

**ISLE OF WIGHT COUNCIL PENSION FUND**  
**DRAFT – SUBJECT TO EXTERNAL AUDIT AND ADDITIONAL INFORMATION**  
**(VERSION 2 – 19 JULY 2022)**

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

## ISLE OF WIGHT COUNCIL PENSION FUND

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

The fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed at note 22.

# ISLE OF WIGHT COUNCIL PENSION FUND

## NOTES TO THE ACCOUNTS

### 1. DESCRIPTION OF THE FUND

The Isle of Wight Council Pension Fund ("the fund") is part of the Local Government Pension Scheme (LGPS) and is administered by Isle of Wight Council ("the council"). The council is the reporting entity for this pension fund.

The following description of the fund is a summary. For more detail, reference should be made to the Isle of Wight Council Pension Fund Annual Report 2021-22 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme Regulations.

#### a) General

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

- the Local Government Pension Scheme Regulations 2013 (as amended)
- the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

It is a contributory defined benefit pension scheme administered by Isle of Wight Council to provide pensions and other benefits for pensionable employees of Isle of Wight Council, and a range of other scheduled and admitted bodies on the Isle of Wight. Teachers, police officers and fire-fighters are not included as they come within other national pension schemes.

The fund is overseen by the Isle of Wight Pension Fund Committee ("the committee"), which is a committee of Isle of Wight Council.

#### b) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

Organisations participating in the Isle of Wight Council Pension Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the fund.
- Admitted bodies, which are other organisations that participate in the fund under the terms of an admission agreement between the fund and the employer. Admitted bodies include voluntary, charitable and similar not-for-profit organisations or private contractors undertaking a local authority function following outsourcing to the private sector.

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

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

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

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

The membership of the scheme is shown below:

Year ended 31 March 2022

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

Year ended 31 March 2021

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

<sup>1</sup> Frozen refunds are former employees who do not have any pension entitlement apart from a return of the contributions paid into the Fund during their employment but have not yet claimed the refund.

<sup>2</sup> A deferred pensioner is a former employee who has accrued pension rights within the Fund but has not yet reached retirement age to enable them to access their benefits or transferred their accrued rights to another Fund/provider.

### c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS Regulations 2013.

The pay bands and rates applicable for the year ended 31 March 2022 are detailed below.

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

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

#### d) Benefits

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

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

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

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

## 2. BASIS OF PREPARATION

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

The accounts report on the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed at note 22 of these accounts.

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

The Pension Fund's latest actuarial valuation, as at 31 March 2019, showed it to be 95% funded – an increase from the position 3 years prior of 92%. Investment markets were impacted by the effect of the Russian invasion of Ukraine in February 2022 and the increase in the cost of living. The Fund will be

undertaking the next scheduled triennial valuation as at 31 March 2022 and will implement an agreed recovery period in its Funding Strategy Statement, should this be necessary, to make good any funding deficit that may arise as a result of this exercise.

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

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

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Fund account – revenue recognition**

##### **a) Contribution income**

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis as follows:

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

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

Additional employers' contributions in respect of ill-health and early retirements are accounted for in the year the event arose. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

##### **b) Transfers to and from other schemes**

Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations 2013 (see notes 8 and 11).

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

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

Bulk (group) transfers are accounted for in accordance with the terms of the transfer agreement.

##### **c) Investment income**

###### **i) Interest income**

Interest income is recognised in the fund accounts as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.

###### **ii) Dividend income**

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

###### **iii) Distributions from pooled funds**

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

###### **iv) Movement in the value of investments**

Changes in the value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

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## **Fund account – expense items**

### **d) Benefits payable**

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities, providing that payment has been approved.

### **e) Taxation**

The fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers from withholding tax in the country of origin unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

### **f) Management expenses**

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

#### *Administrative expenses*

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

#### *Oversight and governance costs*

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

#### *Investment management expenses*

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

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

Where an investment manager's fee note has not been received by the year-end date, an estimate based on the market value of their mandate as at the end of the year is used for inclusion in the fund account. In 2021-22 no fees are based on such estimates (2020-21: nil)

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

A proportion of the time spent by officers on investment management is also charged to the fund.

