     |
| 137                   | Payments in advance           | 263                   |
| 4,287                 | Cash balances                 | 5,432                 |
| <b>4,935</b>          |                               | <b>6,171</b>          |

### 25. CURRENT LIABILITIES

| 31 March 2022<br>£000 |                  | 31 March 2023<br>£000 |
|-----------------------|------------------|-----------------------|
|                       | Creditors        |                       |
| 208                   | Taxation         | 239                   |
| 360                   | Accruals         | 272                   |
| 19                    | Sundry creditors | 19                    |
| <b>587</b>            |                  | <b>530</b>            |

## 26. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCS)

| Market value<br>31 March 2022<br>£000 |                              | Market value<br>31 March 2023<br>£000 |
|---------------------------------------|------------------------------|---------------------------------------|
| 824                                   | Prudential life and pensions | 972                                   |

AVC contributions of £194 thousand were paid directly to Prudential Life and Pensions during the year (2021-22: £148 thousand).

The final annual reports from Prudential have not yet been received, but they have provided provisional figures which are incorporated above.

AVC amounts are not included in the pension fund accounts in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

## 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 £539 thousand (2021-22: £522 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 £15.3 million in 2022-23 (2021-22: £13.7 million) to the fund. All monies owing to the fund, except for deferred balances in respect of pension strain costs totalling £43.7 thousand (2022: £39.6 thousand), were paid during the year.

During the year, the pension fund had the facility 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. During 2022-23 the pension fund did not take advantage of this facility so the balance due to the council at 31 March 2023 is Nil (2021-22: Nil) and no interest (2021-22 5.1 thousand) was payable on the borrowings in the year.

### Governance

There are no voting 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 2023.

## 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<br>31 March 2022<br>£000 |                            | Year ended<br>31 March 2023<br>£000 |
|-------------------------------------|----------------------------|-------------------------------------|
| 60                                  | Short-term benefits        | 72                                  |
| 13                                  | Post-employment benefits   | 15                                  |
| -                                   | - Other long-term benefits | -                                   |
| -                                   | - Termination benefits     | -                                   |
| -                                   | - Share-based payments     | -                                   |
| <b>73</b>                           |                            | <b>87</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 £8 thousand (2022: £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 (2022: £6 thousand). This case is still 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 guaranteed 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 2022-23 (2021-22 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 2023 is as per the table below:

|                                    | 31 March 2023 |        |                |        | 31 March 2022 |        |                |        |
|------------------------------------|---------------|--------|----------------|--------|---------------|--------|----------------|--------|
|                                    | Private Debt  |        | Infrastructure |        | Private Debt  |        | Infrastructure |        |
|                                    | \$'000        | £'000  | €'000          | £'000  | \$'000        | £'000  | €'000          | £'000  |
| Total amount Committed             | 39,300        | 31,837 | 41,000         | 36,095 | 39,300        | 29,890 | 41,000         | 34,532 |
| Total Invested                     | 33,169        | 26,871 | 45,965         | 13,175 | 30,065        | 22,866 | 9,225          | 7,770  |
| Balance committed but not yet paid | 6,131         | 4,967  | 26,035         | 22,920 | 9,235         | 7,024  | 31,775         | 26,762 |

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

## 29. TRUSTEES REPORT 2022-23

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 2023 were Cllrs Andre, Brading, Churchman, Critchison, Garratt (vice chair), Jarman (chair) and Ward.

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 2023 were £691.1 million, a decrease of 5.1% on the 31 March 2022 valuation of £728.3 million. The fund's total investments under-performed compared to the agreed benchmarks by 1.5% during the year.

With the exception of a small over-performance by the fund's active global equity portfolio, all other portfolios under-performed against their respective benchmarks in the year to 31 March 2023, most notably the diversified growth portfolio, which underperformed by 13.3%.

### Funding Level

The Fund's last triennial actuarial valuation was undertaken at 31 March 2022, showing a funding level of 102%, compared to 95% at the previous valuation at 31 March 2019. The results of this latest valuation, in terms of revised contribution rates, were implemented with effect from April 2023.