### **g) VAT**

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs (HMRC). VAT receivable is excluded from income.

## **Net assets statement**

### **h) Financial assets**

All investment assets are included in the financial statements on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the fund becomes party to the contractual acquisition of the asset. Any amounts due or payable in respect of trades entered into, but not yet complete, at 31 March each year as accounted for as financial instruments held at amortised and reflected in the reconciliation of movements in investments in Note 17A.

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



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

**i) Foreign currency transactions**

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, overseas investments and purchases and sales outstanding at the end of the reporting period.

**j) Cash and cash equivalents**

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

All cash balances are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

**k) Financial liabilities**

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

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

**l) Actuarial present value of promised retirement benefits**

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards.

As permitted under the Code, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (note 22).

**m) Additional Voluntary Contributions**

The fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the pension fund. The fund has appointed Prudential Life and Pensions as its AVC provider. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors.

Each AVC contributor receives an annual statement showing the amount held in their accounts and the movements in the year.

AVCs are not included in the accounts in accordance with section 4(1)(b) of the Local Government Pension Scheme (Management and Investment Funds) Regulations 2016 but are disclosed for information in note 26.

**n) Accruals of expenditure and income**

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

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

- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure based on the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

#### **o) Contingent Liabilities and Contingent Assets**

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

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

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

### **4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

#### **Pension fund liability**

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines.

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

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

### **5. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY**

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported. Estimates and assumptions take account of historical experience, current trends and future expectations, however actual outcomes could differ from the assumption and estimates made.

The items in the net assets statement at 31 March 2022 for which there is a significant risk of material adjustment within the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
<b>Actuarial present value of promised retirement benefits</b> (Note 22)	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, salary increases, changes in retirement ages, mortality rates and returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	For instance: A 0.1% decrease in the discount rate assumption would result in a increase in the pension fund deficit of £18m. A 0.1% increase in assumed earnings inflation would increase the deficit by approximately £1m. A 0.1% increase in assumed price inflation/pension increases would increase the deficit by approximately £16m. A one-year increase in assumed life expectancy would increase the deficit by approximately £37m

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

## 6. EVENTS AFTER THE BALANCE SHEET DATE

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

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

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

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

## 7. CONTRIBUTIONS RECEIVABLE

By category:

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

**By type of employer:**

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

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

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

**9. OTHER INCOME**

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

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

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

**By type of employer:**

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

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

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

## 12. MANAGEMENT EXPENSES

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

### 12A. INVESTMENT MANAGEMENT EXPENSES

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

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

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

### 13. INVESTMENT INCOME

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

### 14. TAXATION

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

### 15. EXTERNAL AUDIT COSTS

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

### 16. INTEREST PAYABLE

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

## 17. INVESTMENTS

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

# 17A. RECONCILIATION OF MOVEMENTS IN INVESTMENTS

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

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



## 17B. INVESTMENTS ANALYSED BY FUND MANAGER

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

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

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

## 17C. STOCK LENDING

(Note to be inserted once information received from ACCESS)

## 18. FAIR VALUE – BASIS OF VALUATION

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

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

### Sensitivity of assets valued at Level 3

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

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

### 18A. FAIR VALUE HEIRARCHY

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

#### Level 1

Assets and liabilities at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as Level 1 comprise quoted equities, quoted bonds and unit trusts.

#### Level 2

Assets and liabilities at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value based on observable data.

#### Level 3

Assets and liabilities at Level 3 are those where at least one input that could have a significant impact on the instrument's valuation is not based on observable market data.

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

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

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

	Private Debt £,000	Infrastructu re £'000	Total £,000
Value at 1 April 2021	9,186	-	9,186
Purchases	14,078	9,188	23,266
Sales	(535)	(848)	(1,383)
Unrealised Gains and Losses*	823	(578)	245
Realised Gains and Losses*	53	-	53
<b>Value at 31 March 2022</b>	<b>23,605</b>	<b>7,762</b>	<b>31,367</b>
	Private Debt £,000	Infrastructu re £'000	Total £,000
Value at 1 April 2020	-	-	-
Purchases	9,049	-	9,049
Sales	(70)	-	(70)
Unrealised Gains and Losses*	215	-	215
Realised Gains and Losses*	(8)	-	(8)
<b>Value at 31 March 2021</b>	<b>9,186</b>	<b>-</b>	<b>9,186</b>

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

Investment into Private debt commenced in January 2021.

Investment into Infrastructure commenced in July 2021.

## 19. FINANCIAL INSTRUMENTS

### 19A. CLASSIFICATION OF FINANCIAL INSTRUMENTS

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

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

## 20. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

### Risk and risk management

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

Responsibility for the fund's risk management strategy rests with the pension fund committee. Risk management policies are established to identify and analyse the risks faced by the pension fund's operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

Because the fund adopts a long-term investment strategy, the high-level risks described below will not alter significantly during the year unless there are significant strategic or tactical changes in the portfolio.

#### **a) Market risk**

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

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

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

The fund's investments are managed on behalf of the fund by the appointed investment managers. Each investment manager is required to invest the assets managed by them in accordance with the terms of their investment guidelines or pooled fund prospectus. The committee has determined that the investment management structure is appropriate and is in accordance with its investment strategy. The committee regularly monitors each investment manager, and both considers and takes advice on the nature of the investments made as well as the associated risks.

#### **Other price risk**

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

All investments present a risk of loss of capital, the maximum risk being determined by the fair value of the financial instruments. The investment managers mitigate this price risk through diversification. The selection of securities and other financial instruments is monitored to ensure it is within limits specified in the fund investment strategy.

#### **Other price risk - sensitivity analysis**

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

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

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

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

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

**b) Interest rate risk**

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

**Interest rate risk - sensitivity analysis**

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

The fund does not directly hold any fixed interest securities; hence a change in interest rates will not impact on the fair value of assets.

Changes in interest rates do not impact on the fair value of cash balances, but they will impact on the interest income earned.

**c) Currency risk**

Currency risk represents the risk that future cash flows will fluctuate because of changes in foreign exchange rates. The fund is exposed to currency risk on any cash balances and investment assets not denominated in UK sterling. For a sterling-based investor, when sterling weakens, the sterling value of foreign currency denominated investments rises. As sterling strengthens, the sterling value of foreign currency denominated investment falls.

The following table summarises the fund's currency exposure as at 31 March 2022, and as at the previous period end:

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

**Currency risk – sensitivity analysis**

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

A 7.09% strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows:



	Value as at 31 March 2022 £000	Value on increase +7.09% £000	Value on decrease -7.09% £000
Private Debt	23,605	25,669	21,540
Infrastructure	7,762	7,969	7,556
Investment income due	2,588	2,724	2,452
	<b>33,955</b>	<b>36,362</b>	<b>31,548</b>
	Value as at 31 March 2021 £000	Value on increase +3.28% £000	Value on decrease -3.28% £000
Private Debt	9,186	9,487	8,885
Infrastructure	-	-	-
Investment income due	-	-	-
	<b>9,186</b>	<b>9,487</b>	<b>8,885</b>

#### d) Credit Risk

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

The fund does not hold any fixed interest securities directly, hence has limited credit risk through its underlying investments in bonds.

Another source of credit risk is the cash balances held to meet operational requirements or by the managers at their discretion. Internally held cash is managed on the fund's behalf by the council's treasury management team in line with the council's Treasury Management Strategy which sets out the permitted counterparties and limits. The fund invests surplus cash held with the custodian in diversified money market funds.