### Governance – pension fund committee

There were four scheduled pension fund committee meetings during the year 2022-23. 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:

- The completion of the 2022 actuarial valuation of the fund, including adoption of the updated funding strategy statement.
- Approval of the draft 2021-22 annual report and accounts, and regular updates on the progress of the much-delayed external audit.
- Adoption of the fund's updated communications policy.
- Implementation of the decision to switch the fund's UK Equity portfolio fund manager.
- Consideration of the fund's response to the government's consultation on climate change risk reporting
- Reports from the board on the fund's risk register.
- 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 the planning for the Strategic Asset Allocation review in 2023-24 and the pensions dashboard project. Board and Committee members also took part in the Hymans Robertson National Knowledge Assessment, and received the output of that exercise, which is being used to develop a future training programme for the fund.

A summary of committee members' attendance for the year 2022-23 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 |            |
|-----------|----------|---------------|------------------|------------------|------------------|------------------|------------------|-------------------|--------------|------------|
| 25-May-22 | √        | √             | √                | aps              | √                | √                | aps              | aps               |              | 63%        |
| 27-Jul-22 | √        | √             | √                | √                | √                | aps              | √                | √                 |              | 88%        |
| 23-Nov-22 | √        | √             | √                | √                | √                | √                | √                | √                 |              | 100%       |
| 08-Feb-23 | √        | √             | √                | aps              | √                | √                | √                | √                 |              | 88%        |
|           | 100%     | 100%          | 100%             | 50%              | 100%             | 75%              | 75%              | 75%               |              | <b>85%</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).

#### Governance – local pension board

During the year 2022-23, the membership of the board was 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 (non-voting) appointed following external advertisement.

The final employer representative was appointed with effect from 1 June 2022, and membership has been consistent throughout the period.

There were four scheduled local pension board meetings during the year 2022-23. All meetings were held in person at County Hall, Newport, Isle of Wight. As the board is not a committee constituted under the Local Government Act 1972, members are given the opportunity to attend meetings virtually, and still be counted towards quorum and allowed to fully contribute to the meetings.

**Table 2: board attendance**

|           | Independent Chairman | Employer rep 1 | Employer rep 2 | Employer rep 3 | Scheme member rep 1 | Scheme member rep 2 | Scheme member rep 3 | TOTAL      | Employer % | Scheme member % |
|-----------|----------------------|----------------|----------------|----------------|---------------------|---------------------|---------------------|------------|------------|-----------------|
| 06-Apr-22 | √                    | √              | n/a            | aps            | √                   | √                   | √                   | 83%        | 50%        | 100%            |
| 15-Jun-22 | √                    | √              | √              | √              | √                   | aps                 | √                   | 86%        | 100%       | 67%             |
| 26-Oct-22 | √                    | √              | √              | √              | √                   | √                   | √                   | 100%       | 100%       | 100%            |
| 17-Jan-23 | √                    | √              | aps            | √              | √                   | √                   | √                   | 86%        | 66%        | 100%            |
|           | 100%                 | 100%           | 67%            | 75%            | 100%                | 75%                 | 100%                | <b>89%</b> | <b>82%</b> | <b>92%</b>      |

Please note the percentage attendance at each meeting (final column) is based on a total board membership of seven, except where a member had not been appointed for that meeting (shown as “n/a”) when membership is counted as six.

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

- An induction session for the newly constituted board.
- Detailed monitoring and review of the fund’s risk register, and recommendation of updates to the committee, including consideration of cyber security risks.
- Consideration of the fund’s response to the government’s consultation on climate change risk reporting
- Reports from the administration team on employer compliance with the fund’s administration strategy, major projects, key performance indicators, breaches and complaints.

- Review of the fund's key documents list, and ensuring policies are up to date:
  - Recommendation of the fund's updated communications policy to the committee for adoption.
  - Recommendation of the Policy for Recording and Reporting Breaches of the Law to the committee for adoption.
- Knowledge and understanding requirements and activities.

All Local Pension Board members have an open invitation to attend all committee meetings and are invited to participate in those meetings by the chair of the Committee.

The chairman of the Pension Fund Committee attended three of the four board meetings during the year.

## **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.