The fund does engage in securities lending activities, hence is exposed to the counterparty risk of the collateral provided by borrowers against the securities lent.

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

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

#### e) Liquidity Risk

Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as they fall due. The pension fund therefore takes steps to ensure that it has adequate cash resources to meet its commitments. The fund maintains a cash balance to meet working requirements, which is supported by an available credit line from the Isle of Wight Council. Note 27 includes details of borrowing from the council for this purpose. Management prepares periodic cash flow forecasts to understand and manage the timing of the fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the fund's investment strategy.

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

the fund is the benefits payable, which fall due over a long period and the investment strategy reflects the long-term nature of these liabilities. The fund is able to manage the liquidity risk that arises from its investments in less liquid asset classes such as property which are subject to longer redemption periods and cannot be considered as liquid as the other investments.

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

**f) Refinancing risk**

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

## **21. FUNDING ARRANGEMENTS**

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

### **Description of Funding Policy**

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), dated March 2020. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the fund using a prudent long-term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- not to restrain unnecessarily the Investment Strategy of the Pension Fund so that the Administering Authority can seek to maximise investment returns (and hence meet the costs of benefits) for an appropriate level of risk;
- to minimise the long-term cash contributions which employers need to pay to the fund by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return (this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Taxpayer from an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to have a sufficiently high likelihood of achieving the funding target over 20 years. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is at least an 80% likelihood that the Fund will achieve the funding target over 20 years.

### **Funding Position as at the last formal funding valuation**

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

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

Minimum Total Contribution Rates expressed as a percentage of pensionable pay are as set out below: -

Employer Name	Minimum Contributions for the Year Ending 31 March		
	2021 % of pay	2022 % of pay	2023 % of pay
Isle of Wight Council	23.5	23.5	23.5
Barnardos	Nil	Nil	Nil
Caterlink	23.5	23.5	23.5
Cowes Enterprise College, an Ormiston Academy *	23.5	23.5	23.5
Cowes Harbour Commissioners	21.5	21.5	21.5
The Island Free School	19.6	19.6	19.6
Island Roads	Nil	Nil	Nil
Isle of Wight College (from 1 August)	23.8	23.8	23.8
Lanesend Academy *	21.1	21.1	21.1
Northwood Academy *	23.5	23.5	23.5
Nviro	23.5	23.5	23.5
Ryde Academy, Academies Enterprise Trust *	23.5	23.5	23.5
Sandown Bay Academy *	23.5	23.5	23.5
Southern Vectis (Wightbus)	10.3	10.3	10.3
Southern Housing Group	31.6	31.6	31.6
Sovereign Housing Group	29.7	29.7	29.7
St Blasius Academy *	23.5	23.5	23.5
St Catherine's School Ltd	26.6	26.6	26.6
St Francis Academy *	23.5	23.5	23.5
Top Mops	21.5	21.5	21.5
Trustees of Carisbrooke Castle Museum	35.4	35.4	35.4
Ventnor Botanical Gardens	Nil	Nil	Nil
Yarmouth Harbour Commissioners	24.8	24.8	24.8

in addition, certain employers make a lump sum contribution

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

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

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

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

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

### Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

### Assumptions

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

The key financial assumptions adopted for the 2019 valuation were as follows:

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

(Explanatory note: The pay increases shown above are for the purposes of the actuarial valuation only and not a reflection of what actual pay rises will be in the short-term. The assumptions are consistent with other assumptions used in the actuarial valuation and reflect longer term trends.)

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2018 model, an allowance for smoothing of recent mortality experience and a long-term rate of 1.25% p.a. for both women and men.

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

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

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

Copies of the 2019 valuation report and the Funding Strategy Statement are available on the Isle of Wight Pension Fund website [www.isleofwightpension.org](http://www.isleofwightpension.org).

### **Experience over the period since 31 March 2019**

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

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

## **22. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS**

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

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

#### **Present value of promised retirement benefits**

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

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

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

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

#### Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2022 and 31 March 2021. The actuary estimates that the impact of the change in financial assumptions to 31 March 2022 is to decrease the actuarial present value by £67m. The actuary estimates that the impact of the change in demographic and longevity assumptions is to decrease the actuarial present value by £5m.

#### Financial assumptions

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

(Explanatory note: The pay increases shown above are for the purposes of the actuarial valuation only and are not a reflection of what actual pay rises will be in the short-term. The assumptions are consistent with other assumptions used in the actuarial valuation and reflect longer term trends.)

#### Demographic assumptions

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

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

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

	<b>Males</b>	<b>Females</b>
Current Pensioners	21.7 years	24.0 years
Future Pensioners *	22.6 years	25.7 years

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

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

#### Sensitivity Analysis

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

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

### 23. LONG TERM ASSETS

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

### 24. CURRENT ASSETS

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

### 25. CURRENT LIABILITIES

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

## 26. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCS)

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

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

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

## 27. RELATED PARTY TRANSACTIONS

### Isle of Wight Council

The Isle of Wight Council Pension Fund is administered by Isle of Wight Council. Consequently, there is a strong relationship between the council and the pension fund.

During the reporting period, the council incurred costs of £522 thousand (2021-22: £503 thousand) in relation to the administration of the fund and was subsequently reimbursed by the fund for these expenses. The council is also the single largest employer of members of the pension fund and contributed £13.7 million in 2021-22 (2020-21: £13.3 million) to the fund. All monies owing to the fund, except for deferred balances in respect of pension strain costs totalling £39.6 thousand (2020: Nil), were paid during the year.

During the year, the pension fund was able to borrow funds from the council to support its working cash flow requirements; interest would be charged on these borrowings at the broker local authority interest rate relevant to the amount and duration of the borrowing at the time it was made. The maximum amount borrowed during 2021-2 was £8.5 million (2020-21: £8.0 million). The balance due to the council at 31 March 2022 is Nil (2021: £5.5 million), Interest of £5.14 thousand (2020-21: £56.2 thousand) was paid on the borrowings in the year.

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

### Governance

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

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

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

## 27A. KEY MANAGEMENT PERSONNEL

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

DRAFT SUBJECT TO EXTERNAL AUDIT



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

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

## 28. CONTINGENT ASSETS, LIABILITIES AND CAPITAL COMMITMENTS

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

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

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

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

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

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

## 29. TRUSTEES REPORT 2020-21

The trustees of the Isle of Wight Council Pension Fund are the members for the time being of the Isle of Wight Pension Fund Committee, who at 31 March 2022 were Cllrs Andre, Brading, Churchman, Critchison (vice chair), Jarman (chair), Oliver and Quigley.

In addition, a non-voting representative of the scheme members (selected by UNISON) attends the committee. Throughout the year, the position of non-voting representative of the scheme employers (selected by the fund's external employers) was vacant.

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

### Investment Performance

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

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

Over the longer term, the fund outperformed annualised benchmark returns for both three years (0.6% relative overperformance) and for five years (0.5% relative overperformance).

### Funding Level

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

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

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

### Governance – pension fund committee

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

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

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

In addition, the committee continues to receive presentations from its fund managers on the fund's investment performance as well as performance benchmarking and advice from its investment consultants, Hymans Robertson LLP.

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

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

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

**Table 1: committee attendance**

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

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

Also, total attendance by member (final row) is based on post-local election membership, so four meetings.

#### Governance – local pension board

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

At the start of the year, membership comprised two scheme member representatives and two employer representatives.

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

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

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

As a result of the membership issues, only two board meetings were held in 2021-22, with three other meetings cancelled.

The pension fund reported itself to the Pension Regulator in October 2021, for non-compliance with the LGPS regulations in respect of the minimum membership of the local pension board. The Pension Regulator confirmed that it would take no further action on this matter.

The first full meeting of the newly constituted pension board was held on 6 April 2022.